

Oil: Museveni, Magufuli flag off

By Pascal Kwesiga

President Yoweri Museveni and his Tanzanian counterpart, John Pombe Magufuli, have flagged off the construction of the 1,445km pipeline that will move crude oil from western Uganda to the seaport (Tanga) for export.

The \$5.5b (sh13 trillion) project is a significant milestone for Uganda, which is expected to start pumping its crude oil reserve to international markets within three years, according to officials.

The actual construction of the East African Crude Oil Pipeline (EACOP) is expected to begin early next year, following the laying of the foundation stone for the project on Saturday at Chongoleani Tanga in the port city of Tanga.

The heated crude oil pipeline, the longest of its kind in the world, will cost \$5.5b and will be completed by 2023, making Uganda join the ranks of oil-producing countries. The pipeline works will be undertaken by Total E&P, CNOOC and Tullow Oil, together with the two governments of Uganda and Tanzania. The pipeline will, on completion, carry 216,000 barrels of crude oil for export daily.

It is expected to move crude oil to the export markets from Hoima to Tanga sea port on the Indian Ocean.

Uganda's oil is waxy and it will have to be heated during its transportation, to prevent it from solidifying. Uganda and Tanzania intend to make the pipeline available for use by other countries in the East African region that already have oil and others that could find hydrocarbons in the future.

The pipeline construction will be funded by Total E&P, CNOOC and Tullow Oil, together with the two governments of Uganda and Tanzania. Total is currently, however, taking the lead on the project. Once the oil companies agree on the shareholding in the project, according to the Government, they will be expected to take a Final Investment Decision (FID) and the Engineering, Procurement and Construction (EPC) will start early next year.

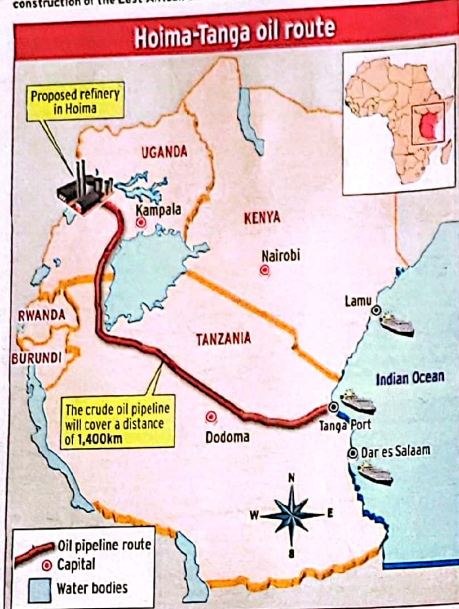
Just like the planned refinery, the pipeline will be undertaken as a private venture, with Uganda and Tanzania participating through their companies. For Uganda, it is the National Oil Company, the country's business arm, in the petroleum industry.

A total of 1,149km of the pipeline will be inside Tanzania. It will run through eight districts in Uganda.

The infrastructure is expected to be buried between 1.8 metres and two metres into the ground, to reduce its environmental footprint and ensure efficiency. It is also expected to have six



Presidents Museveni (centre) and Magufuli (fourth-right) with delegations from both Uganda and Tanzania after the commissioning of the construction of the East African crude oil pipeline on Saturday. PPU photo



The pipeline will move crude oil to the export markets from Hoima to Tanga sea port on the Indian Ocean

depending on the technology deployed.

Museveni reiterated that Uganda will refine part of the oil and saluted the Tanzanian government for making the pipeline that will take unpunctured oil to the export markets competitive, in terms of cost.

Tanzania will not charge transit fee, value added tax and corporate income tax on the project. It is also offering a depreciation tax holiday for 20 years and free corridor for the pipeline. The agreed-on concessions, Museveni said, implies that a tariff fee is \$12.2 (cost delivering to market) per barrel, stating that it still makes the pipeline profitable, even at \$50 per barrel in the international market.

The right of way acquired for the crude oil export pipeline, the President said, should be used to build a natural gas pipeline to Uganda from Tanzania, which has large (natural gas) deposits. He said Uganda needs the natural gas to process iron ore, so it can produce steel.

Oil discoveries Uganda has discovered 6.5 billion barrels of oil resources in 40% of the potential area in the Albertine basin. Currently, it is estimated that between 1.4 and 1.7 billion barrels, out of the 6.5b can be pumped out of the ground, but more than (1.7 barrels) could be recovered,

LA MAFUTA GHAFI TOKA HOIMA - UGANDA HADI TANGA - TANZANIA

CHONGOLEANI TANGA TAREHE: 5 AGOSTI, 2017

"Tanzania, long ago, discovered large quantities of natural gas. Uganda needs either good coal or natural gas in order to process our large and excellent quantities of iron ore into steel, which is crucial for the building of hydroelectric dams, railways and high-rise buildings," Museveni said.

With imported steel, the President said Uganda will build houses that are 3% more expensive on account of freight charges, adding that East Africa (EA) spends about \$1.6b on steel imports.

The President noted that EA, with its one million square miles of territory (the size of India), has a wide spectrum of natural resources and 170 million people to build a modern and competitive economy.

President Magufuli thanked Museveni and Uganda for trusting Tanzania and choosing the Tanga route for the project, stating that the country is certain that EACOP will create immense benefits for her people.

This pipeline could have gone to a shorter route of 900km, but Museveni has supported us. We had to make concessions for our Ugandan brothers, like we have previously done to liberate them," he said.

"We had to sacrifice, but we shall also benefit. During construction, direct jobs will be between 10,000 to 15,000, while temporary ones will be 30,000. Already, hotels are benefiting as guests come here. We shall also set up a cement factory here, one of the biggest in East Africa," Magufuli said.

He said with the oil coming to Tanga, Tanzania would stop buying crude oil from Uganda, but by cradle oil from Uganda, instead of incurring the huge cost of importing oil from the Arab world. He said Uganda would also find it cost-effective

selling crude oil to Tanzania. Magufuli added that Tanzania also sought to gain from the skills and expertise of Ugandan technocrats, who have built experience in the extractive sector. "Oil was discovered by Ugandan experts. They have done it. They will come to Tanzania to check our hydrocarbons in Tanganyika, where there are traces of oil. If we find it, they will bring their skills to Tanzania," he said, amidst applause from the excited crowd.

The Tanzanian president warned speculators who are rushing to set up houses in the pipeline's path, saying his government already has satellite images, including already existing property. He warned that only those with bona fide claims would be compensated, while speculators will walk away empty-handed.

He challenged the contractors to ensure they complete the project on time, saying anything short of that would be a big blemish on their profiles and countries of origin.

The function was attended by Tanzanian vice-president Samia Suluhu, prime minister Kassim Majalwa and the Tanzanian First Lady, Janet Magufuli. Museveni was accompanied by, among others, the First Deputy Prime Minister and Minister for East African Affairs, Kirunda Kivejira, energy minister Eng. Irene Muloni, finance minister Maria Kasujja and the state minister for Bunyoro affairs, Ernest Kiiza.

sh13 trillion pipeline construction



Some of the People who turned up to witness the laying of the foundation stone for the construction of the East Africa crude oil pipeline in Tanga, Tanzania



It is projected that the construction of the oil pipeline will create over 30,000 jobs

(FEED), which is still being undertaken by US-based firm, Gulf Interstate Engineering, will provide better details on direct jobs, cost and route of the pipeline.

Launched in February, the minister said FEED is expected to be completed this month. The two presidents are expected to lay another foundation stone in Hoima soon.

"We shall have parallel teams to handle the construction work at various points to be able to achieve the first oil by 2020," she added. The East African Crude Oil Pipeline Company, the minister said, will handle operations during the construction, including hiring personnel for the project.

"There will, of course, be a number of economic opportunities for Ugandans who will be required to construct various stages of the project's value chain. We already have Ugandan companies and Ugandans participating in the FEED study. This will be 100% private project and Ugandans will hold shares, but that (share) has not been determined," Muloni stated.

Besides direct employment, she noted, the project will create other economic opportunities, such as accommodation and

the supply of food items.

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Government picks five-firm team for oil refinery project

The Government has selected a consortium of companies for the execution of the \$3b (sh10 trillion) refinery project located in the western district of Hoima in Uganda.

After a thorough review process of over 40 companies that expressed interest in developing the much-anticipated oil refinery, the Government selected the Albertine Graben Refinery Consortium (AGRC) for the project. The Government is to hold discussions with the consortium on the core project terms.

The AGRC consortium is made up of General Electric (GE) Oil and Gas (UK), YAATRA Ventures LLC (US), Intracontinent Asset Holdings Ltd and Saipem SpA (Italy) in the role of engineering, procurement and construction partner (EPC).

In July, Uganda went back to the negotiation table over the construction of 60,000 barrels per day refinery after its preferred bidder, Russia-led consortium RT Global Resources, pulled out of the deal in July last year at the time when the Government and the multinational were about to sign agreements for developing the project.

Although no clear reasons were given for the pullout, government sources said the Russian company failed to agree on a number of critical financial and technical issues.

Immediately the Russians lost the deal, the Government invited South Korea's SK Engineering, the alternative bidder, for talks. But the talks did not even last two months before falling apart.

The Government again called for fresh bids and 40 companies showed interest. According to the energy ministry's permanent secretary, Dr Stephen Isahabla, the agreement of the core project terms signals the start of the Government's discussions and negotiations with the consortium on the Project Framework Agreement (PFA).

The PFA will detail the proposed solutions, validation of the solutions, risk mitigation measures, and additional due diligence necessary for accelerating investments and financing for the project.

He said already, the consortium has proposed to the Government a financing approach and a path to establish and develop and operate a commercially viable refinery company with a strategic benefit to the country and the region.

According to energy minister Irene Muloni, the country is looking for a lead investor in the project as it races to meet the 2020 oil production deadline.

The refinery is expected to produce diesel, petrol, kerosene, jet fuel, liquefied petroleum gas and heavy fuel oil. This is expected to save the country about \$1b, the amount it spends on the petroleum products imports annually.

The PFA is expected to be concluded and signed within the next two months. The signing of the PFA

will, in turn, pave the way for commencement of pre-Final Investment Decision (FID) activities, such as Front End Engineering and Design (FEED), Project Capital and Investment Costs Estimations (PCE) and Environmental and Social Impact Assessments (ESIA).

In a press statement issued over the weekend, Isahabla explained that if the negotiations are successful, then the consortium will be granted the rights and licences to develop and manage the refinery as lead investor in a joint venture partnership with the Government.

By Mary Karugaba

The AGRC consortium is made up of General Electric Oil and Gas and YAATRA Ventures LLC, among others

BETWEEN THE LINES:

The pipeline construction will be funded by Total E&P, Cnooc and Tullow Oil, together with the two governments of Uganda and Tanzania.

FACTS

- At 1,445km, it will be the longest electrically-heated oil pipeline in the world.
- Uganda will host 296km of the pipeline, while the remaining 1,149km will be in Tanzania.
- In Uganda, the pipeline will run through eight districts and 24 sub-counties. In Tanzania, it will go through eight regions and 24 districts.
- It will be a buried pipeline, between 1.8 and 2 metres underground.
- Its estimated cost is \$3.5b (sh13 trillion), while construction should last three years.
- It will have a daily flow rate of 216,000 barrels with six pumping stations and two pressure reduction stations.

Uganda is currently consuming 32,000 barrels per day (bpd), and the East African region is taking 200,000bpd equivalent of petroleum products.