The long road to oil

Uganda’s long wait for oil production has been frustrating for all concerned, but things may now speed up considerably following an agreement signed in February by the government and the oil companies.

There will, after all, be both a refinery to produce fuels for the local market and a crude export pipeline.

Yet critical infrastructural bottlenecks remain, potentially slowing down progress.

In this issue, we look at the possible challenges to the implementation of the agreed production strategy.

Elsewhere we look at artisanal mining in Mubende District and Tanzania’s efforts to bring natural gas to the population.

We round off with an interview from one of Uganda’s most well-known oil personalities, Elly Karuhanga.

Companies await production licenses

By Flavia Nalubega

Technocrats at the Energy Ministry are supposedly buried in paper work reviewing at least nine applications for production licenses for several fields in the Albertine.

After a company has carried out all the processes to satisfy itself that a given oil discovery can be commercially viable, it is required to seek a license to enable it to proceed with extracting the oil or ‘production.’

Accordingly, the company applies for a production license, which is accompanied by a proposed Field Development Plan (FDP) and a Field Reservoir Report (FRR) as well. It is these latter two documents that the government reviews to determine whether to issue the license or not.

A protracted process

Of the 21 discoveries in the Albertine region, the joint venture partners have submitted applications for ten production licenses, and only one production license has been issued so far—to CNOOC, for its Kingfisher assets in Hoima district.

Government is reviewing eight applications from Tullow Oil for eight discoveries namely: Mputa, Nkisi, Kigogole, Nsoga, Ngara, Ngege, Kasamene and Wahrindi in Buliisa District; while Total E&P is awaiting approval for the Ngiri oil field license in Butiaba, also in Buliisa.

According to the Commissioner of the Petroleum Exploration and Production Department (PEPD), Ernest Rubondo, the process starts with the government engaging the respective company in technical discussions over the FDPs and PRRs.

“These technical discussions are important because they bring out the pros and cons of the proposed development and align the understanding of the nature and characteristics of the specific petroleum reservoir by both government and the oil company,” he told Oil in Uganda.

These discussions, he explains, ensure good and efficient management of the petroleum reservoir during production.

Total E&P’s Ahlem Friga-Noy, agrees. “The issuance of a production license takes long because it is an interactive process which requires attention to detail considering the magnitude of the project,” she wrote to Oil in Uganda.

...continued on page 2
The review process and discussions are based on analysis of the data which the companies acquire during appraisal of the discoveries.

"It is critical to undertake thorough appraisal to ensure that adequate information is acquired to enable a good understanding of the field hence facilitating the choice of sustainable production techniques," notes Rubondo.

"And when consensus is achieved, a production license is granted," he concludes.

But achieving that consensus has been excruciating for the oil companies operating in the country.

One major contention has been on how much oil the companies are capable of extracting from a given field.

The government has reportedly been unsatisfied with the recovery rates submitted by some of the companies.

For example, when negotiations on the Kingfisher well commenced, sources say the companies had claimed to be able to extract less than twenty percent of the oil.

However, due to government’s insistence, this figure rose gradually until it was agreed that the companies would produce at least 30 percent of the 630 million barrels of oil estimated in the Kingfisher.

Like former Tullow President Elly Karuhanga argues, it is critical that proper, informed figures are agreed upon by all parties involved for the oil field to be developed sustainably. "This conversation is not what I would like to be hurried," he says.

Hon. Karuhanga goes on to say that the detailed discussions are beneficial even to the companies because "No company wants a bad production license." (See interview on page 16)

PEPD’s Rubondo recently told a press conference that Uganda is moving slowly to avoid repetition of mistakes that have occurred in other oil producing countries. He said that government is in no rush to exploit the country’s petroleum resources with no sustainable benefits.

More applications expected

Meanwhile, with the companies and government agreeing on a production strategy earlier this year, more applications for production licenses are expected when ongoing appraisals for numerous fields are completed.

According to Total’s Friga-Noy, her company will submit four more applications this year; one in June and the others by the end of the year.

Total has also applied for and was allowed an extension of the appraisal period for the Jobi, Rii, Gunya, Jobi-East and Mpyo discoveries in Exploration Area (EA) 1 in Murchision Falls National, Buliisa district.

The period of appraisal for the Jobi and Rii discoveries was subsequently extended until June 2014, and that for Jobi-East, Gunya and Mpyo discoveries until December 2014.

Meanwhile, Tullow is also continuing to appraise the Waraga Discovery in EA 2, whose period of appraisal expires at the end of April 2014.

A Field Development Plan details the licensee’s proposals for development and production of the reservoir, including the method for the use or disposal of associated gas, the coordination of petroleum activities with other licensees including joint use of facilities such as pipelines, as well as the financing plan for the development and production of the reservoir.

A Petroleum Reservoir Report contains the chemical composition, physical properties and quality of the petroleum in the discovery, the petro-physical properties of the petroleum reservoir formation, productivity indices for the wells tested at various flow rates, an estimate of the production capacity of the reservoir and an assessment of the potential effects of the petroleum activities on the environment.

Before cars became popular, petrol was a mere by-product of petroleum distillation to produce kerosene and didn’t have much demand. It was a cheap product used to treat lice and as a solvent to remove grease stains from clothing. In fact, petrol was so cheap that oil companies used to dump it in rivers!
Artisanal miners flood Mubende

By Chris Musiime

Many unemployed youth are migrating to the gold rich district in search of a ‘golden’ opportunity

About fifteen months ago, a ‘gold rush’ occurred in Mubende district, one of Uganda’s mineral rich areas, 150 kilometers west of Kampala.

Hundreds of youth flocked to Kassanda village, about eighty kilometers out of Mubende town, in pursuit of gold after news spread that a lucky villager had stumbled upon a gold nugget on a hill.

Locals have mined gold in Mubende district for decades, but talk of a new ‘discovery’ in an area causes prospectors to rush in, hoping to lay claim on ‘virgin’ land before anyone else.

At least 700 people from across the country, including some from Rwanda and the Democratic Republic of Congo, have pitched camp in Kassanda, where they eke a living as miners, porters, retailers and gold dealers.

“Life was very hard for us in Kampala after KCCA (Kampala City Council Authority) decided we should stop vending goods on the street,” said Bosco, formerly a hawker in Kampala. “I had to come here to make money.”

Many young men and women, like Bosco, are not natives of the area. Although most of them were previously working in Kampala, all regions of Uganda are fairly represented here.

The area, covering roughly 10 acres, is a beehive of activity. Temporary structures have been set up using wood and canvas sheets.

This particular camp is so popular that it has been christened ‘Kampala’. Miners from surrounding camps-nicknamed Mukono, Mubende and Mityana, prefer to spend their evenings here, escalating the night population to about 1500, according to Pasteur Cypriano, the local council chairman of Rwandese origin.

There are entertainment halls connected to digital television, lodges, restaurants, bars, a clinic, shops, areas of worship, including a mosque, and tens of abandoned deep open pits - a glaring reminder of how risky this business can be.

Emma Kibirige is the chairman of the Kassanda Miners Association. In his late twenties, he is an inspiration to many young miners here due to his ‘rags to riches’ story.

A graduate of economics and statistics from Kyambogo University, he told Oil in Uganda that he fled Kampala where he was employed as a shop attendant because the pay was too low.

“I had a job which paid me 250,000 shillings,” he said. “But when I calculated the amount of tuition I paid, I noticed the 250,000 was way too little, it could not even get me good accommodation,” added Emma. “I let go and came here with 50,000 shillings only but am now a happy man, no regrets. I have just paid someone one million shillings not borrowed.”

Emma, who owns a productive mine, revealed that he makes at least one million shillings in profit every week, although his fellow miners claim he makes much more. It is common in this camp for one not to brag about his income for security reasons.

Rudimentary technology, online markets

The miners here have no equipment to help in exploring for gold, only relying on experience and intuition.

The most advanced piece of technology a few privileged miners have access to is a drilling machine commonly referred to as ‘makita’.

The average gold operation starts with buying a small piece of land, some plots as small as five square meters and mobilizing workers to dig a pit, create a tunnel and start looking for gold.

They follow patterns of gold ‘veins’-distinct gold colored stripes within the rock, and generally dig in the direction where the strips are increasingly evident.

It is normal for a miner to dig tens of feet underground only for the ‘vein’ to disappear, rendering weeks of hard labour useless.

But on some good days, the miner may reach a certain point, and upon sampling the soil, find that it has gold. And that makes all the difference.

Of the fifty mines in operation, only five are currently producing gold.

Upon striking gold, the rocks and soil from the find are then brought to the surface and the refining process begins.

The camp has an elaborate ‘mid and downstream’ industry that ensures everyone here makes a living.

There are middle men who buy the rock from the mine and send it to the crusher to grind it into powder. Then others buy the powder and pass it on to a group of women for ‘washing’.

The women then have to buy water and mercury from the vendors to do the washing.

When the impure gold with mercury impurities is produced after washing, it is taken to another person who will ‘burn’ it to remove the mercury. The pure gold is then sold to middle men who take it to the gold markets in Kampala.

According to Mr. Kibirige, buyers prefer gold from this area because it is very pure: up to 98 percent pure.

The price is determined using international gold prices which are accessed online using smart phones.

At the time, a gram was being sold at 85,000 shillings.

Land conflicts

Like many mining areas, there are serious land conflicts here, pitting the artisanal miners against ‘big business’ backed by powerful individuals.

The artisanal miners themselves are in fact squatters in this area, but they have resisted several attempts by the licensee holder to relocate them from Kassanda to another mining area.

According to district officials, the camp falls within an exploration area licensed to Gemstone International.

“We have heavily invested here,” argues Kibirige. “For instance I have invested 30 million shillings in my pit. So where will I get the money to dig up such a mine in another place?”

The miners argue that they have borrowed from banks to buy equipment and materials to use in the mines and cannot abandon the place.

When asked if they will be in this area forever, the miners unanimouslychorus in the affirmative.

“The gold here can take us for over 50 years,” says Mark Jjombwe. “Even our grand and great grandchildren will enjoy.”

For now, they are counting on the government to stand by them.

“All we need is government support because if they manhandle us, 2016 (elections) is approaching,” Jjombwe concludes.
**FOR THE RECORD: A round-up of major developments in the last three months**

### Clare Short on the spot

The Extractive Industries Transparency Initiative (EITI) Board Chair, Clare Short, is on the spot for admitting Ethiopia to the coveted global Standard despite its long-standing human rights violations and hostility towards civil society organisations operating in the country.

Ethiopia’s application was dismissed in 2010 because its ‘Proclamation on Charities and Society’ law prevented civil society groups from being sufficiently independent to meaningfully participate in EITI processes.

So, many were shocked when Ethiopia was admitted this time yet the law is still in place.

“With this decision, EITI has thrown its principles to the wind and damaged its reputation as a leading good governance group,” said Human Rights Watch’s Lisa Misol.

### Is Tullow headed for the door?

Speculation has been rife that Tullow Oil may sell its Ugandan assets to concentrate on developing its Kenyan interests.

Just a week after the February signing of a landmark agreement with the Ugandan government that details how the country’s resources will be developed, Tullow’s Chief Operating Officer Paul McDade, was quoted by the Wall Street Journal saying the company was considering selling its Ugandan stake to concentrate on Kenya where the government is “more supportive.”

“Kenya will be easier to develop and the government is very enthusiastic for us to get underway with that development and get first oil as soon as possible,” said Paul McDade.

Recent job cuts at Tullow’s Kampala office have further heightened the speculation.

### Rwanda gives sole explorer the boot

Rwanda appears to have abandoned all hope of finding oil in Lake Kivu, at least for now. The government recently announced it would not renew its agreement with sole explorer, Vanoil Energy, whose license expired in June last year. Rwanda instead appears to be shifting its focus to obtaining a three percent stake in Uganda’s planned refinery.

The Rwanda government has had a rocky relationship with Vanoil, but a statement on the company’s website indicates the issues were “amicably settled.”

### Somalia to start drilling

Somalia could join other African oil producers this year if Belize-based Kilimanjaro Capital Ltd commences drilling on the ACA block that reportedly contains at least 21 million barrels of oil and 130 billion standard cubic feet of gas.

Oil was confirmed in the ACA Block as early as 1960, but development of the field which is 51% owned by the Somali government was frustrated by persistent civil wars in the country.

The block is located only 50 kilometers from Mogadishu in an area where the African Union peacekeepers are operating.

### Kenya’s pipeline for 2016

With Kenya anticipating to see first oil in the 2017/2018 financial year, Energy and Petroleum Cabinet Secretary Davis Chirchir, has revealed that the Lamu-Turkana oil pipeline will be completed in 2016.

The pipeline will run from the oil fields in Turkana to Lamu, a distance of 1,288 Km and extend 427 Km into Southern Sudan.

Companies involved in exploration in the country have also been allowed to participate in bidding for the pipeline’s design and construction.
Forty three trillion cubic feet. That is how much natural gas has been discovered in Tanzania.

Normally, such figures relating to a country’s resource wealth do not make any sense or mean anything to the average citizen.

But Tanzania is making an effort, an expensive one too, to ensure its people’s lives are transformed by the country’s natural gas wealth.

Rather than export the gas to earn much-needed foreign income, it is being piped into the capital city, Dar-es-Salaam, for use as fuel for cars, to power big factories and burn in domestic stoves.

With an initial investment of 65 million dollars, the Tanzanian government is implementing a project that targets to supply 30,000 households with Compressed Natural Gas (CNG) for cooking by 2015 and power 8,000 cars in Dar-es-Salaam as well.

According to Thomas Baltazari, a Senior Research Officer working on the project, Tanzania currently has two natural gas sources: Songo Songo which has a production of about 105 million standard cubic feet per day (mmscfd) and Mnazi Bay with a production of about 2mmscfd.

Majorly, the natural gas from Songo Songo is the one used in Dar-es-Salaam.

The natural gas is transported from ‘father plants’ in Songo Songo and Mnazi Bay, 200 Km South of Dar-es-Salaam by pipeline, to a ‘mother plant’ in Ubungo near the capital.

At the Ubungo station, it undergoes several processes to compress it. Some of the compressed gas is stored for use in vehicles and the rest is transported by special trucks to a ‘daughter station’ in Mikocheni, about 12 kilometers from Dar-es-Salaam.

Here, some of it is distributed to households for cooking and the rest channeled to a few industries nearby.

“70 households have been connected and have gas meters installed already but only 13 have started enjoying the benefits of cooking with it. They are all full of praises for the ease the resource has brought,” Baltazari told Oil in Uganda.

“Natural gas is cheap, clean and environmentally friendly compared to fuels,” Baltazari noted, himself a resident of Mikocheni and a beneficiary of the project.

“Serena hotel, which is about 11 km from the mother plant also uses this CNG for cooking,” he added.

Cheaper, yet costly alternative

Oil in Uganda talked to Justine Moshi who had come to the Ubungo gas station to fill up her Toyota sedan with CNG.

“Tis so cheap,” she said. “I save about 450 (Tanzanian) shillings (Ugx. 700) on every kilogram of gas. With a full seven kilogram cylinder, I can drive from town to the airport (approximately 12 km) for at least two weeks. Gas is such a relief,” added Ms. Moshi.

“If I was to use fuel, I would maybe use 40,000 shillings (Ugx. 60,000),” she said.

James Mjinanga, CNG coordinator at the mother plant explained that filling a 7 kilo gas cylinder costs about $7. A litre of petrol costs about $1.4.

Mjinanga added that a kilogram of CNG can cover a distance 1.5 times the distance a litre of petrol can cover in the same vehicle.

“ Principally the CNG is priced 45% cheaper than the (energy equivalent) petrol,” he said.
Oil spurs roads upgrade

By Oil in Uganda Staff

With Uganda anticipating oil production in 2018, many industry players have expressed concern about the capacity of Uganda's roads to transport the massive cargo that will be needed to set up oil infrastructure in the country.

Industry sources estimate at least 850,000 tonnes of cargo will be moved into the region from the coast to kick start oil production.

But a senior manager in a major international logistics company that ships oil and gas rigs around the world told Oil in Uganda that Uganda's roads and highway bridges were utterly inadequate to support such volume and weight.

The Head of Corporate Communications at the Uganda National Roads Authority (UNRA), Dan Alinange, agrees but quickly adds that the problem is not as widespread.

"Of course some of these roads are weak," he says. "But this does not mean they are too weak to support cargo, they have always been used to carry heavy loads successfully," he argues. "For now, all the existing roads are good enough to transport heavy loads."

However, he adds that of the more than 400 bridges in the country, only about 20 of them are big enough to support the loads. "We are upgrading and renovating the big bridges and we are planning to re-build the Jinja bridge on the River Nile."

Major Albertine road works

According to Mr. Alinange, UNRA plans to upgrade up to 500 Km of road in the Albertine Region to tarmac.

The 103 Km Fort Portal-Bundibugyo-Semliki road was completed in March 2014. The $100 million dollar project was funded by the African Development Bank (ADB), and saw a new bridge built over river Lamia at Uganda's border with the eastern Democratic Republic of Congo.

The construction of the 300 billion shillings 92 Km Hoima-Kaiso-Tonya road that started in 2012, will be completed by August this year, four months ahead of schedule, adds Alinange.

UNRA is, also, in the process of procuring a contractor to develop the 135km Kigumba-Masindi-Hoima-Bulima-Kabwoya road funded by ADB.

"Bids are, currently, under evaluation," says Alinange. "We hope to have completed this (evaluation) and award the contract by May 2014."

Procurement of a contractor for the Kyenjojo-Kabwoya (105 Km) road, funded by the World Bank and Uganda government, is in advanced stages.

UNRA is also looking for a contractor to finance the development of the Hoima-Wanseko (111km) road.

In addition to the Kampala-Busunju-Hoima road which was completed in 2009, the other roads that will be upgraded are Kyenjojo-Hoima-Masindi-Kigumba (238 Km) and the Masindi-Bukakata road.

The country's major highways and bridges, particularly those leading to border crossing points with Kenya and Tanzania need reinforcing.
Water and air transport

In addition to the rail network, parts of which are currently being rehabilitated in Uganda and Kenya, water and air transport are also being looked at as viable alternatives and plans are underway to set up the necessary facilities.

"Air transport is one of our major concerns in growing the transport sector in the oil region. We have just signed an agreement with a private developer to expand the Kabaale airfield (Hoima District) starting next year," revealed John Byabagambi State Minister for Works and Transport.

The Civil Aviation Authority (CAA) Public Affairs Manager, Igne Igundura confirmed that studies were underway to establish the viability of upgrading the airfield to an airport.

"An inter-sectoral team is studying the location and the cost effectiveness of having another airport in that area and the possible commercialisation of the airport to serve other sectors like agriculture and tourism besides oil," he said.

"The study will establish how viable it is, whether a runway can fit in this space and to find out if it will be self-sustaining," he added.

According to UNRA, there are also plans to rebuild the defunct Butiaba port on Lake Albert.

Currently, there are five ferries operating in the country: four on Lake Victoria and one on Lake Albert connecting Wanseko (Buliisa) and Panyimur (Nebbi) fishing villages.

Some private players have also been attracted by the lucrative water transport industry and are currently transporting huge cargo for some of the service companies in the Albertine Region across Lake Albert.

According to Igor Markov, of the Semliki Rift Trading Company that operates a cargo boat on the lake, water transport is both cheaper and less risky.

"To connect from Wanseko to Panyimur in West Nile, it takes one and a half hours and 100 litres of fuel. Trucks take about two days on the road (for the same distance) and consume more fuel," he notes.

Markov further observes that Lake Albert is particularly suitable for cargo vessels because it has a uniform depth all along, ranging between 40 and 85 metres.

"We have crossed tens of earth moving equipment, graders and bull dozers between Panyimur and Wanseko," he said.

He encouraged government and the private sector to build landing sites that can accommodate bigger vessels and heavier cargo.
THE ROAD TO OIL

It has been eight years since Uganda announced commercial discoveries of oil in its Albertine area. Over the years, the production timeline has changed several times, and it now appears set for around 2017/2018, according to government officials. BUT what will it take to get there?

A broad agreement was finally reached in a Memorandum of Understanding (MoU) between the government and the oil companies that was signed in February, 2014. The MoU requires the oil companies to support government in setting up the refinery, while the government also pledges to support the companies in developing the export pipeline and related modalities.
We capture the whole conversation.

Another case awaits hearing at the International Centre for Settlement of Investment Disputes in Washington D.C., where Tullow is challenging the Ugandan government’s decision to levy 18% Value Added Tax on imported machinery as well as other supplies into the country. If the government’s decision stands, it would add considerably to the oil companies’ costs in bringing oil into production, cutting into the eventual profitability of their investment, and potentially stalling progress towards oil production.

Might local communities, disenfranchised by the lack of opportunities and insufficient compensation, cause problems for the pipeline and refinery projects? Bunyoro region is set to undergo huge transformation, Hoima will evolve into a city and numerous villages will become towns. Bunyoro Kingdom is likely to maintain its demand for 12.5% of the oil royalties, on the basis that most of the wells in the region are on the crown’s land. Regional stability will likely depend, at least to some extent, on the locals benefiting from these developments, rather than feeling side lined by them and pushed aside by incomers.

International Financial agreements (with investors, and other States) take several years to arrange and if there are further rapid developments elsewhere (more finds in Kenya, finds in Ethiopia and DRC, peace in South Sudan), then the overall investment scenario may change.

For the refinery, the government will supply the remaining 40% of the required capital, and is inviting other East African governments to cover part of this, and become shareholders in the venture. The governments of Rwanda and Kenya have already expressed interest. The investor will operate the refinery when it is completed, eventually recovering the investment on the profit from selling the refined products.

Many experts have questioned the capacity of Uganda’s roads and bridges to handle the anticipated cargo as the country goes into the development phase of its oil resources. There are even concerns that the Mombasa port, which services most of Uganda’s cargo, is already congested and will not handle such loads. This leaves Tanzania’s ports as the other viable option for sea/ground cargo. There is a plan to establish an airport in Hoima but it is unlikely that this will happen in the short term.

The question of the government’s financial capacity also applies to the national infrastructure bottlenecks and deficits—the new Nile bridge at Jinja, and the new roads projects in Albertine are already financed by loans from Japan, the African Development Bank and World Bank. Uganda is already close to its ‘overdraft’ limit. So how is it going to stump up its share for the refinery and pipeline?
Government moves to secure refinery land

By Flavia Nalubega and Beatrice Ongode

A t least three quarters of the 2473 land and property owners on the 29 square kilometers of land that the government has earmarked for the refinery had been compensated by the end of the first quarter of this year in the ongoing Resettlement Action Plan (RAP).

When the exercise started in June last year, there was a lot of excitement, and anxiety as well, from the 7118 residents who occupy the thirteen villages that comprise the ‘refinery area’ in Kabaale parish, Hoima district.

The prospect of bagging tens, or even hundreds of millions was irresistible to the locals, and the majority opted for cash compensation, with only a tiny fraction-less than four percent, preferring physical relocation.

The RAP implementers had left room for one to switch from cash to relocation as and when they wished and so with time, even more of those who had opted for physical relocation changed their minds and applied for cash.

If one opted for relocation, the government was promising to construct a three bedroomed house with a sitting room, kitchen, water harvest system and a pit latrine. The government would also ensure the house is constructed on land the same size as what the resident owned in Kabaale parish.

Yet despite this assurance, which to most would be a significant improvement in their standards of living, most residents rejected the offer, preferring to take a gamble with their anticipated cash.

"Some residents opted for money due to lack of trust in government," argues Chris Opiyo, a resident of Kyapaloni, one of the thirteen villages.

Others, Oil in Uganda established, later opted for cash fearing that they would be relocated to a less habitable area.

Losers and winners

When Oil in Uganda visited the area recently, there was evidence that the compensation exercise would leave some scars in the communities, going by the ‘unplanned’ expenditures some of the locals were putting their money to. "Yes, they are living a better life," noted Pascal Ozete, a local leader in Nyahaira village.

The ‘better life’ Mr. Ozete refers to is one of luxuries and partying-a stark contrast to the financial management advice the government had given the locals prior to compensating them.

In Kabaale II, 29-year old Ukwani Musana had not seen her husband of ten years, Musana Medard, ever since he received 100 million shillings in December last year.

“He left me here with the children, with no money and no food to help me survive,” she said. "I hear he even married another woman.

In Kyapaloni, Okwir Boniface told Oil in Uganda, he was paid five million shillings in December last year for his land.

“I received my share through Post Bank. I withdrew two million shillings and used 400,000 shillings to buy a set of chairs and the rest for my children’s school fees. The remainder is what I use to drink some beer and to feed.”

In another of the bars that Oil in Uganda entered in the same area, the male patrons, thrilled by the seeming arrival of ‘new girls’ in the area, were eager to pay for sex.

“He has asked me if he can have you girls, that you are so beautiful,” said the guide, pointing at a dark, shabby youthful man who had obviously had a lot to drink.

The guide explained that some of the compensated men had turned into ‘big spenders’ overnight, spending good money to procure sex.

Mixed fortunes for compensated residents as government winds down resettlement exercise

At the start of the RAP, residents were given opportunity to file and have their complaints registered.
A lot of the compensated money has also been spent on acquiring boda bodas.

According to Boniface Okwir, three of his brothers used their share to buy motorcycles. "I will also buy mine once my children are back in school," he said.

Most of those buying the motorcycles intended to deploy them in the transport business, oblivious that the transport market may as well be fast saturating.

**Poor financial management skills**

The government had, prior to the commencement of the compensation exercise, taken the residents through financial management lessons but it seems a good number of them did not pick much from the classes.

On the contrary, some even criticised the exercise, accusing the consultant of being out of touch with their rural realities.

"The training was more theoretical than practical, it is as if we were in class," said Innocent Tumwebaze, a student in his senior six vacation.

He added that the training did not consider the needs and interests of the residents, because rather than encourage projects like agriculture and poultry, the residents were instead encouraged to start trading and transportation business.

Chris Opio also thinks the training was not practical. "That process was a waste of time. It was theory and not practical at all," he said. "Instead of bringing for us farming experts, they brought for us this guy (the facilitator) who kept talking about starting business in town. Like he kept talking about boda bodas and people have now bought them"

Yet according to the Petroleum Exploration and Production Department's (PEPD) Bashir Hangi, the training helped to minimize the mismanagement of the money.

"The training was meant to minimize the abuse and I think that we achieved that," he said. "The people assessing the contents of the training never attended so what they are saying is not true."

He explained that the affected persons were taken through aspects of financial management, enterprise selection and modern agriculture. "It is unfortunate that not all of them have taken what they were trained on seriously," he noted.

Mr. Hangi added that PEPD would organise other sensitisation exercises to address the problem.

**All is not lost, however, as some families appear to be putting their money to good use.**

Like Stella Kihangwe and her husband, Leo Kato who received 123 million shillings in December last year for their 32 acres of land in Nyahaira village. The couple has already bought land in neighboring Kibaale district worth about 100 million shillings on which they will put up their house.

Musana Medard, another resident, has constructed a new house in Hoima town where he plans to relocate his family and start a new life soon.

**Ghost villages**

In some of the areas, people who received money have already left, leaving behind abandoned structures and 'ghost villages.'

Lucy Akong of Nyahaira village can't wait to be paid too. All her immediate neighbours were paid and have since left.

"I am now alone in the area, all the monkeys, squirrels and wild pigs have come to me. I have no garden left," she laments.
“We may be left in this land alone,” says Innocent Tumwebaze also of Nyahaira village. “It is impossible for this child (his brother) to go to school alone, going through the wilderness,” he adds.

Indeed even the numbers at the local primary schools have dropped.

According to Caritas’ Desteo Tugume, some teachers at Nyahaira and Kabaale primary schools have abandoned their jobs for private business.

“Most teachers left when they were paid,” he said. “Pupils are there but attendance is low.”

Land for relocation identified

Meanwhile, those who opted for relocation are pleased to learn that government has identified a piece of land where they will be resettled in a few months’ time.

According to Bashir Hangi, the land measures 530 acres, and is in Kyakabuga village, Nyakabingo parish in Buseruka sub county, Hoima. The process of procuring the land is reportedly underway after which it will take about five months to construct the houses and relocate the 96 residents.

However, the fate of the remaining 43 residents who rejected the compensation and instead sued government for unfair compensation remains uncertain.
Plan for pollution risks in the Albertine

By Henry M Bazira

The discoveries of Oil in Uganda have and continue to occur in a biodiversity rich, highly sensitive and fragile ecosystem.

The terrain is characterized by a rift valley with undulating landscape that is interspersed with swamps, rivers and underground streams (aquifers) that ultimately drain into Lake Albert (aka Mwitanzige).

Of significant importance, Lake Albert is fed from the south by River Semuliki that connects with Lake Edward. River Upper Nile feeds Lake Albert from the East side from Lake Kyoga.

The western part of Lake Albert is fed by rivers, streams and swamps that drain from the Democratic Republic of Congo (DRC).

Finally, Lake Albert drains into the White Nile then flows into the Sudan and Egypt.

The vegetation in the Rift is characterized by savannah grassland; shrub and protected forests, while the soils are fragile dominated by sand, sandy-loam and expanding clays.

The Albert Rift valley is also home to many wildlife species protected in the national parks and game reserves that were established many years ago.

If an oil spill were to occur in such an environment, it would, not only affect the soils, air, rivers, wetlands, Lake, wildlife and human communities, but it would have far reaching impact that would transcend international borders i.e. DRC, Sudan and Egypt.

This has the potential to spark trans-boundary concern or conflicts, if nothing is done to prevent such an incident.

Uganda may pride itself that the oil so far discovered is thick (high viscosity) and solidifies at ordinary temperatures, suggesting that a widespread oil spill is not possible under normal circumstances.

However, it is important to note that significant and widespread oil spill/pollution could result from the crude oil itself, chemicals used in its extraction and products of other oil refining processes. The pollution could result from:

- Leakage into underground aquifers during drilling and oil extraction;
- Spillage of chemicals used in oil extraction and refined oil products from the planned oil refinery and pipelines and accidents of oil haulage vehicles, thus polluting the soils, rivers and lakes in the area;
- Gas emissions (flaring and venting)

Government of Uganda recognizes this and has tried to put in place strategies to address these challenges such as:

- Requiring Environment Impact Assessments (EIAs) and Management Plans (EMPs) as a precondition for sanctioning oil exploration and exploitation operations.

The challenge of the EIA process is that private companies select and pay EIA consultants directly, making the process prone to abuse, data manipulation and influence peddling.

It would be better that the selection of EIA consultants be done jointly with the National Environment Management Authority (NEMA) and that the payment of consultants be handled by NEMA after the fees have been agreed upon with the concerned company and the company has remitted the funds to NEMA.

Submission of EIA reports could be made first to NEMA for review before finally sending a copy to the private company for comments. This will minimize direct contact of the EIA consultants with the private companies.

- Requiring oil companies to put in place safeguards (soft- & hard-ware) to mitigate or avoid negative effects or impacts that include proper oil/hazardous waste handling. Government and Oil Companies need to put in place time-based responses to disasters and community and environmental needs – clearly explaining how fast they can respond;
- Requiring polluters to incur the costs of cleaning the pollution under a regulation of Polluter Pays Principle (PPP). While this is a good internationally accepted practice that would discourage oil companies from the temptation to pollute, its enforcement in Uganda is terribly lacking despite being enshrined in the law;
- Signing exploitation agreements with neighbouring countries. There are East African initiatives to have collected responsibility for the exploitation and management of oil, gas and mining. However, many of the initiatives are still in their nascent stages and clarity on how they shall work has not yet been made. The agreement with DRC has not been put into operation and its viability and effectiveness has not yet been tested. Therefore, they are not very reliable instruments in delivering the desired oil development outcomes;
- Undertaking compensation and resettlement of oil-project-affected-people and communities as a measure of staving the negative impacts involuntary displacement, etc. that would have on livelihoods. The challenge is that current compensation and resettlement frameworks are outdated and even when adjusted do not achieve the objective of maintaining or improving project-affected-people’s livelihoods. They instead force affected people into abject poverty;
- Upgrading the environmental laws, regulations and guidelines to meet the requirements and challenges of the emerging oil sector. This is work that cannot be completed in a short time. This implies that the oil exploitation will commence with many weak legal provisions related for example to social protection, land and land acquisition, employment, local content, health and safety of workers and communities living in and in proximity to oil companies; pollution, money laundering, tax evasion/avoidance; the role of local governments in overseeing and checking oil company operations, the environment, among others.

In such situations Oil Companies are known to take advantage of the legal gaps to fleece oil revenues and abuse affected communities and the environment. There is need for clear, adequate and effective environmental standards and regulations;

- Establishing institutions to oversee/monitor and control the operations of oil companies. The existing institutions such as Agriculture; Forestry; Wetlands; Water and Environment; Local Government; Human Rights Commission; Lands and Survey; Housing and Urban Development; Social Protection; Crime and Investigations; Inspectorate of Government; Auditor General; Finance and Banking sector; Trade & Industry, Fisheries; Tourism; Education; Health, etc. have not yet fully realised their interconnectivity with the oil sector and industry and therefore are not well-tuned to meet the demands related to the oil industry. This will require fast alignment of the institutions related to these sectors to the oil industry. New institutions are proposed such as the Petroleum Authority and National Oil Company. The adequacy and effectiveness of the new proposed institutions will have to be tested. A new breed of technical staff will have to be trained and employed in the various ministries, departments and agencies of government.

Therefore, the adequacy and effectiveness of many government strategies and interventions in delivering the desired outcomes from petroleum remains to be seen.

Oil Spill Recovery and Cleaning Operations need to be easy and quick to deploy; provide continuous recovery processes; have a wide range of application environments; and be highly robust, efficient and effective.

Mr. Bazira is the Executive Director, Water Governance Institute (WGI)
Extractives sector transparency: Are we getting there?

By Sarah Muyonga

The recent disclosure by Tullow Oil of tax payments the company has made to different governments, including around $23 million (56 billion shillings) to Uganda is certainly a welcome gesture, and a milestone in the growing global push for transparency in extractives sector.

Tullow has chosen to distinguish itself from the rest and set a trend of ‘big business’ voluntarily disclosing payments made to governments.

But let us review those numbers again, maintaining our focus on what may be lacking.

Indeed, Tullow paid $23 million, but the majority of this money was in fact payments on behalf of their employees: More than half ($12.1 million) was PAYE and national insurance as shown below.

This money can be more attributed to the workers than the company.

Everybody who is in formal employment pays taxes off their salaries, known as Pay As You Earn. The rate depends on the salary levels and is actually a cost to the employee, not the employer.

So what is it that we are actually being told? This appears to be half the story, and when oil production starts, we will still only be told half the story because secret Production Sharing Agreements between the companies and government make it impossible for one to even know how much the company was meant to pay in the first place.

What we risk without proper transparency

Increasing evidence has shown that the lack of transparency and secrecy at the country level and within the companies facilitates tax avoidance, evasion and huge revenue losses for governments.

Tax avoidance involves the abusive exploitation of loopholes in domestic and international tax laws that enable multinational companies (MNCs) to shift profits from country to country and often through tax havens.

MNCs currently report and publish segmented information breaking down their trade along geographic regions or product lines.

They are not required to publish data on a country-by-country basis.

It is, in other words, very hard to see what a company has produced, the profit they have made, and what they have paid in taxes to the respective government. Yet global transparency efforts have led to commitments by larger economies to regulate oil, gas and mining MNCs to disclose payments to governments.

Country by country reporting is one of these initiatives that will most likely become a reality in a few years following legislation in the EU and USA (EU Accounting and Transparency and Dodd-Frank Act, respectively).

This is partly the reason why Tullow Oil made the disclosure, because in any case, it will be a requirement starting 2015.

Tax havens and company conduct

Whereas country by country reporting is good, the focus needs to intensify on the usage of tax havens as conduits of shifting profits.

It has been argued that around 60% of world trade is intra-group, 50% of global trade passes through a tax haven, and 99% of the EU’s biggest businesses have at least one subsidiary in a tax haven.

It is also estimated that around one trillion dollars leave developing countries in illicit financial flows every year-ten times the amount of aid they receive annually. Much of this is attributed to tax avoidance of big multi-nationals.

We therefore need to take a closer look at the oil companies operating in Uganda: Tullow Oil operations in Uganda are tied to known tax havens such as Isle of Man and the Netherlands; whereas CNOOC Ltd’s are owned by a company in British Virgin Islands which is considered the world’s biggest tax haven. Similarly, Total’s operations in Uganda can be traced to sister companies based in the Netherlands.

Are the government institutions charged with assessing the proper amount of taxes fully aware of these structures and the risks involved once production starts? How will the government, for instance, identify transfer pricing abuse?

Country by country reporting will be a good start-indicating the profit rate on intra-group sales, and will provide national tax administrations with systematic and easily accessible information on MNCs. But shouldn’t we be a bit more proactive than just waiting for the EU and the USA to implement legislation?

For starters, the Government of Uganda could review the tax laws that exist for double taxation between Uganda and these known tax havens to avoid MNCs aggressively exploiting double taxation treaties and agreements to their benefit.

The road to transparency and accountability is long and winding. But if we do get there, then Uganda will be able to enjoy the resultant windfall and provide meaningful and worthwhile lives for all its citizens.

Country by country reporting is a proposed accounting standard under which a multinational corporation would be required to report in its annual accounts key financial information about each of the countries and territories in which it operates.

Country-by-country reporting will provide information to a wide range of stakeholder groups which will strengthen efforts to monitor corrupt practices, corporate governance and responsibility, tax payments, and world trade flows.

It will also benefit investors by revealing which corporations operate in politically unstable regimes, tax havens, war zones, and other sensitive areas.

It will enable citizens of developing nations to determine who owns the companies that are trading in their countries, what tax is being paid and whether that appears reasonable in relation to the tax rates in the country in question.

With contribution from Anders Reimers Larsen. The writers are Tax Advisors at ActionAid Uganda.
Uganda too can prosper from extractives

By Chris Musimire

I spent the whole of February in Western Australia, attending a short course on mining and regional development.

The course was funded by the Australian government, through its International Mining for Development Centre (IM4DC) and brought fifteen participants together, from Africa, Peru, Philippines and Mongolia to understand and the role mining can play in stimulating development in third-world countries.

Australia has developed a first-class economy riding on its massive mining sector dominated by nickel, iron ore, gold and aluminium in the western part of the country and petroleum in the east.

To understand the industry better, we went on a field trip to the mining area of Kalgoorlie, a sleepy, old-fashioned expansive town which derives its survival almost entirely from mining.

You can’t miss the fast, expensive cars parked along the streets, a stark contrast to the Victorian architecture of the town.

Most of these fancy cars belong to the predominantly youthful miners, thanks to the high wages offered by the mining sector.

Some live here but most of them temporarily pitch camp in the town, usually for two weeks in a month, where they work twelve hour shifts in the nearby mines: FIFO (Fly In Fly Out) is what this arrangement is called.

As our bus driver revealed, his own son in his twenties, was earning 3000 dollars a week driving a truck in a mine north of the town.

But perhaps the most exciting bit of the tour was the visit to the super pit. Located on the doorsteps of Kalgoorlie town, it is the largest open pit gold mine in Australia, measuring 3.5 Km long, 1.5 Km wide and over 600 metres deep.

The super pit used to be tens of little mines scattered in the area but some years ago, all the mines were consolidated into one large mine and placed under the management of the Kalgoorlie Consolidated Gold Mine Company (KCGM). The mine produces about 800,000 ounces of gold in a year-over one billion dollars worth at current market rates.

Unlike in Uganda where it is almost impossible to visit an oil facility, we were able to drive up to the top of the mine and monitor the operation from a vantage point.

The constant noise from the huge trucks is almost deafening, and their robot-like movements up and down the pit are like a scene from a zombie movie. One queue climbs out of the pit at a steady speed, bringing the ore to the surface, while another descends to pick more.

The tour guide, formerly a miner herself, shocked us when she said each of those trucks costs 17 million dollars, while the loaders at the bottom of the pit cost forty million dollars!

‘A single tyre costs 35,000 dollars,’ she said. These figures got me thinking about the argument in Uganda that driving jobs in the oil and gas industry could soon lose their jobs to white-collar computer operators.

But if I were an investor and my truck cost that much, I would never let a non-certified driver near it. But if I were an investor and my truck cost that much, I would never let a non-certified driver near it.

In fact, some of the big mining companies are already piloting the use of remotely operated trucks from a base near Perth airport so even qualified drivers could soon lose their jobs to white-collar computer operators.

Royalties for Regions (R4R)

One important learning for me was the Royalties for Regions (R4R) policy formulated by the National Party of Western Australia in 2008.

Like it is in Uganda, the mineral rich regions in Western Australia are among the least developed in the country and this policy was hatched to force development onto them.

It works by setting aside 25% of the state’s mining and onshore petroleum income from royalties which is then channelled fund a range of social projects in the rural areas.

The money is held in a special investment fund (SIF). In 2012 and 2013, at least one billion dollars was diverted to this Fund annually.

There has been criticism of this policy, mainly that the money is being used to set up huge facilities that are not necessarily demand driven, but at least an effort is being made to channel the money to places that need it the most.

In comparison, the Uganda government remains adamant to entertain any proposals to increase its royalty allocation to oil and gas regions from a paltry 7%. Even those calling for the increment have no idea what royalty arrangements exist between government and the companies and therefore do not know how much they stand to receive when oil starts flowing.

But overall, it was a rich learning experience. I got to interact with senior executives of big extractives companies, politicians and even aboriginal communities.

Coming from a secretive country, it was particularly impressive how easily these people shared information with us—both their successes and failures.

If only our government could loosen up a little, and treat the media, civil society and the general population as partners in the development of the oil and gas sector, that would be a great start.

The writer is the Managing Editor-Oil in Uganda. editor@oilinuganda.org
“We should not rush”

Hon. Elly Karuhanga is the Chairman of the Uganda Chamber of Mines and Petroleum and former President of Tullow Oil in Uganda. He is also a former Member of Parliament. Oil in Uganda caught up with him at his office in Kampala, where he briefly shared his thoughts about Uganda’s extractives sector.

How would you rate the progress of the oil industry in Uganda to date?

It has been a slow process but very steady and I think haraka haraka (rushing) would have caused us a lot of problems. Speed would have been very dangerous.

What I have finally learnt is that in the end, Uganda’s cautious steps will yield us a lot of long term results. We might have lost out on the short term gains but we will surely have long term benefits.

But you have been strongly criticising government for its slow pace, what has changed?

I have seen what has happened to those governments that have tried to jumpstart the industry. They have made a lot of mistakes and you know once you make a mistake in the oil and gas industry, it can be very expensive to reverse it.

For example, if you sink a wrong well in a wrong place, it costs a lot of money and you will get nothing. If, for example, they are making an assessment of how much oil should be produced from a particular well and the company says “We shall recover ten percent from this particular well,” and you sign, that is it.

Yet if you studied the well more, you can recover thirty percent and this is what has happened in Uganda in some cases.

By government saying “No, let us investigate the well more,” then the company can recover thirty per cent of the oil. So when these negotiations are ongoing, there appears to be a delay, but if we rushed, it will give us quick oil but not all the oil that could have been possible to get. So we must balance.

But some people feel that this delay is costing Uganda...

Yes, it is costing us and at the same time we are benefiting from it. This whole story about oil and gas is really how you prepare yourself to be able to extract something you don’t see.

For us in Uganda we are not inventing something new, everybody else has done this all over the world and we just need to pay a higher price to hire the right people to do the right job.

The important thing is to get the right partners. Now that we have discovered oil, we are lucky and in the next licensing round we should aim at getting the big and medium companies or what we call independent companies who can invest money and give us good results.

Are the companies frustrated by the delay in granting them production licenses?

I don’t think the production licenses are not coming out because of government. I think sometimes the oil companies, before they prepare for the production license, want a good production license and not a bad one.

So they have to prepare themselves and it takes time for them to submit the applications which are quite humongous. They indicate what they will do when they are awarded licenses, which technologies and methods they will use.

Of course government has to look at it and ask questions on why this and not that. This conversation is not what I would like to be hurried.

There have been rumours that Tullow may leave Uganda as a result. Is it true?

I don’t think it is a rumour. The thing is that you have to understand the oil and gas industry.

Once you are in this business, you have to acquire many licenses and grow the company, so you just can’t come to Uganda and stay here forever.

You have to grow the company, get licenses in Kenya, Congo, Sudan and other parts of the world.

Tullow has got a lot of licenses and they are the best (exploration) company in the world, they find oil easier (than others).

As a result, they have to have money to develop the discoveries made and sometimes they have to do what we call farm-down or farm-out. That does not mean they are running away.

So it is not a rumour that Tullow sold part of its shares to CN00C and Total and it’s a vicious cycle. If Tullow wants to sell part of its shares again, it is understandable and we have to understand the industry.

Has the media been supportive?

It took painful time to see it happen but I am very happy that our media has started really understanding the industry.

The media was concentrating on oil and gas as a curse and selling bad news, pumping a lot of fear in the population.

And if you really wanted to stand up and sound reasonable, the media would bring in the stories of what has happened in Nigeria and that is exactly what was sold to people.

They will not tell you what has happened in the United States of America due to the oil and gas discovery or how oil discoveries have transformed Britain’s economy.

The media majored on telling people that as soon as the oil is discovered, the country will end up like Nigeria, and this (negative reporting) was not answered by both the oil companies and government. In fact it took government a long time to even understand and appreciate that they needed a communications officer to handle oil and gas.

How come the mining sector in Uganda has not developed at the same pace?

The mineral sector slowed down because the Ministry concentrated so much on oil.

I think we should convince our government to create a fund, an exploration fund. If we had an exploration fund and established the presence of minerals, then the investors would come running and government would have a share in those mines.

We are working very hard as a task force to convince the government to put up say $100m.

Is the Chamber doing anything about value addition of minerals locally?

We do not have certification yet, that is why the minerals are taken to Rwanda for certification so that they are later exported. We have very good minerals but we are yet to streamline the industry.

Questions put by Beatrice Ongode and Flavia Nalubega

A full version of this interview is available on www.oilinuganda.org