WAS UGANDA RIGHT TO DELAY OIL PRODUCTION?

Engineers at the Kingfisher oil well in Kyangwali sub-county, Hoima district during the exploration period

Commercially viable oil in Uganda was discovered in 2006. The following year, Ghana also struck significant hydrocarbons. In December 2010, the first oil was pumped out of the West African nation's Jubilee field, while Uganda is still waiting for production, 12 years after her find. Is the delay justifiable, explores Billy Rwothungeyo

Uganda's first oil has been projected for late 2020, at earliest. Was Uganda right to wait for production this long? The wait to produce oil has been met with the chagrin of private sector players directly involved in the industry, especially the international oil companies.

At an oil and gas exhibition organised by the British Council in Kampala in April 2015, Eric Olanya, the head of UK Trade and Investment at the British High Commission in Kampala at the time, said the delay had frustrated oil companies.

"The constraint that companies are facing, which is very specific to Uganda, is that the environment is so unpredictable. Companies have been here for six years and are asking, is this the right time to begin hiring staff?" he said.

"I have been watching this industry closely for the last six years. It has been slow."

Did this delay in oil production prompt the scaling down of the operations of Tullow Oil in Uganda?

The London-headquartered oil company has been synonymous with the oil story in Uganda. After Hardman Resources discovered commercially viable oil in the country in 2006, the following year, Tullow Oil acquired Hardman Resources.

At one point, Tullow Oil had 100% stake in the three licences, before farming down a third of the equity to Total E&P and China National Offshore Oil Corporation (CNOOC).

The Irish firm has since embarked on further farm down of their assets. Further farm down this year will see Tullow Oil retain only 11.76% interest in the upstream sector and the export pipeline.

This means that Tullow Oil, a company that was present in the country when commercial oil was discovered, will not be an operator as the industry moves into the production phase.

Perhaps the biggest reason Uganda did not rush into oil production was to have the prerequisite legal regime in place.

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INADEQUATE LAWS

The biggest reason Uganda did not rush into oil production was to have the prerequisite legal regime in place.

The 1985 law, for instance, simply gave the minister powers to ask a licence applicant for a bond security to adhere to the conditions to which a licence would be granted.

"The Minister may require an applicant to furnish him or her with any information that may be relevant to the application and may, in particular, where an applicant is a body corporate, require the applicant to furnish him or her with such information as may be necessary to enable him or her to ascertain the extent of any controlling power over the direction of the affairs of the body corporate by a company incorporated outside Uganda or by individuals resident outside Uganda," the law said.

Cover story

Was Uganda right to delay oil production?

Workers at one of the oil wells in the Albertine region. Uganda's oil reserves are at 3.6 bi

The old pieces of legislation, such as the 1985 Petroleum (Exploration and Production) Act and the 1993 Uganda Petroleum (Exploration and Production) Regulations, were inadequate given the changing face of the industry.

The National Oil and Gas Policy, the document that guides the sector, came into existence in 2008, paving way for specific laws and regulations for the sector to come later.

The Petroleum (Exploration, Development and Production) Act and Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act all became law in 2013. The Public Finance Management Act, which spells out how oil and gas monies shall be used, became law in 2015.

These laws introduced vital state players in the industry such as the Petroleum Authority of Uganda, which is the industry regulator and the Uganda National Oil Company, the firm charged with taking care of government's commercial interests in the industry.

After the acts were passed into law, most the regulations to operationalise them such as the Petroleum (Exploration, Development and Production, Health, Safety and Environment) regulations, the Petroleum (Exploration, Development and Production) and National Content Regulations came into force in 2016.

LEARNING FROM MISTAKES

The thinking behind all these laws and regulations was that Uganda would learn from the mistakes of other countries and dodge the dreaded "oil curse" through transparency and accountability.

The "oil-curse" has plagued African countries such as Nigeria, Angola, Equatorial Guinea, Chad and some would argue, to some extent, Ghana.

Ali Sekatawa, the director of legal and corporate affairs at the Petroleum Authority of Uganda, says the country was right not to rush production.

"We have benefited from the delay (of oil production). We would have been in a bad state had we gone ahead and started oil production immediately after 2006," he says.

"The 1985 law is all we had then. It was weak and could not have taken the country through the exploration, development and production phases of oil production."

Ugandans, certainly, would not have been in a position to benefit from the sector as there were no regulations on national content.

"We have regulations on national content, for the upstream and midstream developments in the industry. Some services and goods have been reserved exclusively for Ugandans. This would not have been possible had we rushed with oil production," Sekatawa says.

Don Bwesigye Binyina, the executive director of the Africa Centre for Energy and Mineral Policy (ACEMP), said: "We did not even have the right infrastructure. So if we had started production four or five years ago, what a mess that could have been. You see how complicated it is to get key infrastructure like the export pipeline."

2006
The year
when commercially viable oil was discovered in Uganda

The delay in oil production is also explained by the fact that decisions on key infrastructure had not yet been taken three to four years after the 2006 find. To pass the crude oil pipeline through Tanzania or Kenya? To have two or three central processing facilities? These decisions were only made in the recent past.

Bwesigye also wonders whether Uganda would have benefited from oil production three or four years ago, given the volatile process.

"Three years ago, the oil prices were so low that we would not have benefited much from production. The prices have since picked up, which is a good thing."

LESSONS FROM GHANA

Uganda and Ghana are similar in many ways. The two Anglophone countries have similar oil reserves; Uganda's oil reserves are at 3.6 billion barrels, while those of the West African nation are at three billion barrels.

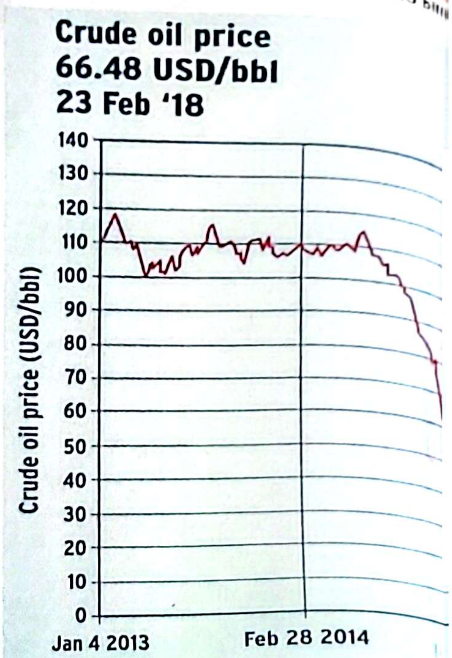
The two countries, which are about the same size in landmass, discovered commercially viable oil around the same time.

Ghanaian Dr. Steve Manteaw, the co-chairperson of Ghana's Extractive Industries Transparency Initiative (EITI) and a member of the World Bank's Extractive Industries Advisory Group, reckons his country is paying dearly for rushing oil production.

Speaking to journalists from Uganda, Ghana and Tanzania, who were attending the Natural Resource Governance Institute's media training course on extractives in Ghana in October 2015, Manteaw said Uganda has made the right choice.

"Uganda discovered oil ahead of Ghana, but you (Uganda) have taken your time to develop your governance instruments. But it is also because of the sensitivity of the location of your oil resources, and its potential impact on the eco-system," he said. "The fact that Uganda is taking its time to sort these things out is good. We did (rushed oil production) and Ghana has learnt a lot of lessons along the way."

Ghana started oil production before



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