Opiyo Oloya, Letter from Toronto

Yes, huge investment in oil is good for our people but...

The *New Vision* on Monday caught my eyes with the headline: "*Government to Invest sh3 trillion in oil refinery, pipeline.*" This should be a good news story.

The Government is investing close to $1b in the East African Crude Oil Pipeline (EACOP) that will carry crude oil from Hoima to Tanga Port in Tanzania. Uganda National Oil Company (UNOC) will acquire a cool 40% in the oil refinery and 15% in the pipeline.

And I believe when the investments in the oil sector kick in, they will provide great opportunity for our young people. The pipeline will bring with it attendant jobs, and jobs is what our young people need right now. Even the refinery will need the expertise which many of our young people are acquiring now.

We will be on the development offensive which had so far eluded us, but which we have seen in other nations.

Yet, instead of joy, I was apprehensive. Questions crowded my head. What is the future of oil in a flooded world market?

What will oil command in the very near future where the renewable energy will become the dominant commodity? A year ago, the demand for oil was a big flop on the world market.

The glut of oil worldwide drove down prices from a high of $115 a barrel in January 2014 to a measly low of $28 in January 2016. The big producers like OPEC countries, Russia and Venezuela were wallowing in plenty of oil with nowhere to sell it. Venezuela which depended on an oil economy was thrown into political and economic chaos, people out of work, empty market stalls and an unstable social scene. The country teeters on the brink to this day.

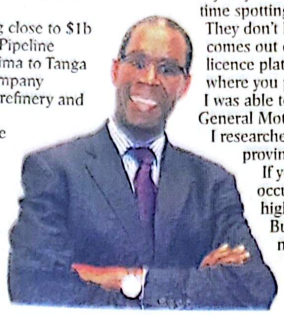
Things have stabilised somewhat following the agreement a year ago between Russia and OPEC countries led by Saudi Arabia to cut oil production. The smaller stock has raised the price of oil where it is now trading at around $60 per barrel yesterday.

Not bad because the upswing means those African oil producing countries such as Angola, Nigeria, Libya, South Sudan and, hopefully soon, Uganda, will see some good return on investment. There is hope so long as the big players keep a lid on their production and not produce too much that the world will become flooded again.

But there is an even bigger looming reality that threatens the very future of oil. It is the fast-paced world of electric vehicles that for long were science fiction, but are now real. I saw this first hand at the end of last month in California.

As my wife and I drove the long highway northwest from Los Angeles toward Santa Barbara, I noticed the many Tesla vehicles on the road. These are completely electric vehicles also known as battery electric vehicles (BEV).

Based in Palo Alto, Tesla is known for its bold prediction that world cars will become fully electric by 2050, if not much sooner. The world best-selling electric car is the Tesla Model S which sold upward of 150,000 units in 2015 and this year it reported selling 250,000. There is a long wait to acquire one of the vehicles. They drive just like ordinary vehicles, picking up speed at good acceleration.



What is the future of oil? What will it command in the near future where the renewable energy will become the dominant commodity?

The popularity of electric hybrid cars is being embraced worldwide. Just last Thursday, stuck in morning traffic on my way to downtown Toronto for a meeting, I passed the time spotting electric vehicles. These are easy to spot. They don't have the tell-tale exhaust pipes where smoke comes out of the back. Instead, they have a special green licence plates that start with GV (Green, Verte) and space where you plug them to get more electric juice. In traffic I was able to spot several electric cars including Hyundai, General Motors, BMW and Ford electric cars. Later when I researched more about BEVs online, I found that my province of Ontario is aggressively promoting them.

If you own one, you travel free on the high occupancy toll (HOT) highways. On these highways, police stops drivers with no passengers. But if you own one of the electric vehicles, nobody will bother you. The best part is that the government actually gives back real money to those who choose to buy electric cars, sometimes as much as $14,000.

So competitive is the future of electric cars that every big car manufacturer is investing heavily into them. Tesla is at the head of the class with three models of battery electric vehicles in the Roadster, Model S and Model X. General Motors and Ford Motors each have six models of plug-in hybrid electric vehicles (PHEV) which rely on electricity and only use gas when the electricity is running low. Volvo has three models in XC90, XC60 and S90 (PHEV). Mercedes Benz has two models, the S550E and GLE 550e wagon. Mitsubishi, Nissan, Toyota, Volkswagen and Mini have one model apiece.

On Monday, luxury car manufacturer BMW announced Euro 240m investment to produce the next generation batteries that could propel a vehicle for 430 miles without recharging.

The same day it was announced that Chinese automaker SF had bought InEvit electric battery company founded by Martin Eberhard. Eberhard was one of the founders of Tesla electric cars. Interesting, the online investment magazine Next Big Future revealed on the same day that Chinese car manufacturers are required to ramp up production of electric cars from 2% to 20% by 2025 and to 100% by 2030. The point is very simple. Even as the world's big oil producers attempt to stop the hemorrhage of oil price by cutting production, the demand for oil is heading to the land of the dodo. Fossil fuel will drive fewer and fewer of the world's future cars, while more cars will be powered by solar and by electricity. What that means is that in the short run, Uganda may join the company of oil producing countries.

This is a short-live victory, however. The far-sighted investment will begin to explore what to do with the wealth that oil will bring us, how to quickly convert that wealth into sustainable investment that will keep on generating more wealth long after the original oil wealth has dried up.

So, yes, I am happy to see Uganda invest in oil. It is good for our people. But I am also realistic to know that oil is not the big pile of money that it used to be that helped Arab countries turn their desert into oasis of economic boom. Those days are long gone.

Opiyo.oloya@gmail.com

