The Uganda Chamber of
MINES & PETROLEUM

Issue: 4

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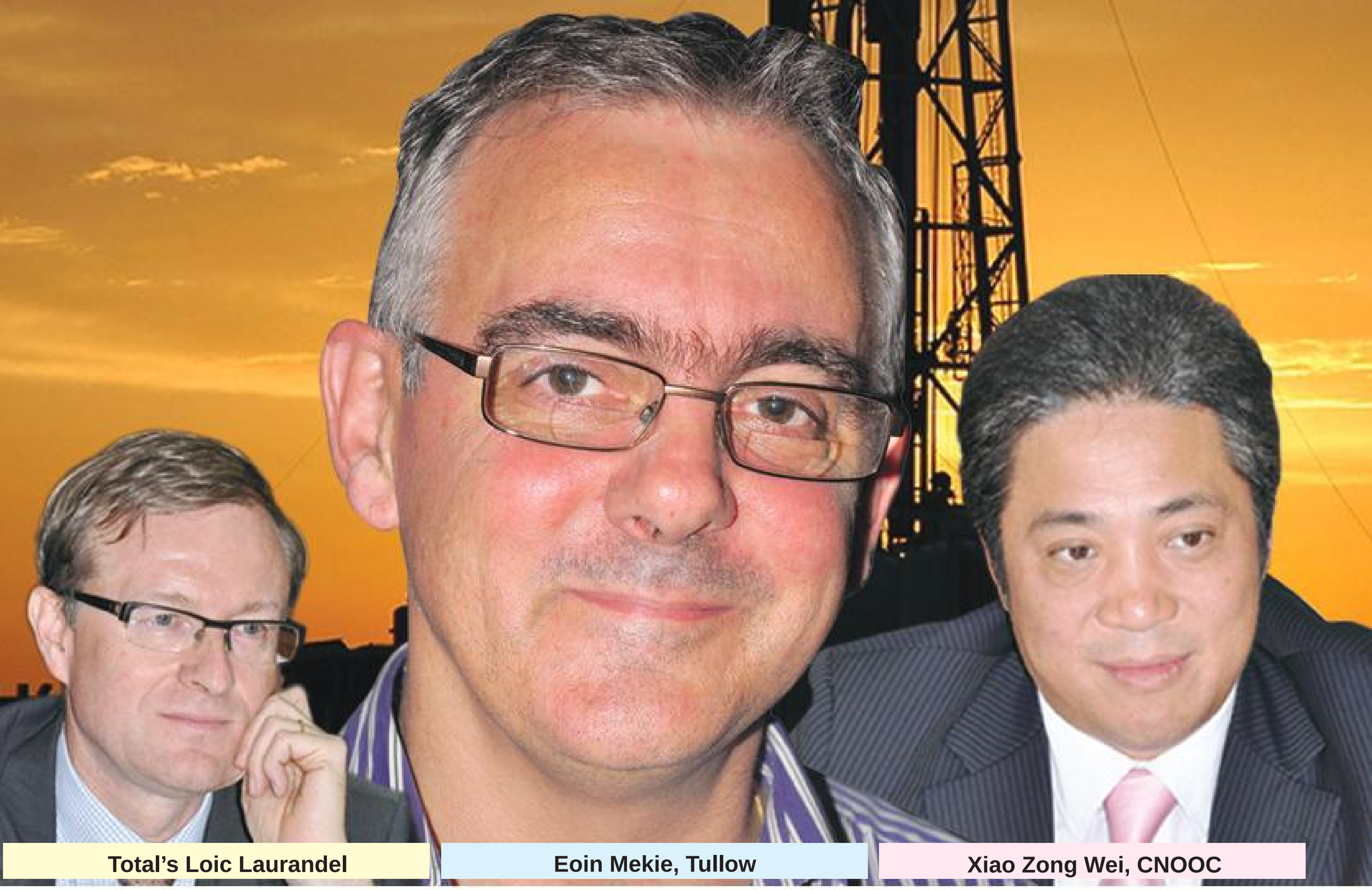

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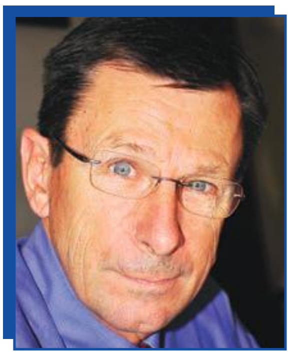

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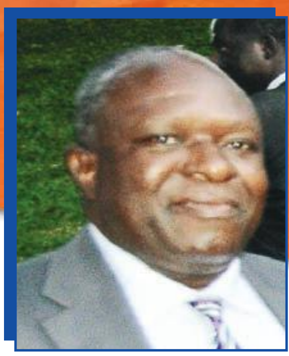

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A case for MINERALS

Meeting a delegation from the East African Business Council at State House, Entebbe, in late March 2012, the President called upon his Ministry of Finance and Economic Planning to support the development of the private sector and strongly highlighted the need for the East African region to industrialize as a way forward to achieving social transformation.

This undoubtedly is what the mining sector needs to hear as it continues to struggle to make headway despite the vast mineral riches the country enjoys.

Just early this year, Canada's Orbite Aluminae developed a patented technology for producing alumina, the fine white powder used to make aluminium, by extracting it from clay.
The company says it has succeeded in pulling alumina from traditionally used bauxite rock as well, leading it to believe that this method could become a viable and cheaper substitute for the existing Bayer process.

But not only is Orbite Aluminae developing a viable alternative to alumina production that is much more environmentally friendly than existing processes, they are simultaneously developing a sustainable and environmentally friendly rare earth supply of both the heavy and light rare earth elements. The costs of producing Orbite's rare earths (REEs) and rare metals (RM) are a fraction of what a primary producer would face because the costs are apportioned to the recycling of acid for alumina extraction.
Orbite Aluminae's Grande-Vallee clays deposit has several striking similarities with the newly discovered Makuutu mini sedimentary basin in Eastern Uganda and both have immense economic potential as aluminous, rare earth and rare metal bearing sediments.

Orbite's Grande Vallee Deposit has a resource in-situ value of at least C$1.7 trillion (Ushs4,250 trillion) and while using the same Orbite process, the in-situ value of extracted valuable mineral products in the Makuutu mini-rift basin is conservatively estimated at more than C$700 billion (UShs1,750 trillion).

These figures are mind-boggling but to be realised, we have to lower significantly, the perceived risks associated with investing in Africa's mineral resources sector – namely geopolitical risk, management risk and of recent, regulatory and/or exploration risk.

The nascent oil industry has already experienced the frustrations of regulatory delays and though the sector has now gotten new life – following the conclusion of the protracted $2.9b farmdown by Tullow of 66.6% of its assets to Total E&P and CNOOC – we cannot afford to have similar interruptions hurting the minerals sector.

Enjoy your read.

Elly Karuhanga

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A CANADA-RUSSIA deal that could transform uganda

New technology could unearth minerals triple the worth of Uganda's oil

Russian billionaire Oleg Deripaska

Outside-the-Bauxite-Thinking: A Physicist-Billionaire's Leap: On 28th March 2012, Mr. Oleg Deripaska's United Co. Rusal, the world's largest aluminium company and a major alumina producer with 10% of global output, confirmed that it had signed a memorandum of understanding with Montreal-based Orbite Aluminae Inc. to start a joint venture to develop Orbite's Grande Vallée clay deposit and build a new alumina refinery in the Gaspé region of Quebec Province in Canada. In so doing, Deripsaki, a Russian physicist-billionaire businessman, took the leap that made him join what is now being called an elite, thinking-outside-the-Bauxite, group of visionaries.

Orbite Aluminae's CEO, Mr. Richard Boudreault has developed a patented technology for producing alumina, the fine white powder used to make aluminium, by extracting it from clay. Unlike alumina-making with bauxite, Orbite produces the raw material with a method that starts by crushing the clay and then acid-leaching it. The company says it has succeeded in pulling alumina from traditionally used bauxite rock as well, leading the CEO to believe that his method could become a viable and cheaper substitute for the existing Bayer process.

Rusal will provide specialists and operational knowledge as the new alumina production plant gets built and will be a minority partner in the refinery with at least one other yet-unnamed investor, Orbite said. Mr. Boudreault characterized Rusal's involvement as validation of Orbite's processes. He said the partnership opens up an opportunity to implement its technology on a large-scale.

"Our technical team visited the Orbite pilot plant in Cap-Chat and we have high regards with respect to the potential of this new technology, which we, as one of the world's largest alumina producers, have all opportunities to realize. The alternative technology is important for alumina production in Russia and its development will allow the strengthening of Rusal's vertical integration," said Vladislav Soloviev, Rusal's first deputy CEO, in a statement.

Quebec Prime Minister Mr. Jean Charest said he was very happy with the development and considered it great news. The Prime Minister confirmed having spoken to the Russian business people and was very confident about the future of this union.

And not only is Orbite Aluminae developing a viable alternative to alumina production that is much more environmentally friendly than existing processes, they are simultaneously developing a sustainable and environmentally friendly rare earth supply of both the heavy and light rare earth elements. The costs of producing Orbite's rare earths (REEs) and rare metals (RM) are a fraction of what a primary producer would face because the costs are apportioned to the recycling of acid for alumina extraction. With UC Rusal signing on, the Orbite process is not only positioned to displace 20% of the world's alumina supply but the associated production of rare earths and some rare metals like gallium and scandium from future Orbite refineries may effectively squeeze most of all other producers of REEs, scandium and gallium out of business giving Orbite significant command of a large portion of the "rest of the world" supply of rare earths, scandium and gallium.

Using the Orbite's Process, the in-situ value of extracted valuable mineral products in Makuutu is conservatively estimated at more than

C$ 700 billion (Ushs1,750 trillion)

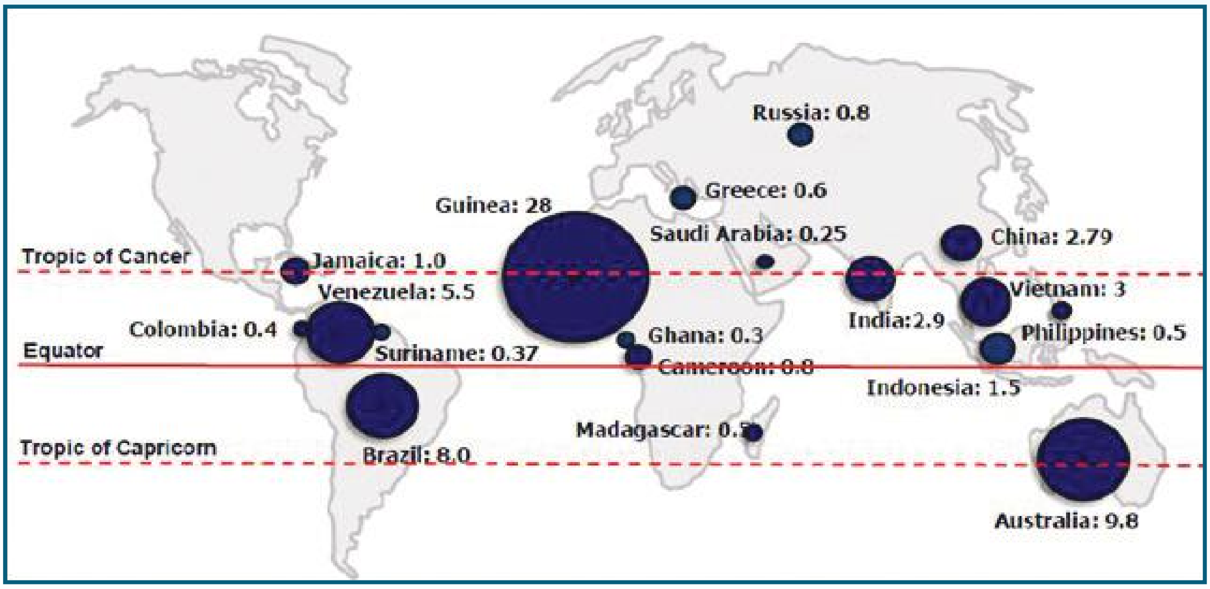
… or to put it another way, the Makuutu Resource is equivalent to a resource of 6 to 7 billion barrels of oil or 400 million ounces of gold

How Uganda can benefit from Orbite

"Those who hesitate are lost" - an opportunity that cannot be ignored

Orbite Aluminae's Grande Vallee Clays Deposit has several striking similarities with Target DGSM/SMMRP/GTK/NPT-13 - the newly discovered Makuutu mini sedimentary basin in Iganga district, Eastern Uganda. Both have immense economic potential as aluminous, rare earth and rare metal bearing sediments. In both, the sediments are dominantly mudstones and shales/claystone (clays). And the greatest potential out of these clays lies in using the Orbite Process to extract out of them alumina, haematite / iron ore, magnesia, rare earth elements and rare metals, silica and mixed oxides which are high grade, pre-processed, ore material for titanium, vanadium, manganese mineral products and fertilizers.

Both resources have immense economic values. According to Resource Intelligence, Orbite's Grande Vallee Deposit which is far more explored has a resource in-situ value of at least C$1.7 trillion (Ushs4,250 trillion). And basing on recent DGSM/GTK gravity survey modeling results and Kweri Ltd's airborne geophysical, water well borehole, ground radiometric surveys data analysis and pit and rock sampling results from ALS Chemex, the in-situ value of extracted valuable mineral products in the Makuutu Mini-Rift basin - using Orbite's Process - is conservatively estimated at more than C$ 700 billion (Ushs1,750 trillion); and this excludes uranium and coal potential within the 500m plus thickness of sediments. Since as a category, the REE and RMs contribute most significantly to the total resource value, the price deck used for the



GTK Model of Sediments body along a gravity profile carried out under the SMMRP in Makuutu Subcounty

evaluation of the REE and RMs Resource in the Makuutu basin is the lowest ever.
More positives for Uganda

The Orbite Process metallurgical breakthrough is a result of people who dared think outside the box. Using the Orbite Process, Orbite can extract numerous products from the clays/mudstones and therefore their operating costs end up being very low for all their products. They instantly have very large productions and very cheap prices since all products come out of one single process. And Orbite's process is entirely as green as a mining business can be and few existing mining businesses come close to this.

Orbite Aluminae and her partners will produce the cheapest, highest grade REE and RM chlorides/oxides in the industry, in addition to direct smelting high purity haematite, smelter grade as well as ultra-pure alumina, high purity silica, magnesium oxide; and in the case of Uganda's Makuutu clays, the residual mixed oxides would be the equivalent of high grade fertilizer ore and high grade vanadium-high grade titanium-high grade manganese ore!

And centered around Makuutu a very serious, initially government supported, industrial and technological metals exploration initiative can be implemented to quickly further explore this region of Eastern Uganda which has enormous potential for world class industrial and technological metals mineral deposits potential; and which mineral resources when transparently exploited, can greatly contribute to the development of Uganda and the East African Region.

A Regional PPP Is a Prospector's Dream

Like China is doing, using the resources we have, we can attract very many low-tech, middle-tech and even high-tech industries to the East African region. The Makuutu Industrial and Technological Metals Project is best developed as a PPP with East African public interests having the vast majority of shareholding. The vision would be to ensure that it is done in such a way that as much as possible, the profits and downstream value-addition benefits of the mineral products to be extracted remain in the East and Central African region.

World class steel and aluminium industries can be set up in the region using these resources and factoring in Tanzania's natural gas resources and Rwanda's natural gas potential, as well as Eastern DRC's geothermal energy potential, and the great potential for energy from the biogas and uranium resources of the region, the sky is the limit for Uganda and East Africa, and only we can limit ourselves. We however have to be conscientious and conscious of the fact that although we may be having a greatly economic resource, we have to lower significantly, the perceived risks associated with investing in Africa in the Mineral Resources sector – namely geopolitical risk, management risk and of recent, regulatory and/or exploration risk.

It is serendipitous for this basin of clay sediments to have been recognized and paid attention to, only now, just when Orbite Aluminae has just discovered this paradigm-shifting metallurgical process to extract from such clays as these, all these products including alumina, REEs, RMs, haematite/iron ore and fertilizers.

There has never been a more opportune time for the Government of Uganda to come on board and actively support further exploration work in this region, if we as Ugandans are to ensure that we effectively compete globally, with other resource rich nations, in quickly attracting resource exploration and development finance through lowering of the exploration risk; and by extension ensure quicker industrial, infrastructural and social development as well as more equitable returns from the exploitation of our mineral resources.

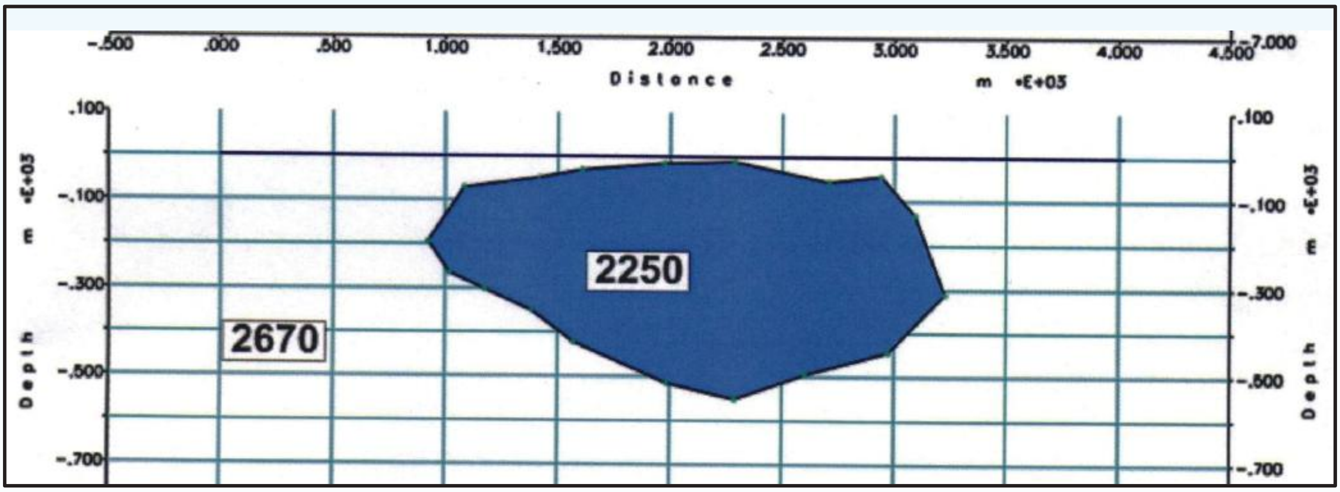
That's why I find, President Yoweri Museveni's recent comments about the need to extend significant support to the private sector very reassuring. Meeting a delegation from the East African Business Council at State House, Entebbe, in late March 2012, the President called upon his Ministry of Finance and Economic Planning to support the development of the private sector and strongly highlighted the need for the East African region to industrialize as a way forward to achieving social transformation.
In the same breath, the President reemphasised the importance of an integrated East African region, noting how it will go a long way in the promotion of business transactions as well as boosting of the production of goods and services.

This is undoubtedly an outside-the-box-thinking based vision, which must be acknowledged and supported; because in order to develop and uplift the economic and social standards of a smaller entity, such as a country, one must have a vision for the development and uplifting of the economic and social standards of a much larger region within which the country is.

A hen today, eggs tomorrow

"In finance, we usually don't count our eggs before they're hatched. Of course, if the hen is there, the eggs are going to be laid tomorrow," says Quebec Finance Minister Raymond Bachand.

At this point in time, there is good-sense economic evidence for the Russian-Canadian Joint Venture to invest in the East African Region and enough Russian and Canadian political and investors goodwill towards Uganda and



GTK Model of Sediments body along a gravity profile carried out under the SMMRP in Makuutu Subcounty

Oleg Mukhamedshin - Deputy CEO, Head of Corporate Development and Equity Capital Directorate of Rusal and Richard Boudreault - CEO and President of Orbite Aluminae seal the multi-billion dollar deal

the East African Region which can be translated into support for the involvement, under low geopolitical, exploration and regulatory risks, of the Rusal-Orbite JV, in the development of this immense mineral resource.

At a total Rare Earth Element Rare Metal Oxide grade of average 0.153%, in Uganda and in the East and Central African region, we may have one of the most attractive REE and RM deposit in the world, given that our total REO and RM values are far higher than what are called economic grades of REE-Ion-Adsorption Clays of China; which are the dominant sources of the far valuable Heavy Rare Earths Elements (economic grades in China for such clays is taken to be above 0.035% TREO and they are reported to go up to 0.2% TREO). Uranium and thorium contents of the Chinese ion-adsorption clays are roughly 50ppm U2O3 and 50ppm Th2O3 and the Makuutu clays show 10ppmU203 and 65ppmTh203.

The Makuutu Basin Resource is very conservatively estimated to be at least 2 billion tonnes of aluminous, Rare Earth Element and Rare Metal bearing clays.

Potentially Immense Economic Resource

The clays resource of the Makuutu Basin is encountered below an average thickness of 3-4m of a laterite blanket and shows very low radioactivity concentrations. Employing the environmentally green scalable Orbite Aluminae Processing Technology, 90-95% of the whole clay mass produces marketable products. Other sustainable benefits include virtually 100% acid recovery and no residue/toxic tailings generation. Using Orbite Aluminae processing technology, within the Makuutu Basin, there is a potential, very conservative, in-situ geological resource ((Russian Classification of Reserves and Resources) of more than C$724 billion (Ushs1,810 trillion).

This includes in-situ geological resources of:

- 467 million tonnes of ALUMINA - a resource value of C$152 billion (Ushs380 trillion);
- 3.1 million tonnes of Oxides of Rare Earth Elements and Rare Metals; an in-situ resource value of at least C$342 billion (Ushs864 trillion) at very conservative prices and
- 318 million tonnes of High Purity, Direct-Smelting-Type, Haematite - an in situ resource value of at least C$48 billion (Ushs119 trillion)
- 1 million tonnes of High Purity Magnesia and High Purity Silica - an in situ resource value of at least C$29 billion (Ushs71 trillion).

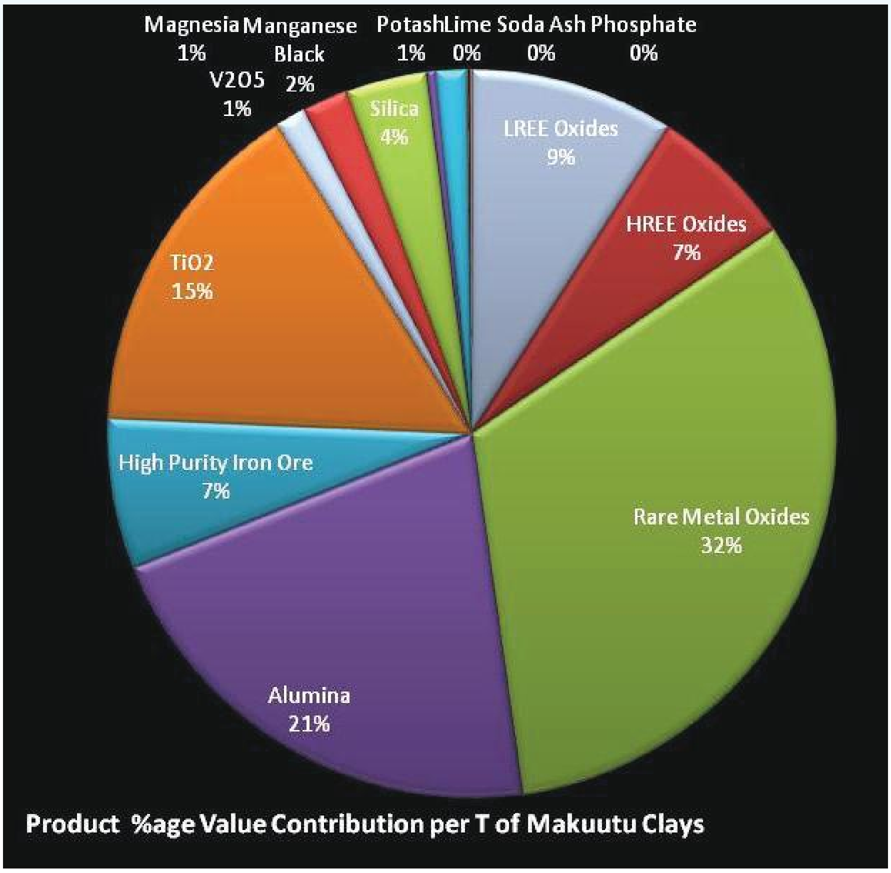
Further, during the use of the scalable Orbite Process, without individual extraction of the V2O5, TiO2 and MnO2 from the residual acid solution, the residual mixed oxides would constitute a no-need-to-mine, easy to process resource of 173 million tonnes of very high grade Vanadium, Titanium and Manganese 'Ore' Grading 0.4% V2O5, 10.5% TiO2 and 5.02% MnO2, with an in-situ resource value of C$134 billion (UShs335 trillion).

After extraction of the V2O5, TiO2 and MnO2, the residual mixed oxides would constitute a no-need-to-mine, easy to process resource of 153 million tonnes of Fertiliser Material Grading 2.54% P2O5, 32.02% K2O, 2.13% Na2O and 3.47% CaO with an in-situ resource value of C$ 20 billion (UShs50 trillion)

To put into another perspective, the Makuutu Basin Clays geological resource (Russian Classification of Reserves and Resources) is equivalent to a resource of 6 to 7 billion barrels of oil.

The Orbite Process
A Truly and Now Validated Game Changing technology

"The most valuable rare-earth ores are those from which the heavy and critical rare earths are well represented and these can be extracted efficiently at the lowest cost per unit. China is currently in the process of forming a Chinese rare earth industry association to regulate production and bring it up to modern environmental standards. This in a way makes clear, that primary production of especially the heavy rare earths such as are produced from the South China clays, is not economically viable if consideration of the environment is taken into account. To support this transformation for heavy rare earths production, the prices of these elements will have to increase to justify their extraction" - April, 3 2012, Orbite Aluminae Shareholder – Whaspe.



The Sampled and Analysed Makuutu Clays from Buswiriri Village

Using conventional extraction methods, and according to a Byron Capital Analyst commenting on German based Tantalus Rare Earth's lateritic clay, 0.08%TREO, deposit in Madagascar, the capital costs for an ionic clay-based project is likely to be well under C$250 million, making them cheaper than a typical hard rock-based HREE project. For the Makuutu 0.154% TRERMO clays, a capex of C$250 million would be needed to mine and extract Rare Earth Elements and Rare Metals whose current in situ resource value is at least C$345 billion (Ushs864 trillion) and at an unknown IRR.

However, using Orbite Aluminae technology, at Orbite's planned output of a single Smelter Grade Alumina plant, the capex would be about C$550 million needed to mine and extract numerous mineral products on which further value addition would change the economic and industrialisation levels of the East African Region in a fundamental way. These products are alumina, haematite/iron ore, silica, magnesia, fertilisers and technological metals and rare earth elements and rare metals whose current in situ resource value is at least C$724 billion (Ushs1,810 trillion) at an IRR of at least 100%!

The author David Kyagulanyi is a Mineral Exploration Consultant, with Kweri Ltd
*** (1 CAD = Ushs2500)**

URGENT NEED FOR GOV'T BACKING

Energy Minister, Irene Muloni

It is widely known that exploration for mineral, oil and gas resources is a very expensive and very risky endeavour and yet society cannot function without minerals. In Uganda, we have no vehicles for raising exploration finance as are available to the other resource rich and yet much more developed nations. We therefore stand to have the greater of the financial benefits of development and exploitation of local mineral resources always , by default, going to those who invest and risk; and who will be those to whom exploration finance and in some places, Government support (even when exploring for resources outside of national boundaries) is much more easily available.

Basing on the Internal Economic Growth model for the immensely resource rich East and Central African Region, there has never been a more opportune time for the Government of Uganda to come on board and actively support private sector exploration and mining endeavours. This may be the easiest way that we as Ugandans and East Africans are to ensure that we effectively compete globally with other resource rich nations in quickly attracting resource exploration and development finance/investment; and by extension ensure quicker industrial, infrastructural and social development. For some regions of Uganda, like the Eastern Region, this could be one of the ways, if not the only way, that real lasting economic development can be brought into the Eastern Region of Uganda.

To ensure that local people own more of the benefits of exploited world class mineral resources, temporary mineral exploration and mining support and especially funding measures, for credible mineral exploration and resource development projects such as those in Iganga, Bugiri, Busia and Mayuge districts, can be quickly put in place, through existing credible private sector investment and support vehicles like the Uganda Chamber of Mines and Petroleum (UCMP) and the Private Sector Foundation of Uganda (PSFU).

We are raring to go - Tullow


Tullow boss, Eoin Mekie

Substantive oil production to get under way in 2016

Following the conclusion of the $2.9b farmdown by Tullow, Uganda of 66.6% of its assets to Total E&P and CNOOC early this year, the reality of Uganda producing its first barrel of oil is drawing closer by the day. ***Tullow, Uganda Country Manager, Eoin Mekie***, discusses the significance of this development:

Despite successfully partnering with Total and CNOOC, several MPs continue to cry foul. Doesn't this make you and your partners apprehensive seeing that they may find reason to delay your progress again going forward?

On a day to day basis, it doesn't stop us. The public and Parliamentary debate is healthy fundamentally. Its right for people to fear seeing that corruption has been a long standing problem.
The advent of an oil industry means a lot more money around which could exacerbate the problem; so people have a right to be concerned if they are not getting information. We generally need to put a lot more information out in the public domain about the industry. Information about how the oil industry works worldwide, what people can expect, what is typical, what a development look like, explaining the debate around the refinery vis-à-vis a pipeline etc.
People don't have the information because the industry is new yet we come in as experts - with 30 years' of experience in the industry personally. And if there is one thing we have learnt over the last year and a half is that you need to put yourself in the mindset of the country you are in. We have learned a lot about patience and also about presumption – levels of knowledge and levels of understanding.
Whether this is all the Parliamentary debate is about oil or something deeper than that, we can only speculate.

Does the MPs' resolve offer justification to your firm's continued persistence to secure a favourable Stabilization Clause in the contracts?

Indeed it does. A stabilization clause is about recognizing that the agreements we sign are for 10 to 30 years. This is a long-term investment period and definitely governments will come and go. So in order for us to be able to persuade the investors, the shareholders and lenders that will give us the billions that we will need to invest – which Uganda cannot raise on its own anyway – we have to have some sort of surety. We have to be sure that over the long-term; at least the basic premises of the agreement will not be violated.
It is not about assuring us on profit because oil prices could go up or down; the cost of the development too could go way beyond what we expected – but this is about simply being initially being able to raise the funds with some surety that the sanctity or basic fundamentals of the agreement will be respected across governments.
It is possible that a new government could tear the agreements and throw us out. But I think it's unlikely because by then, the benefits of the investment s will have started flowing into the economy and no government that is popularly elected will want to stop something that is of benefit to the country as a whole.
Secondly, the three arms of government - parliament, the executive and the judiciary - have their separate roles and we feel the judiciary would treat us fairly if we felt our contracts were being breached. This is all part of the risk one takes as an investor. However, we do hope that in due course the agreements will come into the public domain and people will actually see the extent of the good deals that government has done on their behalf. Our position – including that of Total and CNOOC - is we have no problem with the agreements being in the public domain. They are in Ghana and we would be much happier if they were here too, but we cannot unilaterally put them in the public domain without the government's approval.

The corruption allegations continue to dog Tullow's reputation. Won't this cause you further setbacks as you embark on production?

These claims have been investigated in the UK, Dubai, Malta and here and we have statements from the New York banks as well; and they have been found to be completely unfounded yet people still cling to them. We presented our evidence to the ad hoc committee and once and for all let's drop it. One cannot continue bringing it up in the face of evidence to the contrary just because it grabs a headline.

There was talk of you and even subcontractors relocating to neighbouring countries to avoid the drama here. Would you consider setting up shop in say Kenya if

Ugandan legislators continue frustrating you?

The short answer here is no; particularly in the face of what's happened in the last month or so. There is absolutely no doubt that the investing world has been watching what has been happening in Uganda over the last year and a half and thinking "Would I put my money there?" or "Would you put your money there?".
I read in one of the papers that in the last 3 months of 2011, FDI to Uganda dropped significantly.
But what I am really hopefully of is that with the signing of the PSAs, the reaching of an agreement and then the farmdown going through successfully; and if it is followed by us being able to get going; doing what we are supposed to do as the production program states –a huge signal will be sent to the investing community that Uganda is back on track as an investment destination.

But don't these continued interruptions and delays mean the investor takes forever to make a gain on his money.

Of course the delays affect the economics; and not only for the investor but for the country as well. For now, Uganda has lost the time value of early development – development that will happen in 3 to 4 years could have happened two years earlier.
The flipside is that by taking its time, the government is perhaps better placed to manage the expectations of people better, through putting in place well thought out legislation and through building up the Petroleum Exploration and Production Department (PEPD) in the Energy Ministry to get a better understanding of the industry.
Luckily, we have not lost everything we spent in the last year or so seeing that we have continued with a somewhat uninterrupted exploration and appraisal programme. Indeed we have had some idle rigs and eventually we will discuss with the government who pays for that.
The delays have been unfortunate, but maybe in future we will look back on this period as a mere blip – as only teething problems.
Uganda's turn is coming; we have now got a firm mandate and the future of the industry is secure.

How will the issue of transparency be fixed seeing that an uninformed population can become hostile to the oil industry in the long run?

Part of it is down to us to start putting out more information in the public domain. We started last December with the sessions with Parliamentarians where we brought in an independent professor to give generic oil industry information and we are planning more of those. We are looking at putting a resource centre together - like a museum – where schools and the general public can visit to educate themselves about the sector.
The Uganda Chamber of Mines and Petroleum is a very good mouthpiece too – with a website and frequently engaging legislators among others.
Our partners will also in their own way talk to people – taking talks to universities and things like that.
Community Information Centres are also being setup across the oil rich areas. The Ministry of Energy and PEPD in particular have come in for a lot of criticism and hard scrutiny and you can see the effects of that in the way they act. I think they are doing an absolutely amazing job when you consider the little resources they have to work with. They challenge and push us to rethink our ideas on things like costs - they keep us honest, not that we are not honest.

The debate around the pipeline or refinery continues. What would inform the picking of any option?

We firmly accept that key to unlocking the basin first of all is through a refinery. Then the questions will revolve around what size it should be and how big it will grow to. But our view is that ultimately you need to have a pipeline, the government isn't quite there yet but it has started considering it too.
Any decision depends very much on how the government wants to exploit the oil industry to boost the Ugandan economy. Uganda doesn't have the immense oil reserves enjoyed by the likes of Saudi Arabia and Kuwait. Hence Uganda cannot be called an oil-based economy going forward.
As such the country will need to use the oil revenue to turbo-boost its economy by using it to put much needed infrastructure in place, develop education, encourage other industries to come in, industrialize agriculture and maybe add value to other mineral resources that are less finite.
Ultimately you have to build yourself an economy that can sustain itself afterwards; and for that you need the foreign exchange that is going to come in over a concentrated period of time.
The next generation should be born into an economy that can sustain itself; an economy with a highly skilled and well educated workforce that can work anywhere in the world and also with a top class agriculture and health system.
But to get this temporary economic boost, Uganda will need to produce quantities that can bring in huge amounts of income that can provide the means to do that; and that in our view means an export pipeline.
A small refinery on the other hand will only supply fuel to Uganda and maybe the East African region; a situation which doesn't guarantee the instant huge returns a pipeline would, therefore making it hard to turn the economy around. The regional market too cannot be guaranteed as other countries could find their own oil or choose to procure their fuel from elsewhere.
The remaining product cannot be exported outside the region because it's simply not competitive compared to that from the huge refineries in Saudi Arabia which is much cheaper since the country is right at the coast meaning less is spent on transport. But if you send the crude to the coast, it will be bought because it's charged at an international price. So we have to be wary of putting all our eggs in one basket. Both a refinery and a pipeline should therefore be considered.
And with other East African countries and DR Congo also seeking oil as Southern Sudan pursues another route other than the north for its oil, Uganda can benefit by putting in place early pipeline-development plans as it can make further revenue by charging transportation tariffs on its pipeline – something we have discussed with the president already.

It has been said that you prefer the export of crude via the pipeline option because you recover your invested monies faster.

We recover faster by producing at a certain rate; whether it's into a refinery or into a pipeline ultimately our expectation would be to receive the international price for that oil. But the refinery can only take so much.
Again it's back to this balance. It has to be commercial for us. We are going to invest; I don't know \$6bn – \$7bn between 3 partners; from start to first substantive production – over a 10 year period by the time it happens. If it takes us another 30 years to get this money back completely we are not going to make money. So why would we do it? There has to be a balance.
And that's not trying to push government into a corner, nor do I think they are trying to push us into a corner. We both have different interests in a sense – we start from a commercial premise, they start from a nationalistic premise, and rightly so.

Now with the farmdown complete, when does production start?

You will see a gradual build-up over the coming 3-4 years. During the course of this year, we should start seeing the

Crude oil stored in the bitutainers (in white) at Kasamene. The oil was collected during well testing in the Albertine Graben and will be sold for industrial use; with cement manufacturers the most interested so far. Though small, it will be the first Ugandan crude going into the economy

crude that we have been producing from well-testing put to industrial use. It will only be a couple of 100 barrels a day – it's very small. But it's symbolic seeing that it will be the first Ugandan crude going into the Ugandan economy.
This allows us to test the feasibility of supplying crude by road which will ultimately mean delivering cheap crude to thermal electricity power stations too. However we couldn't do this from well-testing but from proper production facilities; and this is two years away. Possibly this would be at the tail-end of 2013 but more likely early 2014 you could see us actually putting slightly larger volumes of crude on a daily basis into power generation.
For the first substantive production (say 20,000 barrels a day) we will need a refinery in place; and this can take 3 – 4 years to be actualized if we started now. If we start these discussions early we could have a refinery up and running at the end of 2015 or early 2016.
20,000 barrels is substantive enough but it's still low. Our hope is that by that point, we will have resolved the debate around a pipeline and a decision will have been taken and we will be looking at constructing it. To export crude, a pipeline has to be in place.
Importantly, building a pipeline is actually not that technologically difficult – what takes time is putting together the international agreements that will govern that pipeline seeing that it crosses borders. Finding the land and compensation issues could also hold it back.
Heating the pipeline because the oil is waxy is also not difficult. Besides, not all the oil in the field is homogenous – some is less waxy than the rest. So this in turn has an impact on deciding which field's production we will put in a refinery and which one will go to the pipeline.

You have noted before that capacity limitations of government bodies like NEMA mean you cannot progress at the speed you would prefer. What can be done to address this?

There is no doubt that there are gaps but this is down to a number of reasons. For one, up until now NEMA has been underfunded and understaffed. Through the Uganda Chamber of Mines and Petroleum, we have suggested that they start thinking of themselves as self-funding.
The Chamber has promised to help them in establishing the capacity they need in order to be able to cope with the requirements of the industry. This may also mean pushing upwards their permit charges.
The new Executive Director, Dr Okurut has a much more pragmatic approach about working with the industry; about what he needs to do. It's a slow process but they are moving in the right direction and irrespective of that gap in capacity we have a very good working relationship with NEMA. And we respect what they have to do in order to protect the environment.
It's an issue but the government is aware of it and its being addressed.
In the short term, recognizing that permits and things from NEMA will take longer than they should, we then talked to PEPD about starting the process earlier. Instead of pursuing an EIA for a well that starts in 3 months' time now, we need to be thinking about the one that starts in 6-7 months' time. We recognize that there is a possibility that we may not drill that well but we would certainly have rigs standing idle if we didn't have the EIA in place early; and this would cost us much more.

Finally, benefiting from the industry goes beyond mere CSR projects that Tullow has offered the communities so far. Why not build the capacity of Ugandans so that they gainfully earn a living across the value chain?

There is a fundamental difference between the exploration phase – which is a very short term thing, and you don't know if you have a future – where apart from some small community projects like water boreholes, health units etc, it's difficult to start investing in vocational training centres and things like that because you don't know whether you will sustain them long-term. And nobody wants to start something and hand it over and it falls into disarray. Coming out this year, you will see the start of several initiatives; one is indeed about vocational training precisely. Where are we going to get welders, electricians, pipe fitters, plumbers etc that we are going to need when we get to construction? So we are working with an NGO and training colleges in Uganda to start this moving. This will not only benefit the communities around the oil field but the entire country as well.
We are also talking to farmers' unions in Hoima about setting up supply chains for foodstuffs seeing that with construction around the corner, we will have a lot of people at the camps. Furthermore, we are looking at opening up an Enterprise Resource Centre, starting in Hoima very soon – where people who want to set up small businesses can get advice and get access to resources etc.
It's still early but technical training has been identified as a core area, and so is agro-business.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STABILISATION CLAUSES IN PSAs ARE A MUST

Keen on protecting Uganda's interests to the fullest, President Yoweri Museveni has led the battle against the stabilization clauses in oil contracts

Imagine your team is playing in the final of a football tournament. The game is drawn. And then in extra time they change the rules. The chances of winning are now completely against you. How can your team compete? Does your team tough it out? Or do they withdraw from the game? Quit? Go home? In short this is what stabilization, or a stability clause, is about: making sure that you and your team can count on the rules staying the same through to the end of the game. Stabilization is used to protect investors (including, but not limited to, oil companies) from detrimental regulatory changes.

When choosing a place to invest, there are many factors to consider. Countries compete for investors, just as shops compete for customers. And everyone is looking for the best deal, be it price, quality or guarantee of long, useful service. For an investor contemplating the level of capital investment that an oil and gas project requires, the stability of the investment location will be an important consideration.

There is only so much stability that any country can guarantee. Can a nation offer a potential investor stability of the economy and market forces? Or stability of the environment: that there will be no natural disasters, such as earthquakes or floods? What about political stability, externally and internally? The answer to these questions is obviously "no". The one area that a country <u>can</u> offer to an investor that is within their control is legislative stability: a guarantee that the legislative terms that existed at the time of their investment will not worsen, or that if they do, the parties can go back to the drawing board and agree an outcome that will protect the investor from the economic impact of the changes.

The major factor that motivates investment in the oil and gas sector is the potential profit that it might generate should there be a commercial find. And because the oil and gas industry is so heavily taxed, it is very sensitive to the tax regime.

When considering whether to

"A stability clause is not a tax holiday or exemption. It does not give the investor a reduction in their tax obligations. It is simply a commitment that the taxes that are anticipated to be paid at the time of investing will not be increased arbitrarily…it sends a message to the potential investors that, the government will stand by their investment commitment"

Matthew Tallarovic

invest in an oil exploration and production project a company will undertake economic feasibility studies and create an economic model to calculate the Net Present Value (NPV) and Internal Rate of Return (IRR) of the proposed project. In simple terms, this is a comparison between the budgeted capital investment into a project and the expected future revenues. This economic modelling forms the basis of whether or not to make the investment. If the expected future revenue over a certain acceptable time frame (usually less than the expected production life of an oil field) is greater than the capital investment then the project is profitable and therefore viable.

Oil and gas exploration is a very risky business to begin with, and no one can guarantee that hydrocarbons will even be found, let alone in commercially viable quantities. The investment required searching for these resources, (let alone) the infrastructure to extract, collect, store and transport the resources is of significant size. There are no guarantees and this is evidenced by the announcement by one of Uganda's investors that no valuable oil deposits had been found in their licensed exploration block in spite of an investment of over $50m in exploration.

To help balance out the risk of total capital loss, attractive tax terms, tax holidays or other benefits might be offered to encourage investment. Ensuring a stable investment environment is even more important. And for the avoidance of doubt, a stability clause is not a tax holiday or exemption. It does not give the investor a reduction in their tax obligations. It is simply a commitment that the taxes that are anticipated to be paid at the time of investing will not be increased arbitrarily, even if changes to the tax rates, or new taxes, are introduced. It is often argued that such stability is prejudicial to the investee country's interest, for example in the event of a very large discovery, or a significant increase in oil and gas prices. This should be dealt with by ensuring that the tax and other fiscal terms agreed at the outset properly address this eventuality by giving the state an appropriate share of any upside.

Different approaches have been taken. For example, in Azerbaijan Production Sharing Agreements (PSA's) have the power of law and have an equal legal status to other current laws of the Azerbaijan Republic. Such a practice boosts investor confidence and investment in the petroleum industry as the policy factors considered in the economic viability studies are more constant.

Under the current Ugandan laws, in case of inconsistency between domestic laws and the PSA, the PSA is supreme. However under the recently tabled petroleum bills, the Petroleum (Exploration, Development and Production) bill states that it is supreme over all others laws in case of inconsistency. It also states that the existing licenses will continue in force as if they were issued under the new bill. The new bill however does not clearly state what will happen in case of conflict between the existing PSAs and the new law. This ambiguity should be dealt with before finalizing or otherwise risk hindering development of potential future projects.

Stabilization can be guaranteed as a part of the general investment legislation, and/or it can be offered as an article inserted into the PSA. This is to protect the oil companies from changes in tax law and other regulations that could affect the economics of the PSA. This ensures that the legislation considered when determining the economic viability of an oil production project is kept consistent given that other factors affecting the oil companies are not controllable.

Typically, a PSA can contain more specific details than might be addressed in investment, petroleum, or and tax legislation. A PSA is likely to contain rental rates, petroleum royalties, bonus payment obligations, profit sharing formulae, income tax and capital gains tax in cases of change in ownership among others. In cases where new legislation is passed subsequently to a PSA being signed and it affects these issues, the oil company can invoke the stabilization clause to protect it from adverse changes, and relying on their original economic model that formed the basis of their decision to invest. Stabilization clauses are usually specific about what items are constant such as tax rates, profit sharing, royalties and fees, among others; some issues like environmental laws are usually not stabilized.

The stability clauses might allow the investor to take advantage of positive changes to the legislation while protecting against the negative changes. However, depending on the wording of the stabilization clause, it can also work against a company. For example if the wording in the stabilization clause had "frozen" the tax regime, should the tax rate fall, the oil company might still be required to pay tax at the higher rate or continue to pay a tax that has otherwise since been eliminated.

A guarantee of stability is very important in situations where the tax laws are constantly changing or being amended. And one might consider whether a stability clause is necessary where there is a well-established legislative base, with comprehensive tax legislation and an established history of minor changes through the years. Though there is less need to do so in order to attract investors, in such circumstances, a government offering the stability has nothing to lose. A nation offering stabilization is sending a message to the potential investors that if the investor commits to investing in the nation, the government will stand by their commitment.

Does Uganda need to offer stability? The legislation still continues to develop and change here, not in the least the tax legislation. Future projects are on hold pending two petroleum bills. Meanwhile, neighbouring countries are reporting finds and generating interest. The customers are lining up outside; which shops are open for business and offering the best deals?

The authors Matthew Tallarovic and Micheal Kabuuka, are tax advisors at Deloitte, Uganda

Lloyds Register official, Warren Chetty examines a welding trainee's work at the Specialized Welding Services' workshop. SWS is helping local Ugandans attain high-level welding skills required for sophisticated work in the oil & gas industry

LOCAL CONTENT

report prioritizes Ugandans' interests

To have Ugandans exploit every job opportunity within the country's nascent oil industry, a study, partly funded by the Norwegian government, emphasizes the need for creating value as against consuming wealth, and warns against ignoring non petroleum sectors.

" *The National Content Study in the Oil and Gas Sector in Uganda*" also advises against determining the share of local content by looking at the nationality of the person who has won a contract to offer a service to the oil companies. This, it notes, will mean that foreign companies will form shell companies – sort of like special purpose vehicles – with local management to win contracts in the sector, and will thus be categorized as Ugandan.

Instead, the study notes that to define local content, one needs to look at the "value addition in Uganda, by Ugandans in the oil industry, by the use of Ugandan materials, services produced by Ugandans and Ugandan firms, and the use of facilities in Uganda."

"To be fair to the oil companies, the industry is short on skills and has a long way in meeting contractual terms like the time of delivery and the quality of the product"

The study was undertaken by two groups of consultants. The Ugandan team was led by Makerere University's Professor Jackson A. Mwakali ***(pictured left)*** and the foreign legion was represented by Per Heum from the Institute for Research in Economics and Business Administration (SNF), Norway and Ole Fredrik Ekern from Bridge.

Their report is strong enough in putting Ugandan's interest at the forefront, but a little weak in explaining in detail the crucial aspect of work experience. Here is a paper that will shape how the Ugandans ought to benefit from the downstream activities, the very aspect that determines whether oil will be a blessing or a curse.

As a starting point, the study recommends the formation of a government institution to push for the country's local content interests.
"As field development in the Albertine Graben already is about to start, the most urgent matter is to have a government body established within the Ministry of Energy and Mineral Development, which is dedicated to the task of enhancing national content, and which will take the responsibility of defining and enforcing a policy in that respect," the study suggests.

This recommendation for such a body is largely premised on the fear that a number of oil companies might not have the will to engage local expertise.

"Oil companies are not likely to engage in national capacity building unless it is required by the host country government. Thus, the government needs a legal basis for such initiatives and a strong government body to engage in efforts to achieve such collaboration," notes the report.

It further adds that "the body should have adequate capacity and be equipped with executive power to engage in discussions regarding field development plans from the oil companies, the contracting plan of the oil companies, and to ensure fair opportunities for domestic firms to compete for jobs."

The study looks to Tullow Oil, the oldest oil company in the country so far, for some rough idea of the size of local content. Quoting figures from Tullow, the report points out that a total of 550 Ugandan suppliers have so far provided goods and services to the oil company. The study further goes on to note that Tullow has stated that the Ugandan share in terms of contract value is 38%. However, the researchers believe Tullow derived this share basing on the nationality of the contract holder – the very formula that the study feels should be changed.

Yet, the study points out that the data it has is not sufficient enough to evaluate the Ugandan share in local content. But nevertheless, it insists that the country's share of local content is low. "Even though the required data has not been readily available for this study, it is obvious that this share so far has been low," reads the report.

This assessment is derived from findings by the Ministry of Energy and Minerals Development into the contracts signed between the oil companies and service providers up until 2009.

"On this basis the share of investment retained in Uganda of the total foreign investments made, can be estimated to 14%," the study notes. And yet, to be fair to the oil companies, the industry is short on skills and has a long way in meeting contractual terms like the time of delivery and the quality of the product. While oil companies have emphasized their willingness to work with local Ugandans, they have gone through troubling experiences where they have engaged local expertise only to be disappointed later. Such disappointments have resulted into loss of money and time.

As such, the local content report is mindful of such pitfalls; agreeing that there indeed happens to be a shortage of skillful personnel in the country needed in the oil and gas industry.

Government also recognizes the unfairness in issuing a blanket order to oil companies to give Ugandans first priority. For example, under the new petroleum bill that government tabled in February this year, it slightly revised that section that had earlier called on oil companies to give Ugandans first priority while awarding tenders. While the 2010 Petroleum Bill called on the oil companies, their contractors, and sub contractors to give the first priority to Ugandan companies without any conditions, the new 2012 bill sets a few ground rules.

According to Section 127 of the new Bill, "The licensee, its contractors and subcontractors shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies, unless the goods and services are offered on terms which are not equal to or better than imported goods and services with regard to quality and availability at the time and in quantities required." For a country like China, which is known to offer better and cheaper equipment and deliver such equipment on time, the new bill favours it.

However, the local content study recommends that the oil companies should be encouraged to train as many Ugandans as possible. Companies like Tullow and Total have been running adverts in the media about their different scholarships.

Already, government is engaged in discussions with oil companies to see how they can train Ugandans. The oil companies are also required to issue government a succession plan, where the companies will show government how they intend to replace their expatriates with Ugandans.

The local content study recommends the creation of an Oil and Gas Industry Suppliers Association, which will vouch for the interests of the local players. The study also recommends for the national content policy to be integrated within the National Development Plan. The National Development Plan is government's blueprint document which guides the country on attaining middle income status.

Hima faces Brandenburg, EA Gold threat

Brandenburg Energy Corp. has signed a letter of intent with Uganda-based East African Gold Sniffing Company as it seeks a 100% interest in EA Gold and its Exploration License No. 0932, relating to the exploration and development of limestone resources near Kasese, western Uganda. EA Gold's mineral licence covers about 2.83 Km2.

The area is in the same neighbourhood with Lafarge Group member Hima Cement, and in the most recent evaluation, Lafarge outlined a resource of about 18 million tonnes, of which 14 million tonnes were suitable for cement manufacture.

There exists some controversy over EA Gold's licence however seeing that Hima and Lafarge are disputing the expiry of Special Mining Lease 3480, which overlaps some of the area covering the Exploration License 0932, and on which Hima has cement production facilities. EA Gold is adamant that Hima did not apply to renew its lease after it expired on December 31, 2011.

EA Gold applied for a Mineral Exploration License on January 6, 2012, which was legally granted on January 30, 2012, as Mineral Exploration License No 0932. The license permits EA Gold to assess and expand the extent and commercial viability of mining the residual limestone resource in the area that was previously outlined by Lafarge. The Hima Cement plant, was upgraded with a new production plant and machinery in mid-2010 at a cost of $120m on a portion of the expired SML 3480. The plant has a capacity of nearly 850,000 metric tonnes annually.

Standard Bank's Eardley-Taylor makes a point as Kaboyo (C) and AON's Derek Warby look on

Uganda needs to source GLOBAL FINANCIERS

A senior official at South Africa's Standard Bank says Uganda needs to woo the World Bank (WB) and other big international financial institutions to mobilise funds to finance a refinery and other key projects in her emerging petroleum industry.

Paul Eardley-Taylor, the bank's director for oil and gas coverage, believes the size of Uganda's economy means the country could ill-afford to finance costly infrastructure to develop its petroleum industry on her own.

"As many as different financing sources as possible would need to be accessed to make sure that these (oil sector) investments take off. Development banks that have often played a role in Africa like the World Bank, the IFC...can potentially be accessed for Uganda's oil and gas program," he said in an interview on the sidelines of the inaugural, Nile Basin Oil & Gas Summit held in Kampala on April 24, 2012.

East Africa's third largest economy struck commercial petroleum reserves in the Albertine Graben along the border with the Democratic Republic of Congo in 2006. British explorer Tullow Oil says it's poised to begin small-scale commercial production later this year. The company earlier this year completed a $2.9 billion sale of stakes in its Ugandan properties to France's Total and China's CNOOC and the three companies now control a third each in five exploration blocks.

"If you add up all of the different components that Uganda needs, a refinery, upstream wells, midstream pipelines, power plants the number that is often talked about is $10 billion. That's a very large number relative to Uganda's GDP," Eardley-Taylor noted.

> "If you add up all of the different components that Uganda needs, the number that is often talked about is $10bn. That's a very large number relative to Uganda's GDP"

Although the three companies have agreed to the construction of a refinery in the east African country, the government is yet to come up with final plans on financing and equity structures.

The ministry of energy has previously said the refinery is expected to cost an estimated $2 billion and would be built in phases starting with a refining capacity of about 20,000 barrels per day.

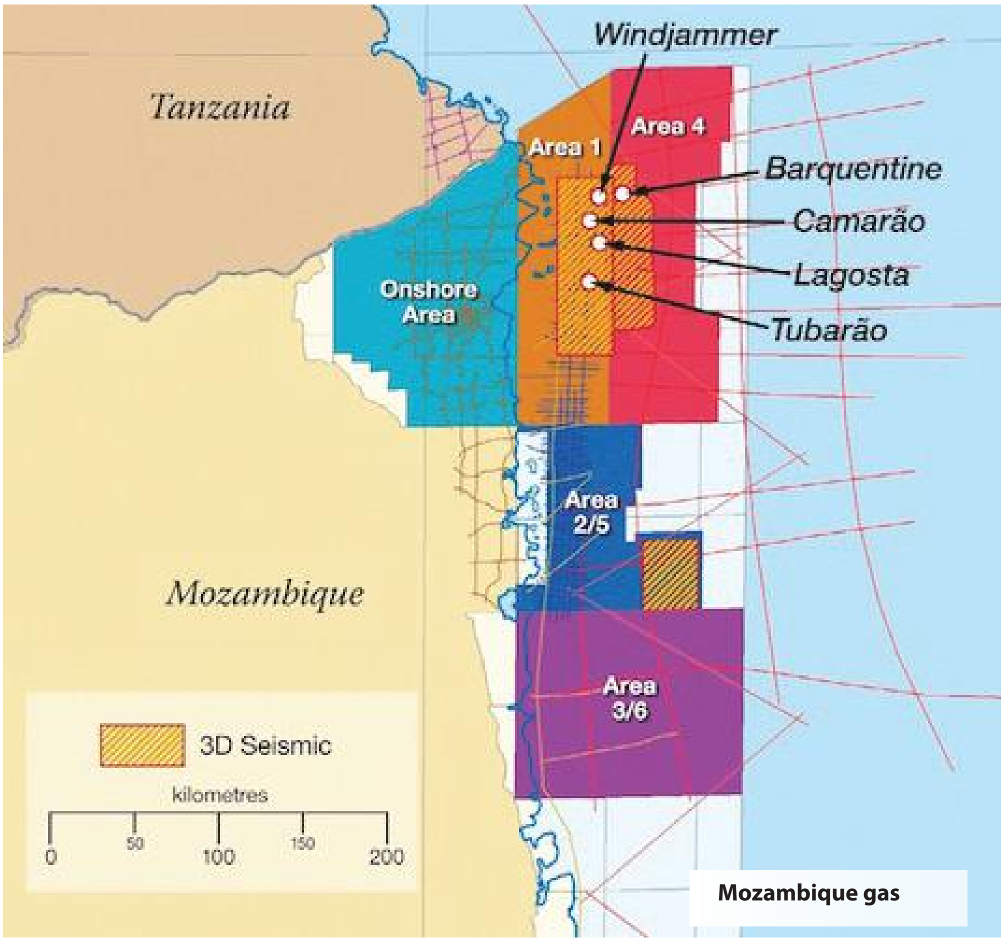
Stephen Kaboyo, Alpha Capital Markets' managing director and a former director of financial markets at Bank of Uganda said while institutions like the World Bank might not directly invest in Uganda's oil sector, they could provide guarantees to private investors.

"For big investors to come here they need assurances that they can get back their money any time and institutions like the World Bank can help provide such guarantees," he said.

The Nile Basin Oil & Gas Summit seeks to create a platform for the sustainable development of the oil and gas sector in the Nile Basin region, by highlighting potential areas of synergy and cooperation between governments, as well as investment and business opportunities. The conference drew a number of private international firms across the value chain though the absence of the likes of Sudan and Kenya – for various unavoidable reasons – left it short.

"This was Africa's first and premier event looking holistically at the oil and gas supply chain in this region, in terms of both upstream and downstream activities, analysing opportunities and implications for producers and investors. For an inaugural event, I believe we fared well and it can only grow from strength to strength," noted Simon Ssemagulu of Springwood Capital Partners, the organisers.

Mozambique draws O&G majors



Mozambique gas

French oil and gas major Total AS plans to drill its first offshore East Africa exploration well early next year, hoping to emulate huge gas discoveries made by other oil majors offshore Tanzania and Mozambique.

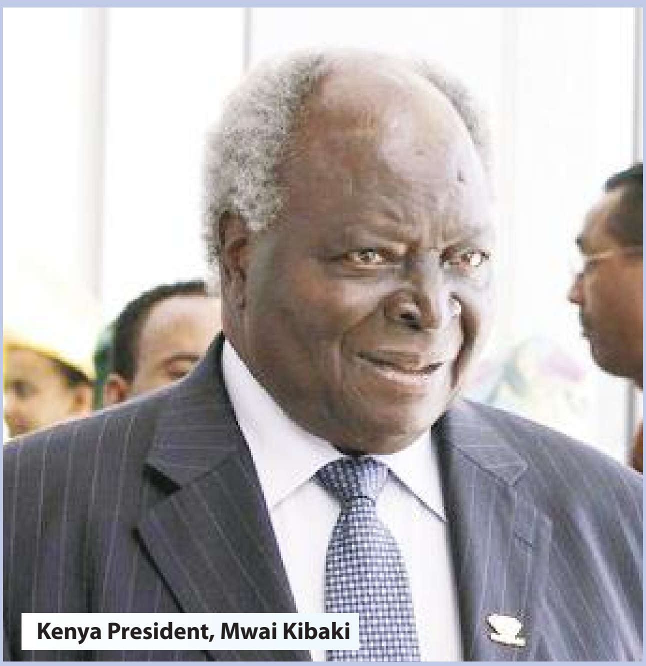
"We are exploring offshore Kenya, and apparently it has the same kind of prospects as offshore Tanzania and Mozambique. There might be oil too; we are not just looking for gas. We have acquired the seismic results, but until you drill, you don't know," Christophe de Margerie, the company's CEO said.

Italy's Eni and Anadarko Petroleum Corp. have both announced major gas discoveries further south, offshore Mozambique, and are considering large-scale investments to export the gas by tanker in the form of liquefied natural gas.

Eni's second "giant" natural-gas discovery near the Mamba South find, that it made last year added 212.5 billion cubic meters of gas in place, bringing total resources in the Mamba complex to 850 billion cubic meters (30 trillion cubic feet) – three times the U.K.'s remaining gas reserves.

In February 2012, Exxon Mobil and Norway's Statoil also said a recent discovery off the coast of Tanzania contained large quantities of natural gas, further cementing the idea that East Africa could become a big exporter of LNG.

Kenya strikes oil


Kenya President, Mwai Kibaki

After years of prospecting, Kenya finally made its first oil discovery. The March, 2012 find was Turkana, in the northern part of the country where British firm Tullow Oil – which enjoys a huge presence in Africa generally - has been exploring for oil. The commercial viability of the find is yet to be ascertained though.

The East African region as well as the Horn of the continent has become a hot spot for oil and gas exploration in recent years, spurred by new finds.

Tullow encountered in excess of 20 metres of net oil pay, and would drill more wells in the area to ascertain the commercial viability of the find.

"This is the first time Kenya has made such a discovery and it is very good news," President Mwai Kibaki noted. "It is however the beginning of a long journey to make our country an oil producer, which typically takes in excess of 3 years."

Tim O'Hanlon, Tullow's vice president for Africa said the company had been drilling the well since January this year, and it was the first prospect to be tested as part of a multi-well drilling campaign in Kenya and Ethiopia.

Tullow Oil operates Kenya's block 10BB with a 50 percent working interest and Canada's Africa Oil Corp. which holds the remaining stake. Tullow had been drilling the Ngamia-1 well on block 10BB, in the Lokichar basin in Turkana County. The well had reached a depth of 1,041 metres at the time of discovery.

MPs in the spotlight as oil debates intensify

Loic Laurandel, GM Total E&P Uganda faces off with Parliament's ad hoc committe on oil that is led by Hon Michael Werikhe (L). The committee's findings will go a long way in enlightening the largely clueless Parliament as it seeks to perform its oversight role over oil. Laurandel was accompanied by Francois Vatier (C), the business development director

When the oil debate first came to Parliament last October, the proceedings were marred with what critics called political mob justice (read emotional and ill-informed debating).

While giving his view on how Parliament has so far handled oil debate, an official in the Ministry of Energy and Mineral Development, who didn't want to be named, said most of the MPs were ill informed and would have to undergo a crush-program on the subject if they were to guide proceedings in the country's budding sector.

But with oil production round the corner following the successful entry of CNOOC and Total E&P, how are MPs planning to shape the oil sector? What does the sector mean to the legislators? And how do MPs plan to shape the sector for the benefit of Uganda?

A majority of MPs contacted believe oil is the "best thing to have ever happened" to Uganda and a resource that will help in moving Ugandans from poverty hence the urgent need to get the issues right at least on the Parliamentary floor where they can control proceedings.

"Since this is the first chance we have got to shape this sector, we all need to be keen on passing good laws," said Stephen Kagwera, the Burahya County MP.

However, Mr Amuriat Oboi, the Kumi municipality Member of Parliament and member of the Parliamentary Forum on Oil and Gas [PFOG] says that although parliament has got a chance to shape the oil sector through passing the Bills that were presented before the House, most members have not fully grasped what the proposed laws entail.

"I highly doubt that the laws are well understood by all the legislators," he said. "The MPs should grasp the nitty-gritty of the Bills and understand what the government wants to do."

To streamline the sector for the betterment of Ugandans, MP Cerinah Nebanda from Butaleja districts says that MPs must make sure that the laws, before they are passed, should stipulate how Ugandans will benefit and how revenues will be shared.

"If we want to have a good sector we should ensure that we emulate countries that have handled the oil sectors well," she said.

Mr Richard Kaijuka, the Vice Chairman of the Uganda Chamber of Mines and Petroleum is keen to avoid interruptions in the sector base on MPs whims as happened in October 2011, when bribery allegations brought against key personalities in government delayed the farmdown of two-thirds of Tullow's assets to CNOCC and Total.

"I feel very strongly that Parliament can indeed go ahead with putting in place a legal framework and institutions for the sector whilst oil companies embark on the more serious exercise of more oil exploration, development and production," he said.

Tullow, Uganda Country Manager, Eion Mikie, feels his firm can help by putting put a lot more information out in the public domain about the industry. Information about how the oil industry works worldwide, what people can expect, what is typical, what a development look like, explaining the debate around the refinery vis-à-vis a pipeline.

Transparency & Accountability

Going forward, MPs, Mr Kagwera says, must see to it that the collection of revenue is done in accordance with law and Parliament should be allowed to monitor the collection and the use of reverences because they are representatives of the people.

"Like we oversee the other sectors, the House should be directly involved through its different committees," he says. "We have to ensure that institutions work and not individuals when it comes to managing the oil sector."

Following the October debates, mistrust on part of parliament, towards the Executive, over the management of oil has been increasing and MPs think that some information is wrongly treated as private by some leaders in the country.

"We should fight and lift the veil of secrecy in the agreements so that people stop taking oil as their own property," says Barnabas Tinkasimiire, MP Buyaga West.

Mr Tinkasimiire believes that Parliament should make sure that secrecy provisions do not exist and that as MPs discuss the laws, they should ensure that it makes pro-people laws. The Buyaga legislator also says that MPs should ensure total accountability of both government and sector and timely follow up of Auditor General reports.

The legislators say that the Office of the Auditor General needs to be equipped with professionals to handle audits related to oil. And if need be, parliament should "create a new committee to handle projects and aspects raised by the Auditor General" and also, because of the volume of work, "split the Natural Resource Committee and create a committee on Oil and Gas."

"Royalties that come to government and how the money is used in the producing regions especially compensating for agriculture must be fully followed," says Mr Kagwera.

Sigh of Relief

Contractors welcome resumption of operations in the oil sector

Threeways' Jeff Baitwa

The signings of the Production Sharing Agreements (PSAs) between Tullow Oil and the Government of Uganda plus the issuance of a Production Licence over the Kingfisher field, had the general public and a sizeable number of Parliamentarians up in arms contesting the legitimacy of the whole process.

But let us try to put aside these validities or lack of and instead examine the commercial advantages of the same – like their proponents have steadfastly willed us to.

Firstly, let us give voice to the cries of the one group that seems to have been ignored in all this – the service providers. After all, it being a highly capital intensive and yet very risky industry, international oil companies (IOCs) to a great extent rely on services provided by third party companies in order to meet their objectives.

Owning permanent assets for the support services therefore is a no-no as far as the IOCs are concerned, preferring to rent such assets. This gives them ease of withdrawal should their programs not deliver expected results as has happened recently with Tower Resources owned Neptune. Enter the service providers.

This group especially, the logistics firms, must be some of the most thankful – once it became known that finally operations in the oil industry were going to resume – going by a petition they signed last November, which implored the state to quickly lift the ban on activities in the sector.

In that appeal titled "Petition Regarding the Current Suspension of Activities in the Petroleum Sector" and addressed to the Ministers of Energy and that of Finance and copied to the Chairman, National Resource Committee in Parliament amongst various other officials and groups, the logistics firms decried the losses they were incurring due to the delays; which if not stemmed, they noted, would ultimately put them out of business.

"Having successfully won contracts to support the petroleum exploration activities in the Albertine Graben, many of us swiftly invested in assets like land, trucks and recruited and trained a number of people to be able to adequately cope with the demands of the sector," says Jeff Bihamaiso Baitwa, the Managing Director of Threeways Shipping Services, a local cargo transporting company, and also one of the petitioners.

Adding: "The delays therefore meant all of us involved were exposed to the likelihood of financial loss. Commitments made by Tullow and partners to their financiers and to the service providers; and those made by the service providers to the suppliers, employees, banks, etc. started to crumble with the risk of many of the upcoming local entities going bankrupt under the huge financial burden but without any economic returns."

According to Baitwa, his firm which averages just about a million dollars in returns per month was bringing in up to \$0.5m from Tullow alone before the suspension.

As such the signing of the PSAs for the exploration, development and production of petroleum in Exploration Areas 1 (Pakwach Basin) and the Kanywataba prospect plus the issuance of a Production Licence over the Kingfisher field, meant the likes of Threeways were back in business.

The benefits to government though go without saying. Not only does the restart of activities in the oil industry mean more revenues here and there, it crucially throws Uganda back into the mix as far as Foreign Direct Investments (FDIs) are concerned. After all there had been unconfirmed rumours that both Total and CNOOC were contemplating pulling out of the Uganda deal if the impasse had persisted, a development that would have been disastrous in the wider scheme of things. After all, like Baitwa reasons, there are only so many oil majors out there with the capacity to develop oil fields to production levels. Tullow for one couldn't do it alone since they lacked both the financial muscle and expertise to complete the project.

"There is absolutely no doubt that the investing world has been watching what has been happening in Uganda over the last year and a half and thinking 'Would I put my money there?'. Fortunately, now Uganda is back on track as an attractive investment destination," says Tullow Uganda Country Manager, Eoin Mekie.

Crucially too, early development in Uganda, Mekie adds, would mean the country takes the lead in as far as skills development in the petroleum industry is concerned. This human capacity is after all in high demand worldwide and will soon be needed around the region now that every country is prospecting for the same with Kenya the latest country to announce an oil discovery.

For Ndorwa East Member of Parliament, Wilfred Niwagaba, however, notwithstanding the aforementioned benefits, it does not hurt to examine every contract in its entirety.

"Transparency! Transparecy! Transparecy! That's all we ask for. If government was transparent enough, Parliament would never delay these companies. At least the Bills have been tabled for now though the crucial one on Revenue Management remains pending," notes Niwagaba.

1. Aggility Logistics' George Odeke seeks a deal from CNOOC officials
2. CALL ME: UCMP Chairman, Elly Karuhanga exchanges cards with a guest
3. Guests at the SDV Transami sponsored cocktail
4. Sir Rich chats with Astor Finance's Sentiba and StanChart's Manjang
5. SDV's Natasha Epenu and a CNOOC official
6. UCMP CEO Irene (R) catches up with a guest
7. Toyota's Tinka (C) chats with colleagues
8. A guest wins himself a Liverpool jersey
9. Astor's Sentiba chats with StanChart's Herbert Zake

10. Businessman Godfrey Kirumira shares a joke with Manjang
11. Guests at the StanChart Cocktail
12. Manjang chats with Coca Cola's Norton Kingwill (C) and another guest
13. Marilyn Hill speaks at the event as Karuhanga watches
14. Graham Martin Tullow Oil's general counsel and Energy Minister Irene Muloni at the signing of the new PSAs
15. Students from the Dept of Geology & Petroleum at Makerere University pose with Karuhanga at a Nairobi oil summit in March
16. Uganda's High Commissioner to Tanzania Ibrahim Mukiibi hands Karuhanga the CSR award
17. Tullow's Mekie, Halliburton's Robert Salmon & wife plus SDV Transami Country Manager Koen Rombouts

Robert Kasande is living his dream

There is usually a time when you feel that perhaps it is the wrong choices you made that threw you into the kind of predicament you find yourself in. Many who find themselves in such a situation usually feel a deplorable sense of self pity, and possibly call on divine intervention. Not for Robert Kasande.

When the young Kasande, then a wide-eyed geologist in the Ministry of Energy, was trekking hours on end through the thick and wild terrain of the Semuliki basin in the Albertine Graben in the late eighties, mapping what was suspected to be a working petroleum system such thoughts of regret never run through his mind.

"In our time it was very normal to drive and park your vehicle at 10 am in the national park where there are all sorts of animals and walk looking for exposed sediments where we did our studies, and return to your car at 6:30pm. You have been walking non-stop. We would go very far, at the end of the horizon. So it wasn't easy. The resources were not there. But we persevered. Along the way some of our colleagues left," he says with a sense of pride, and not a tone of horror.

Quitting was not an option Kasande considered. Inside the feral Albertine Graben, Kasande clearly understood just what he had wished for as a young boy on the streets of Entebbe. "As a young man in Entebbe, I would see civil servants working in the Geological Survey and Mines department. And as a young man, I saw the geologists and I thought they were progressive people," he reminisces.

During his A-Levels at Kings College Budo, Kasande already knew what he wanted to pursue at university – Geology. It was a bold reaction. At a time when many young men were eying such high profile courses like law, while others dreamt of being bankers donning sharp suits, the idea that one wanted to become a geologist sounded strange, and would earn one stares of bewilderment and mockery.

It is no wonder that during the class of 16 students at Makerere University, it was only Kasande who had applied for Geology. "Only two of us passed with honours degree out of a class of 16. And the only employing agency was the Geological Survey and Mines department," he said.

When he joined the Geological Survey and Mines department, a small project funded by the World Bank was in progress: the Petroleum Promotion Project. He was attached to this project at the beginning of 1988. "At that time everybody who went to do geology was going to read hard rock geology. I could have turned out to be a gold exploration geologist or a petroleum geologist. It so happened that there was this project from the World Bank," he said.

But his first in-depth understanding of the science of petroleum came from a location thousands of miles away – India. He spent four months in India on a Commonwealth funded Industrial attachment training where he mostly did field work in seismic data acquisition, processing and interpretation.

Kasande returned to Uganda in 1990, and shortly after went to Norway to pursue a post graduate diploma in oil exploration and production, which was sponsored by the Norwegian Agency for Development Cooperation.

Around 1991, Uganda's government successfully concluded negotiations with Petrofina, leading to the signing of a Production Sharing Agreement. With the signing of this agreement, Fina Exploration Uganda, a subsidiary of Petrofina, was given the mandate to explore for oil anywhere in the Albertine Grabben.

However, during this time, Petrofina had problems in DRC and they decided to leave the region including Uganda. In 1992, just after the Petroleum Exploration and Production Department had been set up in Entebbe, Kasande flew out to the United States to Texas A & M University, where he enrolled for a Master's Degree of Science in Petroleum Geophysics.

Facing huge financial pressures, Fina Exploration wound up its activities in Uganda in 1993 after its exploration license expired, and the firm agreed not to renew it. That same year, new regulations for the oil sector were enforced, the Petroleum (Exploration & Production) (Conduct of Exploration Operations) Regulations.

Kasande returned in 1995, upbeat despite Fina Exploration's failure to start oil activities. "We were now in high gear promotion," he said.

Nathan Namukoye, the senior lab technician at the PEPD, seeks out the exact point of the Kibuku oil seeps. These seeps largely influenced oil prospecting in the Semliki Basin

Government started holding negotiations with Heritage Oil in 1996. These talks were successfully concluded in 1997, and Heritage Oil was given a license to explore for oil in Block 3 in the Semuliki basin. The company also acquired seismic data to map the subsurface in the area.
Later in 1997, government gave Australia's Hardman Resources a license to explore for oil in block 2, still in the Albertine basin.
Kasande remembers how everyone started getting excited about the oil. "Things changed when we started drilling and confirming the potential," he said. "The interest from government supporting us grew. But there were many skeptics globally. Scientists were saying the East African rift was young. Most of the prolific basins are 60 million years old yet ours ranged from 15 million to 20 million; and they were saying this could not generate oil," he added.

More oil companies started coming to Uganda. Energy Africa Limited, a company that had South Africa's Engen as its majority shareholder, bought a stake in Heritage Oil's interest in the Albertine Grabben in October 2001. Tullow Oil bought Energy Africa in 2004 as it sought to expand its influence in Africa. This represented the most intense interest in Uganda's oil industry.
Kasande, having been promoted to Principal Geologist in 1998, and his colleagues at the petroleum department, were in the thick of things, directing which way Uganda's oil industry was to take.

The moment of reckoning came in 2006 when two wells – Waraga and Mputa - confirmed that Uganda could produce commercial oil. And during the Independence Day celebrations on October 9, 2006, the team from the Petroleum Exploration and Production Department (PEPD) was called to the podium on which President Museveni was standing. Here, they were recognized for their efforts in making Uganda's oil prospects a reality.

"You can't imagine the pride we had when we were called up at Kololo. Its then that it really dawned on us that we had indeed discovered oil in our country. Our dreams had come true," Kasande proudly recalls.
The following year, Kasande became the chairperson of an East Africa Community Strategy for Refining in the region, which was under the auspice of the East African community at the secretariat in Arusha. The committee commissioned a study, where it was agreed by all the East African partner states that a second refinery for the crude be established in Uganda, and that it is located near the oil fields in Uganda.

It was on that basis that Uganda commissioned Forster Wheeler, a British firm, to carry out a feasibility study about the refinery.
By this time, Ugandans were already excited about oil.
In early 2011, Kasande was promoted to Assistant Commissioner for Geology, PEPD. He is also the Project Manager refinery, a position that could come under intense scrutiny. The issue of refinery was one of those that the oil companies in Uganda questioned. Oil companies felt Uganda should not build a refinery, but instead export the crude just like it is done in Ghana.

The oil companies felt the refinery limited the market they could supply. It is expected that petroleum products from the refinery will be supplied to Rwanda, Burundi, Uganda, South Sudan, and possibly Western Kenya and Northern Tanzania.

Kasande, however, says they have done enough research to warrant the building of a refinery. He said a pipeline to Mombasa to transport the crude would be an expensive venture given that it would require continuous heating for the entire 1350km length.

Kasande is now part of the team negotiating the financing options of the refinery. He said they are "talking" with the other East African countries to engage in Public Private Partnership to build the refinery. The cost of the refinery is somewhere close to $2 billion, almost a half of Uganda's national budget.

Does he feel any pressure considering the refinery is a key feature in Uganda's oil industry, and that the oil companies have been against this route? "I don't see any pressure per se. I have been in this industry for 24 years. We had a lot more challenges before we found the oil. I am looking forward to being able to deliver. I take pride in seeing results," he said confidently.

In signing off, Kasande advises the young to take science courses that can get them into the oil industry. He tells business people to engage in partnerships to merge skills and capital because the demands in the oil industry are high

Tidbits

In a combined PEPD/Heritage survey, a new rock formation was added to the stratigraphy of the Semliki Basin.
The sequence was mapped by Robert Kasande.
Since the rock formation had not been mapped by previous workers, it was named "Kasande Formation" by Heritage Oil and Gas Ltd in honour of Mr. Kasande's contribution to the understanding of the geology of the Semliki Basin.
The Kasande Formation, which is a sequence of clays, overlies the main reservoir sequence, the Kisegi Formation and therefore has potential of being an excellent top and lateral seal.

Lessons from Ghana as Uganda embarks on oil excursion

Uganda and Ghana's socio-economic situations are not very different with both countries starting to realize steady economic growth buoyed by relative political stability spanning almost three decades – a very lengthy period by African standards. The recent discovery of oil in commercial quantities in either country therefore has been seen as a welcome bonus that should even hasten both economies' growth.

Though Uganda struck first in 2006, Ghana accelerated ahead and even moved into production within just 40 months following its own discovery in June 2007 – a record in many aspects. As such, Ghana's recent experiences cannot be ignored by Uganda.

For instance, whereas Ghana was hailed for fast tracking its oil production process, it has received criticism in equal measure for doing so without vital laws and institutions to govern the industry in place. The lack of a regulatory framework has as such been blamed for many of the hiccups the nascent sector has suffered so far. For instance the delay in passing the Petroleum (Exploration and Production) Bill into law is widely regarded as the reason why USA firm Kosmos Energy refused to pay in full the $35m fine for its spilling of 706 barrels of low toxicity substance at its drilling fields in West Cape Three Points in 2010. Observers noted that Ghana's old laws (PNDC 1984) had loopholes which Kosmos exploited. And according to Mohammed Amin Adam, a renowned energy economist and civil society activist in Ghana, the lack of new laws, also meant it was impossible to form an authentic technical team to adequately ascertain in real time the environmental damage caused by firms operating in the Jubilee Oil Fields hence the possibility of a repeat of the Kosmos scenario.

Amin was speaking on the sidelines of a Revenue Watch Institute-sponsored journalists' training program dubbed "Strengthening Media Oversight of the Extractive Sectors" held in Accra, Ghana in October, 2011.

Hence, it goes without saying that Uganda can only avert a similar situation, by having proper laws in place before production commences. No wonder the country's

Members of Parliament saw it fit to slap a ban on the execution of new oil contracts until government tables the necessary laws required to drive the sector. The ban has since been lifted and the bills are up for discussion in the august house.

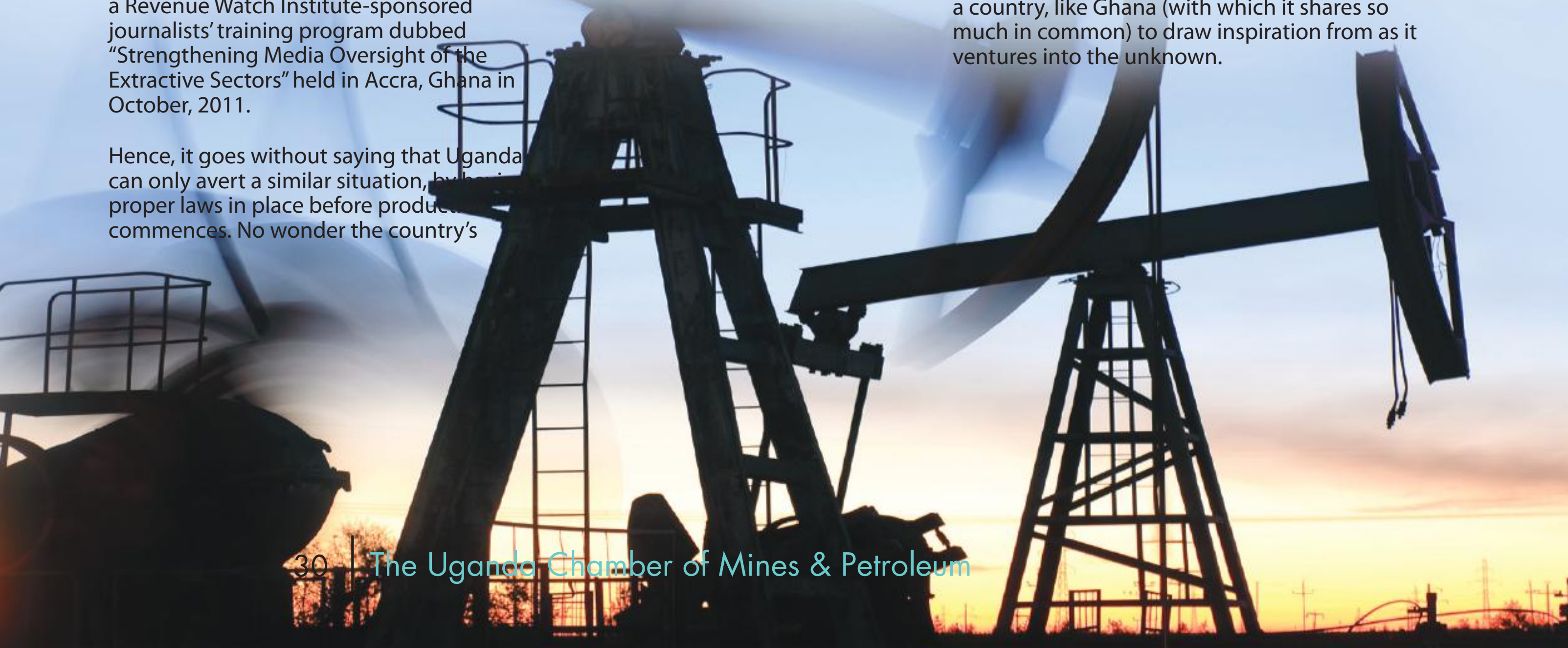
Ghana's transparency principles too are commendable. As a member the global standard for transparency in oil, gas and mining, the Extractive Industries Transparency Initiative (EITI), Ghana is well placed to escape the resource curse, fighting corruption, reducing poverty and therefore promoting economic growth and development according to the Africa Institute for Energy Governance (AFIEGO). Transparency, it is posited leaves every aspect in the lucrative sector exposed to public scrutiny hence going a long way in mitigating cases of corruption which has been identified as one of the major hindrances to Uganda's socio-economic development. In fact, the bribery allegations in the oil sector in Uganda last year only materialized after MPs were recalled to specifically debate transparency (or lack of) in the industry. AFIEGO hopes Uganda can subscribe to EITI sooner rather than later to reap the benefits of transparency.

Furthermore, in a bid to protect its oil windfall (expected to scale $1bn per year in future), Ghana instituted an independent oversight committee: the Public Interest and Accountability Committee (PIAC), an autonomous civil society group tasked with monitoring and enforcing government compliance with oil regulations and reporting its findings to both parliament and the public. Going forward, a similar initiative in Uganda is for that matter in order.

Ebow Haizel Ferguson's ***(pictured left)*** Sigma-Base Technical Services, a job training center in Sekondi-Takoradi, also provides important lessons on how to build a local workforce to undertake various positions in the sector. Ferguson, who witnessed firsthand the suffering of communities in the Niger Delta where he worked as a journalist for over two decades, has shown that welding skills vitally needed in the oil sector can be acquired within just 6 months; in the process giving many Ghanaian youths an opportunity to escape biting poverty. The notion in Uganda so far is that jobs in the oil sector are very sophisticated and therefore beyond the average Ugandan, but Ferguson's institute belies this myth.

Ghana is also taking vital steps towards having a gas processing plant up and running by the end of 2013. This is an important move that Uganda cannot afford to ignore since gas flaring not only causes immense environmental damage but also denies the country billions in dollars (see Nigeria).

As such, Uganda can count itself lucky to have a country, like Ghana (with which it shares so much in common) to draw inspiration from as it ventures into the unknown.



Total to spend $300m in 2012

French Oil Company Total E&P plans to spend over $300 million in 2012 on exploration in Uganda where small-scale commercial oil production is expected to begin later this year.

Total, China National Offshore Oil Corporation (CNOOC) and British explorer Tullow Oil in February signed a $2.9 billion deal to ramp up output in the east African country's nascent oil sector.

The success of Total's partnership is key to unlocking a $10 billion investment in vital infrastructure to allow Uganda to start pumping oil to world markets.

Each of the partners has a stake in five exploration blocks - EA-1, EA-1A, EA-2, Kanywataba and Kingfisher Discovery. Total operates blocks EA-1 and EA-1A.

"As far as the block EA-1 operated by Total is concerned a very intensive appraisal program is being carried out," Loic Laurandel ***(pictured),*** general manager Total E&P Uganda, told a parliamentary committee probing bribery accusations in the oil sector.

"On the new block EA-1A, up to seven exploration wells may be carried out by February 2013...more than $300 million will be spent on these two blocks in 2012."

Tullow operates blocks EA-2 while CNOOC operates Kanywataba and Kingfisher Discovery. Tullow says it has confirmed 1.1 billion barrels of oil in the EA-1, EA-2 and Kingfgher blocks and believes there are 1.4 billion barrels left to find.

The government says 2.5 billion barrels of oil are confirmed in place, of which between 1 billion to 1.2 billion barrels are recoverable.

In October Uganda's parliament appointed a committee to probe accusations of corruption in the oil sector.
The move followed presentation of documents by a lawmaker, Gerald Karuhanga, who accused Tullow of making payments to Prime Minister Amama Mbabazi, Minister of Foreign Affairs Sam Kutesa and Minister of Internal Affairs Hilary Onek.

Appearing before the same committee on Wednesday, a Tullow delegation led by its General Counsel and Executive Director Graham Martin said it was innocent of the accusations and that Karuhanga's documents were forged.

Tullow wins CSR Award

Karuhanga shows off the award

Tullow, Uganda's "Closing the Gap Programme" beat off steep competition from leading businesses in East Africa to emerge winner in the category for "Most Ethical and Responsible Business practice for Supply Chains".
Five firms from Tanzania Kenya and Uganda scooped awards for their outstanding CSR practices in the second Bank M East African CSR Awards. The winners were announced in a colourful ceremony held at the Hyatt Regency – The Kilimanjaro in Dar es Salaam in April.
Tullow's award was received from Uganda's High Commissioner to Tanzania Ibrahim Mukiibi by the company's President Elly Karuhanga.
"We are extremely honored to have been the company recognized for our best CSR program. Against such strong competition we do count ourselves as a committed company and it's a great feeling to be standing here with the best in class with this award. We were the winners of these inaugural awards in May 2010 and have won similar awards in Uganda, London and elsewhere. There is nothing more important to Tullow than striving for shared prosperity," Karuhanga said in his acceptance speech.
He was accompanied by the Corporate Affairs Manager Jimmy Kiberu, Nahya Nkinzi (CSR Manager), Fridah Kunuhirwa (CSR Advisor) and by Elizabeth Chalo from the Tullow Tanzania office.
This year's awards had five categories namely Best Workplace Practice Award: Environmental Excellence Award; Most Ethical & Responsible Business Practice for Supply Chains Award; Most Sustainable & Scalable Community Investment Award and the Elvis Musiba Award for Innovative Partnerships.
The ceremony was organised by Bank M in partnership with The East African Business Council and the Nation Media Group through its regional flagship publication – *The EastAfrican.*

Why Uganda must avoid SECRECY *in the oil sector*

In early February 5, 2012, residents of Nyapea in Buliisa congregated following a communication from the LC 1 Chairman, Julius Bamuturaki, a couple of days before. The meeting was intended to come up with a response to a National Environment Management Authority (NEMA) 30-days-notification that appeared in the New Vision and Daily Monitor newspapers calling on Ugandans to share their thoughts on the idea of dumping oil waste in the Nyapea area.


Residents of Buliisa

Nyapea lies just a kilometre or so away from Buliisa Town Council and already hosts a Tullow, Uganda encampment – the Buliisa Basecamp. The basecamp is one of the new zones NEMA has earmarked as a temporary Waste Management Area to handle waste from oil drilling sites as the environmental regulator seeks a permanent solution for the same.

So, apart from the NEMA notification, were the locals briefed on the contents of the waste and its likely dangers if any, one may ask. Not adequately, according to Bamuturaki. In his view, to place an announcement of this magnitude in difficult-to-access, English-language-only newspapers is unfair to the largely uneducated locals of Nyapea; who mainly depend on local language radio stations from Masindi and Hoima for their news.

"The Nyapea residents are not convinced that their health and that of their cattle and goats won't be endangered by having this waste in their midst hence they have unanimously voted against NEMA's proposal. We have written to NEMA expressing our misgivings but we haven't heard from them yet," said Bamuturaki.

The residents' discomfort with this NEMA proposal stems from the sudden decision to change the land's usage from serving as a temporary settlement area – a position the locals were comfortable with – to serve as a waste management area.

In the wider scheme of things, this impasse between the people of Nyapea and NEMA ties in with the accusations of lack of transparency and clarity that have dogged the burgeoning oil and gas sector in Uganda. In this situation, NEMA could insist that it publicly announced its intentions, but like Bamuturaki points out, making the communication in a language few can comprehend is equivalent to not communicating at all.

"Here, we are treated like the drunkard's goat; which is at risk of being slaughtered anytime depending on the whims of its unstable owner," aging Mukondo Kitianga, a Buliisa resident says with a shake of the head.

Misinformation or half-truths on issues that are central to the general public can be dangerous in the long run, according to Robert Byaruhanga, the Bunyoro region field officer for Africa Institute for Energy Governance (AFIEGO), a civil society organisation.

"Our people are lacking information hence their suspicion. For instance we have been denied the findings in the refinery feasibility study and no doubt when it comes to compensating the owners of the land, many problems will arise. We need a compensation program first before the land is surveyed. Bad things have happened in Uganda before and we don't want them repeated here," says Byarugaba.

For him therefore, it is high time Uganda became a member of the Extractive Industries Transparency Initiative (EITI) – a body that seeks to strengthen governance by improving transparency and accountability in the extractives sector so that the exploited resources can generate large revenues to foster growth and reduce poverty.

Last year, renowned Microsoft proprietor Bill Gates asked a G20 meeting to compel the Ugandan government to publicize all the agreements and the revenue got from oil; a notion supported by the Publish What You Pay global initiative. Mr Gates argued that while the oil money should be able to cater for the needs of poor Ugandans, they would find it difficult to protect their interests because they had no idea of what is contained in the oil agreements.

The article titled "Government Could Pay Billions for Idle Rigs", which won New Vision reporter, Ibrahim Kasita top prize at the first oil and gas media awards event organised by the African Centre for Media Excellence and the Revenue Watch Institute last year, for one highlighted the dangers of secrecy in the sector. Like many observers have noted, such recoverable costs that are not clearly spelled out – mainly because the Production Sharing Agreements signed between the state and the oil companies remain secret – may in the long run cause all sorts of anxieties.

Last year, Angola, a leading oil producer in the world, was thrown in the limelight again after an International Monetary Fund report revealed that about $32bn was not properly documented in the budget. With President Jose Eduardo dos Santos' government gaining notoriety for mismanaging oil revenues and corruption, it's no wonder that the IMF report caused a storm even though it was not conclusively blaming the government for embezzling the money.

According to Angelo Izama, a journalist and director of Fanaka Kwawote, a human security think tank, there should be no two ways about transparency in the oil and gas sector seeing that openness or the lack of directly shapes a state's political future.

"Transparency guarantees our national security today and in the future by reducing suspicion and the erosion of confidence in institutions of state. It diminishes the effects of corruption and wastage therefore guaranteeing a stronger and more civil social compact. Investing therefore in transparent processes is the most important down payment for stability that the government of the day can make. Similarly open government being safer guarantees the companies the security for their investments," notes Izama, who together with fellow Daily Monitor journalist, Charles Mwanguhya went to court in 2007 seeking to compel the Attorney General to avail information on the oil agreements the Government of Uganda had signed with international oil companies.

The Uganda Chamber of Mines and Petroleum Vice President, Mr Richard Kaijuka fully agrees with many of the sentiments raised by Izama. Speaking at a recent Uganda Revenue Authority public summit to highlight the opportunities in the oil sector, Kaijuka noted that transparency would be important in managing Ugandans' expectations from the sector.

"I don't blame society when it insists on disclosure. What is magical about being open? If I was still Minister of Energy, I would insist that we lay the PSAs on the table so that people are at ease. Uganda has after all done remarkably well as far as the sharing proportion is concerned. But this continued secrecy means everyone will be worried. Be open and transparent and the general public will be at peace," he said.

Fortunately, Parliament's increased interest in the sector in recent times can throw more light on the sector going forward.

Toyota Uganda M.D Dino Bianchi (L) and Tinka (C, background) at the launch of the upgraded Hilux and Fortuner models

Toyota Commissions Upgraded Hilux

A new generation Toyota Hilux has been launched on the Ugandan market to further enhance Toyota Uganda's position as a leading distributor of all-weather vehicles.

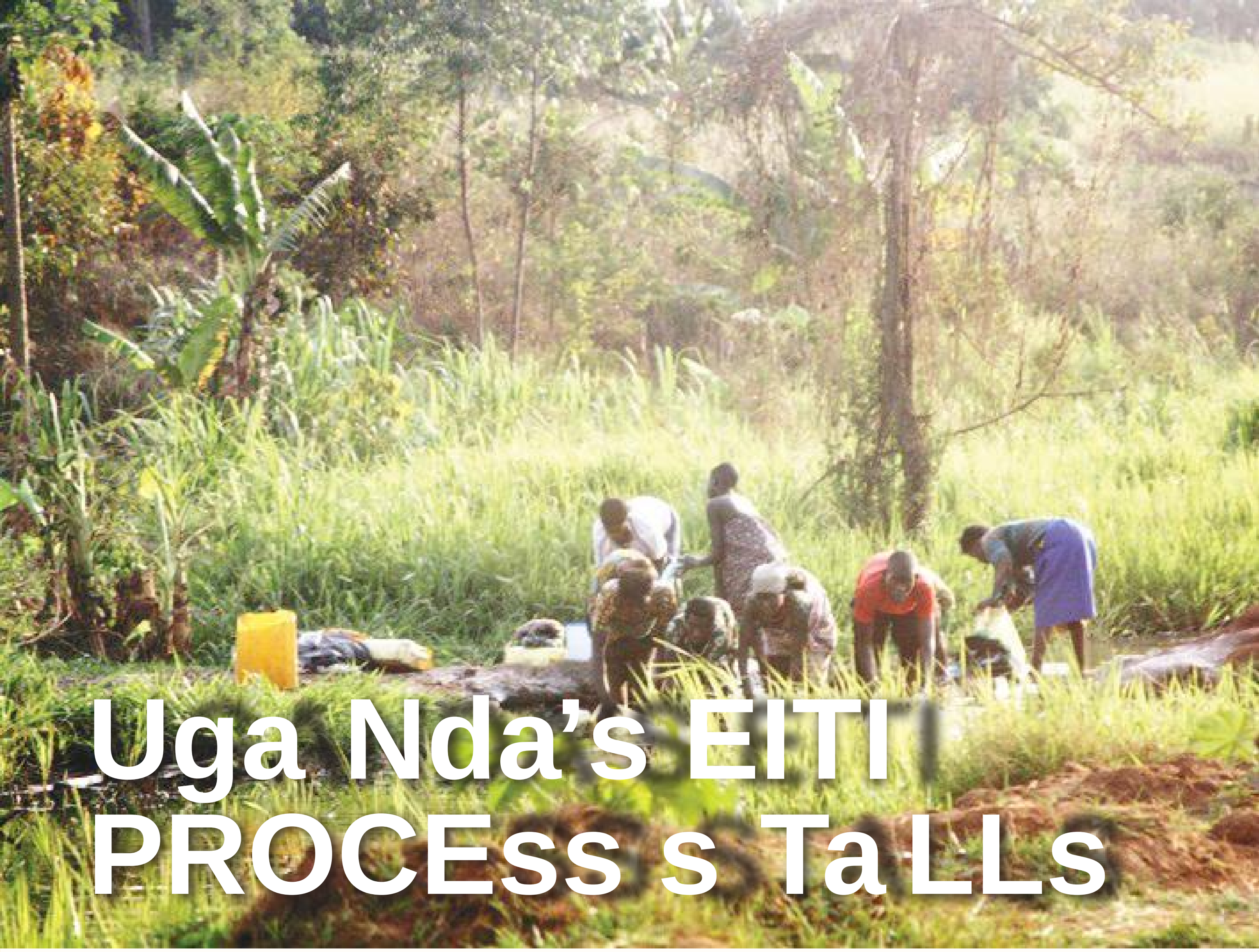
Joseph Tinka, Toyota's National Sales Manager says the new Hilux has been enhanced with both new exterior and interior features.

"On the exterior part, aerodynamics, newly designed headlamps with top-class brightness and light distribution performance, rear lamp combination, rear stop lamp lens changed from red to clear, newly designed front bumper and radiator grill with wide frame and bold horizontal grill," says Tinka.

An upgraded Fortuner which has also recently come on the market is positioned as an advanced Sports Utility Vehicle (SUV) to meet emotional and functional needs those aspiring for comfort.
The upgraded Toyota Fortuner enhanced its "prestige" image through revision of many specifications like increasing the number of driver interfacing equipment.

"The model life cycle of a vehicle is normally five to six years. We want customers who have driven the Hilux and Fortuner to buy and drive the upgraded models again," indicates Tinka.

He adds that in both design concepts, there has been a relentless pursuit of quality and durability.



Uga Nda's EITI PROCEss s TaLLs

We have all heard of the so called 'oil curse or 'the Dutch disease' since the first commercially viable oil well in Uganda was struck in 2006. The oil curse, its proponents argue, could arise if say the Ugandan government failed to effectively and efficiently manage the huge monetary returns it would generate.

According to World Bank projections, Uganda will produce at least 350,000 barrels of oil per day by 2018. This translates into earnings of about US$2bn a year or more depending on the price of oil.
The country's oil reserves potential is estimated at over 2 billion barrels meaning Uganda is likely to earn over $2bn a year for over 25 years.

To put this in perspective, Uganda's total exports amounted to $2.7bn in 2008 and 2009. The country's national external debt was estimated at $2.5bn in December 2009 and the country consumes about 13,090 barrels of oil a day.
$2bn is the amount of money that Uganda received in multi-lateral and bilateral debt relief to boost economic growth a couple of years ago.
These statistics give you an idea of what an extra $2bn would mean to Uganda's economy.
With $2bn, Uganda can become debt free in the next few years, invest efficient and modern transport infrastructure, build electricity plants etcetera.

However, it would be expecting too much of a public sector botched by corruption like Uganda's has been for a while, to suddenly shine when the petrodollars start trickling in. After all, as countries like Nigeria and Angola have shown benefits from extractives are not automatic. On the other hand, more transparent and well governed states like Norway have reaped the benefits.

Therefore, it follows that apart from other internal controls meant to ensure oil revenues are put to good use; it would do Uganda a whole lot of good if it joined and implemented the tenets of the Extractive Industries Transparency Initiative (EITI).
Advocates if EITI in Uganda have issues of concern and are not satisfied with the way the whole oil development process has been managed so far.
A lot of secrecy has been exhibited so far as regards licences, revenue sharing, information on refineries and pipelines as well as the environment, raising widespread suspicion.

EITI is an independent, internationally agreed upon, voluntary standard for creating transparency in the extractive industry that came into being in 2002.
It is mainly aimed at promoting

transparency and accountability in the management of revenues generated from the exploitation of mineral resources particularly through information disclosure to the public.
The implementation of EITI is done by a multi-stakeholder group comprised of government, extractive companies and civil society representatives.

Lynn Turyatemba, the Extractives Programme Officer at Africa Institute for Energy Governance (AFIEGO) says by virtue of being a reasonably mineral rich country the oil notwithstanding, Uganda should be a member of the EITI by now.

Objective 6 of the Oil and Gas Policy (2008) calls for the meticulous collection of revenues and ensuring they create lasting value for the entire nation. As such, the policy explicitly commits the Government to participate in the EITI process.

There have been repeated verbal commitments from President Yoweri Museveni that oil revenues will beneficially be used like for infrastructure development but without committing to principles like those propagated by the EITI, one wonders how this initiative will be achieved.

The Ministry of Energy asked AFIEGO to initiate the process as far back as 2009, but even the initial introductory letter to the EITI board is still shelved.
And following touchy debates in Parliament about the oil sector, the Cabinet sat in November to discuss a thing or two about EITI but nothing tangible came out of the meeting.
The donor community though remains supportive of the process; setting up a fund to finance activities towards Uganda becoming EITI compliant.
"This fund has been put together by the United States government, the United Kingdom and the European Union. Becoming EITI compliant is a long and expensive process hence the donor support," explains Turyatemba.

According to the Publish What You Pay – Uganda chapter, a collection of 40 Non-Government Organisations (NGOs) that are pushing for Uganda to become EITI compliant, there is subtle resistance towards formally assenting to the adoption of the EITI by the Ugandan government.
The argument fronted for this stand is that Uganda does not need to formally sign up to the EITI for the benefits of oil revenues to be efficiently used.

Quoting Kabagambe Kaliisa, the Permanent Secretary of the Energy and Minerals Ministry, PWYP-U says the Ugandan government doesn't consider "this foreign NGO" important.

Yusuf Matovu Bukenya, the Ministry of Energy spokesman though recognizes that becoming an EITI country is a process, which though important, won't be forced onto Uganda.

"Now that we have firmed up our position as an extractives player, it is a process we will soon embark on. It has to be approved by Cabinet and various other government entities though," he notes.

Tougher times ahead

While Uganda might take its time regarding EITI, regulation brewing elsewhere will force government's hand whether they want to or not.
A press statement on the Revenue Watch website recently said the United States Securities and Exchange Commission is readying new disclosure rules for the oil and mining industries – pushed and funded by prominent philanthropist and investors including people like Bill Gates of Microsoft Inc plus leading members of Congress.

This group has called on the commission to make the transparency rules "strong and robust" to benefit citizens of resource-rich countries.

"Such rules would be consistent with emerging international norms and practices, and help reinforce a competitive and level playing field for U.S. corporations and foreign companies. It would produce real benefits for the citizens of the countries where the investments take place," noted Gates in a statement to the SEC.
It is such regulation that should come in handy should the Uganda government continue to ignore processes like the EITI.

Being EITI compliant though, does not apply to governments only but to companies involved in the extractive process too.
"We have interacted with companies that operate in Uganda and the impression we get is they would want to work in a country that is EITI compliant because it helps the investment climate," she said. Of the three major players now in Uganda's oil and gas sector, Total is the only one that happens to be EITI compliant.

Being discreet though, Turyatemba believes more companies should embrace it.
"EITI requires one to simply publish their revenues. It doesn't ask for the fine details of the company's operations," she said.

Benefits

According to Turyatemba, a lot of resource driven conflicts have origins in suspicion over who is benefiting from resources and perceptions that certain groups are "not getting their fair share". Uganda's submission to EITI principles can, in a small way, mitigate some of these tensions by ensuring that there is accurate, independently compiled, understandable information about where the money is going.
"The minute we become EITI compliant, focus will be on all forms of mining. Right now there is a lot of secrecy and when you dig deeper a lot of information is hidden away," Turyatemba says.
The regular publication of payment and revenue information can help guard against corruption by creating a culture of independent scrutiny and audit.
EITI helps improve the reputation of genuine reformers (both governments and companies).
Benefits for implementing countries include an improved investment climate by providing a clear signal to investors and international financial institutions that the government is committed to greater transparency. EITI also assists in strengthening accountability and good governance, as well as promoting greater economic and political stability.

On the other hand, investors benefit since transparency mitigates political and reputational risk. Political instability caused by opaque governance is a clear threat to investments. In extractive industries, where investments are capital intensive and dependent on long term stability to generate returns, reducing such instability is beneficial for business. Transparency of payments made to a government can also help to demonstrate the contribution that their investment makes to a country.

Benefits to civil society come from increasing the amount of information in the public domain about those revenues that governments manage on behalf of citizens, thereby making governments more accountable.

New twists emerge on oil front

A rig at work in Buliisa

In a major milestone for Uganda's emerging oil sector, UK-listed Tullow Oil announced on February 21 that it had completed its long-delayed plan to enter into a partnership with China's China National Offshore Oil Corporation (CNOOC) and French oil major, Total.

Completion of the landmark deal means the three partners, riding on Total and CNOOC's formidable technological and financial resources, will now embark on developing Uganda's oil fields into production stage.

Although the country discovered oil almost six year ago, the start of commercial production has been elusive and some analysts suggest Uganda may been falling badly behind and that the faltering start may not augur well for the future.

With the conclusion of the deal, a total of $2.9 billion was transferred to Tullow from Total and CNOOC, after repeated delays following the initial announcement of the deal early in 2010, and the signing of the sale agreements in March 2011.

"Tullow, CNOOC and Total have been working closely since March 2011 on development options for the Lake Albert Basin and are looking forward to discussing them with the government of Uganda later this year," Tullow said in a statement announcing completion of the deal.

The trio is now expected to roll out

a $10 billion investment in key infrastructure to facilitate crude production and one of the major projects under this broad investment plan will be the construction of a refinery.

While announcing Tullow's signing of two new PSAs with the government on February 3, Energy Minister, Irene Muloni, said the three companies had agreed to the idea of a refinery and that a crude export pipeline would be considered at later stage.
That had been a sticking point during the negotiation to conclude the deal with the oil companies arguing a Uganda's landlocked nature and relatively small reserves didn't make a refinery a wise investment.

Some analysts say now that Uganda has attracted world oil majors like Total, progress toward First Oil should move much faster.

Tullow's Exploration Manager for South and East Africa, Ian Cloke, told news agency Reuters on March 27 the company was planning to start small-scale crude production later this year while Muloni had earlier said commercial production is slated to begin "as early as next year (2013)".

The uncertainty created by the conflicting signals isn't helpful and both the government and exploration companies need to communicate a mutually agreed field development and First Oil timeline.

Of course, Kenya's own discovery oil of oil, announced by Tullow on March 26, has put Uganda's slow progress to commercial production in a harsher spotlight.
"The announcement by Tullow… that oil was discovered in Kenya is a real game changer not just for East Africa's largest economy but for her other siblings," says energy analyst, Angelo Izama. "With Kenya's discovery many things must be rethought, maps taken out, friends and partners re-assured."
With an existing refinery, an oil pipeline infrastructure heading east towards Uganda and plans for an another pipeline evacuating South Sudanese crude to its port at Lamu, Angelo argued, Kenya is already well primed to race ahead of Uganda. Itself that will have some sobering implications for Uganda.

With East Africa now becoming an exploration hotspot, competition will now have to ensue amongst different countries for the scarce investment capital out there.

And while the oil industry has traditionally demonstrated the least averseness to investing in risky and unstable regions, it is still every investor's dream to put his money in the safest and stable of environments.

Pretty obviously, in purely formal democratic terms, Kenya's institutional infrastructure is far more advanced than Uganda's, which means the country's capacity to initiate and implement projects is far greater.

"Since Kenya will be a safer bet for capital from the free markets, Uganda may need to look seriously at sovereign wealth funds to make her fields competitive," Angelo said.

He for instance pointed out that Uganda's ambitions of building a refinery may run into strong headwinds in the face of Kenyan's oil discovery.

With the discovery Kenyan is already moving to revamp and ramp up the capacity of its refinery at Mombasa. The East African newspaper reported recently that the Kenya Petroleum Refineries Limited (KPRL), the company running the refinery is planning to invest up $1 billion to modernize the facility which will expand its crude processing capacity, improve the quality of its output and add to the range of products its producing.

And with a modern and efficient refinery at Mombasa, Uganda may find it difficult to convince financial institutions to provide funds for its own refinery when it's likely to be outcompeted by Kenya's more strategically located.

Still, some other developments in the region may bode well for Uganda, depending on how the country parlays them. The looming conflagration between South Sudan (SS) and Sudan, for instance, could make Uganda oil industry more attractive for would be investors in the region although SS's reserves dwarf Uganda's.

With SS and Sudan locked in a war of attrition over competing territorial and oil claims, Uganda needs to distinguish itself as an open, safe and dependable business environment to attract the likes of Tullow/Cnooc/Total deal.

With only 50 percent of the entire Albertine rift basin licensed, the country still has nearly 10,000 square kilometers worth of exploration acreage to auction.

And Uganda's political environment, while not sufficiently anchored, is reassuring enough. But the legal and institutional readiness to steer the nascent oil sector arguably still work in progress.

Much of the disputes, for instance, around taxation of oil transactions that held progress in the sector stem from a lack of a strong and up-todate legal regime.

The energy ministry has sent two pieces of legislation covering exploration and production. A third piece covering revenue management is in the pipeline.
Parliament needs to expedite passage of these laws to facilitate oversight, smooth dispute resolution processes and efficient management of the sector.

All eyes on Parliament as oil bills debate nears

Irena Agalliu, from IHS, a global information company specialised in oil and gas issues breaks down some of the pertinent issues in the petroleum bills to Members of Parliament

The Petroleum Bills tabled in Parliament early February 2012, have already received an international critical appraisal, but it is the home-grown legislators that will have a final say on the kind of legal regime that should govern a sector that will drive Uganda's economy over the next 30 years.

International bodies like Global Witness, Revenue Watch Institute, the Harriman Institute at Columbia University have all weighed in on the bills. Their assessments – some sections of the bills have come under heavy criticism while others praised for their "good detail" – offer good points of debate for the Members of Parliament. Debate on the bills – one for the upstream and the other for the downstream - is expected before the close of the current financial year, which ends in June.

The MPs have their work cut out. No mineral resource in Uganda has received such media hype and public interest like oil. Even religious leaders, who government has warned against trudging on the muddy path of politics, can't seem to keep quiet. The religious leaders recently made an interesting recommendation about how they desire to take up a stake in the National Oil Company, arguing that politics is too serious an issue to be left for a chosen few.

Focus, though, will remain on the MPs. The legislators were caught in the eye of the storm last October when Western youth MP Gerald Karuhanga tabled documents implicating three ministers for receiving bribes from oil companies. The story caused a stir countrywide and exposed the fault lines within the House.

The public followed the parliamentary proceedings with as much excitement over the push for transparency as trepidation over having an accursed oil industry in their midst. Along the way, however, debate shifted to whether the documents were even genuine. More worryingly, some legislators turned into a mob, baying for the accused ministers' blood rather than proving their case or even championing the need for deeper oversight of the sector.

This time round, the public will wish that the legislators will put their party differences and tribal sentiments aside, and debate the clauses in the sector from a more informed point of view. There are worries that some radical opposition members could try and stifle constructive debate simply to frustrate the entire process. Although, there are also quite similar fears that pro-government legislators will rubberstamp the clauses without any constructive questioning just to prove to the party hierarchy of their overwhelming loyalty. Both scenarios are dangerous.

There is also the issue of the tribal card. Legislators from Bunyoro are bound to find conflicting interests between those of their political parties and the kingdom. Already, some kingdom officials like Ford Mirima, a spokesman, say they have been "let down" by the Bunyoro MPs. Discussions independent of tribal and party affiliations is what the public will most likely look out for.

To stimulate constructive debate, the Uganda Chamber of Mines and Petroleum recently hired Irena Agalliu, the Managing Director of IHS, a global information company that looks at different sectors like energy, the environment, geopolitical risk, just to mention a few, to take the MPs through sections of the bills that she thought could make for interesting discussion. One of her most startling observations of the draft Petroleum Bill governing the upstream sector is that: "There is lack of clarity and potential conflict between the roles of the various entities. It is unclear how approvals will operate in practice."

It was the second time that the Chamber was doing this, the first time being in August 2010 when they brought another international expert David Johnston to carry out a similar task.

Such efforts go a long way in raising awareness about the best legal regime for the oil industry, which, it is feared, a good number of legislators might be ignorant about. There hasn't been intense public scrutiny of the bills. Much of the debate has been driven by civil society groups.
For now though, the revenue sharing of oil proceeds will also form a significant part of the public's interest. How government intends to share out the royalties is something that could attract debate in the House too. In an earlier draft of the upstream bill, government had awarded itself 93% of the royalties, with the rest being shared out among kingdoms, local governments.

Bunyoro Kingdom, alone, where much of the oil has been discovered so far, wants 25% of the oil royalties. The kingdom's officials say they have kept the door opened for government about negotiations over their demands.

Government has not yet tabled a bill showing how the money will be shared. Such information will only be known when the ministry of finance tables amendments to the Public Finance and Accountability Act, 2003.

Global Witness is an international NGO established in 1993 that works to break the links between natural resource exploitation, conflict, poverty, corruption, and human rights abuses worldwide

This though, creates another problem of its own, according to the anti-corruption watchdog Global Witness, which warns that: "Without the revenue management legislation, it is not possible for parliamentarians or other stakeholders to conduct a thorough analysis of the legislative framework governing the petroleum sector or understand its implications."

Transparency in the sector will likely be a keen issue. Many people still hold the argument that it is the elite who will benefit more from the oil deals, and not the man on the street. To reverse this argument, many legislators will likely call for more disclosure in the industry, just as they did back in October at the height of the oil bribery allegations. The Revenue Watch Institute, an international body that tracks events in the extractive industry, in their appraisal of the bills recommended that the bills should, "Include mandatory reporting of payments from oil companies, disaggregated and in an easy-to-use online format."

The MPs are more likely to question the amount of power the bills bestow on them to veto some decisions. A common feature from all the reviews is the concern about the overwhelming power the bills hand the minister. "The Bills put significant power to control the relevant institutions, dictate future regulations and negotiate the terms of licences and agreements in the hands of the Minister. This risks politicizing the management of the petroleum sector," Global Witness points out. The MPs role in the bills is thought to be marginal.

The Members of Parliament could also want to look at the issue of penalties. Most of the oil wells drilled so far are found in environmentally sensitive areas such as the Murchison Falls National Park. The Harriman institute recommends that companies that break the law should have their licences cancelled.

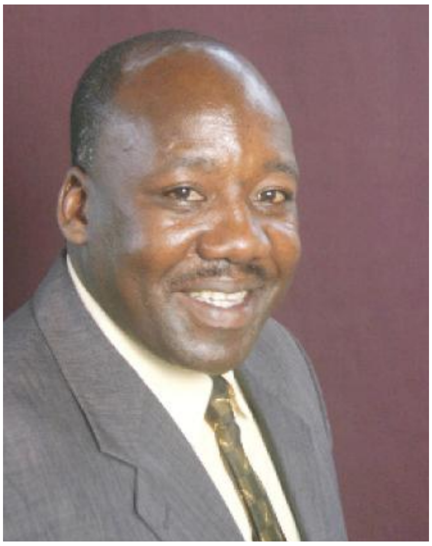
The petroleum companies will take some pleasure from the upstream bill especially with the period of the production licence, which compares favourably with the other regions. In the bill, the period of the petroleum production licence has been put at 20 years, which is higher than what government had previously suggested. Ghana's period is at 18 years, while Nigeria's is also 20 years.

And yet, the IOCs will be keener on how the debate on the bills will shape up. If the debate is politicised and turned into some political circus with threats and accusations, it could hurt the share prices of the three companies Tullow, Total, and CNOOC, all of which are listed on different stock markets.

The bills, once passed into law, will replace the National Oil and Gas policy. The law would pave the way for the creation of the national oil company and a petroleum authority to govern the sector, among other institutions.

Oil clean-up workers pick up oily globs as they remove residue washing ashore from the Deepwater Horizon oil spill in the Gulf of Mexico in 2010. Billions of dollars were racked up in insurance fees

Ugandan Insurers eye risky oil sector



Maurice Amogola, CEO, AON Risk Solutions, Uganda

They are often accused of dragging their feet when it comes to deepening their services, but Uganda insurance players say they are not sitting idly by as the country's oil industry takes centre stage.

"We have teamed up together and when any oil production investments start, through re-insurers we will be ready to take on any risks on the local market," says John Karionyi, the Chief Executive Officer of ICEA, Uganda.

Also, the Uganda Insurers Association has announced that an oil and energy pool had been formed. According to the plan, the companies will pool money to cover risks that no single company can do alone. "Individually, the insurance companies may not have the expertise and capacity to take on the large risks but as a pool, they should be in a better position to provide cover for risks associated with the promising sector," says Mathew Koech, the Chairman of the association.

The insurance industry's plans to tap into the expected oil revenue windfall were already long overdue. There are few industries with so many risks to cover as the oil industry. In the long run, the insurance industry faces its most sensitive task, and a tight race against time to put its house in order.

For starters, the insurance industry players will have to do a lot of lobbying to have government appreciate their services; the sector is barely mentioned in the Local Content Study, a document by the Ministry of Energy to have Ugandan companies take advantage of the oil industry. Even in the National Development Plan – the text that is intended to guide Uganda to becoming a middle income country – only mentions insurance in passing.

On an industry level, it is already clear that no single insurance firm can cover the three large companies – Tullow, Total, and CNOOC – engaged in the upstream industry; it is simply too expensive to do that. The downstream market of the oil industry, however, presents the insurers a good opportunity.

Then again, there are few, if any, players who are experienced in covering the oil industry in Uganda. In countries like the United States of America, Angola and Nigeria, insurance companies took time to develop special expertise on the oil sector through building manpower and training.

But companies with affiliates in developed countries where the oil sector has already existed have an edge over their competitors. "AON insurance has 40,000 employees worldwide most of whom are well versed with such sectors as oil, especially in the United Kingdom," says Maurice Amogola, the Chief Executive Officer of AON Risk Solutions, Uganda, "Every quarter of the year staff from our UK office come to Uganda to increase our competence on oil."

Many insurance players are not losing much sleep over questions about how prepared they are though. The players say that anyone who doubts the significance of insurance ought to look at the infamous oil spill in the Gulf of Mexico in 2010 – now every insurance industry's smoking gun evidence about their relevance.

The spill left a huge hole in the purses of British oil company BP, and its partner insurance firms. Swiss Re Insurance Company at one point estimated insurance coverage for the loss to exceed $3.6 billion. J.P. Morgan estimated a $1.6 billion insurance loss but noted that its estimate did not include the impact of the oil coming ashore.

In March 2012, BP agreed to pay an estimated $7.8bn to hoteliers, fishermen and others affected by the spill, which also killed 11 men. The company still faces legal action from the U.S. government, which could levy fines of over $20 billion if it can prove gross negligence.

The numbers about the monies BP had to pay are just as scaring as they are a goldmine to the insurance industry. "When disasters happen, they can be costly like that in the Gulf of Mexico, but insurers would still have to provide the cover..." says Amogola.

And yet, the insurance industry finds solace – and opportunity – in a basic interpretation of how things work out in the sector. Insurance operates on the notion that there are many people who insure and pay premiums and the disaster frequency is not high. This means that if a disaster occurs and the company still has a huge volume of premiums, it can easily clear off the disaster.

There is also the provision of reinsurance. Reinsurance occurs when multiple insurance companies share risk by purchasing insurance policies from other insurers to limit the total loss the original insurer would experience in case of disaster. However, plans to form the Uganda Re – which has been discussed for close to 10 years – are yet to bear any fruit.

There are enough insurance players to form the Uganda Re. The industry currently boasts of 22 licensed insurance companies, of which 14 are general insurance companies, six are composite while two are pure life companies, according to information from the Uganda Insurance Association. The industry has 26 licensed insurance brokerage companies, 1 reinsurance broker, 12 loss assesors, surveyors and adjusters.

The numbers, when compared to Kenya for example, are still low. In 2010, according to the Insurance Regulatory Authority of Uganda Annual Market Report, the gross premium income written rose to Shs239.98bn ($98m) from Shs202.05bn ($83m), a 19% growth. Of this, Non-life insurance business accounted for Shs 216.34 billion – the biggest concentration of business for the sector, at least 90% - while life insurance accounted for Shs 23.63 billion (10%) of the gross premium income in the industry in 2010. Motor insurance had the largest proportion, 30%, of total non life premiums while group life insurance contributed the largest proportion, 70%, to life.

The market penetration level, calculated as a proportion of Total Gross Premiums to Gross Domestic Product, increased from 0.59% in 2009 to 0.65% in 2010. Kenya, the region's bellwether, has a penetration level of 3.1% and gross premiums of $988 million as at 2010. It is when these numbers are put in perspective that one gets to understand the amount of work the insurance industry still has to do.

LLOYDS GIVES UGANDA A LIFT

Company Profile

Lloyds British Testing Uganda is a wholly owned country subsidiary of Lloyds British Testing. It commenced its operations in February 2011, consistent with its strategy of expanding its engineering services all over Uganda and East Africa as a whole.

The Lloyds British Testing Board Chairman is Mr Ian White and Miss Ghada Talaat the Managing Director Africa. Mr Andy Graney is the Country Manager in Uganda.

Synonymous with some of the very best in lifting engineering worldwide, Lloyds British Testing is one of the latest global giants to set up shop in Uganda. The Uganda office that will be the main base for the East Africa region will offer a variety of training and engineering services like inspections, testing certifications and design with strategically located centres in the UK, UAE, Kuwait, Egypt, India and Ghana offering reliable ,responsive and fast services. ***Lloyds British, Uganda's country manager Andy Graney*** elaborates more on the company's plans here:

Why should Lloyds' lift-engineering expertise be important to Uganda's nascent oil and gas sector?

Lifting engineering is a specialist area involving the correct and safe use of all types of lifting equipment ranging from cranes and hoists through to accessories such as hooks, chains among other. All lifting equipment is regarded as safety critical when in use and Lloyds British Testing prides itself in being among the best in this area. We provide a broad range of lifting engineering services such as inspection and testing of lifting equipment, product supply, the design of lifting equipment and health and safety training for operators.

Our services are indispensable to Uganda's oil and gas industry because we are an approved support company for the sector supplying lifting engineering and training services to world renowned companies such as Shell, BP and Aramco.

We have an International network of branches and regional hubs which enable us to provide services in real time to our clients wherever there operations are situated in the world.

Lloyds certifies in accordance with British/European standards as well as to companies/customers specific requirements.

What opportunities can similar businesses like yours expect in Uganda's nascent O&G sector? Is there enough for everyone to go round?

We are confident that the O and G sector in Uganda will grow substantially over the next few years which should provide greater opportunities for not only Lloyds British but also service partners that will help facilitate the market demand.

There are sentiments that all the lucrative contracts are going to foreign firms like yours without considering the local expertise? What is your take on this assessment?

According to our firm that's false, since we have some Ugandans training as Engineers. And they are doing a tremendous job in various bases. We do plan to carry out more training for Ugandans in the near future.

How would you rate the Training and Engineering Services offered in Uganda and how can they be improved to match the best standards anywhere in the world?

Lloyds British Training Services is setting the standard for vocational training in the oil and gas sector and with the commitment from employers we can ensure that our standards are the benchmark for the industry. With support from key clients, Lloyds British would be prepared to open a dedicated training school which covers the much needed training to locally recruited employers. Only this type of commitment will ensure that the best standards in training can be provided for the wider work force.

What plans do you have for growing local capacity e.g. through skills transfer training?

Lloyds British has undertaken a training-needs-analysis for all of its employees and we have also identified the skills that will need to be provided for on and off the job training. The Lloyds British Group has its own training company and we can facilitate the majority of our staff training needs internally, wherever they are required in the world

BULIISA BOOSTED
by Tullow's $2m hospital

Cathy Adengo (R) takes journalists around the operations theatre at the new Buliisa Health Centre

Tullow Uganda has set up a $2m (Shs5bn) Health Centre IV in Bullisa to support the delivery of quality medical services in the district.

The first phase of the hospital consisting of the general ward, an operating theatre, outpatient department, nurses residents, has been completed, says Cathy Adengo, the corporate communications manager at Tullow Uganda.

Tullow funded the construction of the health centre as part of its Corporate Social Responsibility programme to support local communities in the Albertine Graben in Uganda. The hospital will provide health services to at least 100,000 residents of Buliisa, who currently endure up to 100 km to access quality health services from Hoima district.

Construction for the health centre commenced in Dec 2010 and shall be completed in first quarter of 2012, according to Adengo. The maternity ward, doctor's residents, and X-ray block, are still under construction.

Speaking to the media during a tour of the Buliisa Health Centre IV, Adengo said: "Our social Enterprise programme focuses on CSR projects that make a real and sustainable difference in the communities. These projects have been developed in line with district development plans and after extensive engagement with the local communities."

The Buliisa Health Centre IV is among the six legacy CSR projects that Tullow is undertaking in Buliisa and Hoima Districts. Tullow is to spend $5m (Shs12bn) on the six projects.

In Hoima District, Tullow is constructing the Sebagoro Health Centre III, as well as a new primary school- Kaiso Primary School, the Kyehoro Primary School and Kyehoro Health Centre with a total investment of $2.6 million.

Working in partnership with Health Initiatives for Private Sector (HIPS, a USAID health programme), GIZ a German development partner, Uganda Manufacturers Association (UMA) and Buliisa District Health office, Tullow Oil has supported medical treatment for diseases and aliments including: malaria, typhoid, infectious diarrhea, hypertension, diabetes, dehydration, chronic pain, arthritis, inflammatory and rheumatologic medical conditions.

Murchison Falls Tourism Oiled

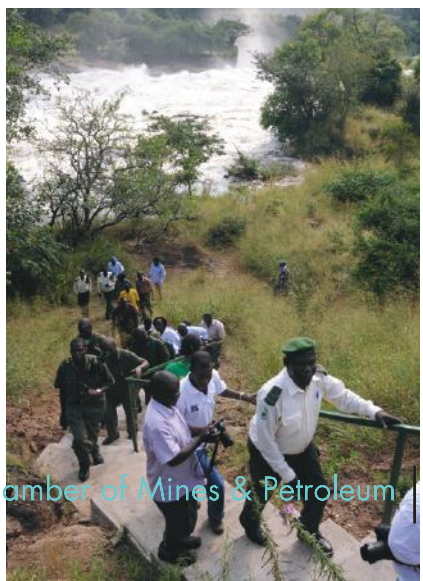
Dr. Andrew Seguya, the Executive Director of the Uganda Wildlife Authority (UWA), believes the construction and reinstatement of "Te Bito, Top of the Falls track", an 18.5km tourist track along the northern bank in the Murchison Falls National Park has the capacity to turn around the tourism fortunes in that area.

The $200,000 track constructed through Tullow Oil's CSR programme will provide an alternative game drive route through the national park, Uganda's largest park. The track also provides a shorter access route for the northern bank tourists i.e those staying at Paraa and Chobe lodges to the top of the Murchison Falls instead of first taking a ferry and a one hour drive to get to the falls.

"On the global scene, Uganda's tourism has received positive ratings across the world as evidenced by the recent Lonely Planet rankings. We thank Tullow for undertaking this excellent initiative and supporting tourism promotion in the park," he said.

Seguya said that given the huge oil potential in the Albetine Graben, which is also home to most of Uganda's national parks, it was critical that all key players in the two sectors work together.
Eoin Mekie, the General Manager Tullow Uganda noted that his firm's participation on the project could be enhanced in the future in order to truly demonstrate the perfect balance between sustainable conservation and the oil and gas industry.

UWA and Tullow officials get a feel of the reinstated Te Bito track



Chamber Members’ Categories

COMPANY	CONTACT PERSON	SECTOR
DIAMOND MEMBERS		
1. Tullow Oil ltd	Ms. Kristina Kasibayo Mr. Jimmy Kiberu	Oil and gas exploration and production
2. CNOOC	Mr. Chai Wei	Oil and gas exploration & production
3. Total E&P	Mr. Loic Laurandel	Oil and gas exploration & production
4. Hima Cement Ltd	Ms. Grace Nakolo	Cememt manufacturers
5. Schlumberger Oilfield	Eugene Francois Kleyn	Oil &gas services
6. National insurance Corp	Ms.Jocelyn Ucanda	Insurance
7. Orient Bank	Mr. Ben Lewis	Banking
GOLD MEMBERS		
8. Astor Finance Plc Ltd	Mr. Gordon Sentiba	Micro-leasing and financial services
9. Bank of Uganda	Mzee Juma Binehe	Bank of Uganda
10. DFCU Bank	Mr. James Mugabi	Banking
11. Kilembe Mines	Mr. Fred Kyakonye	Copper mining
12. MTN U Ltd	Ms. Ruhk Shana Namuyimba	Communication
13. Neptune Petroleum Ltd	Ms. Marilyn Hill	Oil & gas exploration and production
14. Orwell International U Ltd	Mr. Fred Umunna	Drilling tools and well services
15. Stanbic Bank	Mr. Nsibambi, Daniel K	Banking
16. Standard Chartered Bank	Mr. Mundua Godfrey	Banking
17. Wood Group	Mr. David Beacham	Energy services
18. Lion Assurance Co. Ltd	Mr. George Alande	Insurance
SILVER MEMBERS		
19. Aggility logistics ltd	Mr. George Odeke	Logistics
20. Alexander Forbes Risk Services	Mr. Busani Ngwenya	Insurance & risk manangement
21. AON Risk Services	Ms. Caroline Athiyo	Insurance & risk manangement

22. Askar security Ltd	Ms. Kellen Kayonga	Security
23. AUC mining Ltd	Mr. Moses Masagazi	Gold mining
24. Bemuga Forwarders	Mr. Ben Mugasha	Clearing and forwarding
25. Berkeley Reef Ltd	Hon. Richard Kaijuka	Mineral exploration
26. BTS clearing & forwarding	Ms. Merian Sebunya	Clearing and forwarding
27. Busitema mining Ltd	Mr. Paul Sherwen	Gold mining in Busia
28. Canmin resources	Mr. Gary Fitchett	Mineral Exploration
29. Casco Petroleum	Mr. Eugene Lazarenco	Rig supply
30. Chartis Insurance	Mr. Paul Muhame	Insurance
31. Citi Bank U Ltd	Ms. Magdalene Weya	Banking
32. Civicon Limited	Mr. Jason Horsey	Mechanical & civil engineering works
33. Deloitte U Ltd	Mr. Bill Page	Auditors
34. DHL global forwarding	Mr. Juliet Kagwa	Logistics service provider
35. Eagle logistics solutions ltd	Mr. David Walabyeki	Customs clearance, heavy equipment hire
36. East African Chains U Ltd	Mr. David Mayanja	Dealers in mech-tools
37. Engen (U) Ltd	Mr. David Okonye	Gas and oil
38. Epsilon U Ltd	Ms. Sarah Ntabazi	Waste management
39. Ernst & Young	Mr. Muhammed Ssempija	Auditors
40. Farm Engineering Industries	Mr. T. S Padhaal	Equipment supply
41. Flemish inv. Ltd	Mr. Bruce Milne	Mineral exploration
42. Freight forwarders(E.A) Ltd	Mr. Russell Knight	Clearing and forwarding
43. Freight forwarders Kenya Ltd	Mr. Samson Kavoi	Clearing and forwarding
44. Gold empire ltd	Mr. John Muruli	Gold exploration in Buhweju
45. Habib Oil Ltd	Mr. Osman Ahmed Noor	
46. Integrated logistics	Mr. Attila Jonathan	Onshore&offshore

		logistics support
47. Kampala Associated Advocates	Mr. Alfred Mwebaze	Law firm
48. KAMU KAMU drilling experts	Mr. Gilbert Mujogya	Mineral exploration and water wells drilling
49. Krone (U) Ltd	Mr. Tom Nsubuga	Mineral exploaration/ wolfram
50. Kusaasira & Co. Advocates	Mr. Denis Kusaasira	Natural resources lawyers
51. Makugem U Ltd	Mr. Farouk Makubuya	Mineral exploration
52. Marubeg Co. ltd	Mr. Kellen Kayonga	Mineral exploration/Tantalite
53. Multilines International U Ltd	Mr. Gerald Mukyenga	Clearing and forwarding
54. NFT Consult Ltd	Ms. Prossy Birungi	HR outsourcing
55. NPK resources ltd	Mr. Nathan Wanda	Mineral consultancy
56. Oli gold muruli ltd	Mr. John Muruli	Gold exploration
57. Oryx minerals ltd	Mr. Garvin Conway	Mineral exploration
58. Richflo Lift services	Mr. Richard Magezi	Lift services
59. Salini Costruttori SPA	Mr. Sergio Pelosini	Construction
60. SDV Transami	Ms. Natasha Epenu	Logistics service provider
61. Seafast holdings U Ltd	Mr. Michael Majeed	Logistics service provider
62. Semliki Rift trading Co	Mr. Patrick Van Pee	Lift services& ferries
63. Spedag Interfreight U Ltd	Mr. Lynda Kazairwe Dilip Bhandari	Logistics service provider
64. Strategic Logistics	Mr. Paul Sherwen	Logistics
65. Sumitomo corporation	Mr. John Musisi	
66. Tamoil East Africa Ltd	Mr. Gamal Bouargob	Market &sale of crude oil products
67. Threeways shipping	Mr. Jeff Baitwa	Logistics service provider
68. Toyota U Ltd	Mr. Dino Romano Bianchi	Car dealers

69. Transeast (U) Ltd	Ms. Sheila H. Graig	Transporting
70. Uganda Insurers Association	Mr. David Tumuhaise	Insurance
71. Union Logistics	Mr. Hitesh Shan	Clearing and forwarding
72. Victoria Equipment Ltd	Mr. Kyazze S Raymond	General Machinery
73. Victoria Motors Limited	Mr. Sam J Kibuuka	Car dealers
74. Warid Telecom	Mr. George Waigumbulizi	Communication
75. Pricewaterhouse Coopers Limited	Mr. Francis Kamulegeya	Auditing, tax and advisory services
76. SAIPEM	Mr. Henry Magoba	Oil and gas services
77. SINO Minerals Investments Co. Ltd	Ms. Sarah Namara	Mineral exploration
78. Specialized Welding Services	Yvick Robin	Welding services
79. Halliburton	Mr. Robert Salmon	Oil & Gas Services
80. Goodlife Ltd	Mr. Shem Nnaggenda	Training Solutions
81. Inspecta International	Ms. Hanan Moniem	Inspection Services
INDIVIDUALS		
82. Mr. BB Sinha		Consultant-Environmental health
83. Mr. Brian Kaggwa		Lawyer
84. Mr. David Kyagulanyi		Mineral consultant
85. Mr. Minaz Karmali		Businessman
86. Mr. Sam Thakkar		Accountant
87. Ms. Annebritt Aslund		Audit/finance consultant
88. Ms. Lydia Babinaga		Procurement and consultancy
89. Mr. Malkit Singh Saini		Construction
90. Mr. Rajesh Dewani		Construction

CREATING SHARED PROSPERITY

Investing in Uganda

Tullow has invested over $1billion in exploration, seismic and drilling activities which has enabled the discovery of over 1 billion barrels of recoverable resources, with an estimated 1.5 billion barrels yet to be found. This level of resource could place Uganda in the top 50 oil producers in the world.

Investing in communities

Success for us is inseparable from the development and prosperity of the communities in which we operate. That is why our Social Enterprise programme focus areas are health, education, environment and enterprise development.

Investing in our people

People are our greatest asset and we believe in developing capacity for Tullow and for sustainable development and management of Uganda's Oil and Gas Industry. We therefore invest extensively in capacity building for all our staff, of whom 85% are Ugandans.

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