

24

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An oil drill in Bunyoro region

Uganda evaluates test crude oil bidders

By Vision Reporter

The Government is yet to decide on who is to take Uganda's stockpiles of the test crude oil. The successful bidder was expected to be announced on April 27, but sources at the Uganda National Oil Company (UNOC) said they experienced some delays.

The source did not specify what caused the delays, but said the decision will soon be announced.

UNOC has been evaluating the companies that expressed interest in buying the 45,211 barrels of test crude in the Albertine Graben.

In January, UNOC announced intentions to dispose of the test crude stored in exploration areas 1 and 2 and called for bids from firms/individuals interested in purchasing it.

"We plan to dispose of a total of 45,211 barrels of sweet and waxy crude oil extracted from well testing activities during the appraisal period and is currently stored in bitumener tanks..." UNOC announced.

The national oil company indicated that it has since received bids from a number of companies, but did not divulge details about the (number) of firms and whether they are local or foreign enterprises.

In a statement issued recently, UNOC stated that interested companies had submitted bids by March 9 before evaluation activity commenced on March 12.

The evaluation was expected to end on March 23. The

of the best evaluated bidder is expected to take place between March 26 and April 9.

"It is expected that the contract award will be on Friday 27 April 2018. The plan is to sell the test crude oil "as is where is" basis. Whoever purchases it will transport it at their cost and risk to the location of their plant/industry," the company stated.

Recently, the Kenyan *Business Daily* published a story suggesting that Ugandan had made a turnabout and chose to export what it called "early crude" through Kenya. It suggested that Uganda had abandoned the Tanzanian crude oil export route for the Kenyan one.

UNOC refuted the article as containing grave inaccuracies, and that it deliberately misrepresented the facts.

"The issue of logistics and transport of test crude oil from the Albertine Graben will be the business of the successful bidder. The Government will not be involved in transporting that test crude oil," UNOC's corporate affairs officer Ibrahim Kasita stated.

UNOC explained that the route through which the test crude will be moved shall be determined by the location of

the buyer.

"Logistical issues will be handled by the buyer of the test crude oil from Hoima to their destinations via means of their choice, and through port of their choice. UNOC has no plans of exporting crude oil through the Port Mombasa as reported," it stated.

UNOC was established under the Petroleum (Exploration, Production and Development) Act, 2013, to handle Uganda's commercial interests in the oil and gas sector, and to ensure that the resource is exploited in a sustainable manner.

It is also supposed to investigate and propose new upstream, midstream and downstream ventures locally and internationally.

The company says it plans to start new upstream ventures and is currently reviewing data relating to prospects in the Albertine Graben.

Uganda and Tanzania are currently working with the joint venture partners - Total E&P, Cnoc and Tullow - in the petroleum sector to develop the 1445km East Africa Crude Oil Export Pipeline (EACOP) from Hoima to Tanga sea port on the Indian Ocean.

The foundation stones for the \$5.5b pipeline were laid last year in Uganda and Tanzania.

The Gulf Interstate Engineering, the US firm, which undertook the Front End Engineering Design for EACOP recently unveiled some of the opportunities that will be presented for what is expected

45,211
Oil barrels
Barrels of sweet and waxy crude oil extracted from well testing activities during the appraisal period

Path to higher oil prices seems clear

There are plenty of reasons why the oil market is suddenly on edge, and why oil prices are at their highest level since 2014. Venezuela's oil production is falling off of a cliff, and could fall faster now that creditors are swarming over the country. The upcoming presidential election risks a financial crackdown from the US treasury, threatening to add to the country's woes.

The more obvious catalyst over the past week was the US withdrawal from the Iran nuclear deal, putting a sizable chunk of Iranian supply at risk, although exactly how much remains to be seen.

Most importantly, the underlying fundamentals are bullish: the supply/demand balance is tighter than at any moment in recent memory, with demand expected to outpace supply for the rest of the year.

Global inventories are back down to the five-year average, and falling. Because data is published on a lag, the market could overtighten before OPEC realises it.

US shale is the one factor keeping prices in check, having added more than 1 million barrels per day (mb/d) since last September. The EIA sees output growing to 11.9 mb/d in 2019 (ending the year at over 12 mb/d), up from 10.5 mb/d a month ago. In other words, the agency is baking in an additional 1.5 mb/d of extra supply over the next year and a half.

That should keep a lid on prices. But what if all that fresh supply doesn't actually make it online? US shale production is exploding, but is also running up against serious pipeline constraints that are pushing down prices in West Texas and threaten to severely slow development. While WTI in Cushing is above \$70 (about \$260,000) per barrel, oil in Midland is selling in the high-\$50 (\$185,000) per barrel.

Texas pipelines are full, and new conduits connecting the Permian to the Gulf Coast will take another year and a half to come online.

According to PLG Consulting, an estimated 200 million barrels of oil from the Permian will not be able to make to market over the next 16 months. They are not going to be able to get it all out," said Taylor Robinson, president of PLG, told the Wall Street Journal. PLG estimates the pipeline deficit will mushroom to 750,000 bpd by September 2019. Shale drillers will call upon railways and trucks to help move product to the coast, but neither will be sufficient to resolve the bottlenecks.

So, if the one major variable holding prices in check fails to materialise, it seems likely that prices are heading north. Bank of America Merrill Lynch said in a May 9 report that it could see oil prices shooting up to \$100 (about \$370,000) per barrel in 2019.

"The up-trend remains strong and intact," Robin Bieber, technical chart analyst at London brokerage PVM Oil Associates, told Reuters.

Still, the path higher for oil prices is not entirely cleared of hurdles. Even though the paper market for oil has gone wild over the past week, the physical market still looks well-supplied. There are currently unsold cargoes in northwest Europe, the Mediterranean, China and West Africa, according to Bloomberg. That helps explain the deterioration in the near-term timespreads in the oil futures market. That is, the July-August differential has shrunk from 63 cents per barrel from mid-April to just 24 cents per barrel. The weakening of the backwardation is consistent with a well-supplied or oversupplied market.

Moreover, hedge funds and other money managers have amassed a record position on bullish bets in oil futures, a sign of widespread expectations of rising prices. However, that exposes oil prices to a potentially sharp correction if sentiment shifts. Another way of saying the same thing is that investors have helped magnify the price gains recently because of their positioning, but if fears of supply disruptions from Iran, for example, fail to translate into physical barrels removed from the market, the risk premium could ebb and prices could fall as investors liquidate their bullish bets. In short, the financially-driven price rally could reverse course. One candidate to shift sentiment could be demand undershooting expectations.

There is nothing like \$3 per gallon gasoline to begin to curb consumption. The recent strengthening of the dollar will compound the pain for the rest of the world, threatening to curtail demand.

Nevertheless, the oil market is tighter than it has been in years and physical supplies could fail to keep up with demand, especially if a few disruptions occur. While it isn't a certainty (it never is), the odds are good that prices continue to rise.