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OIL LOGISTICS: HOW READY IS UGANDA?



Trucks will be required to transport different equipment from the East African coast and other areas to oil-producing districts

In the coming years, Uganda's oil and gas sector will be a beehive of activity, ranging from oil production, transportation to storage. Billy Rwothungyeo explores whether the country is ready to provide the much-needed logistical support to the lucrative sector.

Thirty well pads have been earmarked for the Tilenga upstream project, which will produce 190,000 barrels of crude oil per day at the peak of oil production. Meanwhile, the Kingfisher project, which will produce between 35,000 and 40,000 barrels of

oil daily, will have four well pads. On these well pads will be mounted more equipment such as wellheads. How will this equipment get to the Lake Albert Development Area? Someone will have to transport them from whatever part of the world to either Hoima or Buliisa district. More than 200km of infield pipelines will be used to transport oil from the oil fields to two central processing facilities. Components of these pipelines will also have to be transported to the Albertine region.

There will be movement of equipment such as drilling rigs, refinery equipment, spare parts, industrial chemicals and even people — on a scale this country has never seen before. So are players in the transport and logistics industry in Uganda ready to seize this once-in-a-lifetime opportunity?

Ronald Kanyerezi, the chief executive officer

of Bemuga Holdings, one of the transport and freight forwarding firms in Uganda, is skeptical about the overall preparedness of the industry for big oil business. Bemuga is one of the few indigenous companies that is prepared to invest in the oil and gas industry.

"If we (Bemuga) got an oil contract tomorrow, we will be ready, especially with moving assets from one location to another. We are ready for the part we can handle as a company. However, we have a limit," Kanyerezi says.

He adds that the business of moving logistics will be big and not anyone firm in Uganda will manage it all.

"If at peak, this project requires more than 2,000 trucks, we cannot do it alone. We may work around the clock and get all the trucks in but that means we have to manage all the assets, which may overwhelm the company. As Bemuga, I do not think we can stretch more

MOVEMENTS

Urgent need for transport

Beyond the moving of equipment and supplies from the coast to the oil fields, transportation services will also be needed for workers as well as hazardous waste.

Over the last 10 years, as the date for first production was being pushed forward, some players in the logistics industry were distressed. As the country approaches Final Investment Decisions for the three anchor-projects; Tilenga and Kingfisher upstream projects and the export pipeline, players are more optimistic about the future.

In the next five years, an estimated \$20b (sh70 trillion) will be invested in Uganda's oil and gas industry. How much of this business will the local logistics industry tap?

than 500 trucks on this."

Harold Ssemalwade, the managing director of Globe Trotters, cuts a more optimistic figure. There is no doubt in his mind that Ugandan companies will pull off the business, with a little more preparation.

"The oil story has been with us for 10 years

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Is Uganda ready to supply oil logistics?

now. Why should someone even think that we may not be able to handle? Right now, we do not have the actual specifics of what will be needed; like how many tonnes of aggregate we shall need to move, but when those eventually come out, we shall be ready," Ssemalwade says.

"We have been in the business of logistics long enough to navigate any challenges that we shall face."

MORE WORK TO BE DONE

It is not enough to simply be able to move assets from one location to another. Transporting logistics does not work in isolation. There will be need for ware-houses, yards and other facilities to temporarily store equipment and supplies before they are moved to where they will be needed. Ugandan companies are not yet prepared on this front.

"We have reserved an area to develop for our yard, but we do not have money to develop it. Ugandan facilities are still heavily reliant on partners abroad on handling services. More work needs to be done in this area," Kanyerezi says.

USE OF BONDS

The equipment and supplies to the oil fields will come under bond, and yet there are no bonded facilities in the oil districts.

The big volume of work means companies that have formed strategic partnerships with global players will have the vital edge. Bemuga for example, has a partnership with Kuehne + Nagel, one of the world's leading logistics providers.

"Many of our companies do not know how to form partnerships. The biggest challenge is this is a new industry, so many do not know how to present themselves to potential partners," he says.

"Many of our companies are also not honest. If you have two sets of records, one for the business and the other for the taxman, who is going to take you serious?"

In an article on www.mckinsey.com titled "Five strategies to transform the oil and gas supply chain", players are advised to create synergies.

"Collaboration is a particularly effective way to lower costs and simplify contractor management. Combining equipment, software and engineering, or other combinations of service offerings can unlock significant value for customers," reads an article authored by Giorgio Bresciani and Marcel Brinkman. Ssemalwade says the logistics

Services such as warehouses and forklifting will be highly needed for large-scale storage in the oil industry



Workers at a steel factory. The oil industry will require a lot of steel for the construction of the pipeline

Ugandan banks are still charging more than 20% interest on loans advanced to investors yet foreign investors are getting loans for as low as 3% interest rate.

1,445 km

The length of the crude oil pipeline will that be constructed from the Albertine region to Tanga in Tanzania

industry in Uganda needs to do more to align itself with international standards in order to work with international oil companies.

"We already have truck drivers in this country. All we need to do is train them on aspects of safety. We need to train them on industry best practices like time limits for working hours and defensive driving," he says.

"In the oil business, safety comes first. Anyone who has safety as second priority has no place in the oil business."

NEED FOR LOANS

Ssemalwade also hopes that financial institutions will be willing to advance affordable credit to Ugandan companies in the logistics space for meaningful participation in the oil and gas industry.

"Will the banks give local companies affordable financing. Shall we get margins? Foreign companies are coming here and because they are registering locally, they will qualify to benefit from national content regulations. Our banks are still giving out credit at over 20% interest; some of these companies are getting credit at 3% rate. That is going to be a challenge."

"Ugandan companies may not have a lot to do with getting equipment from Hong Kong or Dubai to the East African coast. The biggest component of this logistics movement for us will

be to move stuff from Mombasa or Dar es Salaam to the Albertine," Kanyerezi says.

Tilenga and Kingfisher projects supply route will predominantly be the northern corridor route from the Kenyan port of Mombasa.

From Mombasa port, trucks will snake their way through Machakos, Nyeri, Nakuru to Busia before crossing into Uganda. Once the trucks enter Uganda, they will move from Busia to Mbale, Soroti, and Lira before ending up in Nwoya, Buliisa and Hoima districts where the oil wells are located.

For the East African Crude Oil Pipeline project, the Central Corridor through Tanzania will be the primary supply chain.

This is only logical as two quarters of the 1,445km long pipeline will be hosted by Tanzania.

From Dar es Salaam or Tanga, the trucks will move through Dodoma, Nzega before reaching Mutukula and proceeding on the Ugandan side to Masaka, Sembabule, Mubende before reaching the Kabaale hub in Hoima where the world's longest electrically heated pipeline will start.

"Moving the equipment and supplies within the oil fields is also going to be critical. We have hundreds of wells that are going to be put in place. They will all need supplies," Kanyerezi says.

cover story