



Italian Ambassador Domenico Fornara, president and CEO of Yaatra Africa, Rajakumari Jandhyake, President Yoweri Museveni, energy minister Irene Muloni and US Ambassador Deborah Malac, after the signing of oil refinery agreement between Uganda and AGRC - a consortium of companies. This was at State House Entebbe last month

OIL REFINERY CONSORTIUM IN PLACE: WHAT NEXT?

The signing of the agreement to build the oil refinery last month came very close to the 2020 date set for oil production. Billy Rwothungeyo looks at what next after the deal

While the signing of an agreement to build an oil refinery last month might mean the earliest the plant will go into production is 2021, other oil developments will not be impeded, officials have said.

The framework agreement signed at State House Entebbe involved the Albertine Graben Refinery Consortium- a partnership between Italy's Nuovo Pignone International owned by American multinational conglomerate General Electric and SAIPEM SPA and Mauritius' Yaatra Africa and Lionworks Group Limited.

But with such vital projects' agreements signed less

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Cover story

Consortium deal sets refinery on course

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than two years to the 2020, won't this affect the timelines for the production of first oil?

Elly Karuhanga, the chairperson of the Uganda Chamber of Mines and Petroleum (UCMP), thinks not. He says even if the refinery project is in its early stages, the March 2020 first oil date will not be affected.

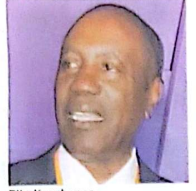
"The refinery will not stop the developments that are already underway. In the coming months, I am sure that a FEED contractor for the project will soon be on board," Karuhanga says.

Robert Kasande, the permanent secretary at Ministry of Energy and Mineral Development, also expresses confidence that production timelines will not be affected. He says currently, the Government is collecting data before embarking on several studies on the pipeline project.

"Now that we have the framework agreement, we are going to undertake studies on the design and configuration of the pipeline, market studies, environmental impact assessment among other studies," he says.

After the studies, a Front End Engineering Design (FEED) will be commissioned in turn informs the Final Investment Decision (FID).

A FID is a final decision of the Capital Investment Decision (CID) as part of the long term corporate finance decisions based on key criteria to manage the company's



Elly Karuhanga

assets and capital structure. In general, the FID can be made a completion of permits and financial arrangement, and one is ready for contract of the construction works at the site (EPC Contract). It is the point at which contracts for all major equipment can be placed, allowing procurement and construction to be completed.

The FEED for the Kingfisher production project has been completed while the one for the Tilenga is in the final stages, though it has lagged behind since it was supposed to be released last month.

ANCHOR PROJECTS

First oil in Uganda will be produced by two projects - Tilenga and Kingfisher. Operated by Total E&P, Tilenga will produce 190,000 barrels of oil per day while Kingfisher, operated by CNOOC Uganda will

20%

Fuel accounts for over of Uganda's total imports and will still represent 10-15% of imports in the coming years

Uganda would save **\$1b** annually through self-sufficiency in petrol, diesel, and kerosene

The country would generate extra value through employment and supplying fuel to Rwanda, Burundi, and parts of Kenya

A refinery will cut out fuel shortage caused by disruptions on the route from the sea to Uganda

produce 35,000-40,000 barrels of oil per day. Progress has been made on the FEED for the East African Crude Oil Pipeline (EACOP) and that currently, Uganda is trying to iron out a few differences with Tanzania before the final investment decision is taken.

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REFINERY BACKGROUND

As Uganda racked up oil discoveries after the magical 2006 discovery, President Yoweri Museveni surprised oil companies in Uganda and those looking to make a frantic dash to the country by insisting that no crude oil will be exported from the country—but rather, a refinery be built in the country. This idea was unpopular with the companies.

For a while, Museveni stuck to his guns. The Government even called in the services of a Swiss based company, to study the viability of a big refinery in Uganda. In 2010, the firm Foster Wheeler concluded a report that gave thumbs up to a 150,000 barrels a day capacity refinery.

"The report argued that Uganda would save \$1b annually through self-sufficiency in petrol, diesel, and kerosene and generate extra value through employment and supplying fuel to Rwanda, Burundi and parts of Kenya. In recent years, with high international oil prices, the IMF estimated that fuel accounts for over 20% of Uganda's total imports and will still represent 10-15% of imports with lower prices in the coming years," says an Oxford Institute for Energy Studies paper titled "Oil in Uganda: Hard bargaining and complex politics in East Africa."

"The refinery would also allow Uganda to save by not having to transport fuel into the country. The Government was

pushing for a large refinery to produce over six times its oil consumption of 22,000 barrels a day, roughly the size of the entire East African market."

The full report was never released for public consumption.

WHY GOVT INSISTED ON A REFINERY IN UGANDA

Due to Uganda's landlocked status and the fact that there is no functioning refinery in the East African region, government has argued that a refinery in the oil rich Albertine region makes sense.

Currently, Uganda is solely reliant on imported petroleum products that have left her vulnerable in the event of price hikes to the global stage and uncertainties on the route from the sea from time to time,

like the post-election crisis in Kenya a decade ago which led to a severe shortage of petroleum products in the country.

The fact that there is no single efficient oil refinery in East Africa made government's case for the project more plausible as there would be regional market waiting in the wings.

The international oil companies were put off by the idea of a large capacity refinery in Uganda and wanted the Government to commit to export all crude oil out of the country to the international market. Eventually, the Government settled for a smaller facility and export the rest of the crude.

One source says that the reason that the refinery has struggled to attract financing is it does not have the full blessing of the International Oil Companies (IOC) in the country.

"The IOCs are not interested in a refinery because they would not stand to earn from it like the case is with exporting the oil. If far more certain than it is," said the source.

The business of refining oil in Africa is tricky; probably that is why the oil

“ I am sure that a FEED contractor for the project will soon be on board

companies have not warmed up to the idea. There are barely any efficient oil refineries on the continent that can take on facilities in the Middle East. Even Nigeria, Africa's largest oil producer, that has been producing oil for over 50 years, does not have a large refinery at present. Most of Nigeria's petroleum products are imported into the country.

Countries such as Niger and Chad, which like Uganda, are land-locked, have opened up refineries, but cannot compete with products from the international market, and those smuggled into the country from small illegal mini-refineries in Nigeria.

FAILED 2015 DEAL

The deal with General Electric to build and operate the 60,000-barrel-a-day refinery under the Albertine Graben Refinery Consortium presents a major boost for the Government.

In the next five years, an estimated \$20b will be invested in Uganda's oil and gas industry, \$4b of this money will go to the refinery project.

2020 Timeline

The year when Uganda expects to produce its first oil

BANK OF UGANDA

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FINANCIAL NEWS REPORT

THE FOLLOWING WERE THE DEVELOPMENTS IN THE FINANCIAL MARKET INTEREST RATES: (All Numbers in percentages)

Market Interest Rates as at	May 02, 2018	May 05, 2018
Inter-bank weighted rate		
Overnight	6.29	6.89
1 Day	9.22	9.15
Call money rate (1-30 days maturity)	6.65	7.21
91-day Treasury bill Annualised Yield (Primary Market)	8.72	8.74
(Secondary Market)*	8.58/8.47	8.58/8.47
182-day Treasury bill Annualised Yield (Primary Market)	9.31	9.41
(Secondary Market)*	9.09/8.98	9.10/8.99
364-day Treasury bill Annualised Yield (Primary Market)	9.77	9.87
(Secondary Market)*	9.57/9.46	9.57/9.46
2-year Treasury bond Annualised Yield (Primary Market)	11.26	11.26
(Secondary Market)*	11.19/11.09	11.20/11.10
5-year Treasury bond Annualised Yield (Primary Market)	12.64	12.64
(Secondary Market)*	12.63/12.53	12.63/12.53
10-year Treasury bond Annualised Yield (Primary Market)	14.38	14.38
(Secondary Market)*	14.24/14.14	14.24/14.14
15-year Treasury bond Annualised Yield (Primary Market)	14.43	14.43
(Secondary Market)*	14.40/14.30	14.40/14.30
Central Bank Rate	9.00	9.00
Margin	4.00/5.00	4.00/5.00
Rediscount rate	13.00	13.00
Bank rate	14.00	14.00

*Weekly average indicative bid/ask rates on Treasury Securities in the secondary market.

MANAGEMENT
 Tuesday May 15, 2018

OIL NEWS

UAE sees OPEC oil capacity 'buffer' offsetting Iran sanctions

OPEC has enough spare production capacity to cushion oil markets as the US re-imposes sanctions on Iran, according to United Arab Emirates energy minister Suhail Al Mazrouei.

Three members of the Organization of Petroleum Exporting Countries (OPEC) – Saudi Arabia, Kuwait and the UAE – said in an interview with Bloomberg TV in Abu Dhabi. He serves this year as OPEC's president.

"Do not worry about supply," Al Mazrouei said. "I do not think there will be issues as a result of sanctions." OPEC has an adequate "buffer" of potential output, he said.

President Donald Trump last week announced plans to withdraw from the Iran nuclear accord and re-impose US sanctions on OPEC's third-biggest producer. Trump's decision presents a challenge for OPEC. Russia and allied suppliers as they cut output until the end of the year may falter in the wake of Trump's decision. It is unclear how much he intends to restrict Iran's oil sales, but most analysts predict a decrease.

Russia's acting energy minister Alexander Novak said he plans to discuss the US exit from the Iran accord in more detail with Saudi energy minister Khalid Al-Falih during the St. Petersburg International Economic Forum, which runs from May 24-26. The two ministers are leading the effort to pare production and support crude prices. They spoke by phone after Trump's announcement on Iran. Novak told reporters yesterday in Moscow.

Russia's largest crude producer, state-run Rosneft PJSC, can boost output by more than 100,000 barrels a day, the company said in a statement.

Renewed US sanctions on Iran "could lead to one million barrels off the market, which of course would affect things," BP chief executive officer Bob Dudley said in a Bloomberg TV interview in Abu Dhabi. "There is a lot of uncertainty out there."

Analyst estimates

Other forecasts vary from "little impact" anticipated by Barclays Plc, to a possible loss of more than 50% of the country's 2.7 million barrels of daily shipments predicted by consultant FGE.

Al Mazrouei declined to quantify OPEC's unused production capacity. "We will meet in June to discuss that."

OPEC "can find a solution" to offset the impact US sanctions would have on supply, he said. "That is not what we are concerned about. What we are concerned about in the next meeting is, what is the right level of inventories that we should see and can we put this group together for longer?"

Bloomberg

Knigt Frank

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For further details, please contact **Knigt Frank Uganda Ltd.** Viewing by appointment only between 9.00am - 4.00pm. All offers to be submitted by 4.00pm, 21st May 2018, at Knigt Frank (U) Ltd, 1st Floor, Course View Towers, Plot 21 Yusuf Lule Road.

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