



August 31, 2016

OPEN STATEMENT ISSUED BY AFIEGO, GPFOG AND ORRA ON THE ISSUANCE OF PRODUCTION LICENCES TO TULLOW OIL AND TOTAL E&P

We, Africa Institute for Energy Governance (AFIEGO), the Guild Presidents Forum on Oil Governance (GPFOG) and the Oil Refinery Residents Association (ORRA) wish to appreciate government's issuance of production licenses to Tullow Oil and Total E&P. We congratulate the companies for having successfully undergone the rigorous process required in order to be issued with production licenses. The issuance of the licenses on August 30, 2016 is an important milestone and brings Uganda closer to first oil. How Ugandans have waited for this day.

For instance, to date, available evidence indicates that over 600 Ugandans have attained degrees and diplomas in petroleum and other related professions in readiness to participate in the oil sector. This is in addition to the several Ugandan companies under the umbrella body of the Uganda Oil and Gas Service Providers which have heavily invested in their companies in readiness to tap the business accruing from the oil sector.

Yet, despite the various efforts, questions remain. Are the above efforts sufficient to guarantee Uganda as a country to succeed? As we know, in Africa, oil remains a resource of strife with majority of citizens continuing to live in misery amidst plenty because oil remains extremely intertwined with messy politics and corruption. Oil has also contributed to conflicts, destruction of sources of livelihoods for peoples such as fishermen and destruction of the environment as happened in Nigeria's Ogoni land where water sources were found to have cancer-causing compounds from oil. Indeed oil can turn out to be either a blessing or a curse.

In view of the above and indeed in view of Ugandans' expectations, it is incumbent on us Ugandans and government to demand for creation of and create conditions respectively that will

enable Ugandans to tap the immense opportunities the oil sector offers while offsetting the potential curse it poses. How should this be done? First, as citizens who hope to benefit, we must first appreciate the state of Uganda's oil sector and its implications for our success and failure. What is the current situation in Uganda's oil sector?

1. Low oil prices: The production licenses have been signed in an environment of low crude oil prices and despite the minister of energy saying that this is good for Uganda, some disadvantages exist. Few companies are interested in engaging in oil business as evidenced by massive layoffs and closing of oil wells in countries such as the US and UK; over 350,000 jobs in the oil and gas sector are reported to have been lost worldwide by May 2016 with the services and exploration and production sectors being worst hit. Here in Uganda, RT Global Resources withdrew from the refinery construction deal. Reasons for this could include demands that the government guarantees minimum returns on their investment even when the refinery fails to make profits due to factors such low crude oil prices. With low prices, government is forced to enter unfavorable deals that do not favor Ugandans because there will be few or no credible companies interested to commit their capital in risky projects. We are all perhaps acquainted with the tax disputes between Uganda, Heritage Oil and Tullow Oil. Part of the reasons for these disputes stem from the fact that at the beginning of the development of our oil sector, government was desperate to attract investors. It thus lowered the established standards, including those against the national laws, and signed agreements with tax exemptions that it later deemed unfair. These exemptions and consequent legal tax disputes cost Ugandans \$ 223M in 2015 when Tullow Oil paid only \$250M instead of \$473M that had been assessed by Uganda Revenue Authority. We also lost a lot of time in the long dispute with Heritage Oil. In signing the production licenses while crude oil prices are low, Uganda could have signed unfavorable production licenses. This is why as citizens we should not rest until we get access to the contents of the licenses and ensure that they are good for the country.

2. Decision-making based on political as opposed to economic sense: While campaigning recently in Omoro district, President Yoweri Museveni boasted that electricity had been extended to the district. He dared opposition politicians to touch the very visible transmission lines and see whether they would not get electrocuted. His taunts were telling. The president

needs visible and imposing infrastructure, even when it cannot be afforded by the citizens as is the case with electricity in rural areas, in order to gain political capital. It is for this reason that he is likely insisting on investing in a refinery – which is often an imposing sight- even when oil companies and RT Global Resources have shown that this investment is untenable. Mark you, no African refinery is profitable. Kenya’s refinery was turned into storage for petroleum products. Additionally, the refinery that the president visited while in Chad is unprofitable. It was once closed because the investors who constructed it wanted to set prices that were higher than those preferred by government. But Uganda has decided to construct both a refinery and crude export pipeline that will cost a combined estimated Shs. 13.7 trillion! It is important to note that the poor quality of the companies that bided for the refinery and the withdrawal of the reported best bidder is reminder of the serious risks surrounding such a project and why big companies such as Total are not interested in the project. However, let us hope that Uganda will succeed where other Africans are still struggling.

- 3. Insufficient legal and regulatory framework:** The process of instituting a National Content policy has been ongoing for some years now but to date, Uganda is yet to see the final policy. That of amending environmental laws to match the need to protect communities and the environment from oil threats has been ongoing since 2014; the Environmental Amendment Bill 2014 is yet to be tabled before parliament. Our oil is located in a highly bio-diverse area which is also of great transboundary and economic importance. As such, we need a sufficient legal framework for the oil sector. Additionally, regulations for the Upstream, Midstream and Downstream laws of 2013 and 2015 respectively are yet to be formulated. One wonders, why is government being so slow yet we want to see first oil by 2020. This sloth has grave implications for Ugandans’ dreams. Without a sufficient legal and regulatory framework, Ugandans will continue to get low and delayed compensation undermining their capability to produce goods such as food for the oil sector. There will also be no policy guiding how Ugandans will participate in the oil sector. This is bad news not only for all Ugandans but for the companies and youth/students that have spent millions and time on education in readiness to work in the oil sector. We should not expect laws and policies that come after signing of agreements and licenses to safeguard national interests. We therefore need to demand that

government puts in place a sufficient legal and regulatory framework for the oil sector so that we can benefit from it.

- 4. Weak institutions:** The problem of weak institutions in Uganda such as the judiciary, parliament and companies such Uganda Electricity Generation Company Ltd (UEGCL), Uganda Electricity Transmission Company Ltd (UETCL) and Uganda Electricity Distribution Company Ltd (UEDCL) still remains the biggest challenge undermining good governance in the country. Today, government is issuing licenses and setting deadlines of production but where is evidence that the Petroleum Authority of Uganda (PAU) as a regulator is in charge and guiding the minister and government not to repeat mistakes such as illegal tax exemptions. The PAU remains on paper yet available evidence indicates that nowhere in the world has any country succeeded with an oil sector without a strong and efficient regulator. To date, our electricity sector is “sick” because national institutions such as Electricity Regulatory Authority (ERA) have failed in their roles while others like UEGCL and UEDCL are not doing enough in playing their roles. Their work of generation and distribution is being done by foreign companies in the names of Eskom and UMEME.
- 5. Pervading secrecy:** Despite yesterday’s (August 30, 2016) public issuance of production licenses, the oil sector is still cloaked in secrecy. For instance, neither ministers (majority), nor MPs, nor ordinary Ugandans know the contents of the licenses that were issued yesterday. What are the rights and obligations of the companies that were issued with the licenses to government? What are government’s rights and obligations? Ugandans do not have this information and as such, they cannot tell whether the licenses are good for them or not. Additionally, Ugandans do not have the feasibility study reports that informed decisions to invest in both a refinery and crude oil export pipeline. They also do not have the exact number of jobs that will be created for the different groups of people with different skill sets. How many engineers are needed? What about welders? How many managers are needed? Without this information, Ugandans cannot adequately prepare to participate in the oil sector.
- 6. Corruption:** It can be argued that corruption is the single biggest problem undermining Africa’s and indeed Uganda’s development. With corruption, revenues from oil are very

insecure. For instance, since 2006, Uganda has collected over \$1 billion from oil sales between companies but to date, no one knows exactly how that money was used. Late last year, it was reported that the oil fund in Bank of Uganda had Shs. 119 B collected from the tax dispute between Tullow Oil and Uganda but who knows where this money is. We only hear of MPs such as Margaret Muhanga buying government UBC land billed in the billions using money acquired from goats. We also hear of over Shs. 4 trillion being lost in the road sector alone in a space of few years not to mention the, Uganda Railways and other government assets being lost. With corruption, Ugandans can rest assured that they will not benefit from oil production that has been brought closer due to the issuance of production licenses to Tullow Oil and Total.

In view of the above, what should government and Ugandans do to avoid the oil curse and tap into the opportunities presented by the issuance of production licenses to oil companies?

(i). Citizens take a more active role: Ugandans need to take a more active role demanding for more information on the oil sector including information on the Production Sharing Agreements (PSAs), production licenses and feasibility studies for the refinery and pipeline projects. Currently, these study reports can only be accessed after paying exorbitant fees. This is a means to stop Ugandans from accessing information. Ugandans should also demand that government fast tracks and completes the institution of a sufficient legal and regulatory framework that will see them benefit from the oil sector. The National Content Policy, Environmental Amendment Bill 2014 and regulations for the Upstream, Midstream and Downstream laws should be completed and instituted.

(ii). Set time frames within which to institute sufficient legal and regulatory framework: Government should set and make public timeframes within which it will have instituted the above sufficient legal and regulatory framework that will see Ugandans benefit from their oil.

(iii). Strengthen institutions: Every effort should be made to strengthen the PAU and UNOC. A more transparent recruitment process for PAU and NOC should be put in place so that candidates do not become beholden to corrupt interests when appointed. The officers' mandates and subsequent performance on those mandates should also be made public so that the public can be involved in monitoring their performance. Corruption in the process of deciding whether they

deserve to have their terms in office renewed will thus be reduced. The two institutions should be given independence from government –they are currently housed within Ministry of Energy offices which mars their independence. This way, there will be a possibility that these institutions will perform to Ugandans’ satisfaction.

(iv). Stamp out corruption: With corruption in Uganda, citizens can be assured that they will not taste oil money. Citizens should therefore continue talking loudly against corruption. Government should also make all efforts to stamp out corruption. Politicising of decisions in the oil sector should also be stopped.

About AFIEGO

Africa Institute for Energy Governance (AFIEGO) is a registered public policy research and advocacy organization dedicated to influencing energy policies to benefit the poor and vulnerable.

About GPFOG

The Guild Presidents Forum on Oil Governance (GPFOG) is a university, youth-based association comprising of guild presidents, guild ministers, district university student associations’ leaders and other youth leaders from all universities and tertiary institutions in Uganda. Its main objective is to promote good governance and development in Uganda.

About ORRA

The Oil Refinery Residents Association is an association of all persons whose land was acquired by government for the oil refinery in 2012 but have never been compensated or relocated. The association works to defend the rights of its members.

Contact:

Diana Nabiruma, Communications Officer, 0782 280073, dnabiruma@afiego.org

