Cover story

UGANDA OIL'S SLOW BUT SURE FLOW TO THE COAST

The construction of the East African crude oil pipeline is estimated to last three years and to benefit both Uganda and Tanzania through job creation, among other benefits. **John Odyek** writes

Presidents Museveni and Magufuli signing the Oil Pipeline Agreement at State House in Tanzania recently

Former President Julius Nyerere's dream of letting Uganda use the Tanga Port has come true after many years. Tomorrow, Presidents Yoweri Museveni and John Magufuli of Tanzania are to lay the foundation stone and markstone for the construction of a 1,445km $3.55b (sh13 trillion) crude oil pipeline through Uganda and Tanzania.

The former secretary general of the East African Community (EAC), Richard Sezibera, said during a public lecture at Kampala International University, Nyerere had given the Tanga Port to Uganda. Nyerere, according to Sezibera, was trying to promote the East African integration and also support a sister country that was landlocked.

But historical events and global politics over the years did not see this happen. A Canadian publication, the *Gazette*, reported in 1982 that Canada had also advised Nyerere against building a rail road to connect Tanga to the inland.

Now this is a second chance at it. In August, Museveni laid the pipeline foundation stone in Tanga during an official visit to Tanzania, where he described Tanga as being key to the development of the East African region because of its geographical location and security.

The East African Crude Oil Pipeline (EACOP) project includes the construction and operation of the pipeline, eight stations and a marine export terminal at Chongoleani, near Tanga Port. It also encompasses block valves, fiber optic cable and high voltage lines to supply power to the various trace heating stations to keep the pipeline heated above 50 degrees centigrade. This is because the Ugandan oil is waxy and viscous.

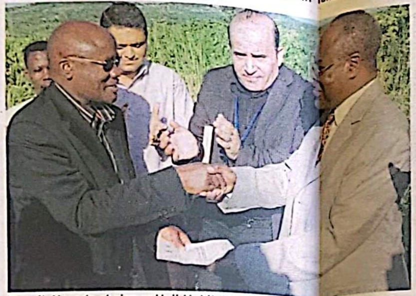
Eng. Irene Muloni, Uganda's Minister for Energy and Mineral Development, noted that the project will be the longest electrically-heated crude oil pipeline in the world.

According to Muloni, there is an opportunity for local businesses to participate in the project. What Ugandans need, according to her, is to seek partners who have finances and skills in order to participate in the pipeline building.

She says Magufuli's visit will serve to "sensitise people in the region about the project...It is a project to serve the people of the region," and that the people whose land will be taken by the project will be compensated.

Three oil firms – China National Offshore Oil Corporation (CNOOC), Total E&P and Tullow, will help Uganda and Tanzania execute project, which will enable Uganda's oil access international market.

A pipeline project team (PPT) has been established by the governments of Uganda and Tanzania and the oil companies that have already nominated their representatives. The team is located in Kampala (Uganda), Dar-es-Salaam (Tanzania) and Houston (USA) in the GIE offices.



Tamoil Uganda chairmanHaji Habib Kagimu (left), project manager Ahmed Elgembri and the commissioner for petroleum Ben Twodo during the site tour of the East African Oil Pipeline centre in Buloba, MPigi district in 2009

Agreements

The Inter-Governmental Agreement (IGA) has been signed by the two governments. The next IGA step will be its ratification by the respective Parliaments since it is a treaty. The IGA will be followed by the Host Government Agreements (HGA) which will define the rights and obligations of each state.

The project requires a Special Purpose Vehicle (SPV, referred to as Pipe Co) to construct, own and operate the project. The next related main agreements will be Pipe Co Shareholders' Agreement, Transportation Agreement between shippers and Pipe Co and project financing agreements. These agreements will provide a commercial and legal structure for the project, which is critical to achieve project financing and project viability for several decades.

$3.55B
The amount of money to be invested in the construction of the pipeline.

Project financing

The Pipe Co shareholders intend to fund the project through a mix of equity and project financing, making between 60% to 70% of external debt. A financial advisor will help develop a detailed financing plan in parallel with the FEED activities. The plan shall include each Shareholder's plans in respect of funding their equity share in the Pipe Co through to completion, including appropriate contingency. (Sources of this information?)

The project is taking into consideration the financing requirements and the commitments towards the lenders, particularly on the Governmental Agreements, the various standards applied to the project (technical, environmental, social), the commercial agreements. Pipe Co 100% funding scheme shall be in place for Project Final Investment Decision. (Sources of this information?)

"The East African Crude Oil Pipeline project will be the longest electrically heated pipeline in the world." **Muloni**

Social and environment activities

According to Honey Malinga, the acting director of the Petroleum Directorate, the environmental social impact assessment studies have been completed. A resettlement action plan study is underway to address land access and acquisition matters. Health, safety and environmental (HSE) protection are paramount values for the project stakeholders. HSE policies and procedures will be developed to achieve a zero-accident project, Malinga said.

Logistics and infrastructure

The project requires moving more than 500,000 tonnes of materials and equipment around the pipeline route in less than two years. This will include material for works on the existing "bottlenecks" which include roads, ports and bridges identified in the preliminary logistics studies as requiring upgrades, Malinga said.

Also, Malinga added, related to the pipeline coating plant(s), access to some locations and ordering some Long Lead Items have been initiated. They include materiel and equipment that have to be available soon after the first batch of steel pipes, coating products and trailers, or those which could have a long delivery time such as power generator and pumps.

Project execution

The final investment decision is expected by the end of 2017 and oil should be flowing by the end of 2020.

According to Muloni, the project execution phase duration is estimated to last three years and this will be achieved in a fast-track mode. She said the award of contracts for the various processes wi be based on competitive bidding.

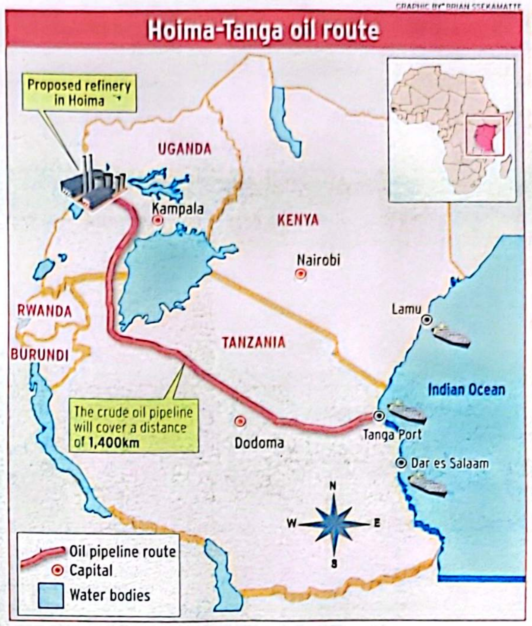
Front End Engineering Design (FEED)

In December 2016, the FEED contract was awarded to Gulf Interstate Engineering (GIE) based in Houston, USA. GIE will be supported by Niras A/S, a subcontractor for studies related to the marine export jetty, in addition to Ugandan and Tanzanian contractors for studies related to site preparation and infrastructures.

Muloni said the FEED study for the project is expected to be completed by the end of this month. FEED is developing the pipeline's basic engineering that will form the basis for detailed engineering, final investment decision, and lead to the project execution and construction phase for the pipeline.

She noted that the FEED activities will include reduction of the pipeline corridor width from 2km to 30m.

GRAPHIC BY: BRIAN SSEKAMATTE



PROJECT BENEFITS

The East African Crude Oil Pipeline project benefits for Uganda and Tanzania include job creation, local content, new infrastructure, logistics, tax revenues and technology transfer.

The Minister for Energy and Mineral Development, Eng. Irene Muloni, estimated that during the three-year construction phase between 6,000-10,000 direct jobs will be created. Another 1,000 jobs would be created during the operation phase and that the project is developing a local content plan to guide the implementation process.

Muloni

During the August foundation stone laying by Museveni in Tanzania, Magufuli said more than 45,000 youth in Tanga will benefit directly and indirectly during the implementation of the giant project. An equal number of jobs is also likely to be created in Hoima.

If construction starts early next year, experts project it will take 36 months and that once completed, over 10,000 jobs for East African citizens will be created.