



OIL IN UGANDA

Everyone's talking about oil. We capture the whole conversation.

Editorial



Transparency makes business sense!

Globally, we are seeing huge public demand for corporate and government accountability. Demonstrations occur every day in countries across the world to protest corrupt regimes and unethical business practices. With this intensified pressure for accountability and integrity, transparency is in high demand.

The government of Uganda and oil companies alike should take note of this demand and make transparency a priority in oil sector development because it makes good business sense on both ends.

Oil companies have a negative global reputation to overcome in order to gain trust from government and civil society. Similarly, government benefits from increased trust in public institutions.

Both sets of actors have a chance to improve their public standing by promoting transparency and accountability in Uganda's oil sector development agreements.

Transparency doesn't mean either side has to lose or sacrifice. Rather, it means that both sides, govern-

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Ugandans deserve to know!



Illustration: Drile Victor

How much money has Uganda earned from oil since 2006 to date? How has this money been managed? What role has Parliament played? These are questions we put to government institutions in charge of managing state revenues. Their answers, which appear on our centre pages, leave much to be desired.

The government needs to do much more to keep the public informed. Oil

will play a pivotal role in Uganda's economy for the next couple of decades and Ugandans are entitled to know how the income from it will be handled.

Yet, as our interviews with ordinary citizens in Kampala and Luwero show (page 3), Ugandans don't know much more about oil than they did seven

years ago, and are to some extent afraid of it.

Elsewhere in this issue, we look at the Extractive Industries Transparency Initiative (EITI), a voluntary effort aimed at disclosing the way money changes hands in the extractives sector, and round off with a piece on gas flaring. Enjoy.

Gas: not the main meal but a useful side dish

| By Flavia Nalubega

Available reserves can generate much needed electricity.

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Close to 100 billion cubic feet of natural gas is thought to lie trapped in a reservoir under Uganda's Albertine Graben in addition to the 3.5 billion gallons of oil that have so far been discovered.

This sounds like a lot but it is chicken feed compared to the huge gas fields that have been discovered off the coast of South East Africa. Tanzania has

found 40 trillion cubic feet. Mozambique has 100 trillion—1,000 times as much as Uganda.

Nevertheless, government officials say that Uganda's gas reserves are enough to put to good use in generating power. They also insist that the country will not resort to 'flaring' (burning) the gas that is 'associated' with wells whose main product is crude oil.

'Associated' and 'non-associated'

Gas occurs naturally in two ways, according to Bernard Ongodia, a senior geophysicist with the Petroleum Exploration and Production Department (PEPD).

Relatively small quantities of 'associated gas' are found dissolved in oil res-

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ment and corporate, must act with integrity and honesty. These are basic business principles that each should already abide by, so there should be absolutely nothing to lose in doing business more transparently.

Transparency makes good business sense for many reasons. More transparency means less hostility and better cooperation between governments, companies and communities. This can smoothen the extraction process and create a friendlier investment environment.

Transparency enforcement measures also encourage more precise budget oversight, strengthened accounting practices and discipline in managing revenue—all of which helps prevent negligent profit spending.

Transparency promotes and encourages open competition and thus improves services and products.

Transparency minimizes corrupt tendencies thus building investor confidence, and increasing public trust.

Transparency decreases costs of doing business as less is spent on bribes and kick-backs.

It also ensures quality control as firms have to ensure best services if they are to remain in business.

Transparency of contracts is widely recognized as a vital element in ensuring responsible management of natural resources for sustainable development.

The government of Uganda has only one chance to do this right. Without enforcing transparency and accountability, the government could miss their opportunity to gain from oil revenue windfalls to influence the development of the country and to remedy many endemic problems.

If the government does not enforce transparency a “black market” type of situation can occur where commodities are traded secretly and huge sums of money are transferred out of the country without public or government knowledge.

With the oil discovery, all actors have a lot to gain and a lot to lose. Transparency is a best practice that both corporate and government entities should adopt to build trust and ensure long-lasting benefit.

Peter Wandera is the Executive Director Transparency International Uganda

Gas: not the main meal but a useful side dish

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ervoirs. “Every well has associated gas, which ultimately contributes to the total amount of gas we have in Uganda,” says Mr. Ongodia. “This gas can only be extracted after removing the oil.”

But gas can also occur without oil, trapped by itself in underground reservoirs, such as those that lie off the shores of Tanzania and Mozambique. So far, the Albertine Graben has proved much richer in oil than gas but one gas reservoir of this kind has been found—the Nzizi-3 well in the Kaiso-Tonya area.

Gas economics

Natural gas can be processed and compressed to produce Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG), which may be used for cooking, heating and automobile fuel.

However, PEPD Commissioner Ernest Rubondo points out that “The economics of cleaning up and compressing the gas for domestic use such as cooking are very sensitive not only to volumes in place but also the size of the market.”

It is very costly to build the kind of processing plant that is needed, and this is only economically viable if the discovery of gas is large, and if there is a large market for it. Uganda’s gas reserves are not large enough to make such investment worthwhile.

Instead, therefore, the Ministry of Energy plans to use the Nzizi gas to generate electricity to add to Uganda’s current power output of 504 megawatts.

According to junior Energy Minister Simon D’ujang, a power station will be built with a 50 to 80 MW capacity,

fuelled by the Nzizi gas field and also the Mputa oil field.

By the time oil production starts, thermal production will also be set,” the minister told *Oil in Uganda*. A plant for gas will be ready by then. The plant will be able to use both gas and diesel; it will be a convertible plant and it will remain operational even when the gas runs out.”

The ‘associated’ headache

‘Associated gas’ is the same substance that is found in the large gas reservoirs, but usually occurs in relatively small quantities. In the past it was not considered worthwhile to capture and use this gas, which was considered more of a nuisance than an asset, and it was commonly ‘flared’ – simply burned off. This was not only wasteful, it was also very harmful to the environment.

Flaring has been reduced in most countries by technological advances, but is still common in some major oil producing countries, notably Russia and Nigeria.(see page 16)

Ghana, as a new oil producer, is leading the way in a determined effort to avoid flaring. It is investing US\$ 700 million in a gas infrastructure project that will process 150 million cubic feet of gas from the offshore Jubilee oilfield for power generation per day.

Uganda hopes to follow this example. The National Environmental Management Authority has repeatedly denounced flaring and this is confirmed in Section 39 (2) of Uganda’s midstream Petroleum Bill, now passed by parliament and awaiting presidential approval. This states that “All facilities shall be planned and constructed so as to avoid any

gas flaring or venting under normal operating conditions.”

Flaring

Flaring has in fact already occurred during oil exploration in Uganda, as it is necessary to control well pressure and equipment is not yet in place to capture and store the gas. Local communities have complained about this practice, reporting that it has caused them health problems.

However, flaring during exploration does not appear to count as “normal operating conditions” and the government does appear committed to avoiding it once production actually begins.

Commissioner Rubondo points out that, even before processing, “the associated gas can be re-injected into the oil reservoirs to maintain pressure to support production of crude oil.” This supports one of PEPD’s key priorities—making sure that as much oil as possible is recovered from productive wells.

‘Associated gas’ may also be used, Commissioner adds “for on-site electricity generation.” The plan appears to be to install small power plants close to main production centres.

In addition, Ministry of Energy sources have told *Oil in Uganda* that the ministry is considering the feasibility of using power generated from associated gas to heat an oil export pipeline.

Uganda, Kenya and South Sudan now appear to have reached agreement on such a pipeline, but the thick, waxy nature of Uganda’s oil means that it will have to be heated in order to flow to the coast.

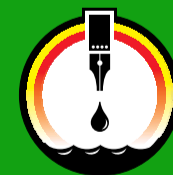
Did you know?

For as long as natural gas has lain trapped in the ground, there have been occasional leaks—in much the same way that oil seeped out of the ground in Bunyoro long ago.

In some places, lightning strikes ignited gas leaks, creating pillars of fire that puzzled early civilisations. These fires were the source of much myth and, we may guess, fear.

Five hundred years before the birth of Christ, people in China were the first to tap natural gas leaks. They used hollow bamboo shoots to pipe it to sites where they used it to boil sea water, in order to collect the salt when the water had boiled off.

Read more about it at: www.naturalgas.org/overview/history.asp



OIL^{IN}UGANDA

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Managing Editor:

Chris Musiime

Staff Writers:

Flavia Nalubega

Beatrice Ongode

Editorial Consultant:

Nicholas Young

Editorial enquiries:

editor@oilinuganda.org

Layout Design:

Grand Brand

Just how much does the ordinary Ugandan know, or care about oil?

More than six years after Uganda confirmed commercially viable oil deposits, Ugandans appear to be as uninformed-and disinterested-about their oil and gas industry as they were prior to the discoveries.

Oil in Uganda's **Beatrice Ongode** and **Flavia Nalubega** set out to test the knowledge and interest of a cross section of Ugandans in Kampala; and repeated the exercise fifty kilometres out of the city in Luwero, one of the likely beneficiaries of oil revenue given its historical attachment to the ruling NRM party.

Most people confessed their ignorance of oil matters, a subject they consider a preserve of the government and 'big people' with connections to it, but one expectation cut across almost every person interviewed-the price of fuel will reduce significantly. (See contrasting opinion by Nick Young on page 12)



Patrick Ozunga, a civil servant

"Automatically our economy will be better, and we shall benefit. Our standard of living will be better, with better infrastructure. If a road is built as a result of the money from oil, hospitals or schools, we shall benefit."



Shuura Nakitende, mobile money operator

"I have heard about Uganda's oil. I think extraction started some time back. People like me who are not so much into oil only get information when we stumble upon it. I do not know how I am going to benefit, truth be told. Everything is going to the big guys up there. All I know is that Uganda is going to extract oil but wherever the money will go, God knows."



Aharizira Beker, a Kampala businessman

"Already government is quarrelling over it, the president is fighting for it so we know little that is going on in this sector; they (government) keep so much information to themselves because oil is a source of big wealth."



Ritah Nakyobe, bank teller

"I know we have oil in western Uganda-in Hoima, Buliisa and around Lake Albert because I read it in the newspapers and watch television. Most people do not know about oil and even may not be interested because even if they were, they may not stand a chance to benefit."



Ayoma Micheal, a guard at the MTN service centre in Luwero town

"I doubt whether there is oil flowing because I don't know surely. I think it is just talk because they are not yet even processing it."

But if the oil is there....."We shall benefit through transport because where there is oil the prices of fuel are low, the price of transport will also be low. Now when I board from Luwero to Arua, the price is high because the fuel is imported, but when production starts, I think the price will reduce. We shall also benefit through the labour force, people will be working in the oil field."



Ssembatya James, a boda boda cyclist in Luwero

"I hear they are going to drill oil from Hoima but the big people are the owners of this oil. President Museveni and his cabinet own the oil, they will be the major beneficiaries. We shall benefit little, we the people at the ground. They will earn the big money like-99 percent of the oil money and us the little ones will get 1 percent."



Jemba Eric, a welder in Luwero town

"I cannot lie to you, I don't know anything. I hear they are drilling but I don't know where. But I would love to know. I want people to come here and teach us about the existence of that oil. But since it is here, we shall benefit now that fuel will not be coming from outside countries."



Godfrey Kirumira, Kampala businessman

"We shall enjoy having a steady economy since more investors will invest in the country, there will be job creation and taxes will decrease."



Birungi Jane, a business woman in Luwero

"I don't know much and I don't need to know much because we will not benefit much. We are in Luwero, oil is in Hoima. I don't think we shall benefit so much like the people in Hoima. If they decrease transport costs, that is all we need. Low transport costs is the best way we can benefit."



Asea Jennifer, a Pharmacist in Luwero

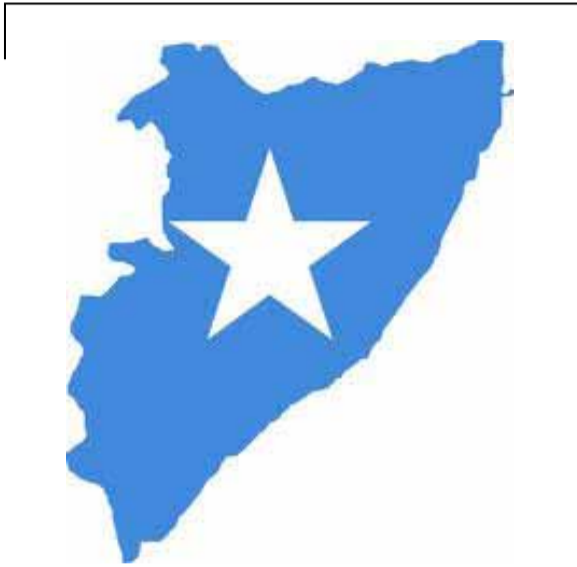
"Cheaper prices for oil and employment is what I expect."



Nalunkuma Juliet, a market trader

"I just hear they have already started using the oil, government is using it, that is what radio people say. We shall not benefit because I don't know where it is, I don't hope I will go there and I don't hope to ever use that oil. They cannot employ me because I stopped in senior four. But I will try because those who take their pineapples to Hoima make a lot of money."

FOR THE RECORD: A round-up of major developments in the last three months



British oil firm enters Somalia

In the first oil and gas deal since Somalia's pacification by Ugandan troops, the new government in Mogadishu has given extensive exploration rights to a UK-based company chaired by a former British cabinet minister and leader of the Conservative Party.

The deal will allow the recently-formed Soma Oil and Gas to apply for licences in up to 12 blocks in return for undertaking an extensive seismic survey and handing over the data to the government. Soma is chaired by Lord Michael Howard, who led the UK Conservative Party from 2003-05.



Oil brings foreign investment

The United Nations Conference on Trade and Development (UNCTAD) has reported that Uganda topped the region in attracting Foreign Direct Investment (FDI) last year, with most funds going into oil, gas and mining sectors.

According to its World Investment Report 2013, Uganda's FDI almost doubled, from 894 million dollars in 2011, to 1.721 billion dollars in 2012. Uganda was followed closely by Tanzania, which attracted slightly over one billion dollars, largely driven by the country's massive natural gas discoveries.



Ghana leads Africa in resource governance

A Revenue Watch Institute Resource Governance Index has ranked Ghana highest in sub-Saharan Africa in natural resource governance. The Index measured the quality of governance in the oil, gas and mining sectors of 58 countries worldwide, and Ghana emerged 15th, ahead of Liberia, Zambia, South Africa, Tanzania and the Democratic Republic of Congo, among other African countries. Each country was judged on institutional and legal settings, reporting practices, safeguards, quality control and enabling environment.

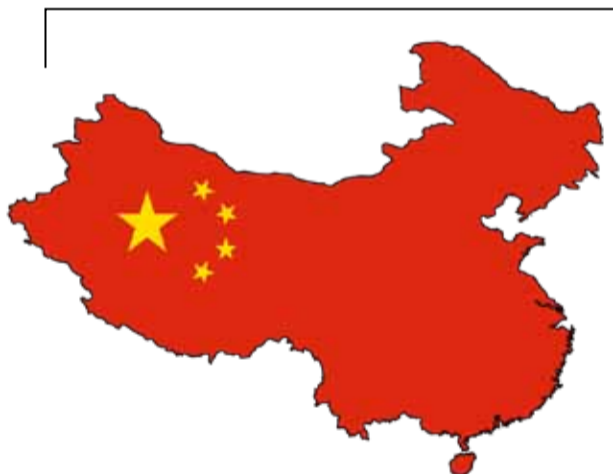


Kenya attains commerciality

Appraisals on several wells in Kenya's Turkana region have confirmed that the country has enough crude oil resources to warrant a commercial investment.

A half year report released by Tullow Oil plc has revealed that Kenya has at least 300 million barrels of oil, and still counting, as more exploration and appraisals are being undertaken.

The report also noted that the company now believes that the Turkana basin "has similar potential to the Lake Albert Rift Basin in Uganda." Kenya is currently reviewing its petroleum legislation in order to encourage investment in offshore gas blocks.



China in race for refinery

A visit by Prime Minister Amama Mbabazi to China last month has ignited speculation that the Chinese National Offshore Oil Corporation (CNOOC) may take a stake in Uganda's oil refinery and pipeline project. Neither CNOOC nor Chinese government sources have yet officially confirmed their interest, but when CNOOC first bought into Uganda's oilfields a year ago, the company was already considering partnership in the refinery project, according to a February, 2012 report in The China Daily.

Although no final agreement has been announced, government and industry sources both indicate that Uganda will build a refinery, initially capable of processing 30,000 barrels of oil per day, as well as a crude oil export pipeline.

Companies publish what they pay and governments publish what they receive in an EITI Report.



EITI gets stricter

The EITI Board has unveiled revised, more stringent standards for member countries and those intending to join. Among these is the requirement for member states to disclose production figures, ownership of license holders as well as production contracts and corporate social responsibility payments.

Country EITI reports will now include more contextual and explanatory information about the contribution of the extractives sector to the economy, a description of the fiscal regime and how the revenues from the extractives are recorded in national budgets. Heavy weights United States of America, Britain and France have finally committed to joining the initiative.

Corporate Social Responsibility: Filling the gap in service delivery

| By Haggai Matsiko

Locals are generally grateful to the international oil companies, but expect much much more

"We used to walk about three kilometers to get drinking water, it was not easy," recalls Joyce Asaba, a resident of Kalolo landing site, Kisumu village in Buliisa District.

"Thanks to the oil, we are getting better facilities. The government used to take us as if we were foreigners, we were not getting these services," says Henry Irumba, LC 1 Chairman at Kaiso landing site, Hoima District.

These are some of the many testimonies one will hear in several areas in the Albertine Region, thanks to a magical acronym: CSR- Corporate Social Responsibility.

Mr. Irumba's joy is from a satellite primary school that Tullow Oil is building to replace the wooden classroom blocks that currently make up Kaiso Primary school.

Joyce, on the other hand, is referring to a borehole that was built by Tullow Oil, opposite the Kasemene 3 well in Buliisa, one of the first projects the company established for the fishing village.

In addition to the borehole, this community has also benefitted from other CSR interventions by Tullow, in health and education.

"I am sure you have seen the health facility on your way here," boasts the Bullisa District Chairman, Fred Lukumu. "The health facility was approved by government because it was a priority for us."

According to Tullow Oil, this health facility alone cost 2 million dollars, and will be equipped with a maternity ward, operating theatre, outpatient department, X-ray block, nurses and doctors' residences, attendants' shelter and other standard infrastructure.

In Hoima District, Tullow is constructing two health centers and two primary schools at an estimated cost of 2.6 million dollars. This brings the total investment by one company into the community to at least 5 million dollars.

Tullow's other partners, Total and CNOOC, have also invested substantial amounts of money in social projects in the Albertine, although not to the scale of Tullow given that they entered the Ugandan play much later, in early 2012.

In March this year, CNOOC launched a \$ 50,000 one-year basic skills training programme at Nile Vocational Institute in Hoima, sponsoring 70 youths to train in metal fabrication, welding and other vocational



Photo: Tullow Oil

A health worker administers medicine at Kyehoro health center in Hoima.

skills. The company also supports a primary school and health center in Buhukya (Hoima), where the Kingfisher discoveries are located.

French giant Total has too made significant investments in education.

On the face of it, it appears the companies are indeed investing into the communities, way before they can start earning profits from the production of oil.

Giving back to the community?

According to Tullow Uganda's former Communications Manager, Cathy Adengo, the company's social investment programme focuses on projects that make a real and sustainable difference in the communities and they are developed in line with district development plans following extensive engagement with the local communities.

But some of the intended beneficiaries disagree.

"They are over publicizing the structures," says Kabagambe Edward, the Buliisa District Sub-county chief. "I hear them announcing how they have built a hospital and schools but the ordinary person hasn't felt anything," he complains.

Kabagambe would have preferred the Buliisa health center to be located within the community rather than its current location, three kilometers away.

"They (oil companies) have been here for five years, what have they done that has created impact?"

But Kabagambe's concerns are part of a bigger problem-the huge expectations that the communities in the oil-producing areas have in the oil companies.

Robert Businge, a local community worker, agrees that the locals have many demands, the reason why the CSR projects need to go beyond the social aspect and address the economic demands as well.

"Tullow Oil only entered negotiations with the district leadership on the programmes," he says. "The community's role has been undermined. Going forward, this needs to change."

Mr. Businge explains that ultimately, the host communities will suffer any negative impacts of oil exploration and subsequent production.

"That is why we need CSR projects that address challenges like that," he argues.

He proposes water irrigation and fish ponds as better social investment projects.

But in an email response, David Onyango, Tullow's Acting Communications Manager, insisted that all the projects were decided upon after consulting the concerned parties.

"Consultations with the communities and the government took place and these projects are all in the district development plans," he wrote. "The social investment infrastructure projects are coded government schools and health centres."

Sustainability

Yet as the builders put final touches to the Buliisa health center, there are already worries about the sustainability of the facility, as well as several other projects that Tullow Oil has established in this oil region.

Some locals are particularly unhappy with Tullow's plan to hand the facilities over to government upon completion-a concern borne out of years of poor service delivery by the same government.

For instance, since 2006 Buliisa District has not had a medical officer at its main health centre. A nurse at the hospital told Oil in Uganda that the centre only has clinical officers.

The health centre itself is in shambles, with some of the structures on the verge of collapsing.

Wendi Mulinda, the LC 1 Chairman in the area is pessimistic. "We have failed to attract a doctor for so many years, where will the doctors come from to work in this new one?" he asks.

Oil in Uganda learnt that the Ministry of Health has posted over 20 health officials to the district but we

Corporate Social Responsibility..... continued

could not confirm how many of them had reported.

“What people forget is that this is a hard place to work because it is too remote, there are no facilities,” says Mulinda.

It is on the same basis that Buliisa MP, Stephen Mukitale, has proposed that the central government includes the district on the list of hard-to-stay areas, a move that would come with extra benefits for workers.

But Lukumu dismisses such fears and is confident the new facilities will be well managed by government.

“The facility will be sustainable because the government has sustained projects of this nature before,” he says. “We have plans to get some more paramedics on the ground, plus we expect more in terms of expansion and maintenance when production (of oil) starts.”

Mr. Lukumu sums up what every resident in the oil-producing districts expects from the oil companies-more and more.



Photo: Tullow Oil

The Bullisa Health Center IV is nearly complete and will be operational by the end of the year



CNOOC supports the Bunyoro Amasaza Tournament, as well as numerous other projects in health and education in Hoima and Ntoroko Districts.

Photo: CNOOC

Global Transparency efforts will affect oil companies in Uganda

By Annie Sturesson, Economist



Transparency efforts are gathering pace across the world, with new regulations that will affect oil companies in Uganda

For African countries rich in natural resources, extractive industries are a potential source of funding for development and to fight poverty. But corruption and poor management of oil, gas and minerals have often prevented the poorest people from benefitting.

Several international initiatives aim to address this by creating more transparency in financial dealings between extractive companies and governments. Longest established is the Extractive Industries Transparency Initiative (EITI), a voluntary standard for governments and companies that has been piloted in various countries since 2002.

Further impetus was given to transparency efforts in 2011, when leading world economies (the 'G8' group of countries) made a commitment to put laws and regulations in place requiring oil, gas and mining companies to disclose all payments to governments. Since then, both the USA and the European Union have introduced such laws—the Dodd-Frank Act in America, a transparency Directive in Europe.

There is still no global transparency standard but other countries, including Canada, are also developing their own, national transparency initiatives.

With these various initiatives and regulations in place, nearly 90 percent of major extractive industry companies will be required to disclose their payments to governments. Of the 32 largest internationally active oil companies, 29 are registered on the US stock market, and so will be bound by the Dodd Frank Act.

However, many of the large Chinese

and Russian companies active in Africa will not be affected by either the EU or the US regulations.

Implications for Uganda

The table below shows how the various transparency initiatives will affect international oil companies working in Uganda.

The European legislation will apply to Total and Tullow, but the member states of the EU first have to enact the Directive into their own national laws. In the case of the UK (where Tullow is listed on the London Stock Exchange), a domestic law is expected by October 2014, and to apply to UK companies from January 2015 onwards. If the same timeline is followed in France (where Total is listed on the Paris Bourse), Tullow and Total will have to make their first reports by April 2016.

The Dodd-Frank Act in the USA will apply to CNOOC and Total, which are both listed on the New York Stock Exchange. (Tullow is also active on the US market, but due to complicated trading arrangements the company will be exempted from the Dodd Frank Act.)

However, a recent court ruling in America has made it uncertain whether the companies' reports on oil activities in Uganda will be made public. The companies will have to file full reports to the US stock market regulator, but these will not necessarily be made available to the public.

It is possible, therefore, that CNOOC, which is not affected by the EU Directive, will also be exempted under the Dodd-Frank Act from publicly disclosing its payments to the government of Uganda

EITI still relevant

Meanwhile, in view of the optimistic projections regarding Uganda's oil reserves, a number of new oil companies are expected to enter the oil sector in Uganda.




The newcomers may well include African and Asian companies which would not be bound by either the EU or the US transparency rules.

Joining EITI remains the only way to guarantee full transparency in Uganda's oil sector. Once a government starts implementing EITI, all

companies operating in the country, regardless of where they are based, have to provide information on payments they make to government. These EITI reports are made public.

Uganda's National Oil and Gas Policy, adopted in 2008, signalled the country's intent to join EITI. In May, 2012 President Museveni said that he had instructed the administration to move forward with EITI membership. In May, 2013 Minister for Energy and Mineral Development, Irene Muloni, announced that Uganda would be applying to join "soon."

Table 1. Oil companies in Uganda and the application of transparency measures

	EITI	Dodd Frank	EU directive
	Tullow has a corporate supporter of the EITI since 2011	No	Yes, listed on London Stock Exchange
	Total has supported the EITI since the launching of the initiative in 2002 and was a member of the EITI Board between 2009 and 2011.	Yes, listed on New York Stock Exchange	Yes, listed on Paris Stock Exchange
	CNOOC is not a corporate supporter of the EITI as it favours national legislation to international standards.	Yes, listed on New York Stock Exchange	No

USA: The Dodd-Frank Act

The Dodd-Frank Wall Street Reform from 2010 includes a provision, Section 1504, requiring all companies registered on the US stock market and extracting oil, natural gas or minerals, to provide data about any payment to governments for the commercial development of these resources. The interpretation of the law has however been contested by the oil industry and in a court ruling on July 2, a more restricted interpretation of the rules was adopted. For example, companies can request to be exempted and restrict public access to the reports.

EU: Directive for transparency

On June 2013 the European Parliament approved a new Accounting and Transparency Directive. This entails disclosure requirements that are broadly similar to the US Dodd Frank Act requirements, but go even further. Firstly, the EU regulations are not restricted to the extractive industries but also include the forestry industry. Secondly, the EU rules will apply not only to companies listed on stock exchanges (joint stock companies) but also to large companies that are privately owned. EU member states will have two years to implement the law starting September 2013.

Extractive Industries Transparency Initiative

EITI is a voluntary, government-led initiative launched in 2002. Unlike the new regulations in the USA and EU, which are imposed directly on companies in all countries where they operate, the EITI is implemented and enforced by the host country. The underlying idea of the EITI is to compare information provided by the companies of how much they paid to the government, with figures provided by the government of how much it has received. So far, 39 governments have volunteered to participate in EITI, and 23 have achieved "EITI compliant" status, including 13 African countries. Uganda is yet to commit to the EITI.

Energy Minister, Irene Muloni, delivers her address at the May EITI international Conference in Sydney, Australia



How much has Uganda earned from oil so far?

Oil in Uganda's best guess: Close to US\$ 1 billion

As these pages show, the Government of Uganda is not yet able or willing to tell its citizens how much money the country has earned from oil exploration. This is disturbing, given that at least 50 companies are reportedly now queuing up for new exploration licenses.

Nevertheless, it is possible to piece together some information from the legal spats that have hit the headlines since oil exploration started.

Firstly, we know that the government took US\$ 414 million in capital gains tax when Tullow bought Heritage's stake in the Albertine oilfields. (Two thirds of this was paid by Tullow on Heritage's behalf; a London court later ordered Heritage to repay Tullow.)

The government handed Tullow an equally large capital gains tax bill when the company sold a third of its rights each to CNOOC and Total. Tullow paid one third of the bill (US\$ 143 million) but contested the full amount. Because a London arbitration hearing has since found that Heritage should have paid the full amount of capital gains tax it was charged, it is very likely that Tullow will also eventually have to pay the full amount. For the present, however, we can confirm that the government has received slightly over US\$ 620 million in capital gains tax (according to Bank of Uganda) - and can soon expect another US\$ 286 million.

Tullow recently published a report detailing payments, totaling US\$ 174 million, made to the government of Uganda last year. This included the US\$ 143 million made in partial settlement of the latest capital gains tax bill. That leaves around US\$ 32 million paid in other fees and taxes.

It's reasonable to guess that, if Tullow paid US\$ 32 million in other fees and taxes last year, CNOOC and Total paid similar sums, adding up to nearly US\$ 100 million last year. If we add that to the US\$ 620 million capital gains tax figure, we arrive at a total figure of US\$ 720 million so far—with another US\$ 286 million likely to come in very soon. So, in sum, it looks as if the Government of Uganda will have taken close to US\$ 1 billion in oil revenues even before production begins.

This takes no account of the eight or more years of oil exploration before 2012. Did the companies that made the earliest exploration efforts—Hardman, Heritage, Energy Africa, Tullow—pay signature bonuses or other fees and taxes to the government? We do not know. They almost certainly paid something, but probably much less than the government has since begun to levy. (Simply because, before Uganda was proven to have commercial oil potential, the government was keen to lure investors, not put them off with hefty bills.)

Now that Uganda's oil potential is proven beyond doubt—and now that other oil companies are knocking at the door—the government is likely to raise the price of selling exploration rights.

That could be good news for Uganda. But it's not such good news if the government—which, according to the Constitution, holds oil resources 'in trust' for the nation—is not willing or able to tell its citizens how much it is receiving.

In July, 2013, we wrote to the Ministry of Finance, the Uganda Revenue Authority and the Bank of Uganda, asking four questions:

1. How much has Uganda received from international oil companies in signature bonuses, capital gains tax and any other statutory tax payments from 2006 to date?
2. Were these funds passed into the consolidated account or held on any other government account?
3. Was any report on these revenues made public or submitted to parliament?
4. In the Government of Uganda's forward planning, what is the net expected revenue from oil every five years?

We asked the same questions of each agency. Below are their answers.



MINISTRY OF FINANCE

I appreciate your interest in the subject matter. I am unfortunately not privy to this information. I am aware that there has been in public domain a declaration that BOU would manage the resources as they come. The other entity in the loop could be URA for taxation purposes.

I would advise you to get in touch with these two autonomous bodies to check whether they could be of help.



BANK OF UGANDA

Bank of Uganda has today received capital gains tax from Tullow Oil amounting to USD 620.582million. Regarding other statutory payments from 2006 to date, the Bank is not in position to give details as these are normally banked through commercial banks and transferred to the Uganda Consolidated Fund as a lump sum.

The details of these can be obtained from Uganda Revenue Authority and the Ministry of Energy and Mineral Development

The Capital gains tax is held on a dedicated, ring-fenced account for future development expenditure as determined by the Ministry of Finance Planning and Economic Development.

Bank of Uganda Annual Report shows the amount of the capital gains taxes collected so far from the oil companies. Details regarding any specific report can be obtained from the relevant Government Ministries that are responsible for managing the oil resource.

The Ministry of Finance Planning and Economic Development is better placed to provide feedback on this issue (Question 4 on expected net revenue-ED)



UGANDA REVENUE AUTHORITY

That's right: nothing. No reply whatsoever, despite repeated reminders and follow-up calls.

We also asked the three international oil companies operating Uganda's oil fields how much they had paid to the government of Uganda. Below are their replies:



TULLOW

In a ground breaking Corporate Social Responsibility report, Tullow had already disclosed details of payments to the Government of Uganda totaling US\$ 174 in 2012. These included taxes paid to the URA, production sharing agreement fees to the Ministry of Energy, park entry fees paid to the Uganda Wildlife Authority, and permit entry fees paid to the National Environmental Management Authority.

Mr David Onyango, the Acting Corporate Communications Manager for Tullow Uganda, referred us to this report but was not willing or able to disclose payments made in earlier years



CNOOC

CNOOC Uganda Limited is bound by contractual obligations under the Production Sharing Agreements not to disclose information relating to petroleum operations without the prior consent of the Government of Uganda.

CNOOC Limited, parent company of CNOOC Uganda Limited, publishes detailed reports on a regular basis containing information about our exploration and production activities in several countries including the US, Nigeria, Australia and etc.

For more detailed information, please refer to our annual reports at <http://www.cnooltd.com/encnooltd/tzzgx/dqbd/nianbao/default.shtml>. These reports also include taxes paid to each region.



TOTAL E&P

Total E&P Uganda is bound by contractual obligations under the Production Sharing Agreements not to disclose information relating to petroleum operations, without the prior consent of the Government of Uganda.

However, Total wishes to restate its commitment to EITI principles, which is evidenced by the Group's membership of the Initiative since its creation in 2002.

Already within the Total Group, we publish detailed reports containing information about our exploration and production activities in several countries including the UK, Norway, Angola, Nigeria and Indonesia.

These reports include in particular, data on Total's acreage, contract types, subsidiaries and the amount of taxes and duties paid to governments.

We respect the sovereignty of the Government of Uganda and we will extend our support if the Government decides to sign up to this Initiative.

EITI helps Nigeria clean up its act

Africa's leading oil producer embraces transparency |

Oil has long fuelled corruption in Nigeria, which currently ranks 139th out of 176 countries in Transparency International's global 'Corruption Perception Index.' (The lower the rank, the more corrupt the country is perceived to be; Uganda ranks only slightly higher, at 130)

Yet membership of the Extractive Industries Transparency Initiative (EITI) is helping to clean up the country's oil sector, according to Faith Nwadihi and Hilary Enenche, who work for the Nigerian branch of EITI.

In a written report submitted to *Oil in Uganda*, they note that in 2006 EITI's first ever audit of the Nigerian oil industry showed that, in the period 1999-2004, oil companies reported having paid US\$ 232 million more to the government than the government acknowledge receiving.

As well as highlighting the missing millions, the same audit "outlined various governance lapses, financial malpractices, physical and process deficiencies," according to Nwadihi and Enenche.

When this information was published, it "opened the eyes of Nigerians to what was going on in Nigeria's oil and gas sector." In response, Nigeria's Federal Executive Council set up an Inter-Ministerial Task Team to investigate and plug the apparent leakage of oil money.

In 2007, three years after the Nigerian EITI was first set up, a Nigerian EITI Act was passed to institutionalise implementation of the process.

Since then, Nwadihi and Enenche say, EITI has worked closely with lawmakers.

"The National Assembly is now more than ever committed to NEITI's independence through its openly expressed interest to amend the NEITI Act of 2007 to give the agency more powers."

Later EITI audits, covering the periods **2006-2008** and **2009-2011**, revealed that the Nigerian National Petroleum Corporation—the state-owned mega-company that is the majority stakeholder in most of Ni-

geria's oilfields, and which is responsible for both export and national oil sales—owed the government of Nigeria around USD 8 billion (1,305 billion Nigerian Naira).

Nigerian lawmakers seized on the revelations, demanding that NNOC pay up.

Some observers remain skeptical of the EITI process, however. A **2009 report by the UK think-tank, Chatham House** (Royal Institute for International Affairs), described the 1999-2004 Nigeria EITI audit as a "shining success" but added that "so far it is hard to see how better transparency has led, in turn, to better governance in Nigeria."

Nwadihi and Enenche believe they can now point to evidence of better governance.

"One of the direct impacts of EITI in Nigeria is the decision by government to reform the oil and gas sector. The Petroleum Industry Bill before the National Assembly is a product of Nigeria's membership of EITI and direct fall-out of NEITI Reports," they write.

"Process and governance reforms carried out by the Federal Inland Revenue Service are also the results of recommendations of NEITI audit reports.

"Another key gain is the introduction of Integrated Financial Management System in government agencies, as recommended by NEITI audit reports.

"In December, 2012, the Federal Executive Council approved NEITI's request to conduct, for the first time, a Fiscal Allocation and Statutory Disbursement Audit covering the period 2007-2011. This will track extractive industry sector funds as they are distributed and received by federal, state, local government councils, and their utilization for national growth by these entities."

Nwadihi and Enenche accept, however, that civil society uptake and use of EITI has not been strong. "The ability of the public, especially civil society, to use the reports effectively to hold government and companies to account has to be developed," they say.

A Special Advisor to President Goodluck Jonathan recently revealed that Nigeria lost about \$ 1.2 billion of oil revenue in a single month to oil theft. The 'thieves' tap oil pipelines to siphon crude, which often causes heavy damage to the pipeline and the area, from explosions, fires and oil pollution. Nigeria produces about 2 million barrels of oil per day, of which Authorities say, 400,000 barrels is stolen, more than what Uganda anticipates to generate at peak production.



Source of picture: source-international.org

Media deserve only five out of ten for promoting oil transparency

The development of Uganda's media is hampered not only by political pressure from the ruling party but also by lack of professionalism, stemming from the attitude of media owners who care more about short-term profits than about good journalism, says, Dr. Peter Mwesige, Executive Director, African Center for Media Excellence (ACME).

Over the years it's often been said that one of the positives of President Museveni's government has been a lively, relatively free and independent media. Do you agree with that assessment and how do you see the trend?

For an outsider Uganda can be a bit puzzling. Because on the face of it you have this lively, vibrant media—a whole range of FM stations and newspapers that can be quite reckless and sensational. But that masks a lot of problems. One of them is the degree of self-censoring that we've seen in the last five years or so. There are very many stories that never see the light of day in newspapers and especially with radio stations. And there is a lot of difference between radio stations in Kampala and radio stations in the countryside.

A lot of pressure on radio stations in the countryside is exerted by owners who are in most cases people who are close to the ruling party—they are either politicians or business people who have very close ties to the ruling party. Resident District Commissioners, police chiefs are almost like demi-gods up country, and they put a lot of pressure on newsrooms so there are a lot of subjects that never get into the public domain.

So there are some serious problems, but I still think that by and large smart newsrooms, smart journalists are able to cover a lot of subjects that perhaps don't get as much coverage in other countries. So in comparative terms I think it's a mixed bag. I would give Uganda about 60 out of 100.

Of course the recent siege would reduce the grading...

The siege of The Daily Monitor?
[which the government closed down for more than a week in June, following publication of a letter from Gen. David Tinnyefuza alleging that senior army officers were opposed to efforts by President Museveni to groom his son to inherit the presidency]

Yes, the siege of The Monitor, Red Pepper, KFM and Dembe FM. Before that, I would have given Uganda comfortably anywhere between 60 and 67 percent in terms of operational freedom.

Of course there's also a challenge of standards and professionalism within the media. I know for the political class that's often used to justify political controls. Having journal-

ists who sometimes don't appreciate their responsibilities and their power sometimes empowers those who want to undermine the media. Because you know when you have this bunch of journalists who don't care about multiple sourcing about getting the story right, they give an excuse to enemies of the press. So those who are concerned about freedom of media should also be concerned about the nature, the quality, the standards of our media—how do we work on the quality of our media without undermining the freedom of expression?

This extends beyond journalists. Because I think the mistake the government here and elsewhere in Africa often makes is to assume that press freedom or media freedom is just about journalists and media owners. It's ultimately about the public. That is a right we're all supposed to enjoy, regardless of whether we're professional or not.

So you're saying that there are political obstacles and pressures, but there's also a second issue in the capacity of the media itself to do a good job in areas where they can report. Can we focus on that? What are the constraints in the capacity of Uganda's media?

Before I answer that let me just go back: if you had more professional journalists, some of those stories which many newsrooms won't touch because they think they'll get into trouble could actually be covered intelligently. The problem here is that you have a class of journalists who are looking at two extremes: we either publish this or we don't. For instance with that Tinnyefuza story. You had KFM pulling the interview with him because the government spokesperson came late. But this person [Tinnyefuza] went ahead and gave interviews to the BBC and VoA. So clearly KFM lost an opportunity to show that despite the pressure they came under from the government after the siege, they still had a chance to stand up to power and do some bold, independent reporting. I think it was really just a question of some of the leaders there lacking emotional intelligence in terms of how do we react to these continuing sensitive stories.

Now, to your question about the constraints: I think one is to do with the investment in journalism. And this is not just Uganda, it is the whole region. If you think about an

organisation like the Nation Media Group—which is listed on the stock exchange and which owns The Daily Monitor, KFM, NTV—they make a lot of money. If you look at the numbers carefully, you will also discover that their return on investment is in fact higher than any reputable media house: The New York Times, The Washington Post, The Guardian and others. So they [Nation Media Group] are making a lot of money, but how much of that do they invest in their journalism?

Uganda relies largely on radio, we have more than 240 radio stations. Hardly any one of them has more than three journalists who are permanently employed and who are paid adequately to do a good job. A lot of them rely on stringers who are paid just about 5,000 shillings (USD 2) for a story. Very few of them are inspired to use their own resources to call a source, to call more sources, to enrich stories. Because if they did that they would actually end up making losses. The money they receive for a radio story they have filed is less than the amount they would require to do actual reporting—to call five or six sources, talk to some of them face to face, and file a fresh story.

Let's move on to oil as a case in point for some of the things we've been discussing. You've been very engaged, through a grant from the Revenue Watch Institute, in training journalists to give them some basic knowledge and understanding of the technical and policy and economic issues surrounding the development of oil resources. I can't ask you to evaluate your own project! But perhaps you could say how you think the media performance has been so far in covering the oil story, and where you think the gaps are?

If you look at the coverage from the early days, 2006, 2007, there have been some improvements definitely. Back then there is evidence from a study that was done by a professor at Columbia that a lot of our reporting here was based on single sources. It was in most cases driven either by companies or by government. There were hardly any other sources – civil society, parliament. We have seen some changes in that regard, there is a multiplicity of voices when it comes to oil, including voices of ordinary people who live in parts of the Albertine Region.



Photo: ACME

What I see as a major problem still is the question of enterprise. You don't see enough stories that are not driven by events or company announcements or government announcements.

There is no doubt that the media here have really popularised that whole question of oil and tried to help people understand what is going on. I remember two years ago, 2011, that debate in parliament, it was broadcast live on television and for very many people it was the first time to get a sense of "Wow! What is going on with oil in this country?," why this is a big deal, why this is important. And I have my cynicism about NGOs and all that but I quite frankly think that without the NGOs it could have been worse. Because a lot of Ugandans, including MPs, have only got to know about this oil story from workshops that have been organised by NGOs. They just didn't know what this whole thing was about, why it was important.

So I think in some ways the level of information that is out there today is way above what we had five years ago. Is it enough? No, I don't think it's enough, I still think that we haven't focused enough on what's really going on: this technical development [pipelines and refineries etc], and we are told, for instance, that licensing was suspended but we also know that so many companies are visiting the Albertine and they may be silently signing off deals. Just very basic, routine stuff that you know would happen with an industry as lucrative as that. Are we following the money? Who owns what in which company? That, I think—investigation, enterprise—that is still lacking, but also just explaining what is at stake. The media could do a lot more there.

*Questions put by Nick Young
A longer version of this interview, also touching on other matters, can be found on our website, www.oilinuganda.org, in the interviews section.*

Fuel subsidies are not the way to go

| By Nick Young

Cheap fuel benefits the rich most, rewards waste and addicts countries to unsustainable lifestyles.

Many Ugandans are expecting that, if they gain nothing else from oil, they will at least benefit from cheaper fuel.

At first sight, nothing could seem more logical. Tomatoes or green peppers grown in Hoima cost less by the roadside or in local markets than they cost after being transported to Kampala. If they were flown out to European supermarkets, the eventual selling price would rise even higher. Does the same logic not apply to oil? Should it not be cheaper at the point of production?

Unfortunately not. Global consumption of oil is so huge—with close to 100 million barrels used up across the world every day—that the price is set by the world market as a whole, with very little variation from place to place.

If a barrel of oil today is worth 70 dollars in Denmark or Singapore, the same barrel will be worth almost exactly the same in Hoima. In landlocked countries, transport costs for imported fuels are a little higher, but the difference this makes is only a very small fraction of the total price. (And remember that, although it's a long way for a petrol tanker to travel from Mombasa to western Uganda, the guy driving the tanker earns a lot less than a truck driver in Denmark.)

Therefore, if the government of Uganda decided that petrol and diesel should be sold at 2,500 shillings per litre, most Ugandans might jubilate but, at current world prices, every litre sold would in fact cost the government around 1,000 shillings in subsidies. This would eat up all of the country's oil revenues.

Some people might say: "Okay, but at least that way all Ugandans would benefit a bit—whereas, if government keeps the money, corrupt officials and ministers will probably eat it."

Corruption is indeed a major risk, but there are still good reasons for avoiding fuel subsidies.

One is that cheap fuel in fact benefits the rich more than it benefits the poor. For it is the rich who use most fuel, as they cruise about in their Pajeros or sit in luxury homes served by powerful diesel generators. A fuel subsidy could save wealthy households tens of thousands of shillings every week, whereas a farmer taking a public taxi to town might save just a couple of hundred shillings.

Secondly, cheap fuel encourages waste. A new middle class family, buying their first ever car, will not worry about its fuel efficiency, or

about the costs of living a long way from their job and driving to work every day. This has been the development pattern of the USA, leading that country to use far more oil per person, and contribute more to global climate change, than anywhere else in the world.

Thirdly, once a government starts fuel subsidies, it is almost impossible to stop them. Nigeria's President Goodluck Jonathan discovered this a couple of years ago. When he tried to remove subsidies, there were mass protests, forcing him to back down. The same happened in Indonesia.

And when the good times begin to end—as, now, in Egypt, which is becoming a net oil importer after many years of producing more than it consumed—the 'hard landing' of paying world prices for fuel can cause political crisis.

Luckily, there are much better ways to spread the benefits of oil evenly, and to make sure that the most needy benefit most.

The government's overwhelming priority appears to be investing in transport and power infrastructure

so that the economy as a whole can grow. This makes a lot of sense.

But it would be possible to combine this with expanded social protection programmes, of the kind the government is already experimenting with, to provide the neediest families with modest cash payments.

However, there is at least some risk in Uganda that the government may instead end up adopting expensive and inefficient fuel subsidies in order to placate a people it has not properly informed.



Photo: Ismael Katerregga ikaterregga@gmail.com



Most Ugandans expect a sharp reduction in the cost of transport as soon as the country's oil comes on stream.

President Goodluck Jonathan's attempts to remove fuel subsidies in Nigeria sparked off huge riots in the country.

Petroleum training an attractive option for working Ugandans

| By Beatrice Ongode

According to the Schlumberger 2011 Oil and Gas HR Benchmark Survey, the oil and gas industry is going through the 'big crew change' as generations of petroleum professionals hired in the seventies and eighties approach retirement. In fact, 22,000 of them will have exited the industry by 2015.

Such findings underscore the shortage of skilled local manpower in the oil and gas industry, a problem that is even more severe in frontier areas like Uganda.

In an attempt to fill this gap, several institutions have come forward to train Ugandans to enable them acquire jobs, or at least be able to offer consultancy services to the oil industry.

"We realised that there was a big gap," says Patrick Ruharuzza, the Chief Executive of Quest Energy. "Our universities did not believe that Uganda had the manpower to sustain oil and gas training locally," he told *Oil in Uganda*.

Since 2011, Quest Energy, through its partnership with Makerere University Business School, has graduated 120 students.

According to Patrick Danaux, the OGAS Solutions Country Director, such trainings will build Ugandans' capacity in oil and gas.

"These trainings are meant to provide Ugandans with the necessary skills needed in the industry," he says. "The length of each training session is variable depending on the nature of the training needed."

Costly, but shorter option

Rather than enrol for a four year petroleum course at a university, most people are choosing to cast their nets a little wider, by taking shorter petroleum course to complement their existing qualifications.

But while it is a saving on time, these courses are more costly than the university ones. For example, an eight-week online course offered by Rtenn Petroleum, the local representative of the Norwegian Petroleum Academy, costs 500 dollars, while a six month post graduate certificate offered by Quest Energy costs twice that.

In contrast, a Bachelors Degree in Petroleum Geosciences and Petroleum at Makerere University costs around 500 dollars a semester.

According to Mr. Danaux, the training cost depends on the number of participants.

"The trainings basically vary from around 50 dollars per head a day to a much higher cost. It also depends on the required equipment," he says. "For example some drilling trainings require importation of a well simulator from abroad to support the course," he explains.

Value for money

Quest Energy's Ruharuzza notes that the lecturers they use are conversant with the industry and are qualified for the job.

"These trainers are solid" he says. "They have the zeal and skills," he affirms.

Mr. Oscar Kihika, a Kampala-based lawyer agrees that the training he

undertook in Oil and Gas Management Essentials organized by Quest Energy broadened his understanding of the industry.

"It was worthwhile because it was basically an introduction to the oil and gas sector," he told *Oil in Uganda*.

Samson Lokeris, a Ugandan Member of Parliament, admitted that the training he attended in Nairobi last April, organised by Rtenn Petroleum, helped him to understand the oil and gas industry in Uganda.

"The training enabled us to understand the nature of Uganda's oil and the whole oil exploration process. It cleared some of the assumptions I had regarding oil explorations," he told *Oil in Uganda*.

Yet, he noted, such trainings are not hands on.

"These trainings are good but they need to have more practical sessions so that we relate the theory we have been given. Showing us wastes on screens is not helpful, we need to see what we are learning," he observed.

Nevertheless, many Ugandan professionals will continue to turn to these short term courses in order to obtain the much needed knowledge on oil and gas and hopefully qualify to offer a service to the oil and gas industry, the cost of the training not withstanding.



Above: welding a gas pipeline joint in Lithuania.

Local welders(left) will have to scale up their expertise if they are to win contracts like the one above in the oil and gas industry.



Photo: Henry Bongyereirwe

Politics and politicians are the real oil curse

Dr. Duncan Clarke is an expert on the economics, geopolitics and other dynamics of the extractives sector in Africa. His books include: Africa's Future: Darkness to Destiny, Africa: Crude Continent: The Struggle for Africa's Oil Prize, Empires of Oil and The Battle For Barrels.

In the Heritage Oil Capital Gains Tax case, Heritage's point was that the government disrespected the stabilisation clauses in the agreements it had signed with the company. Do you think incidents like that, where an investor perceives a country as being fiscally and legislatively unstable, make the country a less attractive destination for investors?

Absolutely. There is evidence from all over the world, not just Africa or East Africa. The more there is chopping and changing particularly contracts that are already agreed where there is a stability clause, then it is considered a very bad signal to the market, to the industry, to the investor community and to the capital markets.

It raises red flags about what will happen with the next deal or the next company. What's already happened of course is that Heritage has had to basically lose the argument. Capital gains is now being applied retrospectively and so other companies sitting and looking at Uganda will know that.

Why it's bad is because not only in this particular case was there a contract issue about the stability clause, but more importantly for the longer term in my view, it adds to the complexity and undermines what we call the secondary asset market.

Primary acreage asset market is when the government offers acreage in a bid round or does a deal. But when the companies are in there, they want to farm-out, they need to do that for joint venture risk, it's entirely normal worldwide, its been historical practice in the industry for a century. And when that gets or is made more difficult because there is capital gains liability, then that is no longer retrospective and it applies to new contract terms because that is a clause in the new petroleum regime.

It is much harder for the companies to think of coming in on the presumption that if they have a discovery or want to get to development, then they need to farm out to get partners and capital and so on and then they have this huge tax thing. Now because it has become some law of sort, that will factor into the economics of the equation in advance and that will make the country less attractive compared to what it could have been or against other competitors.

The other big thing for the governments not just in Uganda, East Africa,

but anywhere in Africa and indeed in the world to know is that it is a world game. It's not about Uganda, it's not about East Africa. These companies can go anywhere they like.

Do you envisage a change in the way African leaders will manage their natural resources given that there are renewed global efforts towards more transparent dealings in the extractives sector through EITI, Dodd Frank Act and the proposed EU Legislation?

You know that a number of countries have sought to sign up to EITI. And you also know that at the same time, they probably do not have intentions to keep to the letter or spirit of the guidelines.

On the other hand, I suspect a lot of the EITI is designed as pressure on the companies as much as on governments. Certainly the EU type legislation which is built around the concept of Publish What You Pay and all that, is an attempt of sorts to try and enforce country level disclosure of revenues and payments, which you know some governments object to, such as Angola did once to BP by arguing that it was an infringement of sovereignty- and there is a point to that.

Should the Angolan government tell the Portuguese government how to run their banking systems given that they are an investor in Portugal's banks? What will the Portuguese and EU say about that?

It (transparency legislation) might lead to some adjustments here and there but fundamentally, most companies are not out there trying to corrupt governments to make illegal payments. This is a very over dimensioned argument for which the evidence is weak. There are periodic cases. There have been instances, yes, but if you look at the global sum of upstream investment in Africa as a whole, it will be into billions and billions over time. 99 % or more of that is above board and straight forward. These companies are quoted on the main exchanges, they have to comply with ACC (Anti Corruption Commission) rules, have to have audited accounts have and comply with local and national audit, tax and other regulatory elements. The last thing they will want or need is a scandal that leads to reputational risk that damages their share price, that's like kiss of death.

I think a lot of these claims come out of the so called oil curse thesis. This

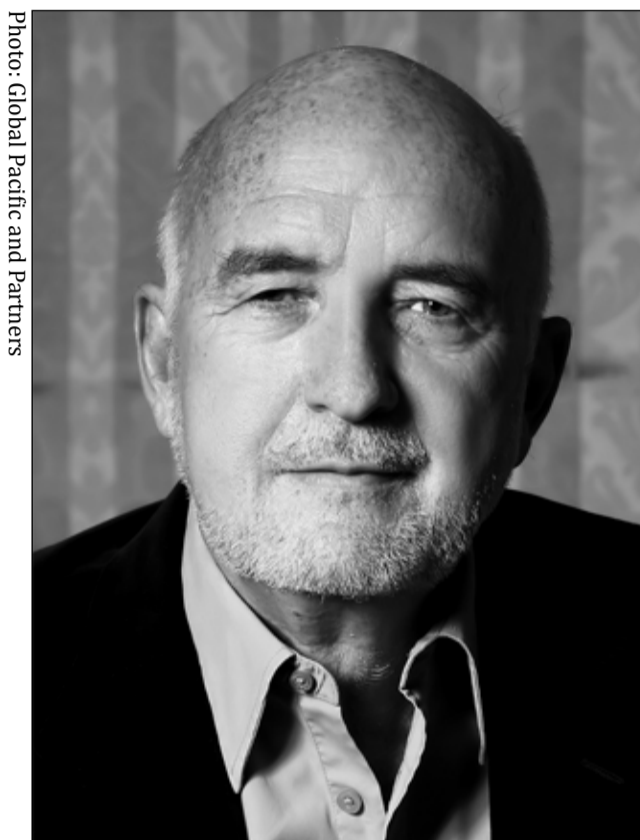
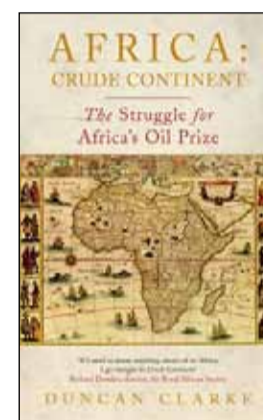
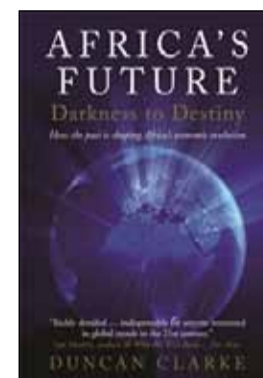


Photo: Global Pacific and Partners



is often a media thing, is often analytically poorly identified or explained. The main curse is not about having oil and reserves and production, the curse is the politics and politicians.

There is a whole sort of super structure of glitterati, great and good, and others including rock musicians and sort of 'wannabes' who hang on the fringes of the oil industry, basically in order to get public relations, bang a drum and yet they know absolutely nothing about the business, and maybe never will.

So companies are likely to be more willing to be transparent than the host governments because of their international obligations?

Companies tend to be anyway because they have shareholders to account to, stock exchanges to regulate them, risk of reputation damage and (ultimate) effect on share price.

They have got threats of imprisonment if they give money to government bureaucrats or politicians in shady deals. There are huge risks they must want to avoid. Who really in senior management (of an international oil company) wants to end up in jail? I have never met anyone. Five or ten years in some God forsaken jail in America or Britain? What for? Why would you do that? They get paid well enough. If they perform they may get bonuses and possibly some shares. None of these people are pleading poverty typically and they are going to put all that at risk for some deal done in order to accommodate some politician? I don't

think most people would do that.

What about the so-called 'shale revolution' which some analysts predict will continue to diminish the demand for imported oil and gas from some big markets like United States, China, and India, do you think it will ultimately lower the price of global crude oil prices and hence late comers like Uganda will be hurt financially?

Let us separate shale gas from shale oil and the increased discoveries and supply of the (new shale) oil to the market which could, depending on some views, soften the price.

If you accepted that view, and it's by no means one hundred percent certain, then you could be saying we should have been producing oil in Uganda from 2007/2008 because that is the period when crude oil prices were running up and would have got more benefits. Now you might produce it into a price regime that might go to 80-90 dollars Brent. So the opportunity cost of having waited is a negative on what could have been really Uganda's last, there is absolutely no doubt about it, net revenue on the long run for economic growth and GDP per capita.

Uganda has already made a huge strategic mistake, but the question is whether it wants to continue to do so or if it would like to recover, and it can.

Questions put by Musiime Chris

A longer version of this interview, also touching on other matters, can be found on our website, www.oilinuganda.org, in the interviews section.

Uganda's Oil Refinery – An Opportunity for transformation

| Bashir Hangi, Communications Officer of the Petroleum Exploration & Production Department, Ministry of Energy & Mineral Development

Uganda's petroleum products consumption is at 27,000 barrels/day and growing at an annual rate of about 7%. This fact presents an opportunity to Uganda, with the confirmation of over 1.2 billion barrels of recoverable oil in the country.

Following the discovery of commercial oil reserves in 2006, Government formulated the National Oil and Gas Policy in 2008 to address the entire spectrum of oil exploration, development, production and valuable utilization of the country's oil and gas resources. Objective 4 of the Policy is to promote valuable utilisation of the country's oil and gas resources through in-country refining of crude oil.

The Ministry of Energy and Mineral Development therefore formulated a Refinery Development Programme (RDP) to guide the development of a refinery in the country. Uganda's RDP is in line with the East African Regional Refineries Development Strategy that was adopted by the EAC Partner States in 2008 that recommended a second refinery in East Africa be developed in Uganda.

Subsequently, Government contracted Foster Wheeler Energy Limited Ltd from the United Kingdom to conduct a feasibility study on building a refinery in Uganda in 2010/2011. The study considered the crude production potential and also undertook a comparative analysis between building a refinery and a crude export pipeline to the Indian Ocean coast. It also recommended the size and configuration of the refinery, location, financing options, social and environmental assessment, among others.

The feasibility study recommended that a refinery was a more commercially viable option with a Net Present Value (NPV) of US\$ 3.2 billion at a 10% discount rate and an Internal Rate of Return (IRR) of 33%.

Government plans to develop a refinery with an input capacity of 60,000 barrels per day in a modular manner, starting with a capacity of 30,000 barrels per day by 2018 which will be increased to 60,000 barrels per day before 2020. The enactment of the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013 gives a firm legal foundation for this development.

The refinery configuration and complexity determines which products can be produced from the crude oil. The planned refinery will produce Liquefied Petroleum Gas (LPG),

diesel, petrol, kerosene, jet fuel and Heavy Fuel Oil (HFO).

Location and Land Acquisition

Out of the six potential locations that were assessed, the feasibility study recommended Kabaale Parish in Buseruka Sub County, Hoima district as the most suitable location for the refinery. This is due to its centrality in relation to the entire Albertine Graben, proximity to the oil fields, sparse population and relatively low laying terrain among others.

The Ministry is in the process of acquiring 29 sq.km of land for the refinery. This land will host staff quarters, a health facility, an aerodrome with a runway of the same size as Entebbe International Airport, waste management facilities and petrochemical industries among others. A consultant was contracted to undertake a Resettlement Action Plan (RAP) for the required land during 2012.

The objective of the RAP was to develop a framework for managing the loss of economic activities and livelihoods through compensation and/ or relocation of the affected people.

The RAP study was conducted between June and October 2012 after engagements with the district, local, cultural, and religious leaders together with the affected communities. It involved sensitization about the project and resettlement options, a socio-economic baseline study, cadastral survey of individual parcels of land and valuation of property. The valuation report was approved by the Chief Government Valuer in December 2012.

The compensation rates for crops and non-permanent structures are set by the District Land Boards and approved by the Chief Government Valuer in Ministry of Lands, Housing and Urban Development. The value for land is determined by professional valuers after conducting a survey to establish the prevailing market price for land in a given locality using a comparative method. These rates are verified and approved by the Chief Government Valuer.

RAP implementation involving compensation and/ or resettlement is an extensive and comprehensive process. A number of activities must be undertaken before actual payment. These include verification, disclosure of compensation values, livelihood improvement and financial management training, identification of resettlement areas and construction of resettlement houses, among others.

Implementation commenced in July 2013 with disclosure of compensation values to verified land, crop and property owners. The ongoing disclosure is a transparent and voluntary process done in the presence of the Village RAP Committee and Local leaders. Affected persons are shown a detailed breakdown of their property including acreage of land and the monetary value. It is projected to take a minimum of eight months.

This exercise is aligned with the existing laws and international guidelines such as the Equator Principles/ IFC/World Bank operational guidelines and other safeguard policies on resettlement. RAP implementation is being undertaken by a consultant and is monitored by local and central government officials on a daily basis to ensure compliance.

Financing the refinery

Uganda contracted the services of a Transaction Advisor (TA), Taylor DeJongh, an energy investments firm from USA for the project. The TA is supporting Government in sourcing for the lead investor and financing for the refinery, which will be developed on a Public Private Partnership basis. Several investors have expressed interest in developing the refinery and the Ministry plans to put out a request for qualification before the end of September 2013 for potential investors to formerly express interest.

Benefits of Uganda's Refinery

The East and Central African region has only one refinery in comparison with other regions like South Africa with seven refineries and North Af-

rica with 21 refineries. Uganda, like other EAC Partner States, therefore faces challenges in stability of supply of petroleum products. The refinery in Uganda will boost the region's refining capacity and ensure security of supply of petroleum products especially for the land locked Partner States such as Rwanda and Burundi.

Besides being a strategic investment for the country and the region, developing a refinery in the country will improve Uganda's balance of payments by reducing the petroleum products import bill.

The construction of the refinery and development of attendant industries such as the petrochemical and manufacturing industries will create jobs for Ugandans and ensure the transfer of technology in the refining and associated industries.

Other benefits include enabling the rational exploitation of the resource to support sustainable development and contribution to the country's growing energy requirements by providing Heavy Fuel Oils (HFO) which can be used for power generation and Liquefied Petroleum Gas (LPG) that will help offset use of trees for domestic cooking.

As a country and a region, let us rally behind Government in taking this project forward which is in line with the National Oil and Gas Policy. Government is committed to ensuring that the processes leading up to the development of the refinery are handled transparently and in accordance with the laws of the country and international best practice.



Some residents have threatened to take the government to court over unfair compensation for their property. They are also claiming that government agents are harassing them and coercing them into signing consent forms. Innocent Tumwebaze (left) claims he was attacked by security officials in Kitegwa village when they found him encouraging the villagers to stand up for their rights.

Photo: Flavia Nalubega

Flaring: old habits die hard

| By Oil in Uganda Staff

The economic argument continues to override environmental concerns

Gas “flaring” has for decades been recognised as both wasteful and environmentally hazardous, but it continues on a significant scale around the world today despite various initiatives, codes of conduct, laws and agreements to halt it.

Flaring occurs at oil wells because, where oil lies trapped in underground reservoirs, pockets of “associated” natural gas lie trapped with it and dissolved in the oil. In the early years of oil exploration and production, technologies had not been developed to capture and use this gas, so oil companies allowed the gas to escape into the earth’s atmosphere—a process known as “venting”—or, more frequently, burned it off: “flaring.” This is considered much better than venting because, if it is done efficiently, nearly all of the gas is burned.

However, even in the best cases, flaring damages the global environment by releasing a certain amount of greenhouse gases. (Altogether, flaring is thought to account for between one and two percent of global, greenhouse gas emissions.) Local environments suffer from sooty ash, the emission of sulphur compounds that can result in acid rain, and the emission of volatile organic compounds such as benzene, which is a known cause of cancer.

Nowadays, the technology exists to capture, store, transport and use “associated” gas. The problem, however, is the economic cost of doing so. In very many cases, the amount of “associated” gas produced by a well is too small to recover the investment needed to capture, transport and sell the gas. And so, in many places, the economic argument continues to trump the environmental argument, and companies continue to flare.

Environmental campaigners have complained long and loudly about this. Over the last 20 years, governments and corporations have signed up to a variety of protocols aimed at reducing flaring. For example, the World Bank has launched a Global Gas Flaring Reduction Partnership that has been joined by around twenty oil producing countries and a similar number of major oil companies.

However, progress is painfully slow. In Nigeria, for example, some states tried to prohibit flaring as early as the 1960s, and a variety of national regulations were later passed, but most companies continued to flare, preferring to pay chicken-feed annual fines rather than investing in the technology to capture the gas.

The World Bank’s Flaring Reduction Partnership last year reported that,

for all its efforts, flaring worldwide had actually increased in the previous year.

In 2011, the World Bank revealed, 140 billion cubic metres of gas were flared, accounting for 360 million tonnes of greenhouse gas emissions. Eliminating those emissions, according to the Bank, would be equivalent to permanently removing 70 million cars from the world’s roads.

In a worrying sign, however, the United States of America is one of the countries where flaring is actually increasing. This is connected with the revival of the American oil and gas industry through the latest technology of “fracking” – “hydraulic fracturing” – in which America leads the world.

Technological advance, it seems, does not necessarily lead to better environmental standards.

North Dakota Gas Flares Light the Night Sky

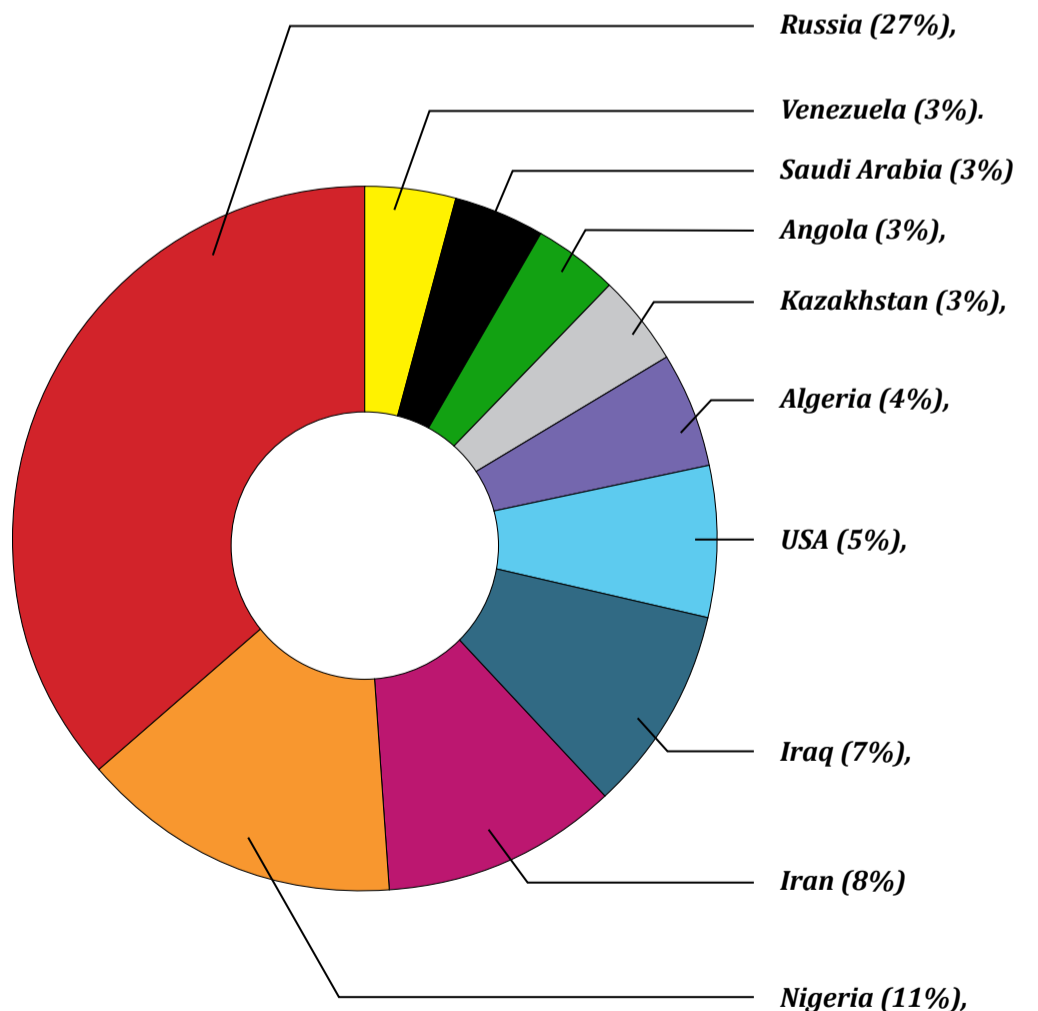


Although everyone now recognises the harm that flaring causes, it appears to be increasing in the USA, where the oil and gas industry has been energised by new “fracking” technologies which have opened up “unconventional” gas fields. The satellite picture shows North Dakota at night, illuminated by gas flares (below)



THE WORLD’S TOP TEN FLARING COUNTRIES

(percentage = country’s contribution to global flaring)



Source: the World Bank