Happy new era!

By Lynn Turyatemba

Last month, Uganda celebrated 50 years of independence from British colonial rule. A new era has dawned in the social, economic and political life of the nation. There is much to look forward to.

A key milestone in the last ten years has been the discovery of commercially viable deposits of oil. Expected revenues from the oil have the potential to help raise out of poverty the 75 percent of Ugandans living on less than two dollars a day, and to bring to reality government plans for rehabilitation, development and maintenance of social service infrastructure.

But this can only happen if the money is managed prudently.

The Public Finance Bill 2012, currently before parliament, outlines a framework for oil revenue management. There is an opportunity, with this Bill, for stakeholders to engage on issues relating to the collection, use, sharing and saving of oil money.

Chapter VII, dealing with oil revenues, provides for basic transparency and oversight mechanisms.

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Everyone knows it’s all about money.

But if we switch that thought to “It’s all about economics” it suddenly sounds uncomfortably complicated. Something only economic experts can talk about. Yet most of us hardly know which economists to trust because one thing we are fairly sure of—and rightly so—is that in the past the ‘experts’ have been utterly wrong at least as often as they have been right!

Nevertheless, Ugandans must not opt out of economic policy debate around oil. Because decisions being taken today will shape the country’s future for many decades to come.

In February, 2012, the Government of Uganda published an Oil and Gas Revenue Management Policy. This was rapidly followed by the tabling in parliament of a Public Finance Bill. Chapter VII of the draft law is, in effect, a ‘bill within a bill’ to regulate oil revenue management. The proposed legislation will have important, wide-reaching and long-lasting consequences.

How much money will there be? How will it be divided up? How should the government do with its share? How much will it spend, how much will it save? How much should it spend, and how much should it save? What should it spend the oil money on? And who should make those decisions?

Uganda needs to talk about this. Every Ugandan should be in the conversation.

Oil in Uganda’s simple contribution (see pages 7-11) is to lay out some key issues that may help to inform the conversation.
Editorial

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includes a royalty sharing plan for the communities in the oil producing districts, prohibits use of oil revenues as collateral on public debt and provides key guidelines for the management of oil money. This is a fairly good start on the road to prudent management of oil revenues.

The power given to the minister to single-handedly control the management of oil money is a cause for concern. The proposed Investment Advisory Committee retains only advisory roles and cannot adequately provide necessary checks on the minister's authority. Transparency proposals are inadequate to ensure full parliamentary and citizen participation in the allocation of oil revenues.

Revenue sharing mechanisms proposed in the Bill would have 93% percent of royalties accruing to central government and 7 percent to local governments within the oil producing areas. This raises more questions than answers and threatens to resurrect debate about fedeero—the Ugandan central region agitation for a federal system of governance. Further, a sharing scheme based on only one revenue stream—royalties—instead of the whole batch of oil revenues (including profits, royalty, oil profit, etc.) appears unusual.

So far, Uganda’s oil reserves are estimated at 3.5 billion barrels, of which 1.6 billion barrels are definitely recoverable. Annual revenues from the industry will likely peak around US$ 2 billion. This is not transformational money. It will not, ‘magic-wand’ style, turn Uganda into an ‘East African Tiger’, but it could lay a fairly solid foundation for transformation. State of the art transport systems could be developed. Health infrastructure could be revamped, more health workers trained and deployed. More schools could be built and teachers be motivated by better remuneration.

The oil money needs to deliver these kinds of results in order to be relevant to each one of us.

Lynn Turyetamba is a Senior Programme Officer, with International Alert and a member of the Oil in Uganda Editorial Advisory Group.

Refrinery: an end in sight?

By Nick Young

Oil Commissioner, Ernest Rubondo, announced in September plans for a refinery able to process 120,000 barrels of oil per day. This seemed, if anything, an upgrading of government ambitions, in defiance of the international oil companies, who do not believe such a large refinery is commercially viable.

Yet the two sides may soon reach a compromise, because both sides need to move forward.

The oil companies’ position is backed by a large body of independent, expert opinion. “Show me a landlocked refinery anywhere in the world that makes a profit by exporting!” an independent, UK-based energy consultant remarked to Oil in Uganda. There isn’t one, he said.

A confidential report, commissioned by Uganda’s Ministry of Finance and written last year by the International Growth Centre, a think tank based at the London School of Economics and Oxford University, reached much the same conclusion.

According to the report, Uganda’s current oil consumption is 13,000 barrels per day, Rwanda’s 6,000, Burundi’s 3,000, and this demand could be met by a small refinery specialising in transport fuel. Allowing for growth in demand and possible, although uncertain, export to other regional markets (DR Congo, eastern Tanzania and South Sudan), a 30,000 barrels per day refinery may be feasible.

Yet, in order to recover their investment costs and make a profit, the oil companies will need to see at least 150,000 barrels of oil flowing out of Uganda every day for at least ten years. Whilst willing to support the concept of a small refinery to meet domestic demand, the companies would prefer most of the crude oil to go down an export pipeline to the coast and on to tankers bound for Asia. That is a much safer commercial proposition than risking bottlenecks and possible losses in an uncertain, regional market for refined oil products.

President Museveni’s government is in fact highly unlikely to get its way. It doesn’t have money of its own to build a big refinery, and it will be very hard to attract foreign investors for a project with such commercial risks.

The likeliest eventual outcome is, therefore, a compromise: say, a 40,000 barrel per day refinery plus an export pipeline. On both sides, there is significant pressure to make a deal sooner rather than later.

This was a thinly veiled threat that Tullow might wash its hands of Uganda and depart for Kenya, where the company has been claiming spectacular exploration success. “We have plenty of options,” Mr Karuhanga’s message seems to be. “So, get serious and let us make a profit!”

Yet the message conveys more weakness than strength.

Tullow has, over the last decade, enjoyed remarkable success in finding new oil across the globe. But such hectic growth generally brings growing pains.

The company has plenty of ‘assets’—meaning exploration and production rights around the world. But it has relatively little experience of operating productive fields, as opposed to finding new ones. Nor does it have much ready cash to help the transition from a ‘wildcatter’ that just finds oil, to a company with the capacity to develop it.

Uganda has not been cheap for Tullow. The company spent a combined total of US$ 1.8 billion buying the ‘assets’ of Energy Africa (in 2004) and Hardman Resources (in 2006). Both deals involved licenses outside of Uganda too, so cannot be placed only on the Ugandan balance sheet; but the Albertine Graben was certainly a major part of both deals.

Tullow then paid US$ 1.45 billion for Heritage’s Ugandan rights, and promptly became embroiled in a capital gains tax dispute that has already cost the company hundreds of millions of dollars, paid on behalf of Heritage. The $2.49 billion sale that brought in CNOOC and Total as operating partners helped Tullow to recoup its investment—yet immediately attracted a new, hefty capital gains tax bill that the company is contesting.

As an ‘integrated’ company with experience of oil exploration, production, refining and marketing, Total may be moving centre-stage in Uganda's oil industry.

Mr. Museveni is mortal

Many Ugandans take it for granted that President Museveni wants to preside over the arrival of oil money. If that is so, he needs to move fast.

Even if a field development plan is agreed tomorrow, Uganda will see little substantial oil revenue until 2020 at the earliest.

And all who are familiar with the oil industry also know that it will not bring a jobs bonanza on a scale to make much of a dent in Uganda’s growing pains.

Thus, the ruling party risks going into the 2016 election with relatively little political capital from oil. But it would certainly help the NRM to have firm agreement on an infrastructure plan, visible progress towards production, and the modest jobs gain from a construction boom during the development phase.

And so is Tullow

The companies also need a ‘roadmap’ showing how their investments will lead to profit. But the three, joint operating partners—Tullow, Total and CNOOC—are not all in same boat.

Tullow’s frustration is clear. Elly Ka-ruhanga, who chairs the company’s Ugandan subsidiary, has been complaining loudly about lack of progress towards oil production. He blames the government (and civil society) for “demonising” the oil companies, and claims that this will drive foreign investors away.

“Capital is a coward, it is easily scared and it is not a friend of anyone. It can disappear at any time and go to a place where there is no hostility,” he told a public meeting organised by Oil in Uganda.
So Tullow’s frustrations are real enough. If there were a way for them to exit without suffering a net loss they might choose to do so.

Total is in for the long haul

Tulio of, however, appears commit- ted to the long term, and brings with it the experience and weight of an oil ‘supermajor’.

In September, Loic Laurand, the company’s General Manager in Uganda, took the unusual step of convening a press lunch and telling journalists that the country would not see oil until 2017 at the earliest. ‘To achieve even that deadline, he stressed, Uganda must upgrade its road network enough to bring in heavy equipment needed to extract the oil.

This unusually frank and blunt approach raised angering a gov- ernment that has consistently put out more optimistic state- ments about ‘first oil’ and that would dearly like to have at least some benefits to show by the 2016 elections.

Mr. Laurand sweetened the pill, however, by also announc- ing that Total planned to bid for additional exploration areas as soon as they come up for licens- ing.

The ‘strategic’ message seems clear: Total is ready (and can af- ford) to make a long-term com- mitment to Uganda, but wants a no-nonsense, businesslike discussion on terms.

Whether by chance or careful timing, those messages went out in the special editions of Ugan- dan newspapers commemorat- ing the one year independence jubilee. Tullow and its forerunners— Heritage et al.—were largely air- brushed from these accounts of Uganda’s post-colonial history.

Also in September, Total ap- pointed as its Corporate Affairs Manager in Uganda Mr. Ahlem Friga-Noy, a high-flying French diplomat with a strong French-African experience. Her cv includes service as a French advisor to Left-leaning French Foreign Minister, Bernard Kouchner. (And Mr. Kouchner is no run-of-the-mill politician; in his youth he helped lay the foundations of the 21st century NGO advocacy industry by setting up the French head- line act, Médecins Sans Frontièrnes).

So, one senses a charm offensive, at both diplomatic and public levels. And it might just unlock the refinery impasse—although no one should underestimate the difficulty of persuading Uganda’s famously obstinate president to relinquish his ‘vision’.

Tax hearing opens

Behind-closed-doors proceedings to settle the tax dispute between Heritage Oil and the Government of Uganda opened in the London Court of International Arbitration (LCIA) at the end of August.

The case concerns Uganda’s claim for US$ 435 million in capital gains tax on Heritage’s US$ 1.45 billion sale to Tullow Oil of its exploration and pro- duction rights in Uganda. Heritage contests the tax bill.

‘I sense this is the defining battle. Let those who are on the Lord’s side stand up and be counted,’ Uganda Revenue Authority Commissioner General, Allen Kagina, wrote in an email to senior colleagues on the eve of the hearing.

However, Ugandan MP, Stephen Tashobya (NRM, Kajjara County, Ntungame), who led a team of four MPs to observe the proceedings in London, said in a telephone inter- view that this preliminary, two-day hearing considered only the issue of whether the LCIA has jurisdiction in the matter.

Heritage argues that Production Sharing Agreement bound both par- ties to arbitration in the LCIA in the case of any dispute. The government argues that this does not apply to tax disputes, which should be settled by the Uganda Tax Appeals Tribunal. That tribunal has already ruled in favour of the government.

Reserve estimates raised—but how?

Uganda’s oil reserves now stand at 3.5 billion barrels, with more than half of the Albertine Graben remain- ing to be explored, oil Commissioner Ernest Rubondo, announced at a high-level conference in Kampala in September.

The new figure—an increase of 40 percent over the previous estimate of 2.5 billion barrels—is probably credible, given overall exploration success to date, but the basis of the calculation is not clear.

No new discovery has been an- nounced. On the contrary, the ‘Kowan- yataka prospect in the Semliki basin, where CNOOC drilled an exploration well in July, proved disappointing and the block has now been relinquished.

Tullow and Total are continuing to ‘appraise’ discoveries in the blocks they operate—making a fuller as- sessment of how much oil is there and how best to get it out—but nei- ther company has reported publicly on the results of these operations.

Second Tullow strike in Kenya

Tullow Oil recently announced a second Kenya oil discovery, following the spectacular success it claimed in March with a first exploration well in the Turkana area.

The new strike was made at the Twiga South-1 well in the Lokichar sub-basin, which lies between the southern end of Lake Turkana and Kenya’s border with Uganda.

Tullow announced that it had “en- countered” oil before the well was drilled to its target depth. A clearer picture on the significance of the find will not emerge until the drilling is completed in mid-November.

Petroleum Bills debate draws to a close

Debates and negotiations around Uganda’s petroleum bills are reach- ing fever pitch as this issue of Oil in Uganda goes to press, and it is likely that some version of the bills will be enacted this month.

A flurry of last-minute conferences, caucuses, horse-trading and efforts to “harmonise” positions saw atten- tion focusing on two key issues.

Firstly, many MPs are worried by clauses that allow private sharehold- ers to “harmonise” positions saw atten- tion focusing on two key issues.

Firstly, many MPs are worried by clauses that allow private sharehold- ers to engage in the National Oil Company, and are adamant that it should be 100% state-owned.

‘Once you open the window for the sale of shares, you know that you are doomed,’” Hon. Theodore Seekuhu (NRM, Lweyibiya County, Ssemba- bule) told parliamentarians at one meeting.

Seekuhu, who chairs the Parliament- ary Forum on Oil and Gas (PFOG), cited the National Insurance Corpo- ration and National Housing Corpo- ration as past cases where problems arose after share issues.

The parliamentary Natural Resourc- es Committee, which engaged in extensive public consultations on the oil bills after they were first tabled in February, also recommended in its final report that the NOC be fully state-owned.

Secondly, PFOG wants the pro- posed regulator for the industry, the Petroleum Authority, to be not an Authority but a Commission—a body with higher administrative status, whose members would be appointed directly by the president, with par- liamentary approval. The Authority proposed in the ‘upstream’ bill would be appointed by answerable to, and subject to ‘directions’ from the minister.

PFOG also wants to trim the pow- ers of the minister. In the bill, those powers in crude granting and revoking oil exploration and production li- cences, negotiating petroleum agree- ments and approving oil companies’ field development plans. PFOG says those powers should be given to the Commission experts rather than vested in an individual and that the minister should be responsible for overall policy direction rather than negotiating specific deals.

Deal-making continues apace ahead of the long-awaited parliamentary debate.
Refinery site residents still in limbo

Although found eligible for compensation or relocation, 8,000 people living on the site of Uganda’s planned, 29 km2 refinery complex still don’t know when or where they are going.

KABAALE PARISH, HOIMA DISTRICT: Kyanapoli village is deserted. The crowds in the once bustling marketplace are no more. Some homes are shut up, bushes have besieged others, and the gardens are empty of the crops they once boasted.

“The government has told us to begin packing our property and not to grow crops that take more than three months to mature. They said we shall be re-located from this place anytime soon to pave way for the refinery,” says Geoffrey Kweddde, a Local Councillor II for Kabaale Parish in Busekika sub-county of Hoima District.

Kweddde still doesn’t know when he will have to move or when he will receive compensation for the 18 acres of land that he will give up. He is among the 8,000 people who, according to a recent survey commissioned by the government, are eligible for compensation.

Earlier reports on the refinery site had suggested it was home to as many as 27,000 people. Many of those not deemed due for compensation appear already to have packed their bags and left.

Those who have stayed, waiting for a compensation deal, are in the main satisfied with the report, which was compiled by Strategic Friends International, a Ugandan consultancy firm. The residents say the report accurately reflects the information they gave on their landholdings and crops.

Yet many of their questions remain unanswered. When will they be compensated? How much will they get? And how will they survive meanwhile?

State officials, including Energy and Mineral Development Minister, Irene Muloni, cannot provide definite answers. “But they should be prepared anytime,” the minister told Oil in Uganda.

Hunger sets in

This leaves the residents in limbo, with many facing financial difficulties and even hunger.

Twenty two-year-old Christine Aloro, a resident of Kabaale village and a mother to five children, depended on 22 acre plot to cultivate cassava for home consumption and income generation. But she has neglected the land since being told to stop planting, and is now paying a heavy price.

“If we lose our food, how do we earn a living? I have to take my children to the hospital.”

Two other women have abandoned their farms to look for jobs in nearby towns. “I have not been able to work because the government said we could not do manual work. My husband is sick and I have to take care of him.”

Debts pile up

Uncertainty over the future, combined with the departure of many immigrant traders, has also hit local entrepreneurs hard.

“Most businessmen and women have fled Kabaale in fear of losing all their money,” according to Samuel Baggonza, who owned a number of rentals at Kyanapoli. “We have no more cash to pay fees or buy food and many of us are indebted to banks,” he adds.

Baggonza’s two children have dropped out of the secondary school in Hoima town. He also has outstanding bank loans he cannot repay. He has had to ask the bank to be patient until he receives government compensation.

“This oil project may be good to the country but it is making us poorer and heavily indebted,” he says.

Fifty two-year-old Alice, who declined to give her second name, borrowed three million shillings (US$1,200) from a microfinance institution and invested heavily in crop farming. But she was forced to abandon it when she heard the refinery will not spare her land.

“I am in now in hiding, waiting for the Government to compensate us. The loan owners are looking for me and I have had to switch off my telephone until I get the money to pay.”

Alice admitted.

“How much will we get?”

Those who are due compensation do not yet know how much they will get. “We are like chicken whose heads have been cut off waiting to be slaughtered. We do not know when they will compensate us, how much and where we shall move,” 42-year-old Albert Edema angrily complains.

He worries that they will be paid less than the real value of the land, and that they will find it hard to acquire expensive land elsewhere. He adds that while some residents want to be paid cash, others asked to be compensated with plots of land elsewhere.

Many villagers are expecting multi-million shilling settlements. However, sources in the government lands valuation department revealed to Oil in Uganda that cash compensation is likely to be set in the region of 100,000 shillings per acre—substantially below local expectations.

Government response

Energy and Mineral Development Minister, Irene Muloni, told Oil in Uganda that the government will re-interpret the choice of Kabaale parishioners as to whether they receive cash or land compensation.

She added that the government will help them to find alternative settlement areas, and give them two to three months to re-locate from the refinery area.

“These are our people. We are working for them, they cannot be thrown out without help,” she said.

The minister also stated that compensation rates will reflect the best prevailing prices of the land in the areas affected. This, she said, would be determined by government valuers.

But as the local people wait for compensation, they are requesting relief food.

However, the Energy Minister called upon people to continue growing their crops until they are relocated.

“There is nobody stopping them from growing food until the final relocation,” she clarified.

Bashir Hangi, a Communications Officer with the Petroleum Exploration and Production Department, also denied reports that government told local residents not to plant crops on the proposed site. “Instead, we told them that those who plant crops after the evaluation process will not be compensated.”

But this gave local farmers an incentive, if not an instruction, to down tools.

Hangi explained that the consultancy company is currently receiving comments and feedback on the resettlement study. “By the end of this month, we should have received the final report. We shall then implement it,” he said.

He was unable, however, to give a firm date when the implementation will begin.

This article was posted on www.oilinuganda.org in September.
In early September, Dr. Tom Okurut, Director of Uganda’s National Environment Management Authority (NEMA), admitted in a public meeting that the government had failed to carry out a comprehensive study of the likely environmental and social impacts of oil exploration and production in the Albertine Graben.

“This study was supposed to be the first thing we did before any activities began. But we did not have the money to do it. Now that we have the money, we are doing it and it will be completed by December 2012,” Dr. Okurut told some 200 researchers, government staff and civil society representatives at the September 6 meeting, which was hosted by Nature Uganda, a national NGO, in the Uganda Museum.

As with other commercial developments, oil activities are subject to environmental impact assessments (EIAs) on a case by case basis each exploration well, for example, requires its own EIA. But no official body has yet “joined up the dots” to give an overall picture of the likely impacts of the industry.

“My main concern is the way NEMA is looking at this issue,” Professor William Banaage, a retired professor from Makerere University’s College of Biological Sciences, told the Nature Uganda meeting. “The issue is much bigger than the local environmental impact studies, here and there.”

Weak EIAs

Uganda’s EIA process is itself also marred by delays, shortage of expertise, lack of follow up and the structural incentive for consultants to please the developers who hire them, many knowledgeable sources say.

The majority of EIAs are sub-standard, according to Paul Mafabi, Commissioner for Wetlands and Environment in the Ministry of Water and Environment.

“For years, I have seen many EIA reports done by different experts. But the quality is very poor,” he told Oil in Uganda.

Many of the experts “do not diagnose the right impacts for some projects and they do not recommend the right mitigation measures for others,” he added.

EIAs are conducted by private consultants on behalf of developers who fund them. NEMA is charged with overseeing the process.

But Achilles Byaruhanga, the Executive Director of Nature Uganda, believes that because NEMA does not itself conduct or fund EIAs, oil companies can easily influence the outcomes.

“The EIA experts dance to the tune of the developers who pay them. They fear they will lose their contracts if they do the right thing, so in the end the quality is compromised,” Byaruhanga asserts.

NEMA is facing severe staff shortages. Arnold Azyaza Waiswa, the Authority’s Director of Environmental Monitoring and Compliance, says that the volume of EIA reports has increased steeply but staffing levels have not.

“We cannot handle all EIA reports adequately. We have submitted a new recruitment structure to government and we are waiting for approval. It is a little bit frustrating but we have to be patient to succeed,” he explains.

But as NEMA waits, EIA practitioners and the developers who hire them are increasingly frustrated by delays.

Alfred Tumusime, Managing Director of Opportunities for Environmental Planning Consult, says he has waited for years for his EIA reports to be approved or rejected by NEMA.

“NEMA takes forever to approve or disapprove reports. If a developer waits for this long, they may lose business or go bankrupt. So there are many developers dodging the mandatory EIA process,” he says.

NEMA fast-tracks oil-related EIAs, Tumusime adds, but does not always accept or reject them within the three month period stipulated by law. Much greater delays, and the incentive to dodge the process, occur with other commercial developments.

The bigger picture

The pressure of this backlog of individual reports perhaps accounts for NEMA’s failure to focus on the bigger picture.

Some progress has been made, however, in the view of the Worldwide Fund for Nature (WWF) and Climatist Manager for Uganda, Robert Ddamulira.

Key government agencies, he explains, together with WWF and the Wildlife Conservation Society, have been collaborating through an Environment Information Network, whose work is mainly funded by the Norwegian government.

The first major output of this collaboration was an Environmental Sensitivity Atlas for the Albertine Graben, identifying key risks and, especially, “hotspots” where several risk factors converge. A first version of this was published in 2009, with a second edition the following year.

Building on that work, the Network this year produced an Albertine Graben Monitoring Plan, and is now working on specific monitoring manuals for how the actual monitoring will be done.

Five main areas have been identified: the “terrestrial environment,” in which the Uganda Wildlife Authority will take a lead monitoring role; the “aquatic environment,” where the Fisheries Department will take the lead role; “society,” where the lead role will fall to WWF; “business,” where the National Forestry Authority will take the lead; and the “physical-chemical environment,” where the main monitoring tasks will fall to the Ministry of Water and Environment.

“Incompetent” authorities

Meanwhile, however, September saw the publication of a report, funded by the Norwegian government and commissioned by NEMA, which found that most of Uganda’s “pillar environmental institutions” – meaning the ministries and authorities with key, environmental responsibilities – are “incompetent to implement their mandates leading to inability to regulate oil and gas sector environment impacts.”

Inadequate staffing levels, lack of knowledge and skills among existing staff, the absence of appropriate training institutions and chronic shortages of equipment and funds are highlighted as key weaknesses. To this is added the “lack of enabling framework, policies and laws to incorporate gas and oil issues in the mandates of the EPI [Environmental Pillar Institutions].” This, the study says, “makes it difficult for them to recruit staff or make budgetary allocations for these functions.”

The report, entitled Capacity Needs Assessment for the Environmental Pillar Institutions in Uganda, was prepared for NEMA by the Uganda branch of COWI, an international consulting firm. It concludes that:

Although the government of Uganda has made significant efforts to put in place fairly elaborate policy, legal and institutional mechanisms to address the environmental challenges of the gas and oil sector, the lack of capacity to implement these policies and enforce the corresponding laws has grossly undermined their effectiveness.

To remedy these problems, the study proposes a five-year, US$ 18.7 million (UGX 43 billion) capacity building training plan.

But for many observers, ten years after oil exploration started in earnest is rather late in the day for ramping up capacity to monitor and protect Uganda’s environment.
Murchison wildlife feels the strain

By Chris Musiime, Frederick Womakuyu and Nick Young

According to the Uganda Wildlife Authority 300 tourists visit Murchison Falls National Park every day to see its rich birdlife and large mammals, including buffalos, elephants, giraffes, lions and leopards. Rhinos once grazed here too, but by 1983 were poached to extinction in the area.

Indeed, since its gazetting in 1952 the park, Uganda’s largest nature reserve, has faced some troubled times. Animal populations declined to an all-time low in the 1970s and 80s due to rampant poaching when the political situation and prevailing lawlessness allowed little room for conservation.

But in the late 80s animal populations began to recuperate, and were much healthier by the time the 1996 Uganda Wildlife Act established the Uganda Wildlife Authority.

Drilling of 16 oil exploration wells within the park has since threatened its serenity, and the disturbance is almost certain to increase during the building of infratructure needed for oil production. What will happen to the animals that the tourists flock to see?

Roads slice habitats

The recently widened murram road from the north gate in Pakwach to the south gate in Masindi has seen more and heavier traffic over the last four years, according to park rangers. Trucks carrying oil equipment now ply the route.

"These guys don’t care!" complains the worried director of one of Uganda’s biggest tour companies. Instead of respecting the park’s speed limits, "they drive as if they were on a highway! The convoys pass and you just see dust." He also complains of “new tracks, roads [to the oil wells] that are closed off for the game drives.”

As well as making parts of the park off-limits to tourists, he explains, the new roads cut into undisturbed habitats. The net result: “Animals are losing breeding grounds and resting places.”

Park rangers agree that elephants, once a common sight along the roadside, have now fled into more remote areas. Giraffes and buffalos too. Smaller animals, such as water-buck, warthogs and antelopes, seem less disturbed by the traffic.

"Increased traffic has scared the large animals and pushed them deeper into isolated areas of the park," says Valeriano Chothum who has worked as a Murchison ranger for over 15 years.

New roads, he adds, have disturbed the animals’ movement patterns. "They can no longer trek through their usual trails. They have to find new ones.”

Geoffrey Idro, another ranger, says that animals have moved from areas of concentrated activity.

One such area is known as Jobii—meaning ‘buffalo’ in Luo—in the west of the park. There, five wells have been sunk within a 2 km² area. Large buffalo populations, according to Idro, have moved out.

Giraffes, Idro says, are now shy of the area where the ‘Giraffe-1’ and ‘Giraffe-2’ wells were sunk, and drilling at Pakuba, close to the Nile, has pushed lions away from their habitat.

There is no evidence yet that animals have migrated out of the park. Yet rangers and other park workers fear worse consequences when the production phase begins.

Business as usual

Staff at the US$ 260 per night Paraa Safari Lodge say that business remains good, not least because many oil industry workers arrive as guests.

"Some animals have moved deeper into the bush, but we have trucks that can reach there so our visitors can still track the wildlife," according to one of the Parna staff.

Another says that they were expecting worse. "We thought the animals would relocate completely due to the disturbance. But so far the tourists have not complained of failing to see the animals," he notes.

Yet, he adds, the general feeling is that as the oil activities ramp up, the ecology of the park will most likely be upset.

The tour operator agrees. “Some things don’t show up in the short run,” he says. “In business, we are often too concerned with the short run, but the long run is going to matter.”

He adds that the government and oil companies are keeping tour operators in the dark. At a recent conference on oil and minerals he found that “the information they gave us was much too plain. They dodged all the questions that were critical.”

Wildlife experts

Scientific studies by the Wildlife Conservation Society (WCS), an international organisation that has worked in Uganda for 55 years, show that oil exploration has impacted to some extent on animal behaviour, but not yet dramatically.

Yet WCS Uganda country director, Dr. Alistair McNeilage, points out that “the level of oil activity so far has been relatively minor: localised exploration drilling. One of the biggest issues when it comes to oil development will be pipelines—because you’ve got to get the oil out to the refinery or processing plant—and how they’re put in, and whether they form at any time a barrier.”

WCS is working closely with the Uganda Wildlife Authority and the oil companies to advise on mitigation strategies, and is advocating that pipelines be buried. Yet the process itself, McNeilage says, could bring considerable disturbance.

He adds that there are gaps in baseline knowledge of the area’s eco-system. "There’s a lot of species we don’t have much information on. For example, there’s very little data on the fish in Murchison, but that stretch of the river is probably very important as a breeding ground for maybe the whole of Lake Albert.”

Nevertheless, McNeilage believes that “provided the oil extraction is done in a careful way, the impacts can be managed, and wildlife can survive in those areas.”

Yet he points that “tourism actually pays for biodiversity” by funding the park and, when oil development begins in earnest “they’re not necessarily areas tourists are going to want to come into. So how you manage tourism, biodiversity and oil is really critical.”

Oil is likely also to affect Queen Elizabeth Park, which lies within an oil exploration area that will soon be open for bidding. Following oil discoveries in Kenya, exploration may also be licensed in the Kidepo valley adjoining Kenya and South Sudan.

Communities in Murchison’s “buffer zones” also worry about tourism.

Edinah Byabalemi is the Chair of Boomu Women’s Group, which runs an eco-tourism project just beyond the park’s southern gate, in Masindi District. She is worried about the impact of oil but says the oil companies have not consulted them on mitigation efforts.

“We are here because of tourism, if the National Park was not here, we would not be here too. What I know, oil will affect us, our project and tourism,” Byabalemi says.

Like workers inside the park, she is hoping for the best but fearing the worst.

Over a million tourists visited Uganda in 2011, bringing in US$ 805 million in foreign exchange—the country’s biggest forex earner by far. Will oil threaten that revenue?
Chapter VII of the Public Finance Bill currently before parliament is, in effect, a ‘bill within a bill’ to regulate the use of oil revenues.

Many commentators would have preferred to see a separate, free-standing Petroleum Revenue Management Bill, to emphasize both the importance and the special nature of oil revenues.

The ‘special’ features of oil revenues noted by, for example, the Revenue Watch Institute, are, firstly, that this is a finite revenue stream, so the best use needs to be made of it while it lasts; secondly, that the price of the oil can rise and fall steeply over time so planning needs to take careful account of this; thirdly, that oil revenues can harm other industries, and, fourthly, that oil money can cause political instability.

For this reason, many observers suggest that oil revenues deserve a bill of their own, so that members of parliament—and the public—have the chance to reflect on the complex issues involved without being distracted by the many other complexities involved in other chapters of the Public Finance Bill.

Nevertheless, there has been praise for several aspects of Chapter VII.

Clauses strongly prohibiting the use of oil as collateral on public debt have been widely welcomed. The government will not be free to borrow heavily against future oil revenues and spend the money before it even arrives.

Also widely welcomed is the general principle, enshrined in the bill, of saving some of the oil money to meet future needs. This is expected to help protect the economy from the ‘Dutch disease’ side-effects of too sudden a rise in public spending. It makes it possible to phase spending strategically, and ensure that income from this finite resource will be spread over a longer period and for the benefit of future as well as present generations.

Specifically, the bill proposes creating a Petroleum Revenue Holding Account into which oil revenue will be deposited. (Some critics point to lack of clarity in the wording of relevant clauses, and urge a more explicit statement that all oil revenues—including royalties, taxes, the government share of ‘profit oil’ and dividends from the National Oil Corporation—go into the Holding Account.) This has transparency and accounting advantages: it should be easy to see and to report on exactly what revenues are coming in.

Each year, part of the funds in the Petroleum Revenue Holding Account may then be transferred to the Consolidated Account—the government’s current account, to cover its annual spending.

Another part of the funds will be deposited in a Petroleum Investment Reserve. This is essentially a savings account, to meet future needs. Money in the Reserve will be invested to earn interest and, if all goes well, the Reserve will steadily grow—both from new oil revenue deposits and from earned interest.

In some ways, this appears to follow the example of other countries, such as Timor-Leste, Ghana and Norway, which have managed oil revenues with apparent success.

However, an obviously critical decision will be how much of the revenue to put aside, and how much to save.

In practice, as the bill stands, this decision will be made year by year. The Minister of Finance will make a spending and saving plan and ask parliament to approve it. The minister will also have ultimate authority for the investment policy, and the actual investments, of the Petroleum Investment Reserve.

Although parliament will be responsible for approving the yearly spending and saving plan, many commentators have expressed concern that the proposed arrangement will leave the government with too much freedom of movement—and freedom to make potentially disastrous mistakes.

Groups such as Revenue Watch Institute are calling for more ‘fiscal rules’ to limit the kind of plan the minister can make. For example, RWI points out that in 2008, oil prices crashed from US$140 per barrel to US$40 per barrel in just six months. A government that is entirely free to decide, each year, how much to spend and how much to save, can easily fall into the trap of spending freely when prices are high and having to cut back suddenly when they fall. This leads to a chaotic and wasteful boom-bust cycle. Therefore, RWI argues, there should be carefully crafted rules to ‘smooth’ the spending of oil money.

There is also a strong case for developing clearer investment rules for the Petroleum Investment Reserve.

Many observers further suggest that spending priorities should be more explicitly defined and linked to, for example, the National Development Plan. The government of the day should not have absolute freedom to decide where the money goes. It should be required to operate within clear strategic spending guidelines that enjoy wide public support.

Similarly with the contentious question of allocating a share of oil revenue to local governments in the oil producing districts. The bill is very clear on this. Seven percent of royalties (not total revenues) will go to the districts (who may, at their discretion, give some of it to ‘cultural institutions’). Almost certainly, local governments, people and ‘cultural institutions’ will want a bigger share.

Most international commentators are reluctant to pronounce on this issue, because it is so clearly an issue for Uganda alone. RWI does, however, recommend that Uganda should “establish a widely-accepted, rules-based, predictable and transparent system” for revenue sharing.

“ Widely accepted” captures an important point. Complete concensus is never likely, but whatever decision is finally made is most likely to be widely accepted if it has been developed and aired through widespread public debate.

The good news is that, with oil production very unlikely to start before late 2017 at the earliest, Uganda does have time for a broad and inclusive debate.

As an entry point to the debate, the following three pages outline ten key questions.

**The Public Finance Bill’s plan for managing Uganda’s oil money**

**OIL REVENUES**
(from royalties, profit oil, taxes, dividends, signature bonuses)

**CONSOLIDATED REVENUE ACCOUNT**
(The current spending account)

**PETROLEUM REVENUE HOLDING ACCOUNT**

**PETROLEUM INVESTMENT RESERVE**
(The long-term savings account)

**DISTRICT GOVERNMENTS**
(7% of royalties)
1) How much oil, how much money?

We don't know. The size of the existing fields is not yet finally established, and more oil may be discovered. Until a 'field development plan' (including a decision on the size of the refinery) is finally agreed, it is very hard to predict either the total amount of oil that will eventually be pumped or the rate of extraction. And world oil prices are notoriously volatile, so we don't know what the Uganda's oil will be worth at any point in the productive lifetime of the oilfields.

Even among experts, there is wide disagreement about the likely net government revenues from existing reserves. A recent study by Columbia University researchers states that Alberta's oil reserves are expected to transfer US$ 32 billion to the government over the next 22 years. However, a paper by the Oxford Centre for the Analysis of Resource Rich Economies gives a much lower figure: US$ 19.8 billion, spread over 30 years.

These uncertainties make detailed planning extraordinarily difficult.

2) Will Uganda get a fair share?

A 2010 report by PLATFORM UK researchers argued that Production Sharing Agreements the government had signed with international oil companies were a bad deal for Uganda, allowing excessive profit-taking by the companies. Based on analysis of leaked PSAs, the report revealed that if oil prices were high the companies would stand to take a larger share of the windfall.

However—and although it is not possible to say for sure, because the PSAs have still not been made public—it seems very likely that the government obtained better terms in the new PSA it signed with Tullow in February 2012, after two years of often stormy negotiations. Tullow almost certainly made significant concessions because they needed the agreement in order to proceed with their plan to bring in Total and CNOC as operating partners.

The PSA is believed to include the provision that up to 60% of recoverable reserves in the licensed areas can be counted as 'cost oil.' In other words, well over half of the value of the resource will likely go back to the companies to cover their investment in getting it out of the ground.

The remaining, 'profit oil' is divided between the government and companies. Again, the exact terms are not public, but it is widely believed that the government will get 60 percent of the profit and the companies 40 percent.

These 'cost oil' and 'profit oil' percentages are quite common worldwide and, if they are indeed the percentages in the Ugandan PSA, they are not a bad deal by global standards.

Moreover, once Uganda's oil bills are enacted, future licences will be awarded through competitive bidding. Provided the law is adhered to, this should help Uganda to achieve favourable terms in new exploration areas.

One risk, however, is that oil companies might try to inflate the expenses they claim against 'cost oil.' Auditors from Ernst & Young, a global accounting firm, found that in the years 2004 to 2006 Heritage Oil inflated its cost recovery claims by USD 600,000, including claims for expenditure on 'corporate social responsibility.' This was at a time of relatively low investment. As the big money pours in to develop the fields, bigger scams might occur.

3) Spend or save?

Everyone agrees that too much oil money flooding into an economy too fast can have highly destructive impacts. On the one hand, it pushes up the costs of some services, such as construction, for which there is strong demand. On the other, it causes the value of the local currency to rise, making imports cheaper and exports more expensive, and thereby hurts other areas of the economy—notably in Uganda’s case, agriculture. This is the syndrome known as ‘Dutch Disease.’

It would, besides, be hard for government to use a sudden increase in revenues effectively. A lot of money might get wasted. This is known as the 'absorptive capacity' problem.

Dr. Eara Sunuma, a former Finance Minister of Uganda, illustrates its by recalling 2008 when he raised the Ministry of Works budget to US$ 500 million. Despite Uganda's desperate need for improved roads, the Ministry was unable to use all the money and had to return a large chunk at the end of the year.

The moral is that you need time to do things well, time to plan, and time to take things step by step. Columbia University professor, Jenik Radon, stresses the point in the interview on page 11. The renowned Oxford University development economist, Paul Collier, also routinely emphasises the need to “invest in investing” so that revenues from natural resources can be spent well.

So there’s wide agreement that at least some of the oil revenues should be put by, in a savings fund, and this is what the Public Finance Bill, currently before parliament, proposes.

Saving some of the revenues should help to phase and stabilise the flow of funds into the government budget, preventing dangerous ups and downs. In a lean year—if, say, oil prices drop steeply, or if there is a disastrous harvest leading to serious hardship and loss of revenues for agriculture—a smaller proportion of net oil revenues might be saved, and a higher proportion could go into the budget, to maintain it at the same level as the previous year. If oil prices are riding high, on the other hand, more money could be put into the savings account, to prevent a sudden and potentially damaging leap in government spending.

A savings fund also means that at least some of the financial gains from selling finite resources will be left over for future generations of Ugandans. For what right do today's Ugandan—or international oil companies for that matter—have to ‘eat’ resources that were tens of millions of years in the making?

4) How much to spend, how much to save?

Yet whilst the Public Finance Bill proposes this basic arrangement—spending some; saving some—it does not specify a guiding framework or general rules on how much to save and how much to spend.

It could, for example, stipulate that the net amount of oil revenues going into the general budget each year should not increase over previous years by more than a fixed percentage, or should not comprise more than a fixed percentage of total government revenue. Such provisions are known as ‘fiscal rules.’

Instead, the Minister of Finance will, each year, submit for parliamentary approval a specific savings/spending plan for the year.

It could be argued that this flexibility is necessary precisely because of the uncertainties outlined in Question 1 above.

On the other hand, some see so much flexibility as a recipe for instability. For example, Uganda's political leadership will, beyond all possible doubt, change at the very least once, and quite possibly as often as three or four times—during the likely 20–30 years of oil production. Parties in power will face the inevitable temptation, especially as elections approach, to increase current spending in a short-term drive for popularity even though this may not be in the longer term national interest. Hence the argument for establishing ‘fiscal rules.’

5) Who decides how much to spend?

The Public Management Bill states that the oil revenues can be spent only when authorised by an Appropriations Act or Supplementary Appropriations Act (56). So, in theory that, it is parliament that decides.

In practice, this is a simple extension of the annual budget process, in which every year the finance minister seeks parliamentary approval for the government’s spending plan.

The minister does not have an entirely free hand in framing the spending plan. An earlier section of the bill (before the oil revenue chapter), requires that the minister prepare and abide by a ‘charter of fiscal responsibility’ (6.1).

Nevertheless, many commentators feel that this does not rein in executive power enough. If the president’s party has a majority in parliament, and sufficient party discipline to keep its troops in line, the president and finance minister could sit down together, draw up their plans, and get them rubber-stamped. And for this reason, commentators say, there should be more detail in the bill on how much oil revenue can be spent, and how—more ‘fiscal rules.’

In addition, the bill allows for the minister to provisionally approve, without consulting parliament, Supplementary Appropriations Acts up to 10
What should ‘spending’ money be spent on?

President Museveni has consistently and clearly said that a large part of increased revenues should be used for communications and energy infrastructure. On the face of it, this makes a lot of sense. If well managed, such spending is productive, bringing an economic return. (Investment in infrastructure was, for example, a very important chapter in the story of China’s economic take-off.) Overcoming Uganda’s chronic electric power shortages and transport deficit is undoubtedly necessary for longer term economic viability—ensuring that other sectors, in particular smallholder agriculture, are better placed to prosper when the oil runs out.

One concern, however, is that infrastructure projects, especially big ones, can be corruption honey pots if procurement is not rigorously and transparently managed.

Moreover, given that Uganda’s GDP per capita is only about one sixth China’s (and only one fortieth of Norway’s), the oil revenue ‘shopping list’ is inevitably long—and there’s a good case to be made for other kinds of spending.

Many would like to see more money go to public health and education, arguing that this investment in people and people’s well-being is the best way to build development from the bottom up. Think of China again. Many commentators, including former World Bank Senior Economist, Justin Lin Yifu (a Beijing University professor), argue that China made this kind of investment in at least ‘barefoot’ education and health during the 1980s, and that this was another critical factor in the country’s economic take-off. So investment in health and education makes a lot of sense too.

Yet ‘throwing money at the problem’ does not necessarily solve it. Uganda’s spending on health and education has in fact been rising even without oil, but the results are not too impressive. This suggests that the quality of spending is at least as important as the quantity of spending. Corruption take-offs, scams and embezzlement are part of the problem. But designing effective—and, of course, non-corrupt—service delivery systems is equally essential.

There is also a strong case for carefully targeted support for agriculture, since this still provides a basic livelihood for the great majority of the population, and is the sector most vulnerable to ‘Dutch Disease’. This, again, makes a lot of sense. But, with investments in health and education, Uganda’s recent track record in targeted support for smallholders is not too impressive.

Yet another school of thought argues that at least a part of oil revenues should be given directly to the population. Todd Moss, a senior research fellow at the Washington DC based Center for Global Development, made this case in a recent paper.

Illustration: Drile Victor

We capture the whole conversation.
from better-off people, while poor families would get a real boost for a sustained period. Dr. Eria Suruma also appears to favour this approach. (See interview on page 11.) However it is unlikely to be adopted in Uganda any time soon because it is so much against the general policy direction of the present administration.

Nevertheless, all of these possibilities, all of the shopping lists, deserve serious consideration and debate.

7) How should ‘savings’ be looked after?

Carefully of course! The money is explicitly intended for ‘future generations’ so must not be frittered away. Yet, as with personal wealth that parents wish to leave to their children, there is a natural wish to try and make the money accumulate, rather than just sitting in the bank.

The Public Finance Bill proposes that the Bank of Uganda will manage the savings fund, which is officially termed the Petroleum Investment Reserve (PIR), but that the Bank may delegate the job to an external investment manager. However the Bank of Uganda (or external manager) will have to follow “investment policy issued by the Minister.” (61.1) The Minister will be advised by the Secretary to the Treasury and by an Investment Advisory Committee (which the Minister will appoint).

The bill outlines various rules for what kind of investments the PIR can make. These appear designed to ensure that the money is invested cautiously—e.g., in bonds and securities with very low credit ratings—rather than in high-risk gambles. However, the Bill also includes a let-out clause, allowing investment in “any other qualifying instrument prescribed by the Minister.” (62.3.c)

Critics of the proposals have called for greater dexterity in the investment rules, and have raised concerns about the wide, discretionary powers given to the minister. (She or he is expected to exercise these powers to appoint the Investment Advisory Committee but also to ignore its advice.) Some critics have called for more parliamentary oversight as a remedy.

8) What will be the impact on general taxation?

Over the last few years, the Uganda Revenue Authority has been working hard, and with significant success, to capture taxes more effectively. This does not mean increasing taxes, it means making sure that all those who should be paying taxes—whether corporate, personal income, value-added, capital gains or other kinds—are in fact doing so.

A fair tax regime is now widely seen as an essential, democratic institution. When citizens pay taxes they begin to demand accountability and value for money. (Whereas a poor but untaxed population is more prone to give away their votes for a bag of rice or sugar at election time.) The greatest economic and military power the world has so far known—the United States of America—was founded on a revolution sparked by the slogan ‘No Taxation without Representation.” (We all wait with interest to see just how far China’s ‘rise’ can go with relatively little ‘Represented.’)

An important question for Uganda, then, is whether oil wealth might divert the country from progress towards a widening tax base, and thereby—according to modern theories of ‘government’—also divert it from deepening democracy.

Nigeria is the text-book bad example here. Fully 80 percent of Nigerian government revenue and 99% of export earnings come from oil, although the great majority of Nigerians work in agriculture and service industries. This is not only a bad case of the ‘Dutch disease,’ it weaknesses accountability in government revenues and helps to explain the massive corruption that has surrounded Nigeria’s oil industry.

The lesson for Uganda is that oil revenues must be used to develop non-oil areas of the economy and thereby the non-oil revenue base, rather than sitting back doing nothing and living off the fat of the land or, better put, the fatty substances that lie not far beneath it.

9) Will a National Oil Company increase or squander revenues?

It all depends on the scope of its operations and how well run it is. There will, of course, be significant start-up costs—renting or constructing and equipping a building, etc.—and recurrent staffing costs.

But, once established, the National Oil Company will be entitled (according to the oil bills now also before parliament) to a 15 percent stake in Uganda’s oil-fields. This means a share in any eventual profits, but also a learning opportunity. The company will be able to work alongside the international players, learning the ropes and, potentially, gaining the capacity to explore and operate fields by itself.

However, the company may also become involved in managing the oil refinery and marketing its products. There are commercial risks here as well as opportunities. If the refinery project itself is not carefully thought out, the company may find itself running a loss-making ‘white elephant.’

A confidential report prepared for the Ministry of Finance last year by the International Growth Centre, a think tank operating out of the London School of Economics and Oxford University, declared that “There is no economic or commercial case for a national oil company.” The 15 percent stake in the oilfields, it said, could be ‘held passively by an appropriate agency of the Ministry of Finance.’ There’s no need, in other words, to build a shiny new office block and fill it with people; and, besides, the report claimed, there are not yet enough Ugandans with the necessary skills and relevant knowledge to staff it.

It now seems certain, however, that Uganda will establish a National Oil Company. But its nature and scope is not yet clear, remaining veiled behind the unhelpful generalisation that it will “manage the state’s commercial interests.”

It could be a very streamlined operation, primarily designed to capture the 15 percent equity share. It could, at least in theory, become a proficient explorer and competent manager of downstream operations. Or it could just become a bloated and expensive operation saddled with an unprofitable refinery.

Only time will tell.

10) How much should local governments get?

This is the least technical of the issues addressed in the Public Finance Bill, yet it may prove to be one of the most sensitive.

It is also the only area on which the Public Finance Bill sets a very clear fiscal rule. Exactly seven percent of oil royalties will ‘be held among the local governments located within the petroleum exploration and production areas of Uganda.”

‘Royalties’ are not the same as total government revenue from oil. Revenue also comes from the government’s share of ‘profit oil’ from corporate taxes and ‘signature bonuses’ that the government collects, and from any extra profits that might come from a National Oil Company.

Royalties, as only one part of this picture, serve as a kind of guaranteed basic income’ scheme for a government. They are paid to government, as soon as oil begins to flow, as a proportion of the market value of oil that is produced and sold. But it is usually a rather low proportion.

The exact royalty rate agreed in Uganda is not known because the Production Sharing Agreement remains secret. But the Columbia researchers looking at this have estimated that royalties will amount to about 28 percent of total government revenue.

So central government is in fact proposing to give local governments seven percent of roughly one-quarter of total oil revenues. That amounts, in practical terms, to tens of millions of dollars each year—not hundreds of millions and certainly not billions—divided between many districts.

Going by the total revenue figures that the Columbia scholars estimate (US$ 3.2 billion over 22 years), the district would get a royalty block grant of roughly a million dollars (2.5 billion shillings) a year.

Although that would represent a big leap in district revenues (and one that raises the same ‘absorption’ issues that central government will face), the districts are almost certainly expecting a bigger slice of the cake.

All of the documents referenced here are listed, in most cases with links to sites where they can be downloaded, on the RESOURCES CENTRE section of www.oilinuganda.org
**Interview with Dr. EZRA SURUMA**

At the end of the day, the extractive industry is a business. But it is a business with a public purpose because it is state owned: the resources belong to the state, belong to the people. So how do you manage that development?

Managing natural resources is different from collecting corporate taxes from an airline, collecting corporate taxes from a barber shop, collecting income taxes from a person. It is a unique business, a one-off business for the state.

Therefore, all the money collected from the natural resource should be in one Fund, kept in an established jurisdiction (overseas) such as the London or New York. You need to keep your earnings in a hard currency, not the local currency, or you will have the Nigeria effect. Even Canada is now beginning to feel the effect of converting everything [from natural resource sales] into Canadian dollars, making the rest of their industry, including agriculture, more expensive, therefore less competitive.

That Fund should have great restrictions on how it operates, because it is not just anybody’s money but ultimately Uganda’s. The power to determine how this money should be spent should be a matter for parliament. They should develop a policy on how much goes into a permanent [investment] Fund, how much goes into their budget. Because if they put everything into their budget, we will have the famous ‘Dutch disease’—everything becomes too expensive, so you have even roads which are absurdly expensive.

Certain things you need to save for the future. One reason is, this is an asset of the people, the state you, your children and your grandchildren. So it doesn’t just belong to you for your immediate needs, although the needs of Uganda are great—education, health, etc.

But let’s take a simple example: education. Where do you find the teachers, qualified teachers, overnight? Development sometimes has the inny that in order to develop you have to go slow in order to go fast. Therefore, you need to save those funds in a Fund until they can be properly dedicated for productive investment.

As I always say to my students as well as to legislators and executives I talk to, the object is to take a permanent asset, which is in the ground, and make it into a productive asset as it leaves the ground. That may actually mean saving it. And if you put it all into one Fund, then you can see it and track it easily—so it also has the virtue that accounting becomes easier.

So this is a very sophisticated issue that needs time, needs debate, but also I would say it needs input from real experts on how to create these sort of Funds.

**Oil in Uganda:** At the moment the draft legislation has no floors or ceilings—there are no percentages as to the amount that can be put into the budget each year and how much should be saved. So it makes it a year by year decision. Do you think that’s wise?

I think it would be best to have parameters. Let us say we have parameters of X to Y percent. It could still be changed by parliament. But I think it’s a mistake not to at least think of it beforehand, because that forces thinking about development now. You need to identify a development plan, an education plan as part of your development plan.

And you should at least have the concept that X percentage is saved for the future, for emergencies. Botswana saved so much [from its diamond mining] that it could even take care of its citizens with HIV. They had enough money to care for the needy people. So I am a believer that you give as much direction as you possibly can, show a roadmap. Parliament is still sovereign and it could change the roadmap in the future. But it forces concrete, specific thinking, and that has tremendous value in governance.

Columbia University professor Jênik Radon, trained first as an economist and then as a lawyer. He has advised numerous governments and civil societies in Africa, Asia and Latin America on foreign investment regulation, constitutional law and natural resource management, and has written and taught extensively on these subjects.

**My view is, why not let people of Uganda own it [an investment Fund] directly? Why not give us shares in this Fund so that we say, ‘This is ours’ and everybody has a share. So that nobody has a chance to manipulate it for their own personal interests.

I say this because we all know that there have been many incidents of corruption. It would increase the confidence of the public if they were consulted, if they had a share in this Fund and maybe every year a dividend could be declared from the profits and maybe each will receive ten thousand shillings. That is one proposal I believe should be looked at.

Another important approach to better management of petroleum revenues is a universal pension so that people who attain the age of sixty or more could receive some stipend. These people are no longer able to earn income, they are not that strong.

To me, petroleum should help us to become a more humane society, a more secure society. Social security means you feel some sense of security in your own country—not only defence of the person, which is very important, but also in the sense of having food to eat and having a roof over your head and being able to access treatment.

And I think that a better Uganda is a Uganda which is more humane—in the sense that we are better able, better willing to give care to members of society who have become old, who are disabled and need help. Because now, we just let them fall by the wayside.

So universal health insurance, universal pensions in my view would greatly add to economic justice in our country and also increase stability.

**Oil in Uganda:** What should the government’s spending priorities be?

Of course the most important way for everyone to have access to basics of life is employment and I would therefore argue that the Petroleum Fund should also be used in the sectors that generate employment. These include housing, construction, road infrastructure, services, health services and education services.

When we put more money into education and more money into health, these are services. Some people think this is waste of money but this is an investment.

And of course we should put more money into agriculture, so that people have access to fertilizers and they have more productivity, more output and more income.

These are very critical areas: better services, better infrastructure, better agriculture. All these can use more investment at a lower cost—because the current cost of investment is very high. Interest rates are very high, so we need to create funds which are cheaper and which will force banks to bring down the rate of interest. Therefore, we can become more efficient and more competitive.

These are some of the ideas I believe need to be looked at.

Of course, tourism is another sector which will provide additional income. The advantage with services is, that for a country like Uganda which is landlocked and thousands of kilometres from the sea, it is probably better off exporting services such as tourism, health, education so that people come here to consume these services and bring us foreign exchange. Rather than us emphasizing sending commodities or hard goods over thousands of kilometres. Transport cost is very high and it is difficult for us to compete. It is only in areas like coffee where we have a bigger advantage that we can be competitive. In textiles we cannot compete.

Ezra Suruma is a US-trained economist. He has served as deputy governor of the Bank of Uganda, chairman and managing director of the Uganda Commercial Bank, deputy secretary to the treasury and, in 2005-2008, minister of finance, planning and economic development. In 2008 he was named ‘best finance minister in Africa’ by The Banker magazine.

These are short excerpts from interviews conducted by Oil in Uganda. (Nick Young interviewed Jênik Radon, Frederick Womakuya interviewed Ezra Suruma). The full transcripts can be read on the INTERVIEWS section of www.oilinuganda.org
Ghana: Getting the most out of oil

By Chris Musiime

Ghana’s latest oil finds will increase both opportunities and threats in a country that has—so far—avoided the worst aspects of the ‘resource curse’

After the notorious failings of some big African oil producers—bedevilled by mismanagement, corruption, strife and environmental devastation—many people in Ghana and beyond hoped the country would bring new standards of openness and competence to management of the resource.

Ghana’s oil experience is often also compared to Uganda’s—because the two countries share some characteristics and made significant oil discoveries at around the same time. (A major contrast, however, is that Ghana’s oil lies offshore in the Atlantic Ocean whilst Uganda’s landlocked reserves will be technically and financially challenging to export.)

But to properly assess either Ghana’s success as an oil producing nation, or its relevance to Uganda’s situation, one has to start from the beginning.

Ghana in fact first discovered oil back in 1969. It was a small find with only about 3.47 million barrels produced from fields in the Salt Pond area between 1978 and 1985, when production was suspended. But this nonetheless means that Ghana’s oil industry has several decades of experience, trial and error.

Ghana’s National Petroleum Corporation (GNPC) was established in 1983 to partner with the international petroleum industry in finding and developing Ghana’s oil and gas resources. As the Salt Pond Field declined, GNPC tried to explore for oil with its own resources but had no success. It then solicited the support of international partners, also with little success at first.

GNPC was restructured when President John Kufour came into office in 2001. The former head of the Corporation, Tsatsu Tsikata, was charged with causing the state a financial loss of 230,000 cedis (US$ 230,000 at the then exchange rate). The trial lasted for six years, and he was found guilty in 2008.

Yet the fact that Ghana already had a national oil company in place at the time of the big oil discovery in 2007—whereas Uganda is still discussing a law to create one—arguably gave it an edge in swiftly moving from discovery to production.

Ghana has also had an oil refinery since the 1960s—built by an Italian company in the coastal city of Tema, to refine crude from other West African countries. It was taken over by the government in 1977.

The refinery has had a troubled history, piling up debts (which peaked at US$ 850 million in 2009), and recently suffering frequent breakdowns.

Searching and modelling
By the late 1990s, Ghana had identified the need to strengthen the country’s capacity to map its sedimentary basin.

“We trained geologists and geophysicists so that they could understand the environment where we were going to look for oil,” according to a senior GNPC official, who prefers not to be named.

The country then packaged the information it had obtained and embarked on extensive promotion. “We were always at international oil and gas fora in Europe, marketing Ghana. We told them how good our geology was, and invited them to come and invest,” recalls the GNPC official.

This eventually paid off as some international companies showed interest. Some of them began exploration work after negotiations with GNPC were concluded. These negotiations were (and still are) guided by the country’s Model Petroleum Agreement.

This Model Agreement puts together key provisions of the GNPC Law (1983) and the Petroleum Income Tax Law (1987), to create a comprehensive template document for licensing exploration and production, covering all aspects of the petroleum value chain.

Uganda’s parliamentary Natural Resources Committee recently recommended the adoption of such a template agreement after reviewing Ghana’s draft oil laws.

Keen to go
Fast forward to 2007 when the Anglo-Irish firm, Tullow, announced a discovery around Cape Three Points on Ghana’s western offshore. The US explorer, Kosmos, announced another discovery in the same area, just two months later.

Kwame Amproto Twumasi, who was Deputy Minister of Energy at the time, told Oil in Uganda that Ghana’s then President, John Kufour, wanted the oil to flow immediately.

“President Kufour asked them [Tullow] how long it would take for us to get oil. When the CEO of Tullow replied four or so years, the President shot back saying that’s too long, we want the oil now, I wish it could be done in four month”

Ghana’s economy was already quite strong, with exports of cocoa and timber supplemented by the mining of gold, silver, diamonds, manganese and bauxite. With the additional prospect of oil, the Kufour government, well into their second term of office, saw an opportunity to capture additional revenues and retain the presidency.

Yet Kufour lost the 2008 election and handed over power to President John Ata Mills, who died in July of this year.

This change of guard did not disrupt the country’s plans. A consortium led by Tullow managed to start pumping oil within three years. In a televised ceremony, President Mills turned on the valve at an offshore platform on December 15, 2010.

The smooth political transition, which did not derail production, is one reason why Ghana is often regarded as a good African example of oil and gas management.

“We wanted it,” recalls Hon. Twumasi. “We were willing to do whatever it would take as a nation to facilitate the extraction of the oil.”

Coping with gas
Ghana has also moved quite fast to cope with the natural gas that generally accompanies oil. Significant infrastructure investment is needed to capture this, so a common practice in the past was simply to allow it to escape into the atmosphere (‘venting’) or to burn it off (‘flaring’).

“It’s like setting fire to a heap of money and then watching it burn,” says Kojo Agbenor-Eliman, a Deputy Director at Ghana’s Environmental Protection Agency. Gas venting and flaring is also a form of greenhouse gas emission, contributing to local and global climate change.

Although Ghana has been flaring to some extent, it has now borrowed US$ 1 billion from the China Development Bank. US$ 850 million of this will go to the Ghana National Gas Company (GNGC) to develop infrastructure to capture and pipe the gas.

Ras Liberty Amewode, a Communications Officer at the Ministry of Energy, says that some of the work has already been done. “Fourteen kilometres of deepwater pipeline has already been laid. We hope to connect to the West African Power Pool and gas pipeline project because we intend to use most of the gas domestically and export the balance.”

The West African Power Pool is an infrastructure system to connect and pool the resources of Ivory Coast, Togo and Benin.

A Bloomberg report quoted Ghana’s new President, John Dramani Mahama, as saying the loan will be repaid by supplying China with 13,000 barrels of oil per day, valued at current market prices.

Revenue transparency
Mismanagement of oil revenues is widely cited as a major factor in the ‘resource curse’, but Ghana has put in
place robust mechanisms to prevent this.

In April 2011, the parliament adopted a Petroleum Revenue Management Act committing the country to save 30 per cent of oil revenues in ‘Heritage’ and ‘Stabilisation’ funds to protect the economy from fluctuations in world oil prices and to put aside earnings for future generations. The Act lays down clear and rigorous rules for reporting on revenues, assets and investments, and established an independent, multi-stakeholder Public Interest and Accountability Committee to monitor compliance with the law.

Ghana had already demonstrated its commitment to revenue transparency by joining the Extractive Industries Transparency Initiative (EITI) in 2003, as a way of tracking revenues from its oil trade, and extended the practice to oil when it started flowing in 2010.

The Initiative operates on the principle that companies publicly disclose payments they make to governments and governments disclose what revenues they receive from companies.

According to Franklin Ferdinand Ashiaaye, National Coordinator of the Ghana EITI, and his assistant, Sheila Naah, the approach has been so successful that the country is now in the process of enacting an EITI Law. This will expand the EITI to cover the entire natural resources sector—not just minerals and oil, but forestry and fisheries too.

Ms. Naah points out that this will make EITI mandatory. “It will be compulsory. Companies will be mandated [to disclose the information]. Currently they could refuse to give you the data or a new government could decide to do away with the EITI, due to the absence of a law.”

Who is benefiting?

Yet many ordinary Ghanaians remain sceptical as to whether they will reap tangible benefits from the oil and gas resources.

Aided by relative political stability, Ghana’s economy has grown steadily in recent years. In 2011, the International Monetary Fund and Economy Watch, a respected UK online financial publication, declared Ghana the fastest growing economy in the world, at 6.2 percent, even ahead of China.

Yet, the cost of living has risen over the last five years and the local currency has depreciated steeply against the dollar. The country has recently experienced acute shortages of foreign currency, creating a black market fore trade.

Some analysts blame the high cost of living on the “dollarization” of the economy, fast-tracked by the production of oil and aided by the tendency of institutions and individuals to price and receive payments for goods and services in dollars.

Others simply disagree, and instead claim the government is incompetent.

“Oil has nothing to do with the falling of the cedi and rising of the dollar, it is pure mismanagement,” argues Hon. Kwabena Appiah-Pinkrah, who also chairs the Ghana Chapter of the Parliamentary Network on the World Bank and IMF.

“Why is it we are producing oil and Ghanaians are not smelling it?” questions Hon. Kwame Amporfo Twumasi, a leading opposition figure. “It is purely political. In 2009 the exchange rate was 1 [dollar] : 1.10 [cedis], three years down the road, it has doubled to 1 [dollar] : 2 [cedis]. The oil should have reduced it [the dollar], and instead strengthened our cedi, because we expect that the revenue would be coming,” he says.

In the meantime, the ordinary citizens continue to feel the pinch of a “dollar economy.”

Peter, a French-speaking Ghanaian taxi driver who spent his teenage years in Ivory Coast, said he returned to Ghana because he hoped to earn more and improve his life. So far, his plan has come to naught. “We are happy we have oil, but why is the fuel still expensive?”, he asks. “A litre of [petrol] costs eight cedis [about four dollars], that is too much! We want to vote out NDC [the ruling National Democratic Congress], they have done nothing,” says Peter.

In fact, the government partially restored fuel subsidies in February this year, two months after suspending them; making fuel relatively cheaper. Yet Peter’s complaints show how oil is likely to take centre stage in the upcoming presidential elections in December.

Hon. Twumasi, who is up for re-election in Nkoranza Constituency, confirms the point. “When I get up on the podium during the campaigns, I will say we [the New Patriotic Party] found this oil, but what have they [NDC] done with it?”

Marine environment

Whilst offshore oil operations bypass some problems associated with onshore production, marine ecologists are worried by their potential environmental impact.

Solomon Kusi Ampofo, a Program Officer at Takoradi-based Friends of the Nation (FON), enumerated some of the problems.

“Since the exploration and subsequent production of oil, nine whales have been washed ashore the coast in Jomoro and Elenemble Districts,” he says.

Whilst admitting that no scientific research has linked the whales’ death to oil extraction, he is quick to add that whale deaths have spiked since production began.

In Ghana a whale washed ashore is traditionally deemed a good omen, an indicator of a coming bumper harvest, but the frequency of the recent occurrences has caused concern amongst the fishing communities along the coast.

Solomon adds that in March 2011, in the district of Nzema East, some fishermen developed reddened eyes and skin rashes due to excessive flaring of gas.

“Community leaders reported to Tullow Ghana Limited, which in turn sent officials and a medical team to the area to investigate. Indeed they established that the cause was too much flaring,” he says.

The fishermen were fishing near the FPSO—the ‘Floating Production, Storage and Offloading’ facility where oil is pumped from an underwater well into a 330-metre long tanker, which can hold up to 1.6 million barrels of oil, and which then offloads it to smaller tankers that carry the crude to market.

Fishing is prohibited within five hundred metres of the FPSO but the injured fishermen, Solomon says, were respecting this limit.

Yet, he notes, “The safety zone was not sufficient to protect the fishermen because at the time too much gas was being flared because the FPSO did not have enough compressors to re-inject the gas into the wells. Even Tullow acknowledged this.”

Solomon points out that oil is now also adding to the economic difficulties of a fishing industry that was already suffering from declining stocks.

“The issue is on the restrictions to fish near the FPSO. Fish are attracted by [the powerful] lights on the FPSO. As a result, the fish migrate into the zones where the fishermen cannot reach,” he says.

Solomon echoes a common concern of his peers in Ghana’s civil society: Ghana rushed into producing oil.

“All these things are happening because we did not prepare ourselves. International best practices require one to do an extensive strategic environment impact assessment, even before you start prospecting for oil.”

Lack of equipment to carry out some of the necessary studies continues to be a major drawback, he adds.

“We lack capacity. The Ghana Maritime Authority does not have a monitoring vessel. Even conducting an extensive baseline survey of the marine waters is a challenge.”

“We rely on a vessel from Norway which comes once in a while to do...Continued on Page 14
these assessments. Even when you look at the environmental impact statement that the development partners provided, it indicated that they relied on secondary information to build their arguments, yet in an ecosystem like this, you need primary data."

**End points**

For now, it appears that Ghana is well on the way towards greater prosperity fuelled by oil revenues. Recent discoveries in the Tano basin and the prospects of more commercially viable discoveries will be welcome developments to the government of the day. Apart from some negative impacts on the environment, Ghana continues to reap positive benefits from its oil and gas resources.

The recent smooth transition of power after the passing of President John Atta Mills has led many to believe that the country’s political elite is mature enough to put their differences aside and place the country first.

The rising cost of living needs to be carefully controlled, however, as it continually sows seeds of popular resentment towards the government. This has been a major cause of instability in many resource rich countries in Africa.

Luckily for Ghana, its modest reserves should not blind the ruling class from keeping an eye on the other productive sectors of the economy which were feeding the country long before oil became a major foreign currency earner.

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*Nine whales have been washed ashore in Ghana’s coastal Western Region since oil production started three years ago.*

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*Hoima farmers, Sayuni Byaruhanga (top) and Paul Kaisaija showing off cabbages and pineapples that they hope to supply to camps for oil workers in Buliisa and Kisinga. Traidlinks, an Irish non profit organised sponsored by Tullow Oil and other corporations, has set up a Hoima Enterprise Development Centre to enable local entrepreneurs and farmers to benefit from oil industry opportunities. Establishing local supply chains for the oil camps is just the start, says the organisation. The full story can be read on the ‘Local Content’ section of www.oilinuganda.org*
A wider take on Uganda’s oil industry

An army of contractors is already profiting from Uganda’s oil - with international companies taking the lion’s share - but they may also be key in developing local capacity.

If you thought Uganda’s oil industry was all about Tullow, Total and CNOC, think again. Those companies negotiate rights to explore for and extract the oil, but their operations depend on an army of contractors. Contractors do everything from supplying, transporting and operating drilling rigs, mixing chemical lubricants and sealants to pour down the holes, building pipelines and refineries, insuring the operations, right down to laundering the oilmen’s clothes and making their lunches.

Some specialist contractors—such as Halliburton, Weatherford and Baker Hughes (all from the USA), Schlumberger (France) and Saipem (Italy)—are huge corporations in their own right, with multi-billion dollar annual turnovers. Others are more modest, locally grown enterprises.

Ugandans should know about this wider oil industry if only because the hundreds of millions of dollars that the oil companies pay out to contractors will eventually be recovered from ‘cost oil.’ When production finally begins, the oil companies will be entitled to recover these costs from oil sales.

Thus, a sizeable chunk of the eventual oil revenue is already being spent—and Ugandans have the right to know whether they are getting value for money.

‘Local content’
One key concern is the issue of ‘local content’ – to what extent is the oil industry using and developing local skills, companies and labour, rather than relying on foreign expertise?

Uganda had no choice but to ‘partner’ with international oil companies in finding and producing oil because the country lacked the capital, the technology and the specialist skills to go it alone. But the hope is that the ‘partnership’ will lead to skills and technology transfer.

China and Brazil have shown how this can happen. They spent decades partnering with multinational companies in developing their petroleum resources. The end result was that their own companies—Sinopec, Petrochina and CNOC in China’s case, Petrobras in Brazil’s—grew to become global oil players in their own right. Malaysia’s Petronas is another case in point.

Uganda is now ready to establish its own national oil company. This is highly unlikely ever to achieve the premier-league status of Petrobras or CNOC, not least because Uganda’s oil reserves are relatively modest—and would still be so even if they doubled with further exploration. (See backpage for comparison with Africa’s major oil and gas producers.)

Nevertheless, according to existing exploration and future production sharing agreements, Uganda’s national oil company will be entitled to take a 15 percent stake in exploration and production licences. It may well also have a stake in the proposed oil refinery and in marketing of the oil products. If it becomes a well-managed and competent company, it is possible that in decades to come it could compete for business opportunities elsewhere in Africa—although it will likely face stiff competition from the continent’s 40 other oil producing countries.

Ugandans now learn the technical and managerial ropes in the multinational corporations are a likely source of future expertise for staffing the national oil company.

The big money
The big contracts in oilfield development, engineering and construction go to multinational corporations—Halliburton et al—that have specialised skills and technologies with which no Ugandan firm could compete. (One Nigerian company, however, AGS Orwell, is beginning to nip at the ankles of the established oilfield giants, in Uganda and elsewhere in Africa.)

The oil companies and the big contractors claim to be strongly committed to ‘localisation’ programmes. The commercial incentives do indeed line up the right way for international corporations to support local content efforts—because it is often cheaper to train and employ local talent than to rely on expensive expatriates.

More local staff means more competitive contract bids.

Less clear, however, is how far and how quickly Ugandans can progress into the top jobs. Corporate representatives often claim they have a high percentage of local staff, but do not break this down according to status of employees. Obviously, drivers, accounts clerks, receptionists, etc, will all be ‘local hires.’ But what about senior technicians and managers?

Tullow Oil seems to be leading the way in opening up the top jobs by appointing a Ugandan, Jimmy Mugerwa, as General Manager of the Ugandan operations. Mr. Mugerwa has previously worked for Shell in managerial positions in several African countries.

Yet without greater transparency in the industry as a whole it is not possible to say whether this is the rule or the exception that proves the rule.

Ancillary services
Lower down the contract value chain, Ugandan-based companies are quite well represented in areas such as transport and logistics.

Shipping and trucking companies are needed to lift and shift heavy equipment for the oil industry across seas and continents. Ugandan firms such as Quantum, SW Transami, Three Ways Shipping and Spedag Interfreight—several of which have grown strong on contracts to shift relief food and other supplies from the UN base in Entebbe—have expanded successfully into the oil and gas sector.

But as Uganda moves into oil production, which will require the shifting, lifting and storage of more and heavier equipment, these homegrown contractors are likely to face stiff competition from international competitors. DHL, the German company best known for its parcel delivery service, has a specialist, oil and gas division to serve the industry and this is now expanding its presence in East Africa.

When it comes to feeding and housing the oil camp workers, Ugandan companies such as MSL Logistics, Strategic Logistics and Equator Catering are getting a good share of the market.

Ugandan environmental experts are also in demand for conducting impact assessments. This has been good for individuals and also for companies such as Air, Water Earth (AWE), which says that work related to oil and gas now accounts for about a third of its income.

This report is based on the work of Chantal Sirisena and Allan Ssempebwa who, during July and August, interviewed numerous oil industry contractors in Uganda. Profiles of the companies and logos appear on this page can be found in the OIL PLAYERS / OIL INDUSTRY section of www.oilinuganda.org

We capture the whole conversation.
Africa’s top ten oil producers

1. **LIBYA**
   - Proven Reserves: 47.1 billion barrels
   - Daily Production: 479,000 barrels

   Libya’s production was greatly disrupted by the NATO-led offensive that overthrew the late Col. Muamar Gadhafi. The country is now struggling to regain its pre-war production of 1.6 million barrels per day. Recent reports have placed its current production at slightly over one million bpd, and it seems that this rate is surprisingly sustainable. It remains uncertain whether Libyans will see more transparency in the management of their oil revenues after decades of the resource being used as a personal fund by Gadhafi.

2. **NIGERIA**
   - Proven Reserves: 37.2 billion barrels
   - Daily Production: 2.45 million barrels

   Nigeria is probably the most frequently quoted example of the ‘resource curse’ in Africa. Despite its large endowment, 90 percent of Nigerians live in poverty, and the oil industry is beset by rampant corruption. An investigation by the Petroleum Revenue Task Force that was recently commissioned by the country’s oil minister reveals that Nigeria loses up to 88 percent of every barrel of oil revenues. Ten percent of its daily production—250,000 barrels—is “stolen,” sometimes causing operators to halt production. Most recently, Royal Dutch Shell was forced to shut down its pipeline in the Southern Delta area, halting the supply of 150,000 barrels per day. Recent flooding has also led to a cut in daily production of 500,000 barrels.

3. **ANGOLA**
   - Proven Reserves: 13.5 billion barrels
   - Daily Production: 1.75 million barrels

   With oil contributing 80 percent of government revenue, corruption remains a key concern in a country that only returned to normalcy ten years ago after a 30 year civil war. Angola’s reserves recently received a boost from new offshore discoveries in the Kwanza Basin, containing at least 1.5 billion barrels of oil. Nevertheless, more than one third of country’s 22 million people continue to live below the poverty line, and popular resentment against the thirty year rule of 78 year old President Jose Eduardo dos Santos grows steadily.

4. **ALGERIA**
   - Proven Reserves: 12.2 billion barrels
   - Daily Production: 1.73 million barrels

   Algeria’s economy is largely state-controlled, thanks to the country’s socialist post-independence model. The domination of oil, which contributes 95 percent of Algeria’s export earnings, has created strategic problems for the government, which is struggling to develop other industries to provide much-needed jobs and housing for the youthful population. In addition to oil, Algeria has the tenth largest reserves of natural gas in the world. The country recently entered into an agreement with Egypt to export natural gas there.

5. **SUDAN and SOUTH SUDAN**
   - Proven Reserves: 6.7 billion barrels
   - Daily Production: 453,000 barrels

   Upon its separation from Sudan last year, South Sudan inherited three quarters of the formerly unified country’s oil production, but lacks both the means to extract it and the infrastructure to process and transport it. Sudan retains both the refineries and the route to the Red Sea. The relationship since the secession has been tense, marred by border disputes as well as disputes over pipeline fees. This brought a halt to 350,000 barrels daily production from the South’s oil fields, denying the South Sudan government 90 percent of its revenues, but also hurting the North which was forced to take very severe austerity measures to keep key institutions running. Production has since resumed, and but has so far only reached 180,000 barrels per day as some of the oil facilities are still undergoing maintenance needed after the nine month shut-down.

6. **EGYPT**
   - Proven Reserves: 4.3 billion barrels
   - Daily Production: 79,000 barrels

   Egypt’s production peaked at 900,000 barrels per day in the 1990s, but has since steadily declined as some of the oil fields matured. At current production, Egypt could run out of oil in sixteen years. However, the country has made some new discoveries in smaller fields, and has also adopted ‘enhanced oil recovery’ techniques in the aging fields. Since the downfall of Hosni Mubarak’s regime there have been frequent workers’ strikes in the oil and gas industry, and Egypt is also hard pressed to satisfy increasing domestic demand for oil at a time off falling domestic production. In 2011, its demand was 815,000 barrels per day, making the country a net oil importer. Egypt however has also substantial natural gas deposits and is the second largest gas producer in Africa, behind Algeria.

7. **GABON**
   - Proven Reserves: 3.7 billion barrels
   - Daily Production: 245,000 barrels

   Oil revenue contributes 60 percent of government income in Gabon, a relatively wealthy country which has experienced some good years of political and economic stability. However, production peaked in 1997 and has since declined by more than thirty percent. The country has adopted a strategy of offering operators very good incentives to invest in squeezing out whatever oil is left in the mature fields. New prospects in the Bay of Guinea area are also believed to be sizeable.

8. **CONGO BRAZZAVILLE**
   - Proven Reserves: 1.9 billion barrels
   - Daily Production: 295,000 barrels

   Congo Brazzaville has witnessed ethnic conflict and civil wars over its thirty years of independence. About 70 percent of the population lives below the poverty line in this country which also occasionally experiences spills over-conflict of neighbouring DRC. Production from Congo Brazzaville’s mature wells had been declining but new offshore discoveries in the Bay of Guinea area have helped to steady its production. It operates a refinery with a capacity of 21,000 barrels per day in the coastal city of Pointe Noire. The refinery only started operating recently having been out of commission for years.

9. **CHAD**
   - Proven Reserves: 1.5 billion barrels
   - Daily Production: 114,000 barrels

   Chad’s oil field was on stream in 2003. As a landlocked country, its oil is piped through a 300-kilometre pipeline, which carries 225,000 barrels per day, through Cameroon to the coast. This was initially to be financed by the World Bank, but the Bank later withdrew from the project accusing Chad accusing Chad of reneging on its agreement with the borrower. China helped build the country’s first refinery which started producing diesel and petrol for local consumption at the end of last year. However, Chad and China have repeatedly disagreed on the pump prices of the fuel, with the government insisting on having absolute control on the prices in a bid to offer its local consumers cheaper fuel.

   The government has often been criticised for not using the oil revenues to support agriculture to resolve the country’s recurrent food crisis, but instead opting to spend money on ‘white elephants’ like the 30,000-seat football stadium in the capital, N’Djamena.

10. **EQUATORIAL GUINEA**
    - Proven Reserves: 1.7 billion barrels
    - Daily Production: 252,000 barrels

    Oil production peaked at 358,000 barrels per day in 2005, and has since been declining, but is expected to grow again over the next few years as new offshore fields are developed. The government is also planning to develop a new 22,000 barrel per day refinery and tendered the project in February 2011.

    The government of Equatorial Guinea has been widely criticized for its lack of transparency and misuse of oil revenues. Whilst most of the population lives in poverty, vast oil revenues fund lavish lifestyles for the small elite surrounding the president, who has been in power since 1979.

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Over the past several years, oil and gas discoveries in Africa have earned the continent a reputation as ‘the new oil and gas frontier’. The BP Statistical World Energy Review for 2011 puts Africa’s total proven reserves at 32 billion barrels.

If this seems like a huge quantity, it is worth remembering that twice that amount lies below the sands of Saudi Arabia alone. Venezuela also has approximately double the amount of Africa’s proven reserves.

Still, with prospecting going on in many countries across the continent, Africa’s total can only go up. Uganda recently announced that its reserves had shot up by 40 percent and that the country stands to recover almost two billion barrels from its oil fields. New discoveries in Ghana have also excited political leaders there.

Both countries seem set to enter the African ‘top ten’ as exploration takes place, and as production declines from mature fields in other countries.