

Airline launches free-to-fly promotion. Qatar Airways has launched its 'Global Travel Boutique' promotion that offers passengers amazing fares on both Economy and Business Class flights. Customers will also win a chance to fly free to any Qatar Airways destination for one year. (Eronie Kamukama)



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Govt remains confident despite sustained low global oil prices

Notable. Big players in the oil industry have stayed away from bidding for exploration licences.

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KAMPALA. The first hint of why 'big players' stayed away from Uganda's competitive licensing round was dropped by Energy minister Irene Muloni last Thursday during the issuance of an exploration licence to Australian oil junior Armour Energy Limited - low oil prices.

The licensing round was opened by ministry of Energy in February 2015 with six oil blocks up for grabs through a competitive process that, however, attracted mainly small and medium exploration companies.

Seventeen firms responded to the ministry's Request for Qualification from companies but only 16 submitted proposals and four reached negotiation stage.

The already licensed companies, France's Total E&P and Cnooc, from China stayed away.

The argument at first, for excusing the duo, was that the big players come in when [oil] discoveries had been confirmed and appraisals made on the available reserves; usually by the small and medium players who usually sell off to former.

Trend of events

For example, Hardman Resources and UK-based Energy Africa entered Uganda in 2001, and each was granted a 50 per cent stake in Exploration Area 2, to the east of Lake Albert in the Butiaba region.

In 2001, Heritage sold Energy Africa a 50 per cent stake in Exploration Area 3.

In 2004, the Anglo-Irish Tullow Oil PLC bought off Energy Africa taking more than 50 per cent stake in Exploration Areas 2 and 3 with the other half belonging to Heritage.

In 2005 Hardman drilled the Mputa-1 well, and found significant quantities of oil and gas in Exploration Area 2 that Uganda's prospects became very promising, which was announced at a thanks giving ceremony in 2006.

In 2007, Tullow bought off Hardman giving it a 100 per cent stake in Exploration Area 2 and another 50 per cent stake, through the earlier acquisition of Energy Africa, in Exploration Area 3 (southern Lake Albert and Semliki).

In February 2012, Tullow farmed



Energy minister Irene Muloni (right) hands Armour Energy chief executive officer Roger Cressy an oil exploration licence in Kampala last week. PHOTO BY STEPHEN WANDERA

down (sold) 66.66 per cent of its interest Total and Cnooc) to operate in the Albertine Graben.

Then in January 2016, Tullow announced plans to sell off the remaining stake to the former and exit the Ugandan market in essence.

Unstable prices

All the while, at least between 2006 and 2014, prices of crude oil were to say the least within steady range. At high prices, it is very profitable to discover oil, invest in new fields and expand capacity.

Since late 2014, oil prices have been on a downward trend, never seen before, with Brent crude trading at below \$50 per barrel which means a lot of pain for either the investors or governments across the world.

Ms Muloni revealed on Thursday that "the sustained low prices" had affected "process of the licensing round leading to protracted negotiations" in this case with Armour.

The firm ought to have been issued licence and signed a Production Sharing Agreement (PSA) with government back in June but the company's officials asked for breathing space until last week.

In the aftermath of announcing the 16 companies that submitted proposals in July 2015, the ministry dismissed claims that the licensing

round was "unattractive" arguing that they received a blend of "applicants who included two companies with market capitalisation of more than \$25b, five medium companies with capitalisation of between \$5b and \$25b and ten small ones with capitalisation of less than \$5b.

The season of low crude oil prices, some analysts have argued, is the best time to invest after all price is simply a function of supply and demand, and

both sides of the equation evolve dynamically in the marketplace.

In the same regard the low prices impact investment in oil and return on this investment, which is the starting point of a commodity cycle. It becomes expensive to find, extract and transport oil, especially for countries like Uganda which are just getting into the game.

Energy ministry permanent secretary Robert Kasande told *Daily Monitor* on Friday that: "Prices were good when we started but things changed unexpectedly which scared away some companies.

"So for those which remained committed we took long to agree as both sides had to make concessions here and there."

Details of the concessions are reflected in the new PSAs, signed last Thursday and another will be signed in three weeks' time with Nigeria's Oranto Petroleum International.

Six blocks; Semliki and Kanywataba blocks in Ntoroko District, Ngassa block in Hoima district, Taitai and Karuka block in Buliisa District, Mvule block in Yumbe and Moyo districts and Ngaji block in Kanungu and Rukungiri districts, were up for licensing with the view of discovering more oil on top of the current reserves estimated around 6.5 billion barrels.



"The oil prices will rebound sooner or later. It has happened before and it will."
ROBERT KASANDE, ENERGY MINISTRY PERMANENT SECRETARY

FALLING PRICES

Effect. Swinging oil prices have left many crude-exporting countries with budgets that do not balance.

Budget deficit. Saudi Arabia, the world's biggest oil producer with 12.58 million barrels a day according to the Paris based International Energy Agency, in 2015 alone recorded a budget deficit of \$98b.

Losses. All oil exporting Middle East nations, according to the International Monetary Fund (IMF) lost a combined \$390 billion in revenues due to bad prices and this is expected to surge to \$500b by end of this year.

Mr Kasande said the ministry is not planning to hold another licensing round "any time now" for three blocks, Ngaji, Karuka/Taitai and Mvule, but rather "embark on acquiring more seismic data and conduct impact assessment."

"The oil prices will rebound sooner or later. It has happened before and it will," he added.

From the earlier PSAs, the government expects to earn revenues estimated between \$1.5b and \$2b annually (starting between 2028 and 2038 and lasting 10-20 years). Production is expected to start in late 2020.

The amount collected could be much higher or lower depending on oil prices, whether certain fields come on line (given that we have only explored 40%), whether oil is sold to refineries at a reduced price, whether revenues are retained by Unoc and the government's capacity to collect.

According to a World Bank report, before oil prices started declining heavily in mid-2014, the price of one barrel of oil had hovered around the \$100 mark for several years.

"At this level, oil revenue for the government would have averaged \$2.5 billion a year between 2017/18 and 2044/45. Assuming an international price of oil of \$50 per barrel, average oil revenue will only amount to about \$800 million a year," states the report.