Shillings & Cents

The oil industry and the fight for our fair share

By Paul Busharizi

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The plan is that, first, oil will start flowing in 2020. The industry estimates that between now and then, a total of $20b (about sh72 trillion) will be spent in preparation for this event.

In the exploration phase, at least $3b was spent over eight years. It is estimated that local companies managed to capture 28% of this figure or $840,000. The challenge is to keep most of that money here.

The truth is, the capacity to produce oil without the local help exists. To appease local constituencies back home and retain as much money as they can for themselves, means that regardless of whether we are ready or not as people, the oil will be extracted and we will not even get the crumbs.

The oil industry is very capital intensive, and, therefore, there is little we can do in the higher end of the value chain where the outlays are bigger, but there are areas – providing basic services where Ugandans can participate.

To that end, the Government, through the Petroleum Authority of Uganda (PAU), has called on Ugandans to register onto local data bases of goods and service providers, who will be given first priority in getting contracts, especially those ring-fenced for Ugandans.

Questions still remain about whether our local providers can live up to the exacting standards of the industry. A lot of work, especially in the private sector, is being done to ensure readiness.

Assuming the $20b of inflows into the country attract 2% premiums, that would amount to about $400m (about sh1.5trillion). In 2016, the industry underwrote sh634b worth of premiums.

In that line, the insurance sector has been gearing up to participate in the oil industry.

At the end of 2016, they established a syndicate to underwrite the risks in the oil and gas sector.

The syndicate which was created with the approval of the Insurance Regulatory Authority is supported by international reinsurers by way of $500m reinsurance facility.

This is important because average claims in the industry have been put at $25m according to Alliance Corporate Global and Speciality, one of the world's largest corporate insurers.

Essentially, Uganda's insurance companies have come together to collaborate in underwriting risk in the sector.

Being as it is a new industry, they have contracted the UK-based Total Risk Solution, a company with 150 years' of experience, to train local staff in oil and gas insurance.

And it is not as if they are reinventing the wheel. In Indonesia, Ghana, Cambodia and Nigeria, similar arrangements have been put in place and have not only served the industry well, but also ensured more monies remain in the country.

All this is being done to conform to Ugandan Petroleum legislation, which provides for the contracting of insurance services from locally registered entities.

There seems to be a loophole in that regard in the law under which PAU operates. While some basic services have been ring fenced – security, catering, logistics and fuel services, for local players, insurance services are not among them.

Some reservations persist at the regulatory level, about the capacity of local insurers to cover the magnitude of risk in the oil and gas industry, whether giving the syndicate a green light would constitute the creation of a monopoly, whether reinsuring our local insurers to do the job would not add another layer of costs and whether value will be created all around.

The truth is that foreign industry players, given a choice, would use their own insurers. The only way to ensure our own industry players get a fair shake is to compel the oil and gas industry to give first right of refusal to our own.

That has to be the guiding principle in ensuring we retain as much money as we can, locally.

The benefits of the insurance company getting a leg up in the oil and gas industry would have a positive ripple effect throughout the entire economy.

At the bare minimum, it would increase the capacity of the industry not only financially, but technically as well. The industry players will get new capacity to insure for risk in the oil and gas industry, which capacity can be employed to win business in the region and further afield.

But just as important it could help boost the country's stock of long term savings. The insurance industry took the brunt of the loss with the breakdown of stability in the 1970s and 1980s and people stopped taking out insurance. The habit was lost.

As a result, the insurance industry is only just beginning to gather system. The long term savings that insurance holds in other countries has helped build infrastructure and support long term projects critical for national development.

The insurance industry's attempts to get ready should not be lost and may even serve as a useful example of how other industries can position themselves to take advantage of the coming oil.

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