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The Uganda Chamber of

# MINES & PETROLEUM

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# Uganda Alert TO OIL PRICE DROP

## World Bank cautions on revenue spending

## BOLLORE UPBEAT

## Local content lessons from Ghana

## UCMP-GOVERNMENT TALKS START TO BEAR FRUIT

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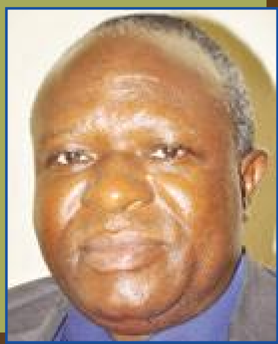

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ADVISOR

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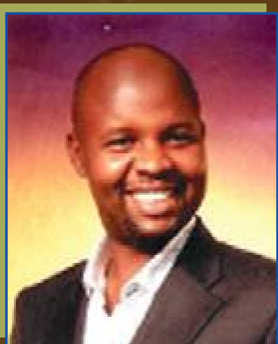
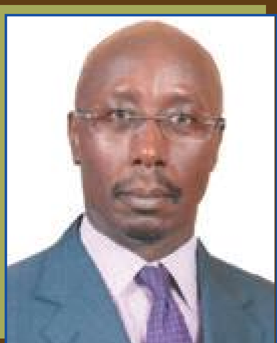


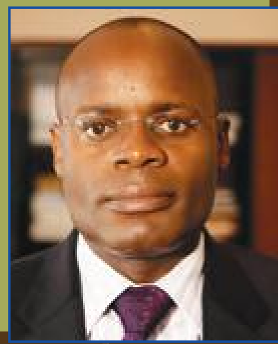
**Gerald Mukyenga**
ADVISOR

Multilines International



**Philip Odera**
ADVISOR

Uganda Bankers' Association



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# Chairman's Note

## Government is on the right track

Uganda has recently announced a licensing round for six oil and gas exploration blocks. Uganda too, has selected a consortium to partner with it in the construction of a $3 billion refinery. The country intends to issue two petroleum production licenses soon as well. Furthermore, it is building three hydropower dams and handling several other transport-related infrastructural projects in one go. In the meantime President Museveni continues to traverse the country daily launching various new projects.

All this is happening against the backdrop of falling global oil prices.

The Uganda Chamber of Mines and Petroleum (UCMP) is pleased that the Government of Uganda has reacted to these falling prices with utmost decisiveness with business-like hastiness becoming the order of the day.

The National Budget is set to be read, two months early in April, – in line with this new-found robustness. Besides, an IMF delegation is in the country to advise on the best likely course of action as regards various challenges affecting the extractive sectors like taxes on exploration, infrastructure and the legal regime.

Related to the above, GoU has also promised to have the National Petroleum Authority and National Oil Company in place within the next three month. The government too is seriously considering scrapping taxes on exploration activities in the oil and mining sectors.

The recent issuance of regulations to implement the earlier passed petroleum laws is another great step in the right direction for Uganda, in its journey to become an oil producer.

For a long time, the UCMP has called for this kind of business-like government approach to issues in the extractive industries not only because its members need the contracts therein to survive but also because it would uplift the people of Uganda in general as a result of increased commercial opportunities in the country.

While the Government notes that delays in reaching certain decisions are inevitable, it is cognizant of the pressures within which the private sector operates.

As such, the Chamber is very happy that there is vigorous attention to solving the challenges of the economy and is positive that things are moving in the right direction.

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**Layout and Design:**
Moses L. Katumba
(mkatumba@gmail.com)

**Editorial**
Deep Earth International Ltd.
(amugenyi@gmail.com)



# UCMP, GOVERNMENT talks start to bear fruit

"The Ministry of Finance has prepared a Cabinet paper to rationalize the tax regime on investments including oil, gas and mineral exploration. It will receive urgent attention by Cabinet," said Kiiza.

OVER the course of three months back and forth discussions including two face-to-face meetings between officials from the Office of the Prime Minister (OPM) and the Uganda Chamber of Mines and Petroleum (UCMP) have gone a long way in trying to do-away with various bottlenecks that have undermined investments in the oil and mining industries.

These deliberations – that have run from late December 2014 through February 2015 – are a continuation of discussions that started in 2013 when President Museveni, challenged the UCMP to add value to Uganda's minerals, while speaking at the Mineral Wealth Conference and at a meeting he hosted at State House, Entebbe later that year.

For value addition or beneficiation to thrive however, the government would have to guarantee the right environment, the UCMP noted. This meant rationalizing the taxation regime, harmonizing land laws, upping the energy and transport infrastructure amongst many other areas.

So far, the meetings have been described as "frank, interactive and educative" by ***Elly Karuhanga, the UCMP chairman***, noting after the latest one, "We are very hopefully after a largely productive meeting that some of our recommendations have been implemented, others are about to be implemented and while others will soon be approved."

His optimism was shared by, ***Prime Minister, Dr Ruhakana Rugunda,*** the chair of the meetings, who said: "We are making good progress. We recognize the need to handle issues together with the private sector to remove the bottlenecks. We should ensure that the oil and mining sectors are given as much support as possible.

Adding, "There is enormous potential that will help our economy if these sectors are given the necessary support by government. Government is more than ready to play its role."

Below, we expound on what has formed the gist of the deliberations so far: **PTO**

# Cabinet to discuss scrapping of taxes

THE Government of Uganda understands the anxiety the taxation has caused amongst oil and mining exploration firms and will be seeking to address the situation in March 2015, when Cabinet discusses the Nabtional Budget Framework, Lawrence Kiiza, a director for tax policy at the Ministry of Finance, has said. Kiiza was responding to UCMP Chairman Elly Karuhanga, who had expressed reservations about the speed at which the state was approaching the issue which has played out for over 2 years.

The UCMP wants to see full exemption on VAT and withholding tax during the exploration phase of oil, gas and mineral projects as these taxes represent an additional cost to companies, which ultimately can be a deterrent to long-term and capital intensive projects.

"The Ministry of Finance has prepared a Cabinet paper to rationalize the tax regime on investments including oil, gas and mineral exploration. It will receive urgent attention by Cabinet," said Kiiza.

To give weight to Kiiza's remarks, Matia Kasaija, the State Minister for Finance (Planning) noted that similar tax breaks had already been granted to rice processors.

"Cabinet recognizes the taxation hurdles particularly concerning processing, manufacturing and specialized inputs and has as such instructed the Finance Ministry to review the  with rice processors being the first beneficiaries," Kasaija noted, as he promised comparable breaks to the extractives industries.

Giving further credence to these statements was Peter Lokeris, the State Minister for Mineral Development who told Reuters, on the sidelines of the Mining Indaba in South Africa, in February 2015, that Uganda's new mining law will scrap a series of taxes and introduce bidding rounds for exploration licenses with the aim of attracting investors to a long-neglected sector.

"We found the exploration tax to be so prohibitive, the companies are really complaining," Lokeris told Reuters in Cape Town.

The draft bill, which needs to be passed by parliament first after getting the go-ahead from cabinet, also recommends moving away from the "first-come, first-served" exploration licensing policy to help eliminate passive speculators.

"We want to streamline this by instituting the procedure of bidding rounds," Lokeris said.

## Mining firms seek community acceptance

**DIALOGUE** between mining firms and mineral-rich communities is expected to go a long way in solving the land complications that have beset the industry. One of the more controversial points in Uganda's constitution has always been the ambiguity surrounding access to surface rights to facilitate mining exploration.

The law grants the state the mineral rights while individuals own the land rights – setting the ground for conflict between licensed mining firms and land owners over accessibility and compensation

As such calls to reach a middle ground on the same have refused to go away. It's on this basis that the Ministry of Energy and Mineral Development plans to engage a consultant to develop a position paper on the policy, regulatory and institutional framework for land and surface rights in Uganda that will guide the reformation of this particular law. The Mining Act 2003 is currently undergoing review.

In addition to the above, the Energy Ministry and the Office of the Prime Minister were to hold a sensitization workshop about the proposed recommendations and amendments in February involving the relevant key stakeholders.

According to Godfrey Bahati, an assistant commissioner, Department of Geological Survey and Mines, indigenous communities and licensed mining firms needed to co-exist for the sector to thrive.

"The ministry and the DGSM intend to streamline the land issues by the end of 2015. One of the solutions being considered is organizing the artisanal miners in cooperatives to so that they can continue mining legally alongside the licensed firm," says Bahati.

To partake in the discussions would be leaders like LC 5 chairpersons, RDCs and MPs from districts where artisanal miners are prevalent.

## Govt To Support Mineral Exploration ...with TNT, REEs & Karamoja funding

Mining firms and individual will soon have their explorations and mining costs cut significantly once they start purchasing TNT locally. TNT is used in the blasting of rocks to ease their exploitation during the mining process. Miners through the Uganda Chamber of Mines had decried the high costs incurred importing explosives in the mining process during a meeting with President Yoweri Museveni in December, 2013.

Museveni pledged to have the Nakasongola Arms Factory produce the explosives locally to do away with the more expensive imports. This promise is now closer to fruition with Ngabirano Kahirita, an Undersecretary for Logistics, noting that a lead investor was identified and production was set to begin by the end of October 2015. The production of the TNT will be done under a Public Private Partnership.

Also from the state is an assurance to allocate $5m in the next national budget towards carrying out extensive and conclusive exploration of the alumni clays in Makuutu, Eastern Uganda, which are believed to hold significant deposits of rare earth elements that could scale over $300bn in value. Fortunately, government is also considering the establishment of a national Mineral Exploration and Mining Company, which will make it easier to fund such exploration projects in the near future.

"Government needs to take the lead as regards exploration if Uganda is to benefit from its mineral riches. Already, the harsh investment climate globally has seen about 90% of the junior exploration companies close shop across the world. It would be difficult for Uganda to attract the remaining few exploration firms at this stage, hence the need for a national exploration company to carry the risk burden," noted Elly Karuhanga, UCMP Chairman.

Namibia has a Mineral Development Fund which has provided US$92m in low-interest loans and US$9m in grants for medium and small mining and exploration scale projects seeing that banks find these projects too risky to finance before their feasibility is established. In Nigeria, the state provides loan guarantees and technical support.

Lawrence Kiiza, a director for tax policy at the Ministry of Finance, said the REEs exploration funding plus the $20m needed to carry out aeromagnetic surveys of the Karamoja region would be priority recommendations in the National Budget Framework paper that would be discussed by Cabinet in March, 2015. He was however reminded by Richard Kaijuka, the UCMP vice chairman, that it was important that the pledges were fulfilled in 2015 since the same promises never came to fruition last year.

## Miners get land for value addition

THE 100 acres of land offered to the UCMP by President Yoweri Museveni, are ready, Frank Sebowa, the Executive Director, Uganda Investment Authority has said. The land is meant to boost value addition or beneficiation in the mining and petroleum industries, as Uganda seeks to earn and employ more in these sectors.

"This land is available. However, it is spread across various industrial parks countrywide including Namanve, Kasese and Soroti because it was impossible to get all the 100 acres in a single park. We now only have to work out the modalities with the UCMP," noted Ssebowa.

President Museveni has been a big advocate of value addition locally, arguing that more jobs are created and more revenues gotten this way. He reiterated this point at the February, 2015, his political party, the National Resistance Movement's retreat in Kyankwanzi, where he promised NRM's and government's support for this cause.

The President has also recently made good on the promise to contribute Shs100m towards the construction of a home for the UCMP.

Meanwhile, the UIA is also on course to become a one-stop-centre for investment licensing, with a physical address in Kololo, a Kampala upmarket suburb.

"We completed the online setup and are soon starting construction of a physical home in Kololo with funding from the World Bank," said Sebowa.

## DGSM to match PEPD

The Department of Geological Surveys and Mines (DGSM) will soon be functioning under an appropriate budget as the Uganda intensifies its efforts to make the minerals' industry a key component of its economy. Though blessed with various minerals, Uganda has not significantly earned from them as they remain largely unexploited. A poorly facilitated DGSM has been sighted as one of the reasons why minerals investments and revenues are not up to scratch hence the move to strengthen it to the level of its sister department, the PEPD – Petroleum Exploration and Production Department.

"We have made significant progress in this regard so far. A restructuring plan has already been approved; a commissioner was appointed and soon we will be transforming the DGSM into a fully-fledged directorate," said Peter Lokeris, State Minister for Mineral Development.

Some of the extra cash towards the strengthening of the DGSM will be a percentage of the collected Non Tax Revenue.

The PEPD has been credited by playing a starring role in the discovery of oil in Uganda and in the journey towards its production. A stronger, well facilitated DSGM is expected to make similar headway in the minerals sector as more inspections, exploration and licensing among others will be

# Controlled iron ore exports allowed

A ban on exportation of iron ore (or 'soil' as President Yoweri Museveni calls it) will soon be partially lifted, Peter Lokeris, the State Minister for Mineral Development, has said.

"Firms have requested Government to allow them export some iron ore so that they can recover their exploration costs. My ministry will bring up a paper on the matter, for Cabinet consideration by end of February, 2015," Lokeris noted.

Iron ore exports were banned by President Museveni in 2012, amidst calls for the mineral to lead Uganda's industrialization drive. However, several players in the industry expressed discomfort with the ban, noting they had invested a lot in the exploration and mining of the mineral, with hopes of recouping their money through exports. They noted that a steel industry though very important to Uganda's industrialization, was still way off and therefore not the most appropriate way of breaking even fast enough.

J.A. Almond (1964) and Kagule-Magambo (Magambo, 1983) suggested that for an iron and steel industry to happen here, at least 50 million tons of mineable iron ore had to be proven. This target has since been surpassed however, with Great Lakes Iron & Steel, Kigezi Steel, Uganda International Mining, Sino Minerals among others proving iron reserves in excess of 600 million tons. Importantly, a large area still remains unlicensed and as such reserves could exceed a billion tons.

While the Chamber supported the need for mining firms to recoup their investments through iron ore exports, Richard Kaijuka, the UCMP, said they had not lost track of the call for beneficiation; with key players in the iron and steel industries set to meet on February 25, 2015 to discuss this very topic.

A Uganda International Mining worker. The company had for long implored government to lift the ban on iron ore exports

## Uganda To Finally Certify Its Minerals

Uganda will soon earn more from minerals like tin, tantalum, tungsten (the 3Ts) and gold, now that the foreign affairs ministry is finalizing the development of a work plan and proposal for establishment of the mineral certification and traceability system.

Okello-Oryem, the State Minister for Foreign affords says a Cabinet memo on the same will be discussed in February, 2015 and subsequently a draft bill about mineral traceability and certification will be forwarded.).

"The UCMP is pleasantly surprised and happy with the exceptional cooperation extended by the Foreign Affairs ministry and we are certain the mineral certification and traceability issue will soon be resolved. The UCMP is sick and tired of having Uganda minerals certified in neighbouring countries as this denies the country a lot in revenues," noted Elly Karuhanga, the UCMP chairman.

The Chamber has been at the forefront for advocating for the fast-tracking of a certification and traceability centre, with its members even reaching a private certification arrangement by the end of last 2014, according to Richard Kaijuka, the vice chairman, UCMP.

"$500m can be generated by the country overnight with this certification in place. We need it like yesterday," said Kaijuka.

As a member state of the International Conference of the Great Lakes Region (ICGLR), Uganda became one of the signatories to the ICGLR protocol on illegal exploitation of natural resources in 2006, which set in motion the process for mineral certification. On December 15, 2010, the Lusaka Declaration of the ICGLR Special Summit to fight illegal exploitation of natural resources in the Great Lakes Region was signed by the ICGLR member states, Uganda inclusive.

The 3Ts and gold are the designated minerals for certification which are considered to be at the center of illegal mineral exploitation in the Great Lakes region; with proceeds mainly suspected to fuel wars. These are the same minerals targeted under the United States Dodd Frank Act, section 1502 on conflict minerals and this also enacted into law in 2010.

# Mining, Oil Need Rail Transport

Value addition or beneficiation in Uganda's nascent mining industry will be boosted by key government interventions on the infrastructure front. Key amongst them is railway transportation – which is important in the hauling of colossal industrial minerals like iron ore, vermiculite, phosphates, marble and limestone amongst others. There have also been engagements between the ministries of Energy & Mineral Development and Works & Transport to address enhancement of existing wagon capacity especially with on-going developments in oil and gas.

Currently, Kenya, Rwanda, South Sudan and Uganda are jointly developing the Standard Gauge Railway network from Mombasa-Malaba-Kampala-Kasese/ Bihinga-Kigali and Tororo-Pakwach/ Gulu-Juba.

Rift Valley Railways (RVR) was given a 25-year concession to deploy Uganda Railway Corporation (URC) wagons to the best commercial advantage; but they may not be in the project area. Besides URC wagons conceded to RVR are inadequate in number to meet the rail freight demand in both Kenya and Uganda.

The estimated capacity is about 2000 wagons as of now and luckily most are in good condition with only a few grounded in Kenya. The Works Ministry is cognizant of the need to purchase an estimated 200 new flat-bed wagons Plans too are underway by the ministry to improve and enhance existing wagon capacity for example the Tororo Packwach (500km); which while only recently opened by RVR requires substantial upgrade.

To be considered too will be the train speeds which can't exceed 15km/hr and 40 tonne payload wagons can't be loaded beyond 30 tonne (75%). Cargo throughput can't exceed 200,000 tonnes per annum either. The upgrade is estimated at $25 million.

The Malaba-Tororo section (15km) of the railway does not require any substantial works. Following this intervention the Malaba-Tororo line would be able to carry up to 500,000 tonnes per year, at speeds of up to 30kph, with 30 tonne payloads per wagon. For now the entire Malaba-Kampala railway is operational and carries around 600,000 tonnes per year.

Destructive artisanal mining in Bugiri, Busoga Region.

# Cooperatives for Artisanal Miners

Plans to organize artisanal miners into organized groups like cooperatives are still valid, the State Minister for Mineral Development, Peter Lokeris has said. The Minister was responding to a recommendation by the UCMP to have the small-scale miners monitored more and better so that they not only adopt safer and environmental friendlier methods of mining but also start paying taxes and royalties.

Says Lokeris: "My ministry requested for more inspection funding (about Shs1bn) but this is still awaiting Cabinet approval. We have always wanted to organize the artisanal miners in cooperatives as this way we can monitor the mineral trading and realize more royalties and taxes."

Despite operating outside the law, Lokeris says abruptly interrupting their activities would be met with a lot of resistance as this was their livelihood hence the cooperatives option. Already, he notes artisanal miners in Mubende had asked the state to help them organize themselves in more formal groups.

Artisanal miners are said to mainly sell their minerals to smugglers who in turn do not pay taxes. According to Beta Hinton's Jennifer Hinton, who has done numerous studies on small-scale mining in Uganda, says a 2008 survey estimated artisanal miners to number about 200,000 in the country and that they were producing about $373m worth of minerals annually.

"Most of their earnings are spent locally and as such stimulate the local economy. There are numerous strategies elsewhere in the world where companies and governments have worked closely with artisanal miners so this can be replicated here in Uganda," she says.

Having a dedicated office targeted towards artisanal mining in the Department of Geological Survey and Mines (DGSM) would be a good first step to take in this regard.

# NEMA strengthening key

The National Environment Management Authority (NEMA) is in urgent need of capacity building to ensure environmental compliance of mining and oil companies. NEMA is currently very limited on both the technical and financial side, yet it is mandated to prevent environmental degradation in an ever industrializing country.

An on-going review of the NEMA Act is intended to strengthen the body. Dr Gerald Saula Musoke, Deputy Executive Director of the Authority says, that by March, 2015, the recommended changes will be ready for Cabinet consideration. NEMA he added had partnered with the UCMP and other private players in the mining and oil industries to ensure sustainable practices through the provision of compliance assistance programs.

"NEMA is also continuing to undertake the routine compliance inspections, audits and monitoring – which always ensures that the proposed mitigation measures are implemented by the respective companies & if this is strengthened in future, it will go a long way towards compliance assistance," Saula noted.

Richard Kaijuka, the deputy chairman, UCMP, however noted that concerns about NEMA's capacity to adequately carry out their mandate continued, reiterating the offer by UCMP members to help the Authority with funding to ensure timely inspections.

"When inspections are not carried out on time, our members' programs are delayed; hence the offer to assist NEMA," noted Kaijuka.

UCMP council member, Paul Sherwen and the chairman Elly Karuhanga further called on NEMA to expand its coverage area beyond the big firms and focus on the artisanal miners' unchecked degradation and use of dangerous items like mercury, too.

Dr Saula, says NEMA was cognizant of the issues surrounding artisanal mining and was implementing two programs that sought to create awareness about the dangers of environmental degradation and mercury use, while also introducing harmless chemicals to replace the mercury.

Small-scale or artisanal miners use mercury is used to extract gold from the rock or soil but in the process expose themselves to poisoning. As a neuro-toxin, mercury affects the cerebellum – the part of the brain which coordinates movements. It also harms the kidneys and other organs.

The Prime Minister, Ruhakana Ruganda, says it is imperative that artisanal miners are supported so that they can earn a meaningfully living in the best of conditions. He also urges government bodies to take advantage of the private sector's goodwill and welcome the funding it advanced to aid NEMA.

"Even if their aid is refundable it is welcome; since constant, timely NEMA inspections would relegate paralysis in the mining and oil sectors," Rugunda adds.

# Uranium, now a strategic mineral

Uranium is one of the strategic minerals for development in Uganda, the State Minister for Mineral Development, Peter Lokeris has said. Iron ore and limestone, among other industrial minerals are also regarded as strategic, by the government of Uganda, as they are deemed key components in the future industrialization of the country.

"Uranium will provide another source of electricity when developed. Remember, to become an industrial country, Uganda needs a lot of energy which we cannot realize from hydro and thermal plants," says Lokeris.

Already, a work plan and strategy has been developed by the Ministry of Energy and Mineral Development to fast-track the exploitation of the resource. Lokeris says the geologists from the Department of Geological Survey and Mines will initially carry out exploration to establish the potential reserves of the mineral, which data will then be advertised to attract private players in the industry.

Elly Karuhanga, had expressed concern over the presidential ban on uranium exports that had scared away private players.

**Presidential Round Table on Minerals Set**

The Uganda Chamber of Mines and Petroleum will annually lead private players in the mining industry in annual deliberations with President Yoweri Museveni, under the banner, the 'Presidential Round Table on Minerals'.

Sansa Mugenyi, the Ag Director, Coordination, Monitoring and Evaluation in the Office of the Prime Minister, says the Round Table is set and that structures at the technical level are already in place.

"Preparatory meetings for the Round Table are being held some chaired by the Head of Public Service and this very gathering at the OPM is also one such preparatory assembly," noted Mugenyi, during the February, 2, 2015 conference.

President Museveni initially met the UCMP members in December 2013, at State House, Entebbe. He has also attended the last two Mineral Wealth Conferences.

# OIL PRICE FALLS: Is Uganda worried?

There are signs that oil prices have bottomed out. After months where the price of crude oil was in a free fall, the first few days of February showed some signs of recovery.

The price of oil has started to crawl back, steadily going above $50 per barrel, and raising optimism that the industry had seen the last of the worst days after a turbulent six months.

While the price of crude inches upwards, the industry remains months away from the comfort zone it was enjoyed, where a barrel went for more than $90 as early as June 2014.

Companies are already feeling the impact. Tullow Oil has already announced a cut in expenditure, while Total E&P is considering a hiring freeze. Both companies operate in Uganda.

There are worries that the impact these companies face at a global level could be felt in economies such as Uganda's.

Uganda has so far discovered 6.5 billion barrels of oil, of which 1.4 billion of this is said to be recoverable. Only one company, CNOOC, has received a production license for the Kingfisher field. Both Total and Tullow have submitted field development plans for a number of wells as they await production licenses.

The country is in the final preparations of putting in place institutions that will govern the sector. Already boards for the National Oil Company and the Petroleum Authority have been selected. The formation of these bodies was expected to lay the ground work for the next round of licensing for the oil blocks.

Uganda is also close to announcing the winning company for its refinery, and thereafter creat a special purpose vehicle for the project.

There are fears that these plans could be derailed as investors get worried over the impact of the dropping oil prices on the country's petroleum industry.

For example, Razia Khan, the Head of Macro Research at Standard Chartered Bank, Africa, released a report that pointed to dropping oil prices forcing oil companies to reassess their investment plans.

"Weaker oil prices have a mixed impact on Uganda," she said, and added: "In the very near term, Uganda should benefit from a lower import bill. The pass-through into inflation of a weaker Uganda shilling will also be muted as a result of weaker oil prices. However, with Uganda developing its own oil reserves, the country is also likely to experience the negative effects of a weaker oil price environment."

Khan said the share prices of oil companies had also been battered and impacted on their balance sheets.

"Share prices of exploration companies have fallen significantly as oil prices have weakened. Many will now find themselves in a more difficult funding environment. Some existing exploration will continue – especially where resources and equipment have been pre-committed. But overall, exploration budgets are likely to be cut," she said.

At the moment, no company has come out to note that they are considering modifying their investments in Uganda, where progress in the oil industry is slower than earlier anticipated.

Ugandan authorities say they are yet to assess the risks of the drop in oil prices.

Ernest Rubondo, Commissioner, Petroleum Exploration and Production Department, said it was not uncommon for oil prices to fluctuate.

"International oil prices always fluctuate by going up and down. Although low oil prices can impact the development of oil and gas fields especially those whose economics are marginal, it is too early to predict how low the prices will drop this time round or how long this reduction will last," he said in a statement.

Rubondo pointed out the fact that Uganda had not yet started producing oil, and in any case investments in the oil industries were long term and hence factor in the risks of oil price drops.

"There is no crude oil production in the country yet therefore the impact of oil prices on the development of the oil and gas sector in the country is more difficult to predict. Oil and gas projects are long term in nature and the short term fluctuations of oil prices are always factored into the developments," he said.

A number of oil companies have already committed huge amounts of money to Uganda, with Tullow announcing a $3 billion expenditure on drilling and exploration over the years.

The companies are also about to roll out a $12 billion expenditure plan as the country moves to first oil, with a target year of 2018.

These are plans that are not expected to be shelved because of the drop in oil prices.

For a country as a whole, it appears the risks are not that significant, although there have been reports of companies sizing down on some of their staff.

The only significant risk that counts at the moment is whether the country had pegged much of its investments – such as the construction of a $3 billion refinery – around prospects of a strong oil price.

Instead the drop in the oil price offers a critical learning lesson for the country – that oil, however financially rewarding, carries some level of high risks, and that a country should always be prepared of any challenges that could be lurking everywhere.

## Central Bank Governor Urges Caution

The huge drop in global oil prices means that Uganda should cautiously spend its money in the medium term since large returns from its petroleum resources cannot be guaranteed, the Bank of Uganda, Governor, Emmanuel Tumusiime Mutebile has said.

"The uncertainty raises the probability, that oil prices will not be high enough to enable Government to earn much revenue from oil. As a consequence, there is a huge amount of uncertainty about the magnitude of public revenues over the long term. Given this uncertainty, it is imperative that Government should be very cautious about incurring expenditure

commitments, the financing of which is contingent on substantial inflows of oil revenues in the future," Mutebile noted at a public lecture in Kampala in late February 2015.

To emphasize the uncertainty surrounding prices, the Governor noted how one of the sources of economic forecasts that used by BoU had in March 2014, forecasted crude oil prices at $148 per barrel in the second quarter of 2019 but had now revised down its forecast for the crude oil price in the same period to $81 per barrel, a fall of 46 percent.

"We have to be honest and recognize that it has become more likely that public revenues from oil over the long term will be lower than we had previously expected," Mutebile said.

The uncertainty of future oil prices will affect public revenues through two channels, he added. First, oil production volumes will be lower if irreversible capital investments in the oil industry are delayed. Secondly, the public revenue earned from each barrel of oil pumped out of the ground will probably be lower.

The expenditures that Mutebile wants avoided include a large expansion of the public wage bill and large public investment projects. If Government were to undertake such commitments and future oil revenues are too low to fully finance them, the fiscal position would be unsustainable and as such the Government would face a fiscal crisis.

"This is what happened in many oil producers in the early 1980s, when the oil price fell sharply. Fiscal sustainability is essential for macroeconomic stability," the Governor noted.

Nevertheless, Mutebile concluded, the uncertainty over future oil prices does not presage disaster for Uganda. Even if oil prices are very low in the future and very little public revenue is earned from oil, Uganda's economy could continue to thrive and grow if it was well managed, as it has been for the last 25 years, he said.

"What would be disastrous for our economy is if we fail to recognize the significant risks entailed in the uncertain future path of oil prices and incur expenditure commitments which subsequently prove to be unaffordable," he warned.

# TULLOW looks at West Africa, Kenya


> Tullow is placing much of its hope in West Africa, where it says it will invest more money this year

WHILE Tullow had a tough 2014 due to the drop in oil prices and delays in Gabon and Uganda, the company says it expects to record revenues of $2.2 billion, a gross profit of $600 million, and pre-tax operating cash flow of $1.5 billion, "underpinned by the strong performance from our West Africa oil production."

The West Africa oil production is attributed to the success at Ghana's Jubilee field. The full financial results are expected to be released in February, where the company will also announce a cut-back in expenditure.

The company is expected to reassess its investment approach in order to ramp up the numbers.

Aidan Heavey, Tullow Oil Plc, CEO says: "Tullow has already taken steps to strengthen the business to adapt to current market conditions. This work will continue during 2015 to ensure the Group is in a position to benefit when conditions improve."

However, whatever exploration it does this year will be at a much lower outlay.

"In late 2014, we materially reduced our 2015 exploration capital expenditure and today announce a further cut to this expenditure to $200 million. We continue to carry out a review of the business to streamline processes and improve efficiencies which will result in significant long-term cost savings," Heavey noted.

The company, he added, had re-allocated its future capital to focus on delivering high-margin oil production in West Africa, which will grow significantly to around 100,000 bopd by the end of 2016 to generate stable, long term cash flows for the business.

In 2014, Tullow says, underlying West Africa production performance was within guidance averaging 65,300 bopd. However, due to on-going licence discussions in Gabon, which are yet to conclude, the company will report a reduced working interest production of 63,400 bopd for last year.

Tullow retains a glowing outlook for its Ghana fields, however.

"In Ghana, the Jubilee field exceeded its gross production target during 2014 averaging 102,000 bopd despite the restrictions caused by delays in the construction of the onshore gas processing plant by the Ghana National Gas Company," read the report.

Adding: "In 2015, average gross production is expected to be at a similar level with production building towards the FPSO capacity by the end of the year."

Mahogany-2, the first appraisal well, in Ghana's offshore Jubilee Field

## East Africa outlook

On the company's plans for East Africa, Heavey said that "The reduced exploration programme will predominantly focus on a number of high-impact, low cost exploration opportunities in East Africa."

It is assumed those areas are in Kenya.

Tullow said it was continuing with its exploration and appraisal programme at Kenya's Lokichar, where the company carried out drilling at Ngamia. The company said it would undertake its first extended well tests on the Amosing wells in order to understand the features of the oil.

Tullow has turned around the fortunes in Kenya with oil discoveries. The company has been the main exploration firm in the northern part of the country.

So far, together with its partner Africa Oil, Tullow has discovered about 600 million barrels of oil in Kenya, and the two companies believe this amount can be doubled.

Tullow's success in Kenya has been tremendous so much so that it has created debate of whether East Africa's largest economy will beat Uganda to first oil.

Further drilling in Kenya should help beef up Tullow's financial prospects.

## Quiet Uganda

It is not hard to see why Tullow is focusing on West Africa, especially in Gabon and Ghana, and Kenya in East Africa. In Ghana, Tullow's main well, the Jubilee, exceeded its production target, while in Gabon, the company is engaged with the African government over the acquisition of a license.

In Uganda, however it has been a largely quiet year. The company continues to await the government to approve a couple of production licenses.

Also, Tullow reported a loss of $500 million partly "relating to an updated assessment of the recoverability of the Ugandan contingent consideration" during the company's farm-down to France's Total and China's CNOOC two years ago.

The company said the drop in the price of oil has hurt its balance sheet, leading to a number of "significant" write offs.

"In light of the dramatic fall in the oil price, the review has resulted in non-cash exploration write-offs relating to drilling and license costs from prior years of $1.2 billion."

To navigate through the tough times ahead, Tullow said "A major internal review of Tullow's organization is on-going which will lead to substantial long-term cost savings and efficiencies across the Group."

The company's share price on the London Stock Exchange has fallen largely in line with the drop in the price of oil. Although the company had hedged a substantial amount of its oil sales against a price higher than $50 a barrel.

It however finds solace in its strong assets that should be able to cushion it against the tough market conditions.

Heavey said that "While this is a challenging time for our sector, Tullow is fortunate to benefit from world-class, low-cost and high-margin assets, strong and growing cash flows and a broad, diversified funding position."

The company says it does not have short term pressures to clear its debt.

"Tullow benefits from a diversified and strong debt capital structure. There are no debt maturities due until after first oil from the TEN project in mid-2016, with maturities ranging from 2017 to 2022."

# Kigali hosts Seventh EA Petroleum Conference

The seventh East African Petroleum Conference & Exhibition 2015 (EAPCE'15) will be held March, 4th to 6th, 2015 at the Kigali Serena Hotel in Rwanda. The conference organized by the EAC Secretariat and the EAC Partner States is expected to attract more than 500 participants from international oil companies, oil industry service companies, government institutions, academic institutions, international geoscientific journals, non-oil and gas institutions and the media.

The 2015 edition of the Conference is themed "East Africa Region - Proven Destination for Investment in Petroleum Resources for Regional Energy Efficiency and Lasting Socio-Economic Development".

The seventh biennial Conference and Exhibition is expected to further promote the region's oil and gas potential and investment opportunities. The last six conferences proved to be a useful forum for governments and industry players from around the world to dialogue, the EAC Secretariat noted in a statement.

"The East African Petroleum Conferences have provided increasing awareness of the potential for petroleum development in the region and other important developments in the petroleum sector including technological advancements in exploration, development and production. That is why petroleum sector players from all over the world converge in East Africa every two years", said Jesca Eriyo, EAC Deputy Secretary General in charge of Productive and Social Sectors.

# Uganda on course despite Total boss exist

Total's Rafin Francois

Uganda remains on course in its journey to become an oil producing country despite various setbacks here and there like the drop of global oil prices and the exit of expats from the international oil companies, a government official has said.

Fred Kabanda, Principal Geologist and Head Regulatory Unit, Petroleum Exploration and Production Department, says that since Uganda is not yet at the production stage, it remained insulated from the effects of a falling oil price that dipped below $50 a barrel recently.

"There is no cause for alarm. Uganda is still at the evaluating phase as we ascertain the viability of various projects. As such the price of oil doesn't affect us," said Kabanda.

Industry watchers will beg to differ; and for good reason. For one, they will point to the exit of various expats at Total E&P and Tullow, mainly due to the failure to acquire production licenses.

In mid-January, 2015, Total Uganda's General Manager, Francois Rafin was recalled to headquarters in Paris . His exit according to inside sources was directly related to the inactivity in Uganda's oil industry.

While Kabanda appreciates that falling oil prices can indeed disrupt the IOCs' plans and on-going projects as seems to be happening at Total, he is adamant that Uganda's general oil timelines and plans remain on course.

The only changes may revolve around resolving whether the refinery and pipeline plans kickoff in tandem or which one of the two sets off first.

"Because Uganda already has plans to refine oil for the local and East African market, dropping global crude prices, can only temporarily hamper the pipeline venture, but not the general outlook. We can, for now put all our efforts on the refinery as the pipeline plans are shelved. Maybe that is why Total E&P has recalled Rafin; since his background is heavily in pipeline projects," noted Kabanda.

Besides keeping a highly paid yet redundant expert of his caliber, here may not have made economic sense to the firm, he added.

Industry observers though may point to the recent downgrading of Russia's sovereign credit rating to junk status, as a likely dampener on the refinery project; after Russia's RT Global Resources-led consortium was announced as the Selected Preferred Bidder for Uganda's Refinery Project. Russian state corporation, Rostec owns a 100% stake in RT Global Resources.

Kabanda though was optimistic that the Russians would find the money from the other consortium members were they to find themselves stuck by any sanctions.

SK Engineering and Construction led consortium from South Korea stayed on standby as the Alternate Preferred Bidder in case Government is not satisfied that the major issues in the agreements with RT meet its satisfaction.

As for Total, the French major had already announced plans to cut costs as a measure of persevering through the current tough economic situation. New global chief executive Patrick Pouyanné told the Financial Times that Total would cut capital spending by 10 percent in 2015 (a fall by $2bn-$3bn from last year's total of $26bn) and may even introduce a hiring freeze. Oil companies across the world are facing decisions like Total's; having to decide whether to continue with extraction expenditures amidst such low prices. Tullow Oil Plc also announced an exploration capital expenditure cut to just $200 million recently.

StanChart's Razia Khan

# Expert Says Uganda Will Weather Oil Storm

A top banker has predicted a slowdown in investments into Uganda's oil and gas industry, but maintained that the country was still on course to produce its first barrel of oil by 2018.

Razia Khan, the Head of Macro Research at Standard Chartered Bank, Africa said the dropping oil prices had forced oil companies to reassess their investment plans.

"Weaker oil prices have a mixed impact on Uganda. In the very near term, Uganda should benefit from a lower import bill. The pass-through into inflation of a weaker Uganda shilling (UGX) will also be muted as a result of weaker oil prices. However, with Uganda developing its own oil reserves, the country is also likely to experience the negative effects of a weaker oil price environment."

Companies have started to reduce the amount of money they intend to spend in 2015; Tullow Oil Plc has already announced that it intends to reduce its capital expenditure to $200 million this year, with a careful strategy of where this money would be spent.

Khan said the share prices of many of these companies have dropped, and hurt their balance sheets.

"Share prices of exploration companies have fallen significantly as oil prices have weakened. Many will now find themselves in a more difficult funding environment. Some existing exploration will continue – especially where resources and equipment have been pre-committed. But overall, exploration budgets are likely to be cut," she said.

Uganda has shifted its focus to production. At the moment, there is hardly any exploration going on in Uganda today because companies such as Tullow and Total await production licenses.

However, Uganda was expected to launch its next round of licensing later this year, where it would offer a couple of oil blocks in the different parts of the country. At least 60 per cent of the country remains unexplored.

Khan says Uganda will lose revenue as companies remain cautious to explore for oil in the face of the dropping prices.

"Economies such as Uganda, which had been hoping for a more substantial boost to revenue from exploration activity, but where actual progress towards oil production has been relatively slow, may now face some revenue disappointment," she said.

However, Khan said Uganda's plans towards oil production will not be that negatively impacted.

"We still expect Uganda to be on track for the production of first oil around 2018. However, exports will depend on the construction of a $4-5bn pipeline, connecting Uganda to the Kenyan coast. Recent oil price developments will add some uncertainty to future export strength," she said.

## Six new oil blocks up for grabs

**UGANDA** has lifted a 7 year moratorium on issuance of new petroleum exploration licenses by announcing the first ever open competitive licensing round for petroleum exploration in Uganda. This licensing round will cover six blocks in the Albertine Graben which is Uganda's most prospective area for oil exploration, development and production.

"This is an important milestone for our country as this lifts the moratorium on licensing of areas for petroleum rights in Uganda that has been in place since 2008. This therefore marks the first competitive licensing round for petroleum exploration acreage in Uganda as provided for in the Petroleum Exploration, Development and Production Act, 2013 and the country's National Oil and Gas Policy," Irene Muloni, the Minister of Energy and Mineral Development announced today.

The Ministry will issue a Request for Qualification (RFQ) inviting interested firms and/or consortia to submit Statements of Qualifications within a period of 3 months.

A due diligence will be carried out to sieve out the best and subsequently the qualified firms will be issued a detailed request for bids.

The companies submitting the best bids for each of the blocks will proceed to negotiations with Government prior to signing production sharing agreements (PSAs). The licensing round is expected to be concluded with the award of Petroleum Exploration Licenses to successful firms by October, 2015.

Uganda has an estimated 6.5 billion barrels of in place petroleum resources from exploration work in less than 40% in the Albertine Graben. However, less than 10% of the area is currently licensed and the six blocks targeted for this maiden licensing round have good data coverage, according to Muloni.

The six blocks are; Ngassa (410 Km2) in Hoima District, Taitai & Karuka (565 Km2) in Buliisa District, Ngaji (895 Km2), Rukungiri & Kanungu Districts, Mvule (344 Km2) in Moyo and Yumbe Districts together with Turaco (425 Km2) and Kanywantaba (344 Km2) in Ntoroko District.

# MWC 2014

*For a second consecutive year, President Yoweri Museveni's steadfast crusade on value addition took centre stage at the third Mineral Wealth Conference with a resounding call for an extractive industry that does not export unprocessed low value products. Here, he chats with Eng. Emeka Okwuosa (L), CEO Oilserv, a Nigerian Engineering, Procurement & Construction (Pipeline & Facilities) company that is interested in setting up a gas energy plant in Kigezi to serve the planned iron & steel industry*

# Museveni leads calls for minerals value addition, tax reforms

*For a second consecutive year, President Yoweri Museveni's steadfast crusade on value addition took centre stage at the third Mineral Wealth Conference with a resounding call for an extractive industry that does not export unprocessed low value products.*

Museveni drew parallels with the huge demand for steel in Uganda's infrastructure and construction industry; yet this steel is imported. He said it made little sense to import steel products from China and Japan for the massive infrastructure products like Karuma Dam, when the country sits on such huge iron ore deposits. Uganda's iron ore reserves are currently over 200 million metric tonnes but that is said to be less than half of the unexplored deposits.

Museveni called on the global investment community to partner with Africa saying investors in the extractive industry will do better business if Africa's purchasing power improved.

"It is in the interest of everybody to add value and produce secondary products," Museveni noted.

Africa's purchasing power has risen from just $500m to over $2.5b (almost five-fold) in the past few years driven by an expanding and growing economy, young and larger population among others.

Museveni explained why it does not benefit Africa when value is thrown away, citing the example of iron ore deposits.

"Someone from India came here for a licence to export soil to take this obutare (iron ore) to India," noted Museveni, adding that because of using imported steel, the dams are 30% more expensive to construct.

"I don't want to be part of this blindness. I have made it clear that there will be no more exportation of iron ore, no way," Museveni said, describing the resource misuse as the basis of many of the conflicts across Africa.

A result of the 2005 aeronautical survey which covered the greater part of the country showed the presence of minerals like copper, vermiculite, iron ore, gold and tin among others. The commercial viability of many of them is not confirmed though which requires exploration capital.

The annual conference organized by the Uganda Chamber of Mines and Petroleum, a private sector lobby group for the industry, was held under the them e "Uganda's Transformation — A New Era in Mining".

There were concerns on why government continues to impose value added taxes on exploration saying it is a disincentive to the sector and to attracting investors. During open discussions, Museveni then tasked Lawrence Kiiza, a director for tax policy in the Ministry of Finance, to justify the tax policy on exploration. Kiiza subsequently explained that the VAT imposed was on services offered to the exploration activities and was reclaimable.

To this, Museveni retorted that there should be a middle ground, where operations are not halted and then taxes imposed later. He reassured the minerals and petroleum industries that everything would be done to ensure the tax regime remains attractive. He however asked for patience and better research into what benefits both the state and investors.

"We should have dialogue, this is not a matter of life and death," noted Museveni.

# Nigeria's Oilserv considers Kanungu-Hoima gas pipeline

Investment interest in the vast infrastructure needs surrounding the oil and gas industry in Uganda continues to build up apace.

A Nigerian group Oilserv is only awaiting government approval and results of feasibility studies to commence construction of a 400km gas pipeline between Hoima and Kanungu; and subsequently set up gas powered electricity plants in Kigezi.

Speaking at the 2014 Mineral Wealth Conference, in Kampala, **Emeka Okwuosa, chairman and CEO, Oilserv (*Picture*)** noted that should the project come to fruition, the power plants will also service processing industries in the sub region like cement in Kasese and mining of iron ore in Kanungu and neighbouring districts.

During the conference, President Yoweri Museveni praised Oilserv for considering setting up gas infrastructure in the Albertine region describing Okwuosa as a "God-send." Gas power plants he observed may be the perfect replacement of coal in the smelting of iron ore.

The issue of whether to export iron ore or to process it here remains one of the most debated subjects in Uganda's mining industry. Museveni has maintained the ban on exports of iron ore which he usually describes as "soil"; insisting it contradicts the country's dream of becoming an industrial nation through adding beneficiation.

Uganda has proven iron ore reserves of more than 200 million metric tonnes with unproven reserves estimated to be in the region of a billion metric tonnes. However, it requires a lot of energy to turn the iron ore into steel. While coal, has been suggested in the past, it is not readily available in Uganda or the region; hence the gas option.

Based on the oil gas ratios for the different fields in the oil-rich Albertine Graben so far, associated and non-associated gas estimates stand at 173 and 500 billion cubic feet of gas respectively, according to the Petroleum Exploration and Production Department.

"Processing of iron ore is only prudent with large supplies of energy like gas," noted Okwuosa. He added that it would take Oilserv about two years to put up the pipeline basing on government plans and the feasibility study that will determine the cost and the terrain.

While welcoming the idea, Richard Kaijuka, vice chairman of the Uganda Chamber of Mines and Petroleum (UCMP) noted that there was need for more research on the use of gas as a reducing agent in the processing the iron ore.

Currently the country imports close to 60% of its inputs for steel making and a vertical integration arrangement where the iron ore producers are linked to the steel industry, has been mooted as the best option for Uganda, as this would save lots in foreign exchange.

Okwuosa said Oilserv's intention is to help Uganda avoid making the mistakes that Nigeria made. Despite having one of the largest reserves of oil and gas in the world, the sector has been adversely mismanaged over the years to the extent that Nigeria has had to import processed petroleum products.

Also for almost 60 years, Nigeria exploited its petroleum reserves with little regard to the gas potential, now Oilserv is building the longest pipeline across Nigeria.

He said it would be worthwhile for Uganda if it were self-sufficient as regards the petroleum industry; where it would produce its own petroleum products and distribute gas for both domestic and industrial use.

Oilserv, he added, was also interested in participating in the next licensing round for Uganda's unlicensed oil blocks that is expected later this year.

Ernest Rubondo, Commissioner, Petroleum Exploration and Production Department says not more than 10% of the Albertine Graben – the area with the highest potential for petroleum production – is under license currently. Data packages are being made to potential investors for areas with solid data coverage.

# Balancing nuclear energy amidst security concerns

**President Yoweri Museveni** has said numerously that Uganda will ultimately utilise its extensive uranium deposits to produce nuclear energy for peaceful purposes.

Despite the potentially viable quantities of uranium deposits in the country, Uganda does not intend to build a nuclear reactor. Instead it plans to enter into partnerships with countries that have the requisite technology, in order to enrich uranium from which nuclear rods for local power generation will be procured.

Uranium is used as fuel in nuclear reactors to generate electricity. Producers in Africa include Malawi, Niger, South Africa and Namibia – producing 18 percent of the world's uranium, with Niger producing the biggest amount.

Currently, a Canadian company, IBI, is working on a strategic plan that will see Uganda use uranium to generate electricity.

IBI's uranium development strategy for Uganda seeks to benefit the public through the development of a national nuclear electrical power generation programme.

Piet Bredell

Nuclear energy is a controversial source of electricity as uranium can also be used to produce nuclear weapons.

Piet Bredell, a uranium expert says the threat to uranium production is the potential of unauthorized removal or use of nuclear or other radioactive materials for malicious purposes.

Bredell was making a presentation titled "The Pursuit of Uranium Mining and Security Considerations therein" during the 2014 Mineral Wealth Conference in Kampala last October.

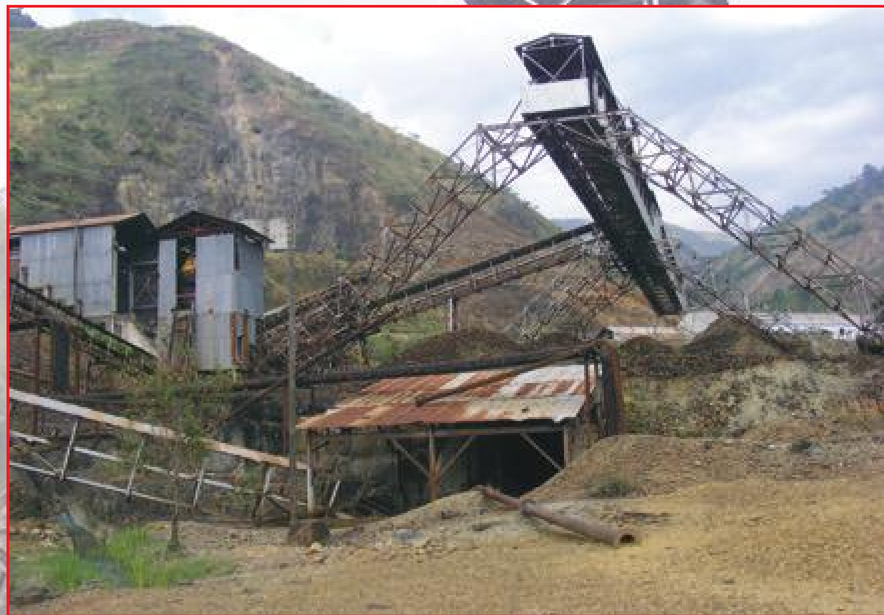
As Uganda gets going on making preparations to mine and use uranium, Bredell said the main security scenarios include un-authorised removal and illicit production by non-state actors.

"Natural uranium should be protected in accordance with prudent management practice," Bredell said. He said natural uranium in process, storage or in transit that is concentrated and accessible to unauthorized removal.

Before authorisation from the international community, if Uganda were to actually produce uranium, Bredell said an upgrade of national security structures and practices in the uranium industry, consistent with international guidance, would have to be of paramount importance.

From a regulatory stand point, Uganda would have to initially build competent authorities that have the capacity to oversee the uranium industry.

# China's Tibet to turn around Kilembe



Kilembe's derelict infrastructure is to be replaced.

New exploration for copper and cobalt in the Kilembe mines by the Chinese company Tibet Hima Mining Company is expected to give Uganda's oldest mining operation a new lease of life - 25 years of production.

Despite the challenges the Chinese firm is facing at Kilembe, brought on by the flooding in 2013 when river Nyamwamba burst its banks and flooded the entire Kilembe area, additional exploration for copper and cobalt is planned.

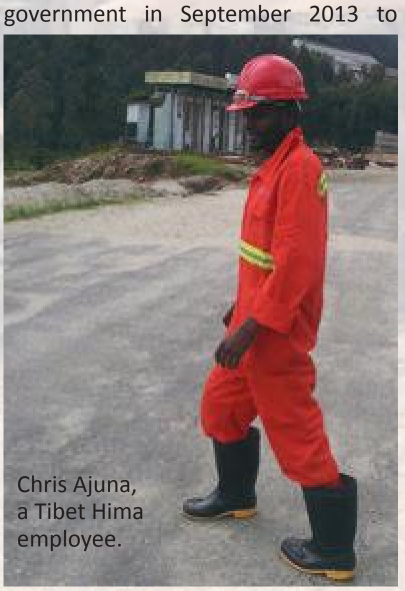
Alex Kwatampora Binego, the Tibet Hima Mining Project Manager, said results from previous studies had identified the property as a potential economically viable project, with a capacity to employ 3,500 people.

"In the short term, hard rock open pit and underground mining at Kilembe will resume as further exploration is in progress," Kwatampora said.

"Further intensive exploration of the target areas has started and we hope to add to the current known ore resources in order to increase the lifetime of the mine."

Kwatampora said the existing tailing, when processed to pyrite concentrate level, would provide an additional six years of feed for the Kasese Cobalt Processing plant – something that would strengthen the economics of re-opening the KCCL plant.

Tibet Hima Mining Co. Ltd, a subsidiary of Tibet Hima Automobile Co. Ltd in partnership with seven other companies, signed a concession agreement with the Uganda government in September 2013 to carry out further exploration for copper and cobalt at Kilembe.



Chris Ajuna, a Tibet Hima employee.

Tibet Hima Mining, which intends to invest some $175m, will also rehabilitate the mine, upgrade the Mubuku hydro power plant, carry out mineral beneficiation and resuscitate mining activities at Kilembe.

Between 1956 and 1978, 16.3 million tonnes of copper were mined, with the greatest part of production coming from Bukangama, Buhunga and Namhuga.

Over the same period, about 1.1 million metric tonnes of pyrite concentrates containing cobalt were stockpiled at Kasese after cobalt prices hit rock-bottom.

According to Kwatampora, it is probable that economic reserves exist in the footwall of areas already mined for copper.

He said there were six deposits for copper which had partially been mined. There are also other potential areas including Nkenda, Dunglea, Kabili and Dubarea that have not been fully explored.

Kilembe Mines Limited drastically decreased exploration drilling after 1970 and was consequently unable to maintain the discovery rate which had previously kept abreast with mining.

Today, the mine is in a state of disrepair and Tibet Hima will initially have to rehabilitate the infrastructure before actual work can commence.

Kwatampora said flooding adversely affected the infrastructure, including the roads, schools, houses, offices, the hospital, among other facilities. That skilled and semi-skilled labour force for technical mining work is either too old or lacking.

Some technical data that had not been digitised and was still in paper form was lost during the flooding.

Exploration target areas are not readily accessible like Bukangama, Dunglea, Kabili and others.

Despite all the gloom, as part of planned rehabilitation, Tibet Hima will repair the infrastructure, including dredging and diverting of river Nyamwamba, capture technical data, do pre-feasibility studies of Mubuku hydropower project as well as general mine and hydropower plant maintenance.

**Background**

By winning the concession, Tibet Hima paid a signature fee amounting to $4.3m (about Shs 11bn) to the government. It will pay a concession fee of $1m (Shs 2.5bn) annually. It is estimated that the mine still had 4.5 million tonnes of copper.

The Government will also benefit from statutory payments, including income tax and mining royalties.

Tibet Hima emerged winner of an international open tender process to find an investor in Kilembe Mines Ltd.

# Dao to set up marble plant in Karamoja

**DAO MARBLE LIMITED,** a Ugandan incorporated marble mining company that holds leases in the Karamoja region, is set to build a marble processing plant to commercially produce construction materials such as tiles for interior decor.

There is huge demand for interior décor materials both within Uganda and the neighbouring countries as most of these materials are imported mainly from Asia.

DAO Marble limited, which is a subsidiary of the DAO Group of Companies, has in the past showcased Ugandan marble in the major marble markets of Carrara and Verona in Italy.

DAO operates license EL 0638 after acquiring it from Baracat Minerals Uganda Limited in 2012. Then, preliminary results showed a very promising marble resource.

Before DAO acquired the mining lease, the company engaged the politicians, local Government in Moroto to ensure there would be shared benefits from the project.

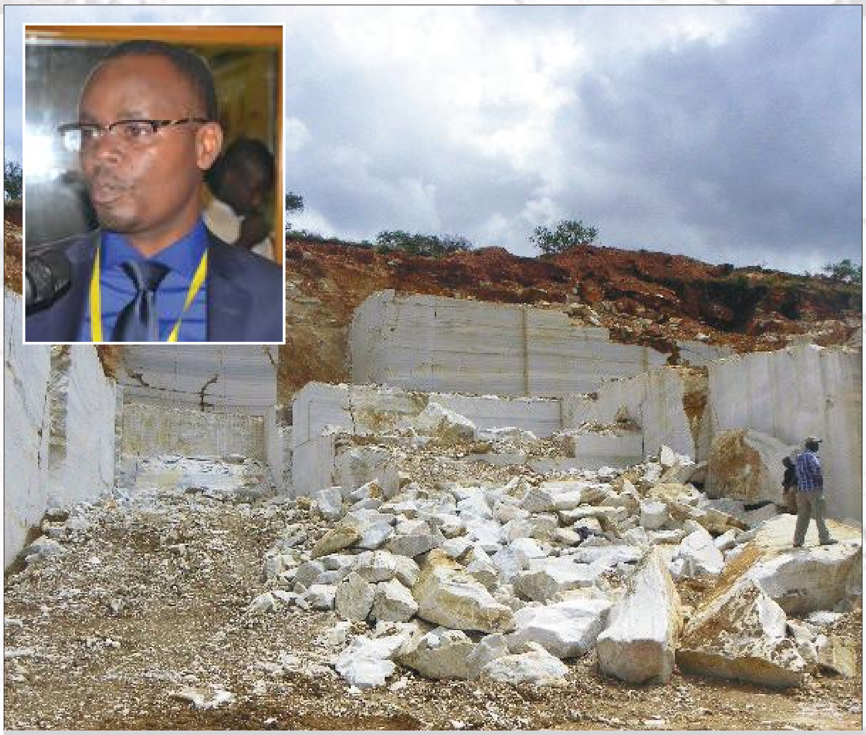
"After identification of lawful occupiers, a fair compensation was negotiated and effected to enable the company acquire surface rights that are mandatory for a mining lease grant," said Mr Arnold Ananura, Manager, DAO Marble.

Other consultative meetings were undertaken with the local people and district leaders for environmental awareness, and how best the operations can be environmental friendly.

A mining lease was granted in February 2014 after the company got an Environment Impact Assessment approval from the National Environment Management Authority, and proof of compensation for surface rights owners.

Small scale mining operations have started since the mining lease was granted and royalties for all the marble that has been mined have been paid.

So far, DAO Minerals has exported several containers to Carrara and Verona in Italy to showcase Ugandan marble in these markets and the reviews have been very positive.



Ananura (insert) says a marble plant will be set up to exploit the company's Karamoja resources

"Large scale commercial mining will begin in the first quarter of 2015," Ananura said.

To this point, DAO Marble says it has invested about $5.6million and another $2.6million is planned for setting up of the fully fledged marble processing plant in Moroto.

The plant is expected to have an installed production capacity 120 tonnes per day.

The operation, he said, will employ a total of 75 workers directly at the quarry and at the marble processing plant.

At current market rates, earnings from marble exports are projected to reach $4.8 million annually.

So far Shs 37.5 million has been paid to government as royalties from DAO's exploration activities and from the targeted production of 10,000 tonnes. At full-scale production, Government will receive about Ushs50 million monthly in royalties.

As a way of giving back to the community, social amenities will be improved through construction of a health centre and setting up of an education fund as envisaged in a Memorandum of Understanding with the community.

DAO Marble has already constructed a three kilometer murram road, which has helped improve access to the reserves.

It, however, has not been smooth as DAO Marble faced a lengthy process to acquire the surface rights because of communal land ownership in Karamoja.

Other operational challenges have included high energy costs due to the use of thermal power, high transport costs due to poor road network and general remoteness of the region.

There is also low risk appetite from banks to fund the project, lack of skilled manpower, lack of spare parts suppliers and repair technicians and confusion about surface rights and mineral rights among others.

# How to negotiate great extractives agreements


As Uganda moves towards first oil, attention will shift on the shared benefits between the state and the oil companies.

Very few people know what is contained in the Production Sharing Agreements government signed with the oil companies, and whether Ugandans got a fair deal.

The challenge with agreements in the extractives sector is that they are complex in nature and many African countries do not have the expertise to negotiate for a fair deal. The companies, on the other hand, have the funds to hire the best negotiators.

Stephen Karangizi of the Africa Legal Support Facility says that one of the crucial things of negotiating a fair deal for the extractive agreements is to carry out proper due diligence on the companies.

While presenting a paper titled 'Key requirements for negotiating a fair deal for extractive agreements', at the 2014 Mineral Wealth Conference, Karangizi said negotiations should be looked at in a holistic way from the beginning, taking in constitutional, legal, taxation, royalties and a host of other issues.

He said governments should get on the negotiation table when exploration and feasibility studies have been completed.

Karangizi said it should also be clear the type of information that was confidential, the terms that are negotiable. The agreements should also spell out how the investor obtains other permits [business, health, safety and labour], the role of the local authorities, among others.

According to Karangizi, governments need to build broad policies and legislation that takes in, among others constitutional issues, mining traditions/practices based on prevailing conditions.

Policy and legislation, he said, should cover mining regulations and their contents, licenses, environmental and safety issues, geological services, mining rights, royalties and more.

For the legislation to be all encompassing, questions about the country's history of legislation and whether such legislation is sufficient to attract investment into the industry have got to be asked.

Further, for legislation to be all encompassing, relations between the state and the mining companies have to be looked at. Also, the mining companies need agreements to obtain guarantees and minimize policy reversals to ensure a return on their investment and predictability of policy over the long term.

Karangizi pointed to Niger and Areeva, the uranium mining major, whose new deal with the West African state the Africa Legal Support Facility helped negotiate in 2013.

He said Niger approached them in August 2013 to manage relations between them and Areeva when a 50 year mining concession for uranium was coming to an end on December 2013.

The Niger government was seeking full compliance to the new 2006 mining law by Areeva.

According to Karangizi, both Niger and Areeva recognized the need for more holistic negotiations and sought a comprehensive and balanced agreement.

By December 31, 2013, the two had agreed on a framework for continued negotiations and the Niger government had issued legal notice extending the concession, pending completion of negotiations.

The main negotiations were completed in May 2014 after the two parties agreed on an increase in the tax rate on ores from 5.5 per cent to a new rate of 12 per cent. They also agreed on community development and infrastructure development by Areeva among others.

According to Karangizi, they avoided potential disputes and expensive litigation.

# Cautiously spend resource revenues
## - World Bank Advises-

**Jean-Pascal Nganou,**
Senior Country Economist,
World Bank, Uganda

The World Bank has said that for Uganda to grow its extractives industry, resources should be managed to secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.

Jean-Pascal Nganou, the Senior Country Economist for the World Bank in Uganda, said that governance of the resources in question requires decision makers to be accountable to an informed public.

Nganou said that national resource companies like the proposed national oil company should be accountable, with a well-defined mandate and an objective of commercial and operational efficiency.

Nganou was speaking during the 2014 Mineral Wealth Conference in Kampala, where he presented a paper titled *Harnessing Uganda's Resource Wealth for Development – international best practices from the National Resource Charter [NRC].*

The NRC, which Nganou said is relevant for Uganda, said it was a framework for policy options and practical advice for emerging resource-rich countries such as Uganda. The NRC was developed by an independent group of practitioners and academics with guidance of an oversight board composed of distinguished international figures.

It is made up of 12 precepts that can be grouped into four main clusters: domestic foundations for resource governance; getting a good deal; managing revenues/ saving and investment decisions; and international foundations for resource governance.

From the perspective of ensuring that Uganda gets a good deal, Nganou said the NRC advises government to work towards reducing geological uncertainty under a transparent licensing regime that efficiently allocates rights.

It says tax regimes and contractual terms should enable the government to realise the full value of its resources, consistent with attracting necessary investment, and should be robust to changing circumstances.

Governments should pursue opportunities for local benefits and mitigate and offset the environmental and social costs of resource projects.

To be able to manage revenues from the extractives sector, Nganou said the government should invest revenues to achieve optimal and equitable outcomes for current and future generations.

Government should also be cautious when spending revenues and take into account the aspect of revenue volatility.

The World Bank advises government to use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels.

"Government should facilitate private sector investments for the purposes of diversification, as well as for exploitation of opportunities for domestic value added," Nganou said.

To be able to conform to international standards, the World Bank recommends that companies in the extractives industry should commit to the highest environmental, social and human rights standards and contribute to sustainable development.

In his presentation, Nganou outlined what needed to happen under the four foundations, and assessed how much Uganda had done to achieve the requirements of the National Resource Charter.

Assessing Uganda's status as far as the NRC is concerned, from a domestic perspective, Nganou said the Oil and Gas Policy [2008] is inclusive and comprehensive. However, there are weaknesses in the legal and institutional framework.

He said there was limited clarity on the roles and responsibilities of the new institutions; lack of clarity on

Dirt roads in oil rich Bunyoro are all getting a facelift.

roles and responsibilities between government agencies as the lines of accountability were blurred.

He called for a strong system of checks and balances such as parliamentary oversight.

Nganou said there was limited technical capacity and staff to efficiently manage extractive resources.

He added that there were constraints from the accountability chain as there was a lack of specialised technical skills, most notably regarding investigation and prosecution.

From the perspective of Uganda's readiness to get a good deal in the complex extractives business, Nganou said Uganda needed transparency in its licensing regime to efficiently allocate rights and reduce geological uncertainty.

He said tax regimes and contractual terms needed to be aligned to the full value of its resources, consistent with attracting the necessary investment.

He said Ghana was a good example which had a good anti-corruption record but poor management of public expectations; this has given way to increased expenditures and massive borrowing with oil as collateral.

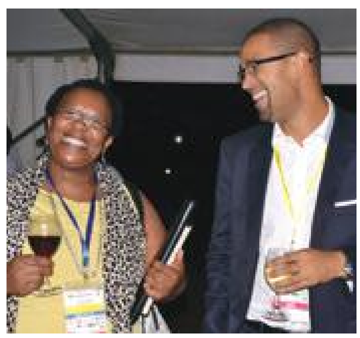
When it comes to the complex extractives negotiations, Nganou said Uganda can consider hiring independent expertise to get the best possible outcome from the contract negotiations.

Uganda would need to be cautious when negotiating stabilization clauses as part of production sharing agreements as these prohibit the state from altering the terms of contracts.

He said that before adopting an efficient mechanism to allocate oil revenues, Uganda should improve its revenue mobilization given it has the poorest performance in tax mobilization in the East African region, less than 15 per cent of GDP.

# MWC 2014 Exhibitors


# MWC Pictorial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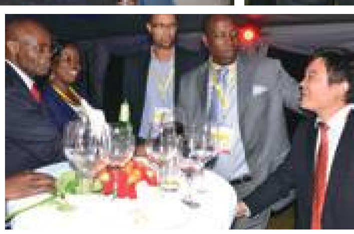


# Kingfisher trip raises information concerns

In their quest to participate in the value chain in the oil and gas industry, members of Uganda Chamber of Mines and Petroleum (UCMP) visited Kingfisher Development Area managed by Chinese exploration company China National Offshore Oil Corporation (CNOOC) to get firsthand information of the industry trends and how they can partake in its development.

The members described the trip, late last year, as a success but noted that oil companies and government should provide more information to help them prepare and improve as they ready for the development and production stages of the industry.

"There is a lot of talk about the need for certified welders for one but we never get the details. For instance, what level of training will be required of locally trained welders and which ones will need more skilling? Such detail will help us prepare better and give us a higher chance of success," Harald van Aubel, Director of Operations at Fabrication Systems (U) Ltd.

Adding: "Let them give the local companies a list of products and services that will be a necessity in the next three or so years so that they are ready to provide them by the time the need arises. It is all about planning."

Fabrication Systems has already benefited from the Kingfisher operations where it has set up steel structures for the drilling platform site besides supplying steel gratings. van Aubel was excited by having to see firsthand the works his company had been involved with and also having to interact closely with other UCMP members on the itinerary – opening up more business avenues in the process.

The Kingfisher trip follows similar excursions the Chamber has organized to help its members keep abreast with developments in the petroleum and minerals industries and therefore the available business opportunities, if any.

The members visited the Kingfisher Four well which is being drilled by ZPEB, a Chinese firm that was subcontracted by CNOOC.

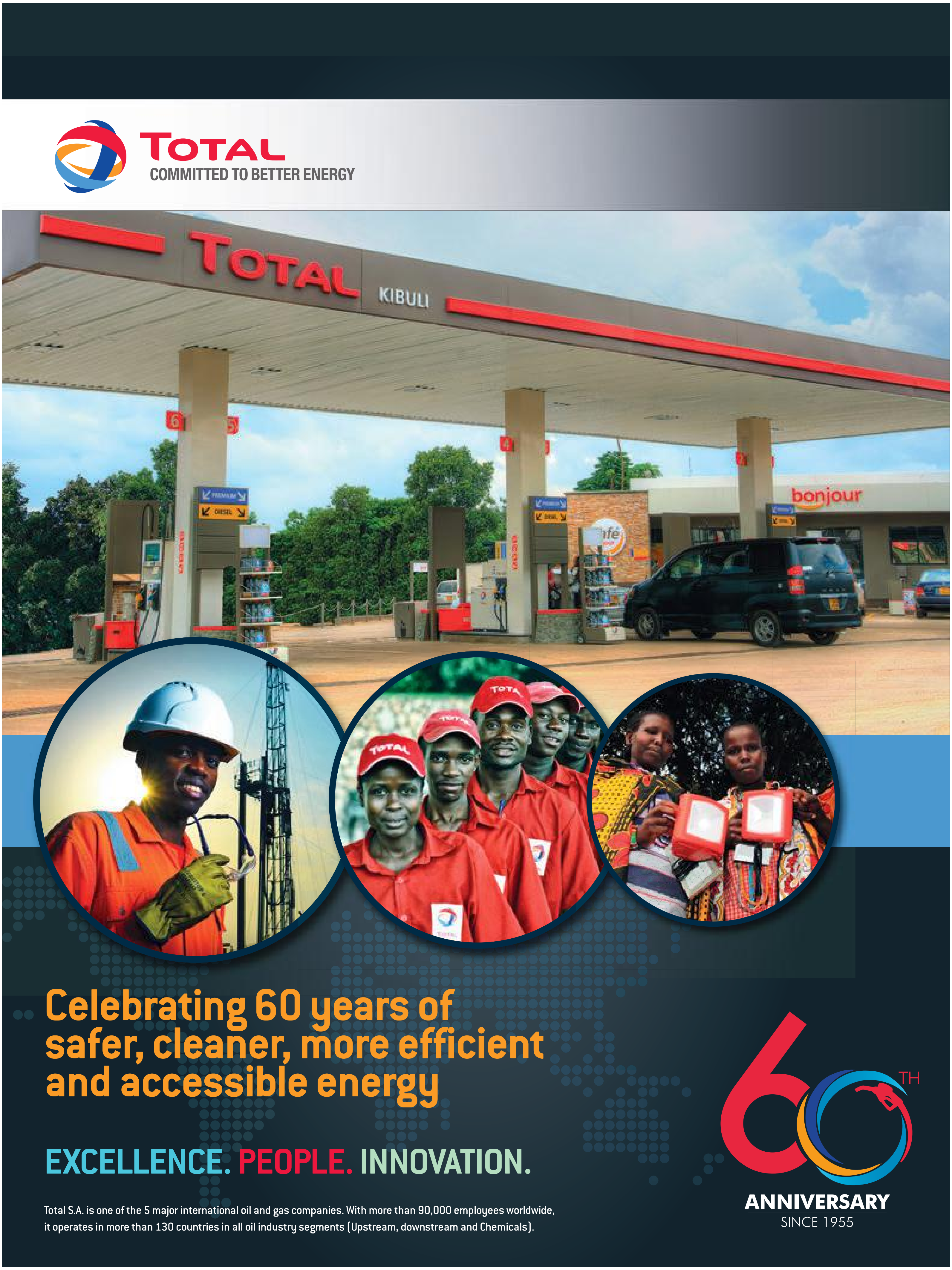
Huang Chuachang, the Field Operations Coordinator of the Kingfisher Development Area said it was a development well; the first highly deviated and extended well in the Albertine Region.

In the company of government officials from the Petroleum Exploration and Production Department (PEPD), UCMP members toured the residential camp and the active drilling site.

PEPD's Michael Okello said his team's presence was to ensure the oil firms adhere to best practices like local content objectives. Uganda is working on a national content policy which will be a guiding tool on local companies and individuals can directly or indirectly benefit from the oil and gas industry.

CNOOC got a production license in September 2013 with its joint partners Tullow and Total E&P also due to get their own later this year according to government officials.

Uganda's oil deposits were recently put at 6.5 billion from 3.5 billion barrels following more exploration and appraisals.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# TOTAL UGANDA KICKS-OFF 60 YEAR CELEBRATIONS


Mr John Friday (L), Assistant Commissioner of Petroleum officially commissioning the new Total Station in Kibuli. Looking on is Mr Imrane Barry (R), Managing Director, Total Uganda Ltd

Tabu flo entertaining the guests at the launch.

**On Tuesday 20th January 2015, Total Uganda kicked off the celebrations to mark six decades of doing business in the country. The celebrations coincided with unveiling of the brand's strategic thought line that adopts a fresher outlook, resonating with the brand's new marketing mantra "energizing your life".**


The campaign is designed to bolster Total's efforts towards expansion in the fast-growing Africa market and achieve its goal of doubling its footprint on the continent over the next five years.

"Total's new identity has been defined to be a global, integrated energy company — a leading international oil company and a world-class operator in gas and solar energy. We want to be the company whose actions inspire confidence in a responsible energy future," commented Chairman of the board of Directors of Total Uganda, Jonathan Molapo.

"To that end we unveil two important positioning statements, a corporate signature "Committed to Better Energy". This is who we are, what we do and the way we do it. "Committed" is what all of our stakeholders expect from us. "Better energy" means safer, cleaner, more efficient, more innovative and more accessible energy. World over, "you have always known where to turn" and today, we take this a step further to "Energizing life. Everyday."

Commenting on the new strategic path meant to reinforce the brand's network identity with a resolute contemporary image, the Total Uganda MD Imrane Barry revealed that the new look has already been adopted by several stations and it is to spread to the stations countrywide.

"The new identity of the service stations fits squarely with this innovative drive. It's fresh on the eye, but above all it is fitted with new safety measures for our customers and workers too and it is easier to navigate in and out of the stations now," Mr. Barry said.

The chief guest Assistant Commissioner Petroleum Supply John Friday commended Total Uganda for its diligent and continued efforts to ensure a constant flow of fuel and related products throughout the country.

This, the commissioner said, has had many knock-on effects including improving the economic velocity, thereby elevating Total to a government strategic partner.

The campaign is expected to breathe new life into the Total brand – from the new look of the service stations to the continuous update of a range of products and services, which now includes mobile payment among others.

Total's commitment to Uganda's energy future has further been strengthened by the entry of its Exploration and Production affiliate currently operating in the Lake Albert Region.

# Bollore upbeat about Uganda, region


A couple of years or so ago, logistics giant, SDV Transami assumed the Bollore Africa Logistics name. According to ***Patrick Katayi, the Zone Managing Director (Pictured)***, overseeing Uganda, Rwanda, Burundi, South Sudan and E. DRC the rebranding has been smooth and strengthened the firm's core activities going forward. In this interview, Katayi, shades more light on this and other pertinent issues in the oil and gas industry within which his firm intends to play a leading role:

**Of what value to has been the transition from SDV Transami? Was the rebranding worth it?**

The name SDV was already popularized but we carried out a major rebranding campaign in 2012 in which we informed our clients and stakeholders of the name change.

The rebranding has been good internally in that we are under one umbrella, which has helped us sell the group better worldwide, people get to know our clear connectivity and existence the world over. However being a new brand name, more and more clients are slowly embracing it locally in Uganda and in the Great Lakes Region.

**In brief, what are Bollore's core activities in Uganda and what value do you add to your clientele?**

Our core activities lie in freight logistics, clearing and forwarding, warehousing, Inland Container Depot (ICD), distribution, packing & removals, minerals and oil & gas, sea and air freight, international and local haulage (transport).

Using our worldwide network our clients enjoy competitive rates, faster deliveries and professionalism from our teams. Through our continuous training, we deliver quality service and track our KPIs closely which is beneficial to our clientele especially for Industries that rely on raw material imports.

**What are Bollore's strengths over the competition? Especially as more and more big players in your line of trade eye the East African region, which is fast becoming a new frontier for oil, gas and mining activities?**

Our broadly connected network both locally and worldwide is a great edge over competition. Our brand offices are widely spread out in Africa and the rest of the globe, we exist in 45 countries in Africa and 250 worldwide. We are one of the first clearing companies to be established in Uganda and we have a focus on continuous improvement through investment. As such we offer quality services to our clients.

We have also endeavored to make all our offices a one stop centre offering tailor made services for each of our clients.

**The JV partners (Total, CNOOC & Tullow) in Uganda's petroleum industry have been accused of preferring service providers from their home countries – in this case France's Total prefers working with Bollore. Is this a true observation?**

That is not a true perception. The reality of the matter is all the three companies are international, working under international standards and seeking high levels of delivery performance of services through international procurement procedures through bidding. Note that, Bollore being a company who are accredited with many of the standards sometimes gets to win some of the contracts. We also have a good reputation worldwide.

There is no other additional benefit other than proximity that we have obtained from Total; by originating from the same country, they get to know of our existence more easily.

It is not true however that we have won all of them; some Total contracts have been gone to various other companies.

**There has been a slow-down in activity in the oil & gas industry in Uganda over the last 3 years. How much has this affected Bollore's short, medium and long term plans?**

This indeed has affected some areas of our planned projection. We have developed a fully-fledged department to handle the oil and gas clients and have invested largely in the training of the staff and acquiring of equipment which we now have to sustain without any substantial plow back. However we continue to maintain the skilled labour we have trained and developed. We anticipate changes to this trend.

**The drop in global oil prices is also likely to slow down investment in Uganda's oil industry since big players have had their share value drop worldwide. Doesn't this dampen Bollore's expectations?**

Bollore's projects remain undeterred because by experience we know oil prices fluctuate. We are optimistic that oil prices will regain and business will blossom once again and this is the stand point of most of the investors.

**What positives do you see in Uganda's petroleum industry in the future for your kind of trade?**

We see prospects in the sectors of all freight logistics because oil and gas is a new phenomenon in the country. It requires a lot of transportation of the products, storage and handling. Also, many other industries will be born as a result of the oil processing.

**What other areas is Bollore looking to expand into?**

Besides being in freight and logistic services, we are also in industry development like in mining. Currently we are evaluating the mineral development in Uganda, and in time we shall decide on which mineral to invest in.

**Where do you see Bollore Africa in the region in the near future as positive developments like the rail infrastructure and the Lamu Port happen amidst the instability in S. Sudan and Eastern D.R Congo?**

Finishing the port in Lamu is good news to Bollore, since we have a specialized department that handles ports and railways management. With Port Lamu being completed, we hope to get the port management contract for handling Port Lamu if the opportunity avails itself.

The instability in South Sudan and in the Great Lakes in general has affected our business flow but has not stopped it all together. We have been and are still in this region for a long time. Even with the difficulties, we have always continued to operate because we understand this region.

# UGANDA'S OIL STORY by timelines

There might not be much exploration work going on in Uganda's oil fields but the country is creating the necessarily framework needed for the next push of the industry.

While presenting to a group of ambassadors recently, John Habumugisha, the assistant commissioner in charge of the pipeline project, laid down the time table that is going to guide the development of Uganda's oil industry.

**Timeline**

By January 19, 2015, the two remaining consortia bidding for the construction of Uganda's oil refinery, RT Global Resources of Russia and SK Group Consortium of South Korea had submitted their final offers to Uganda's government.

In February, 2015, like Habumugisha had noted, an announcement was made on whose bid was favoured. The RT Global Resources - led consortium was announced as the Selected Preferred Bidder for Uganda's refinery project, with SK Engineering and Construction led consortium from Republic of South Korea as the Alternate Preferred Bidder.

Right after that, still in February, the Uganda government was expected to conclude the Project Shareholder and Implementation Agreements.

And before March ends, government will create a special purpose vehicle for the refinery. This SPV will be financed through a combination of debt and equity, spread out on 70 per cent to 30 per cent basis in favour of the investor.

The first flaring test at the Waraga 1 well in Kaiso-Tonya in Hoima district in western Uganda in 2006 *(The EastAfrican Photo)*

The East African states have been invited to each take up an 8% stake.

One of the reasons that informed the decision to invite the other East African countries to participate in the refinery project is that the products would also be supplied regionally.

Figures from Uganda's Petroleum Exploration and Production Department (PEPD) indicate that East Africa consumes about 200,000 barrels of petroleum products per day. On its own, Uganda is thought to consume about 30,000 barrels of petroleum products, with this figure growing at six per cent.

Uganda's 30,000 barrels per day refinery is expected to cost $4bn, with a public equity contribution of $500 million.

Government intends to conclude the compensation of all the 7,118 people who made way for the construction of the refinery by March 2015.

There have been disagreements over the amount of money in compensation the displaced people were offered however. Some have declined the offer unreservedly.

A study on the resettlement action plan was completed, and the process of relocating and compensating the affected people is ongoing.

So far, 74.3 per cent of the people who opted for cash had been compensated by the end of 2014. The last batch is expected to be compensated by June 2015.

At least 533.5 acres of land has been purchased, where those people who opted for relocations will reside. The Ministry of Lands, Housing and Urban

Development is carrying out physical plans for the land, which will guide how resettlement houses and social services will be put up in the area.

**Legislation**

The process of creating conducive legislation for the sector is also ongoing, according to Habumugisha; aided by the Ministry of Justice and Constitutional Affairs.

The government has already sent out draft regulations to stakeholders in order to collect their views.

He said the process of formulating midstream regulations and standards has also progressed. About 11 standards have been developed so far.

**Pipelines**

The Uganda government appears to have undertaken substantial paperwork for the transportation of petroleum productions.

With the support of a consultant, M/S Worley Parsons, government has completed a draft plan for the storage and transportation of petroleum products.

Key within this draft plan is the manner in which petroleum pipelines and the storage facilities will be built.

There will be feeder pipelines to the oil fields around the central processing areas of Kingfisher, Buliisa, and the Kaiso Tonya areas.

The oil companies will have to build these feeder pipelines.

Also, a 205km long products pipeline is planned for development as part of the refinery project including terminal facilities at Buloba, Kampala.

The IOCs, however, have their eyes on the bigger prize – the crude. They have already undertaken the Pre-Front Engineering studies, with consultations with government on-going.

Government was supposed to have commenced studies for this infrastructure after hiring a consultant.

For now, plans are underway to develop an airport near the refinery to support movement of equipment and labour for the development of the refinery and the oilfields.

The government says it has embarked on the process of developing a master plan and detailed engineering design for the planned airport.

A consultant is being hired under the guidance and support of International Civil Aviation Organisation to start work by February 2015.

The first phase of the airport is expected to be completed by the end of 2016.

Plans to develop road and rail infrastructure to transport cargo from the port of Mombasa to the oil areas however remain unclear. It was earlier estimated that about 800,000 tonnes of equipment would be transported from Mombasa to the oil areas.

So far, a new road from the town of Hoima to Bulisa, where the refinery will be located, is being constructed to support the transportation of equipment.

**Obstacles**

Despite these best laid of plans there is talk that the First Oil target of 2018 has been pushed to 2019 as the IOCs grapple with the fallout from ever dipping oil prices – with global prices dropping below $50 a barrel in January from over $100 six months ago.

Fred Kabanda, Principal Geologist and Head Regulatory Unit at the PEPD however, notes that since Uganda is not yet at the production stage, it remains insulated from the effects of the crude price, hence the original timelines would remain unchanged.

“There is no cause for alarm. Uganda is still at the evaluating phase as we ascertain the viability of various projects. As such the price of oil doesn’t affect our plans,” says Kabanda.

This though is contradicted by developments to the contrary amongst the IOCs with expatriate staff being recalled and budgets slashed, as the oil price drop forces a rethinking of scheduled plans.

While reports of exits at expats at Tullow and Total are not new in the market, Francois Rafin, Total E&P’s General Manager recalling in mid-January 2015, barely 4 months in his position shook the industry loudest.

## Russia to build Uganda’s first oil refinery

President Museveni and Putin, his Russian counterpart

**Russia’s** RT Global Resources’ led consortium has beaten South Korea’s SK Engineering and Construction led group to the bid to partner with the government of Uganda in the development of the country’s first ever refinery.

However, RT will only be referred to as the Selected Preferred Bidder for now until it reaches an agreement with Uganda after negotiations on the project’s principal agreements. The negotiations that start in March are to be completed within 60 days.

“The objective of these negotiations is to conclude the Project Agreements to the satisfaction of Government and the Lead Investor. These include the Project Framework Agreement, Shareholders Agreement, Implementation Agreement and the Escrow Agreement,” said Fred Kabagambe-Kaliisa, Permanent Secretary, Ministry of Energy and Mineral Development, in a statement.

It is only after the different project contracts have been agreed upon and signed, that the lead investor (RT in this case) and Uganda will constitute a Refinery Company that will take forward the engineering and finalise the financing aspects for the development of the refinery.

However the same statement notes that, in the event that after the 60-day negotiations with RT Global Resources, the major issues in the agreements do not meet Uganda’s satisfaction, GoU may exercise its option to commence negotiations with the ‘Alternate Preferred Bidder’ i.e. the SK Group.

# Uganda looks to SPVs for its refinery

If all goes according to plan, Uganda should be in the final stages of creating a company to manage the country's oil refinery.

The government says it will create a special purpose vehicle (SPV) for the refinery in February, 2015, within which it will have a stake.

While making a presentation to a group of Ugandan ambassadors, John Habumugisha, the assistant commissioner for pipelines development in the Ministry of Energy, said the SPV will be financed through a combination of debt and equity. Under the arrangement, the private investor will own 70 per cent while government will hold the remaining 30 per cent.

Habumugisha said the 30,000 barrels per day refinery is expected to cost $4 billion, with a public equity contribution of $500 million. Government recently announced the RT Global Resources - led consortium from Russia as the Selected Preferred Bidder for Uganda's Refinery Project, with SK Engineering and Construction led consortium from South Korea staying on as the Alternate Preferred Bidder.

The final winner will be a partner with in the special purpose vehicle.

## Understanding SPVs

According to a study done by PriceWaterhouseCoopers, a Special Purpose Vehicle (SPV), sometimes referred to as a Special Purpose Entity (SPE), is an off-balance sheet vehicle (OBSV) comprised of a legal entity created by the sponsor or originator to fulfill a temporary objective of the sponsoring firm.

A SPV is usually used to finance a new venture without increasing the debt burden of the sponsoring firm and without diluting the shares of the existing shareholders. It is separated from the balance sheet of the main company's.

"The SPV allows investors to invest in specific projects or ventures without investing in the parent company directly. Such structures are frequently used to finance large infrastructure projects," notes PWC.

There is been a global debate on whether SPVs should be directly According to PWC, attached to the main sponsoring company. The debate came in light of the financial crisis, where SPVs were used to engage in dubious businesses without hurting the balance sheets of their main companies.

## Benefits

It is very easy to set up an SPV as it might not require the long bureaucracy that comes with seeking approval.

It is also easy to transfer the assets in an SPV among the different partners.

The use of an SPV isolates the parent company from any risks in the event of default. And in raising capital, SPVs are known to be one of the best ways through which to do so and usually at more favourable borrowing rates.

"Since the underlying assets are owned by the SPV, credit quality is based on

the collateral and not on the credit quality of the sponsoring corporation," PWC says.

There are definite tax benefits of SPVs where assets are exempt from certain direct taxes.

## Risks

PWC says the SPV structure can be abused to achieve off-balance-sheet accounting treatment in order to manipulate the numbers.

In a country like Uganda that is yet to have a Public Private Partnership law in place, and therefore has weak regulation of such companies, the complex nature of SPVs - often in the form of layers upon layers of securitised assets – can make it near impossible to monitor and track the level of risk involved and who it lies with.

There, thankfully, exists a way to manage the risks that SPVs come with. PWC says governments should tighten the reporting standards of SPVs to gauge their exposure to any market risks out there.

However, it is expected that the parent company would try its best to ensure the SPV succeeds as the risks of failure could come to haunt it too.

## Biggest

When government finally creates the refinery company, it will be the biggest SPV to operate in Uganda. It is expected to change the way Ugandans consume fuel, and possibly be at the centre of driving the country to middle income status.

Bujagali Electricity Ltd, which operates the 250MW Bujagali power project, remains the biggest special purpose vehicle in the country today.

# Oil pipeline progresses on amidst delay fears

In November 2014, the governments of Uganda, Kenya and Rwanda contracted Toyota Tsusho to carry out a feasibility study for the construction of an oil export pipeline.

The signing was a major breakthrough considering that Toyota Tsusho had been pushing for the deal for more than a year.

The pipeline will start from the oil fields, through northern Kenya, where it is expected to link up with another oil pipeline from South Sudan, before it ends up at the port of Lamu, stretching at least 1,300km. At least 120,000 barrels of oil per day are expected to be exported through the pipeline. There is a possibility more crude will be exported if Uganda makes more discoveries.

Towards the end of December 2014, Toyota Tsusho handed the governments an inception report.

According to John Habumugisha, the assistant commissioner in charge of the pipeline at the Petroleum Exploration and Production Department, the Japanese firm is expected to complete its study within five months from the day of the signing of the MOU. After the report's release, the process to find a company to construct the pipeline will kick off. This process will tackle project structuring, the signing of agreements, and financing, among others.

However, there are fears that the oil export pipeline might miss its target of 2018 for completion as it faces a number of hurdles. Some analysts have pushed the year of completing construction of the pipeline to 2019.

At the moment, there is still no clear plan on how the governments of Uganda and Kenya will participate in the export pipeline. Initially, Fred Kabagambe Kaliisa, the permanent secretary in the ministry of Energy, was quoted in the press to have said that government would not participate in the construction of the export pipeline. He said government would only be a regulator as the three main oil firms – Total, Tullow and CNOOC –

under the project alone. That position appears to have changed as both the Kenya and Uganda government consider the prospect of taking up shareholding in the pipeline project.

Should Uganda's government be required to come up with funds as a requirement for its shareholding in the project, it might face the challenge of sourcing for capital. The pipeline is expected to cost anywhere between $3 billion to $4 billion.

Uganda's government already has the task of finding the funds to financing the refinery, its priority project in the oil industry. Adding financial pressure on the export pipeline could lead to further delays, especially now that the country's debt levels are shooting up.

Uganda, only has to look at Ghana, a country that it is normally compared with. Ghana's debt has shot up to a worrying level partly as a result of the infrastructure investments it made in order to get its oil industry to production level.

Another issue that the project will face will be access to land. History has shown that land remains a sticky issue during the preparations for a huge project. Tamoil, the Libyan firm that won a tender to build an oil pipeline between Kampala and Eldoret in Kenya, before the governments of Kenya and Uganda later cancelled the tender, faced months of delay trying to resolve the land question. The same land issues have sprung up at the oil refinery project in Kabaale, Hoima district. An American company seeking to build an oil waste storage has been caught in the middle of a land dispute, where it could lose colossal sums of money. The land question could be at the centre of the delays if solutions are not found early enough.

At the centre of the land wrangles is the issue of compensation. There have been disagreements over the valuation of the land.

Considering that Uganda's crude is waxy, one of the technologies the oil companies will consider is the option of heating the pipeline to stop the crude from solidifying. That means there will be a need for generators to heat the pipeline.

Uganda is already moving fast with its energy projects in anticipation of the huge energy demand expected in the future. Less than 15 per cent of the country has access to electricity, and yet the population continues to grow by at least three per cent, one of the highest rates in the world.

The government has already issued new rules about how three major power projects would be implemented. In its new policy directive for the 600MW Karuma power dam, the 600MW Ayago plant, and 183MW Isimba power project – all of which will be constructed by Chinese companies –, the Ministry of Energy has planned to have more control over these projects, with the role of the regulator reduced.

Uganda and Kenya will also have to agree on certain terms such as the legislation that will govern the pipeline, the fees from hosting the pipeline, the security for the project, all of which could take a while.

For now, the latest progress on preparing the development of an export pipeline brings a lot of promise. The oil companies will expect both governments to keep at the same pace before they can commit more funds to the region.

Q&A

# Commodity Exchange Will Improve Mining Competitiveness

The Uganda Chamber of Mines and Petroleum (UCMP) is leading the call for a fully functional Commodity Exchange in the country, which, it is believed will take the mining and agricultural industries to unprecedented levels. A commodity exchange is an open and organized marketplace where ownership titles to standardized quantities or volumes of specific commodities are traded. To facilitate its establishment, the UCMP organized a training seminar last December, where experts from the **INTL FCStone**, took local participants through the fundamentals of commodities exchange. In this interview, ***Stuart Ponder, Senior, the firm's Vice-President, Europe, Middle & East Africa (EMEA),*** who led the delegation to Kampala, expounds more on what instituting a commodity exchange entails:


Ponder, speaks at the training workshop in Kampala

**Is East Africa, where the mining industry is still in its infancy, ready for a commodity exchange? Why?**

Even for a basic commodity exchange to function effectively certain pre-requisites have to be in place, including a sufficient supply of and demand for the commodities being traded on the exchange, and the existence of commodities that are standardized, with specific accepted grades. It's not clear that the mining industry in East Africa yet operates at a level where minerals could be effectively traded in this manner, but clearly there are unexploited resources and the markets will develop, possibly quite rapidly as offshore investment flows increase. Plans to develop an exchange for minerals trading can help to foster the investment needed to expand the minerals sector, particularly if the nascent commodities exchange was to envisage developing derivative instruments enabling miners and buyers of minerals to hedge price risks in the local market. If a functioning exchange is established for agricultural commodities in Uganda there might be an opportunity to use the experience and infrastructure from that exchange to support the trading of minerals in due course.

**What does it practically take to set up a commodities exchange?**

In addition to an established spot market for traded commodities, an exchange needs the right legal and regulatory framework, the right transport and storage infrastructure (which might include security considerations in the case of precious metals), the right infrastructure for executing and settling trades and a clear division of responsibilities between the exchange brokers and the clearing function. It is vital that people have the right experience and skills, and the leadership and vision to drive forward the sustainable development of markets. The exchange needs to operate on a commercially viable basis with sufficient volume of trade to cover its costs, without the need to impose unsustainably high membership and trading fees. Many initiatives to develop exchanges in African countries have failed, and it is important to understand the reasons why they have done so.

**What have been the main reasons for this failure?**

There are numerous reasons which are very well documented in studies that have been done in the last 2 years. Much of this refers to agricultural exchanges but the lessons also read across to minerals. The only way for Uganda to avoid these pitfalls is to be aware of the challenges and plan around them. Careful planning is needed.

**How should market players prepare to embrace this new trading platform?**

The Guidebook on African Commodity and Derivative Exchanges published by the African Development Bank in 2013 lists 28 countries where some sort of exchange initiative has taken place. In more than half of these there is already an exchange in place or they are in an active planning and development phase. Stakeholders in Uganda's plans for its exchange should take advantage of every opportunity to learn from the experience of other African countries.

Active engagement with the private sector is vital. Companies like INTL FCStone are looking for opportunities to position themselves in African commodities markets and may offer capacity building and other support, like the seminar we ran in Kampala last week. Engagement with offshore partners that can bring in relevant skills and experience as well as capital will help accelerate sustainable market development.

**What investment opportunities do you see in Uganda and East Africa in general, that could spur trade on the commodities exchange?**

Uganda and the East African market generally offer attractive growth and investment returns in the agriculture, energy and minerals sectors as well as financial services that cannot be replicated in Europe or North America. With increasing urbanisation and a growing middle class, local demand for financial services, processed foods and manufactured items will continue to increase, generating opportunities for new manufacturing and services industries and diversification away from the focus on primary produce which has been predominant in African economies. The development of commodities exchanges which provide efficient and secure environments for trading and the management of pricing risks will be a key part of this economic evolution.

**What are some of the incentives and regulations that the state can put in place to make a commodity exchange a success?**

In recent years initiatives in African countries, most notably in Ethiopia, have been government driven. Concerns have been expressed that this could foster the emergence of unviable national exchanges that crowd out more sustainable private sector initiatives, particularly those that might adopt a regional approach. Governments need to create a stable legal and regulatory framework within which the private sector can flourish but the commercial viability of the exchange is of paramount importance if it is to be sustainable. The best approach might be to foster a partnership model – co-operating with private sector interests including banks and warehousing companies in the development of a sustainable commodities exchange which might have more of a regional than a national focus.


A workshop trainee discusses what she had learnt

**Both Rwanda and Kenya have commodity exchanges, although Kenya's is skewed towards agriculture. Isn't one East African regional exchange more viable than several in each state?**

The key to success is the commercial viability of the exchange and this is likely to depend on the volumes that are traded. National exchanges have worked and Ethiopia provides a good example of success at a national level, but not all countries will be able to do this and it is more likely that the volumes needed to achieve viability will come through a regional approach. With modern trading platforms a regional approach can be combined with local trading and settlement so it should be possible to have the best of both worlds.

**How have commodity exchanges transformed those markets where they are located?**

Exchanges provide price transparency to both suppliers and buyers, and where they offer derivative products that enable those suppliers and buyers to fix forward the prices at which they sell or buy then they create a more certain commercial environment in which investments can be planned, leading to more efficient supply. A Euromoney report on the Ethiopia exchange says that "in six years of operation .....15 million coffee farmers have increased their share of final price from 38% to 65%". This may not please the buyers in the short term but it will be likely to increase investment in production and make the Ethiopian coffee market more efficient in the long term.

**What lessons can Uganda draw from the other markets?**

There are numerous potential lessons, some of which are referred to in the responses to these questions, but it is vital to remember that there is no "one size fits all" solution. The successful development of Uganda's commodities markets will depend on careful and realistic planning, with a strong focus on commercial viability. Government must play an enabling but not a manipulative role and private sector investment must be fostered to build in economic sustainability.

**What stood out for you at the Kampala seminar; and how can Uganda build on from the inaugural workshop?**

I think the biggest lesson for me from the seminar was how important the development of efficient markets is, particularly to small producers and to encourage investment. This was very well understood by the group in the seminar all of whom were very committed to move forward so it was a very rewarding experience to try and help, and I look forward to following up with the invitation we received to support to the government's panel advising on development of an exchange.

# Local businesses can gain a lot from oil – **World Bank**


A Transtrac vehicle in oil-rich Buliisa District

Speaking at the launch of the report in Kampala in January, 2015, Clovis Bright Irumba, a Petroleum Geochemist with the Petroleum Exploration and Production Department, noted its thoroughness and its timeliness, seeing that Uganda is now at the final stages of the development of a National Content Policy for the petroleum sector.

"We are very excited by this study and I see number of initiatives and recommendations suggested by the World Bank enriching our National Content Policy," noted Irumba.

Within the extractive industries, local or national content is generally recognized as an intervention by the state aimed at ensuring that the majority of the goods and services required at each stage of the value chain are locally supplied.

The discovery of oil in Uganda in 2006 saw expectations in the country grow ten-fold, with Ugandans anticipating a sudden change in their fortunes once the petrodollars started flowing in. Though this scenario is far-fetched across the board, there exist a number of opportunities within which Ugandan firms and individuals can directly benefit in the value chain in the oil and gas industry.

But as Uganda starts to execute a $12 billion expenditure plan to push its oil industry to the production stage, the threat of Ugandans missing out on some of the benefits from these investments because they are not qualified enough to be employed in the sector, or lack the stringent standards needed to participate in the industry, is real.

> The government of Uganda will adopt most of the findings of a World Bank study on the national content development in the oil and gas industry of Uganda, which appear in a report titled: *"Leveraging Oil and Gas Industry for the Development of a Competitive Private Sector in Uganda".*

As such, the World Bank workshop to launch the report, considered how best to boost national content in the oil and gas sector and yield maximum benefits for Uganda and its people.

Sajjad Shah, Acting Country Manager, World Bank Uganda said, "Oil revenues can be used to finance priority domestic investments crucial for diversified growth. Even before oil production commences and oil revenues start coming in, local enterprises can participate in supplying the industry and start growing their business and the national economy in general".

Creating favorable conditions for local businesses seeking to supply the oil industry is a key recommendation from the study. The study focuses specifically on food supply in Albertine region as a case study and demonstrates how linkages can be developed between smallholder farmers and oil camps.

Valeriya Goffe, Finance and Private Sector Development Specialist at the World Bank and the Task Team Leader for the study, Irish NGO Traidlinks, which has helped local farmers in Hoima district seize opportunities coming from the oil development by supplying fresh fruits

Ladies in Buliisa can participate in agriculture, like the lady in neighbouring Hoima below

and vegetables to the oil camps, is a good example to follow in the Albertine Region.

"Similar initiatives could be set up in other districts to benefit more farmers. The report also discusses alternative approaches, including having large scale investors establish operations to produce food demanded by oil camps and use smallholders as out-growers or contract farmers," said Ms. Goffe.

The importance of ensuring co-existence between oil and tourism at Murchison Falls National Park is also highlighted in the study.

Also emphasized are the numerous challenges that may limit the participation of local suppliers in the value chain, including lack of information on available opportunities, unavailability of cheap loans, difficulties in meeting IOC quality and quantity standards and limited skills.

On the lack of information issue especially, Emmanuel Mugarura, CEO, Association of Uganda Oil & Gas Service Providers, noted the prevailing uncertainty in the sector where expats have been reported leaving the IOCs; a development, he said, puts a further dampener on the start of oil production.

The Total E&P General Manager, Francois Rafin, recently left the country with his exit linked to a long period of frustration within the industry over Uganda's delay to move its oil industry to the production stage.

The World Bank is engaged in the oil sector through a number of interventions, including the Albertine Sustainable Development Project ($145million), the proposed Skills Development Project ($100million), and the Competitiveness and Enterprise Development Project ($100million).

Speaking on behalf of the Permanent Secretary, Ministry of Energy and Mineral Development, Fred Kabanda, Principal Geologist and Head Regulatory Unit, PEPD noted the need to fast-track the development of skills and expertise and ensure national participation in the sector for which the National Content Policy provides the key framework.

"The Policy will guide the Government, Licensees, Operators, Oil Service Companies and other key stakeholders in the identification, planning, implementation, monitoring and evaluation of National Content development in the country," said Mr. Kabanda.

The National Content Policy and Plan is premised on the notion that the oil companies should engage in value addition by using Ugandan materials, hire services from Ugandans and Ugandan firms, and also use facilities in Uganda.

Government's creation of the petroleum institute in Kigumba to train Ugandans has not had that much impact; a number of the students who graduated are jobless, while the institute has had financial problems that it had to close temporary.

The other option of sending Ugandans to universities abroad is a costly venture, which cannot be sustainable.

The cheaper option has been the introduction of petroleum geoscience at Makerere University, and similar studies at private universities. There is still a question whether the skills attained from these universities are adequate for a highly-technical industry such as oil.

It is not just the World Bank that has carried out a study on local content. The three major oil companies (Tullow, Total and CNOOC) operating in the country also released a baseline survey on local content a couple of months ago and noted what they needed.

The survey noted that at production peak, the oil sector would employ 11,000 to 15,000 people directly, while indirect jobs would range between 100,000 and 150,000.

The survey explained that technicians and craftsmen will contribute more than 60 per cent of the jobs. Engineers and managers will contribute only 15 per cent, and the rest shall be either semi-skilled or casual workers, who might also require some qualities. The report advised that "education should focus on civil construction, electrical and mechanical fields."

It is the weight that comes with preparing this number of Ugandans that the government is currently developing the National Content Policy and Plan.

Buy Local, Employ Local

# Establishing the conditions for the fulfillment of local content obligations

***By Dr. Glenn P. Flint***

The initial question that this article was meant to address was: '*How can governments compel corporations to fulfill their local content obligations?*' In some respects the answer to this question is simple – many contemporary contracts between governments and corporations are bound by national and international laws that have specific dispute resolution clauses that provide the means of redress and consequences for each partner to the contract should certain aspects not be fulfilled. This can, of course, lead to drawn-out courtroom cases that test the essential relationship of trust between contracting parties and further undermine the chances of achieving mutually beneficial outcomes.

This article is divided into two short sections that deal with, firstly, the increasing hope that is invested in local content for attaining socio-economic development goals. With this greater emphasis, it becomes important to clarify the distinction between, 'national' and 'local' content. Secondly, the article will outline five crucial conditions that create the best possible context for the fulfillment of local content obligations, besides from recourse to costly court cases. The astute reader will contend that there is nothing dramatically new in these conditions, but their reiteration is justified for no other reason than local content is fast becoming, rightly or wrongly, the sine qua non of socio-economic development in countries that are classified as low-income or emerging markets. Just because something is not entirely original does not mean it is of any less value.

**Socio-economic development**

On October 23, 2014 Mozambique's Instituto Nacional de Petróleo (INP) launched its '5th Licensing Round' for fifteen new blocks in an event that was held simultaneously in London and Maputo. The presentations at the Hilton Hotel, Park Lane, included the usual array of technical information, public relations, and political sound bites directed not only at the audience of around 350 O&G delegates, but also at Mozambique's citizens who are placing much hope in the potential for hydrocarbon exploration and production to significantly advance socio-economic development. For Mozambique and other Sub-Saharan countries with similar natural resource potential, including Uganda, the stakes simply could not be higher.

Among the usual diplomatic verbiage, there were two rare moments in which the usual obfuscations were replaced with straightforward statements about Mozambique's expectations with regards to 'local' content. First, when answering a question about the minimum 10% carried interest that would be automatically granted to the national oil company, Empresa Nacional de Hidrocarbonetos (ENH), Carlos Zacarias (INP Exploration Manager) said that 'we [read Mozambique in toto] expect to see more than that'. Second, Arsenio Mabote admitted that applicants who made the greatest commitment to partnering with Mozambican companies would be looked upon favourably during the decision-making process that leads to license awards. What both of these open secrets reveal is the ever-increasing weight that is placed upon local content provisions to fulfill the promise of rapid socio-economic development, especially in strategic sectors where large-scale capital investment is required and, potentially, 1000s of job opportunities reside.

Amidst this clarity and candor, however, there was a conceptual conflation between 'local' and 'national' content. While the different levels are bound to overlap, it is important not to confuse aspects such as national fiscal and policy regimes, including provisions for carried interests, with local content. The question which then arises is: 'what does *local* mean in local content?' Perhaps the simplest way to define the local in local content is to specify its main objectives. These are: knowledge transfer, purchasing goods and services from companies that are registered in, and/or owned by citizens of the host country, and progressively employing citizens of the host country rather than expatriates. All of these can be subsumed under the shorthand dictum 'buy local/employ local'. Increasingly, it is undoubtedly the case that corporations take local content very seriously and in general are committed to the attendant obligations. This is evidenced by board level governance programmes and a burgeoning Corporate and Social Responsibility (CSR) 'industry' that works with major multinationals, and global audit/advisory firms.

**Five conditions**

Beyond the aforementioned contractual dispute resolution and arbitration clauses in contracts, I would argue that the best approach is to set the conditions that are most favourable to establishing a climate of trust between corporations and governments. With this in mind, here are five conditions that are crucial in attaining this objective:

**Create long-term partnerships.** As I have argued, the hope that is being placed in the promise of local content is reaching fever-pitch. It is envisaged as a primary vehicle through which governments and international development agencies can secure achieve life-changing socio-economic development. In the first instance, corporations will see local content as part of their duty to meet all relevant legislation and regulations within their operations and as part of obtaining a social licence to operate. Corporations know that 'getting it wrong' in this regard has major implications for whether projects are successful – witness Vale's well-publicised 'mistakes' in Mozambique. On the other hand, governments must resist the urge to couch their positioning in the language of 'us versus them'. The troubled dispute between Uganda's government and the oil companies regarding the Foster-Wheeler report (which recommends an oil refinery over an export pipeline) provides adequate evidence of how relationships can deteriorate to such an extent that commercialisation of natural resources can be substantially delayed. While the history of exploitation in Africa is beyond doubt, the future relies much more on an open vision of cooperation and partnerships.

**Transparency, transparency, and more transparency.** Transparency and clarity in legislation, regulation, and policy is imperative in the contemporary global business environment. It is of course essential to obtain first class council and advice in setting the legislation, especially when there is a trend in which corporations are seeking greater certainty over the obligations that they will face. When possible, a simplified, standalone local content bill that pulls together disparate elements from various pieces of legislation and covers all sectors would be ideal, but of course there will be some specific differences that cannot be subsumed under a 'one-size-fits-all' law.

Although there are many aspects of transparency that could be emphasised, one of the most challenging is full disclosure of information pertaining to the financial beneficiaries within globally dispersed corporate structures, and with respect to true ownership of any third party supplier or partner towards which a corporation might be directed. In the instance of financial beneficiaries, for example, in too many cases it is relatively easy to 'circumvent' legislation in which the intention is to increase real socio-economic development but which, in reality, result in little financial benefit accruing to the host country. For example, Angola has a 51% indigenous ownership requirement on oil service companies and limits on expatriate workers. This does not, however, prevent a company from simply using the local entity to administer contracts, while still pushing nearly all the financial benefit to offshore subsidiaries. In practice, there may be little by way of 'real' local content being achieved, and yet it would remain within the 'local content' laws. A different, more positive, example would be Saipem Contracting Nigeria Limited (SCNL) that has a huge JV with local companies at the Saipem Rumoulumini yard in Port Hartcourt.

Prof. Charles Kwesiga's Uganda Petroleum Institute, Kigumba has the task of solving Uganda's skills gap

> "There is no silver bullet in 'compelling' corporations to adhere to local content aspects of their contracts, but making a long-term commitment to establishing these five enabling conditions is a sensible and ambitious place to start"

**Accountability.** While accountability is measured in different ways and implemented through a variety of mechanisms across the Sub-Sahara, two of the best institutional examples are in Nigeria and Angola. Both countries benefit from an effective advisory body which is comprised of leading business figures, government/bureaucratic representatives, and relevant consultants. While these bodies have numerous roles, such as sharing best practice, one of the least recognised contributions that they make is in the unintended role they serve in holding each private sector and government authority to account, vis-à-vis stated obligations.

**Professionalise project management within bureaucracies.** This condition is boringly practical, but if organisations such as the World Bank can suffer from inadequate project management and oversight, then one can rest assured that it is a problem. As a start, but only that, Key Performance Indicators (KPI) should be agreed for the negotiable aspects of local content provisions. If KPIs are carefully devised and reported then they effectively serve as measures of success that can be audited by external consultants/advisors in order to monitor progress against the local content provisions.

**Encourage civil society.** An open media and a vigourous non-governmental sector will exert greater public scrutiny on the performance of corporations, and governments, with respect to all aspects of their obligations, including local content. This condition is perhaps the nexus, the keystone, around which each of the other four rest. This is not to say that civil society organisations are beyond reproach or that they are purely altruistic. Far from it, as the global environmental movement witnessed during the 1990s and the first decade of this century, non-governmental organisations can be co-opted, intentionally or otherwise, into serving the status quo rather than bringing about social and political change.

It should be readily admitted, of course, that there is no silver bullet, no panacea in 'compelling' corporations to adhere to local content aspects of their contracts, but making a long-term commitment to establishing these five enabling conditions is a sensible and ambitious place to start.

***The writer, Dr. Glenn P. Flint, is Head of Strategic Development at London's KCC Ltd (**glenn.flint@kccltd.co.uk**)***

# Local content gone wrong in Ghana

They enrolled in their multitudes: some took loans, using family cocoa farms as collateral to pay their tuition on the back of a promise of jobs welders, pipe-fitters, electricians, name it once the US$850th Atuabo Gas infrastructure project kicked off.

But the Chinese contractor of the gas plant - SINOPEC - had its own plan: It came with its own skilled labour. Besides, the Ghanaians who were employed on the project did not include any of the thousands supposedly 'trained' by the rough-and-ready oil and gas training schools dotted across the country.

For want of regulation, since oil was discovered in the country in 2007 all manner of oil and gas training schools have been and are being set up - and they are taking advantage of desperate job-seekers.

Mensah Kujo, a resident of the Sefwi Bodi district of the Western Region, even claims his marriage has ended because his wife - a pupil-teacher who invested over GH 1,000 for him to enroll in one of the botched oil and gas training schools - feels he wasted her money.

Ebow-Hessel Ferguson, director of the defunct training school Mensah attended – Sigma Base Technical Services – admits that he travelled to far-flung villages to convince young men and women to find money and come to Takoradi to be trained for the oil industry.

"We trained about 2,500 Ghanaians, about 300 women among them, in three batches," said Ferguson – who later came under police and BNI investigation for duping the trainees .

Three years down the line, the school is nowhere to be found; and with the oil-job dream dashed, 32-year-old Anthony Animah, one of those who paid various sums of monies for the botched training programmes, has gone back to Bonyere, his seaside village, to rejoin the communal activity of dragging fishing nets.

He was busily pulling a fishing-net along with other members of the community when this writer approached him for a chat.

"I still want to work in the oil industry," he said, "If only government will help us.

Sigma Base's Ebow-Ferguson

As you can see, what we are doing here does not pay much."

The people of Bonyere are proud that the offshore Jubilee Oil Field is closer to their community than any other in the country. Indeed, they think their land is full of oil. They seek to prove this by taking visitors to the site of an abandoned exploration well in a marshy scrubland in the neighborhood, where a pool of crude oil collects.

The community is 124 kilometres away from Takoradi, the Western Regional Capital; or 403 kilometres away from Accra. It was initially chosen to host the gas infrastructure project, but due to what engineers described as "technical and geodetic reasons" the project was relocated to Atuabo, a nearby community.

The citizens of Bonyere became livid about the relocation because they felt their community was much closer than Atuabo to the offshore Jubilee Oil Field, where the associated gas is produced. Indeed, they are still angry with government over what they see as missed job opportunities -- and that is also because of the promises, Sigma Base Technical Services' Ferguson, made to them.

"He came to this village and told us to join the training school so that we would get jobs to do when the project comes," said Antonia Kanra, a 38-year old woman who said she shelved her orange retailing business to join the school, "From this community alone, we use to fill three buses and travel to Takoradi three times per week for the training programme. Apart from the fees we paid, imagine the cost of transport and other expenses we incurred for the six-month period."

Today, Kanra only has a "certificate of participation" to show for her troubles, which says she "participated in our programme in the areas of welding/pipe fitting/fabrication/electrical".

But she is not sure if it can earn her a job, and indeed it may not because jobs in the oil and gas industry do not come cheap.

"You cannot just get up and say 'I am training welders', to what standard? When you get to know the standards, then you put in place the necessary measures," said Daniel Kwarkyi, a US-trained welding inspector who runs Danest Engineering Limited in Takoradi.

"So the training facility will need to have the equipment; it will need to have the consumables, and will need to have qualified and certified instructors to do the job. When you do not have these things in place and then you put guys in

the classroom and say you are teaching them welding, you are deceiving them."

Indeed, the trainees from Bonyere are not the only ones who feel deceived by Sigma Base and its partner organisation -- Harvard Marine Petroleum Training Institute -- another school that sprang up in Takoradi in 2011, made as much money as it could from desperate oil industry job-seekers and folded up.

Isaac Abettey, 32, is a native of Takoradi, the oil city -- a name he hates to hear. He is a trained welder; he was working with a textiles company in Accra when he heard about the training schools in Takoradi. Since oil was discovered in Ghana in 2007, he has nursed hopes of working in the industry. He thus quit his job in Accra, travelled back home and enrolled at Sigma Base to upgrade his skills. But the director, admitting he could use some know-how, soon recruited Isaac and some of his friends to become "Senior Instructors" instead.

After working for four months, the instructors did not receive the GH 250 monthly salary they were promised and so they petitioned the Western Regional Labour Office. The monies were never paid.

Isaac Abettey and two of his friends -- Patrick Kow Abaka and Prince Kwaku Odoom -- went ahead to enrol at Harvard Marine Petroleum Training Institute alongside hundreds of other trainees.

Here, the fee for the training programme was US$3,000 per head. While some paid the money in full before the school folded up, others paid various amounts in installments, explained Patrick Kow Abaka who said he now relies on seasonal jobs to keep body and soul intact.

"So as for us, we were bitten twice and silenced," he said laughing.

**Failed promises**

Harvard Marine was introduced by one Captain Ron McGrath, an Australian national who is said to have returned to his country. Some of the trainees admit that the institute had a semblance of genuineness until it failed to find them the jobs it promised them before they enrolled.

A visit to the facility Harvard Marine rented and operated from, a one-storey building at Kwesimintsim in Takoradi, showed no sign of activity. Managers of the building said they did not know where the school had relocated to, nor did they know the whereabouts of its director.

A female welding student at Ebow-Ferguson's school that had promised Ghanaians jobs in the oil sector.

> "You cannot just get up and say 'I am training welders,' to what standard? When you get to know the standards, then you put in place the necessary measures"

Ebow Hessel Ferguson of Sigma Base told the B&FT that he facilitated the entry of Harvard Marine into the country, and that his trainees were supposed to have moved on to Harvard Marine to polish up.

Mr. Ferguson's third batch of trainees was the one that caused him trouble: when they realized he was taking them for a ride, they reported him to the police who referred the matter to the Legal Aid Scheme – a body created by government to provide legal assistance to the poor.

At the Takoradi office of the scheme, officials said the matter has not been pursued to an end because the complainants, most of whom have to travel from various parts of the country to attend the hearing, have grown weary andhave given up.

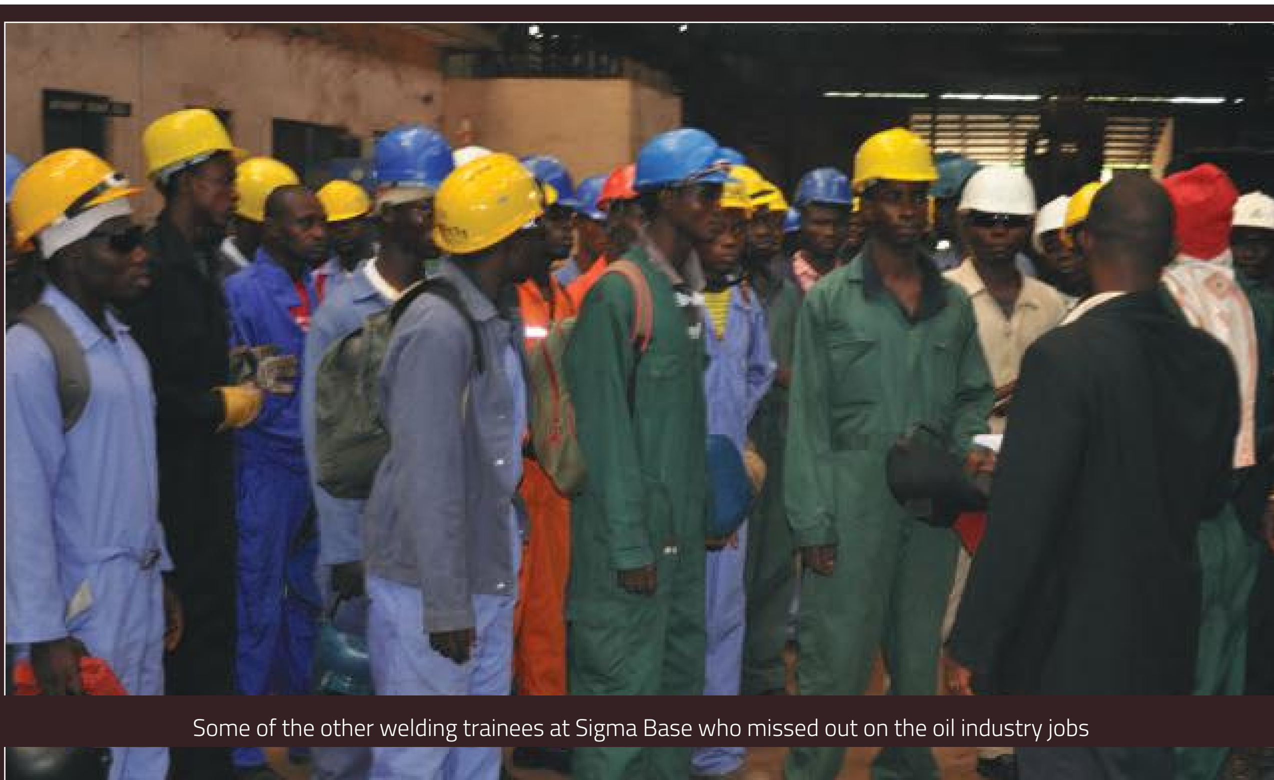
**Lack of regulation**

But while Sigma Base and Harvard Marine may have folded up, a number of the schools remain in Accra, Kasoa, Sunyani and other parts of the country. The news media is awash with advertisements from these schools enticing people to enrol for courses like Petroleum Drilling, Petroleum Management and a host of others.

"We have to let Ghanaians know that you cannot go and do a short course and claim to be proficient in Oil and Gas," said Edward Appiah-Brafoh, Principal Human Resource Manager at the Ghana National Petroleum Corporation.

"The proliferation of these institutions indeed has been realised, and such institutions have to register with the Petroleum Commission that they are providing training in oil and gas-related courses; and then the commission has to monitor what they are teaching."

The Petroleum Commission was created to regulate the upstream



Some of the other welding trainees at Sigma Base who missed out on the oil industry jobs

sector of the petroleum industry. It is therefore in charge of licencing and the awarding of blocks to exploration and production companies. The Commission is also to oversee implementation of the government's local content agenda.

But between the Petroleum Commission and the National Accreditation Board, it is not clear which institution regulates the mushrooming oil and gas training schools.

"If an institution comes up to you, one of the key things you can check is whether they have any accreditation at all from National Accreditation or the Petroleum Commission if you have any doubts," said Theophelus Ahwireng, CEO of the Commission.

"If an institute wants to provide training in the sector we will look at their accreditation. But I think we have warned many times that there are a lot of fake institutions which people need to be wary of -- and it happens in many sectors, not only oil and gas," he said.

While accurate data is hardly available regarding the rate of unemployment in the country, the lack of jobs, even for graduates, has been a source of worry for many citizens. The creation of what is known as the Unemployed Youth Association of Ghana, for many, sums up the gravity of the situation.

Ghana's nascent oil industry thus holds a lot of allure for young people, both educated and uneducated, because the going perception is that the industry pays like no other. They are therefore ready to part with any amount in order to train for oil industry jobs.

But the oil industry has only just begun in the country, with only one field -- the offshore Jubilee Field -- producing an average of 100,000 barrels of oil per day. But the prospects are said to be great. Two new fields are expected to follow in 2016 and 2017, while several other international oil companies have been licenced and are undertaking exploratory activities.

**More troubles**

But while many are eager to enter the industry, those who are already there are not so happy. Upstream petroleum activities have been bogged down by one strike action after another in recent times; Ghanaian rig workers feel they are being given a raw deal since their expatriate counterparts receive far more pay.

Just when an impasse between MODEC -- a private firm working on the production vessel at the offshore Jubilee oilfield -- and its workers was said to have been resolved, the General Transport and Chemical Workers Union recently threatened another industrial action against the company.

"Management of MODEC are failing to abide by their side of the bargain to get the workers that were dismissed for demonstrating over better conditions of service on the FPSO Kwame Nkrumah back to offshore for work," said Francis Sallah, vice chairman of the union.

On October 29, 2014, 40 Ghanaian workers of MODEC embarked on an industrial action to protest poor working conditions and remuneration.

The management of the company later terminated the appointments of 27 striking workers, which led to a tussle at the Labour Commission.

Subsequently, 12 other workers of the company withdrew their services in solidarity with their dismissed colleagues.

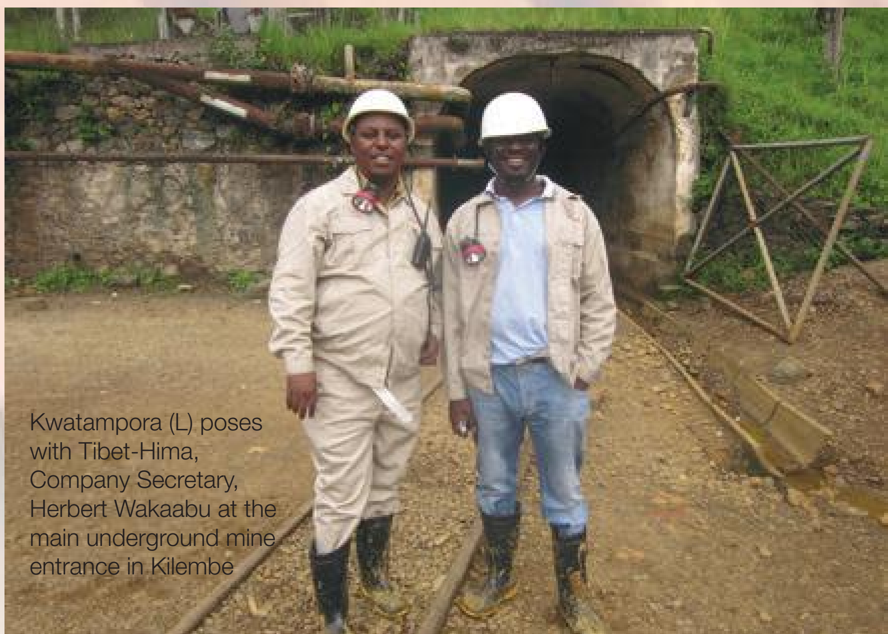
Other Ghanaian workers in the petroleum sector in 2014 also began a solidarity strike to demand reinstatement of the dismissed MODEC workers.

Data from the Energy Ministry indicate that as at December 2013 a total number of 6,929 personnel were employed in the petroleum upstream sector. This consisted of 5,589 Ghanaians and 1,340 expatriates, representing approximately 80% and 20% respectively.

***This slightly altered article by Basiru Adam originally appeared on www.thebftonline.com***

# Tibet-Hima unfazed by falling copper prices

In September 2013, Tibet Hima Mining Company Ltd (THMCL), a subsidiary of Tibet Hima Automobile signed a concession agreement with Uganda to resuscitate mining activities at Kilembe copper mines in Kasese, Western Uganda, after 33 years in limbo. Though the Chinese firm, which will invest an initial US$ 175m in the project, is undeterred by falling global copper prices, it will be hoping prices pick up when the first tonne leaves the ground. ***Alex Binego Kwatampora, the Project Manager*** shades more light on this and more in this interview



Kwatampora (L) poses with Tibet-Hima, Company Secretary, Herbert Wakaabu at the main underground mine entrance in Kilembe

**Over half of Zambia's copper production is currently in a loss-making position following a consistent decline in the international copper price. Doesn't this worry Tibet-Hima?**

Certainly, as a company dealing in the copper and cobalt business, we have to worry about the trend of falling prices of these base metals. However, our programme is still on and we are optimistic that the prices will rise soon as has been the case in the past.

**Oil companies have cut back on expenditure following the serious oil price drop. Are you saying Tibet-Hima has not considered this too, with copper price drops?**

Actually, the cutting back on exploration expenditure is not only in the oil industry but in the mineral sector too. Almost 90% exploration companies globally have cut back their expenditure. But like I noted above, Tibet Hima's plans remain unchanged. Already, we have finished carrying out geological mapping, geochemical and geophysical surveys of one of the most prospective blocks in Kyehara-Nkenda near Kasese town. We will soon conduct diamond core drilling and thereafter we will ascertain the grade and quantity of the copper and cobalt ore. Tibet Hima Mining Company Ltd (THMCOL) is to invest US$ 175m but as work progresses, we have realized that we may need extra cash injection.

**What challenges are Tibet-Hima contending with as it finds its feet in Kilembe?**

They are quite a number. River Nyamwamba floods for now remain the most challenging. Since the flooding of the river in May 2013 and further devastating floods in May and June 2014, the company has incurred a lot of unforeseen expenses of cleaning up the sand, boulders and other debris that had rendered the place an impossible working environment. Bridges too were swept away making it strenuous for workers to make it to work from their homes.

More expenses have been incurred in reconnection of utilities like electricity, water, in the cleaning up and repairing of the sanitary facilities to avoid any disease outbreaks and unblocking the drainage systems. We also need to install protection walls around the tailings dams to avoid further contamination of the river.

Kilembe after the floods

Besides, the floods washed away vital geological, mining, survey and engineering data; a big setback as it hampers data referencing.

There is also rampant theft and vandalism of company and domestic properties shooting up our costs as we have to immediately replace them. A more vigilant security team has been instituted to stem this.

Aggressive encroachment on company land is happening at an alarming level too and reclaiming it from hostile occupants is becoming rather dangerous and expensive.

We would also like to speed up the expansion of the Mubuku I hydropower plant from 5MW to 12.6MW but the Electricity Regulatory Authority (ERA) has delayed clearance on the project's feasibility studies.

**What is being done to reinstate the infrastructure destroyed in the floods?**

THMCOL has embarked on major repairs on some houses, office blocks and has replaced all the utility lines of power and water. However, though we have a comprehensive corporate social responsibility plan which we are already implementing, the River Nyamwamba flood control and mitigation measures promised by the state need to be effected as soon as possible. De-silting of the river was last done in 1982 (33yrs ago).

As you may be aware, the heavy rains are beginning in March 2015; and if no de-silting of the river channel and re-building of gabion-supported concrete retainer walls is done, the floods will be back at end of April or early May 2015.

On its part, the company has de-silted and reinforced some river banks here and there but a lot still needs to be done. We require urgent provision of a bulldozer D-8 or better to remove the bigger boulders from the river channel. We also need retainer walls erected in the known dangerous spots first.

At a meeting in early February held at the Office of the Prime Minister, Dr Ruhakana Rugunda asked the Ministry of Works to immediately get on top of the situation; so we are optimistic a solution will be gotten soon.

**What is the state of Tibet Hima's investment in Kilembe currently?**

A 12-man THMCOL geological team, ably supported by experienced Ugandan geo-technicians and field technical assistant is carrying out the exploration at a good pace.

We have a big task as we have to cover over 600sq km extending all the way to the D.R. Congo.

The rehabilitation of the concentrator/mill plant is ahead of schedule and should be completed by October 2015. As per the concession agreement, a full feasibility study still has to be done and a report detailing the findings released by September 2015. The studies for the smelter establishment too are on-going.

Recruitment of staff started in October 2013 but the exercise was partly affected by the floods last year. It should be noted that THMCOL took over from KML management on June 1, 2014 and has since recruited more than 300 employees. The process is progressive and it is envisaged that we shall hire about 3500 employees within the first 3-5 years of the 25-year concession period.

In the meantime, THMCOL is impacting modern technical skills in the youth and soon, Kilembe will be producing very good technicians as it used to do in the past.

Mining Numbers Construction of a new plant at the Krone mine

# Uganda eyes more revenues from minerals

**THE** Department of Geological Survey and Mines generated more non tax revenue in the first quarter of this financial year than it had earlier anticipated, a new report shows, pointing to heightened activity within the mining industry.

The collection was slightly more than the Shs1bn (US$358,000) the department had targeted, and was described as a "great achievement." The increase in the amount of money generated was also partly attributed to the new rates that government put in place.
The non-tax revenue is collected from government services to the private sector.

The report noted that during the period under review, 26 prospecting licenses, 17 exploration licenses, five location licenses, two retention licenses, one mining lease and nine mineral dealers' licenses were granted. At least seven exploration licenses, two location licenses were renewed.

Also, a total of 72 mineral right applications were scanned, uploaded and validated into the mining cadastre and registry system. At least 31 title prints, of which two were for mining leases, 22 for exploration license and seven location license were prepared.

The government says it will assess many of these licenses to see that work is going on.

**Targets**

The department has come up with a list of targets it intends to follow in order to promote mining in the country.

The department says it will conduct at least six mining inspections every quarter to enforcement provisions and issue environmental restoration orders and improvement notices.

The government has also promised to find ways of processing licenses for mineral rights within three to 60 days from receipt of application. The country intends to generate Shs1billion in quarterly non tax revenue. It will compile mineral production records and statistics every quarter. The department also intends to monitor iron ore projects in Kabale and Kisoro districts on monthly basis. The ministry will also continue to review the mineral policy and legislation, "which is expected to conclude by end of FY 2015/16."

There are also plans to undertake one environmental baseline study per quarter, and also conduct one quarterly review of Environmental Impact Assessment for mining operations.

**Studies**

A substantial amount of the work from the department surrounded the compilation of studies throughout the quarter. During the quarter under review, the department continued to carry out geological and mineral resources assessment of Karamoja region, the department noted.

There are appears to be a lot of interest in Karamoja. The place is thought to be rich in minerals, although there has not been critical data to support this argument.

If all goes according to plan, the plans of a Chinese firm could change Karamoja's outlook.

In July 2014, the department met with a couple of Chinese investors, with one of them showing interest in exploiting marble stones in Karamoja and putting up a cement factory in the area.

DGSM Commissioner, Edwards Katto

One Chinese company has showed interest in the "funding of the planned airborne geophysical surveys of Karamoja."

According to the report, "another Chinese company, Zhongmei Engineering Group Limited showed interest in the airborne geophysical surveys of Karamoja region and hinted that financing could easily be mobilized by their company."

Officials from the department handed the Chinese company information regarding specifications of the surveys.

During the first quarter, the department sensitised local communities on the airborne geophysical surveys of the Karamoja region. The communities were also taken through some of the legislation governing the mining sector, and trained in safety and health standards.

**Geothermal**

Other than Karamoja, the department remained keen on Katwe, where prospects of geothermal energy are high. Government is so serious about the project that it is not willing to engage a company that appears to be dilly-dallying.

For example, when government carried out due diligence on the exploration activities of Katwe Geothermal Power Project Limited (EL 0772) in Kasese, it discovered that "no substantive work was conducted."

The government decided to reject the company's request for a license renewal.

The government has already held meetings with different parties to exploit the geothermal resources in the country.

Already, with the help of USAID, a report on was to develop geothermal resource was compiled by R. Gordon Bloomquist, a geothermal specialist in Washington State University Energy Program and handed to the government.

The report gives recommendations to be considered in formulation of geothermal policy and proposals for development of geothermal energy.

Some of the report's recommendations are: the creation of a clearly pro-geothermal policy and adopt the required legal, institutional and regulatory framework required; provide a clear and secure access to geothermal resources through the granting of concessions under a transparent process; create an enabling market environment with a creditworthy off-taker

(entity to purchase the power produced from a given generation plant) to sign state-of-the-art power purchase agreements (PPAs); provide incentives to reduce capital requirements and provide a reward for successful development, among others.

Power Africa has expressed interest to support Uganda in developing its policy, legal and regulatory framework on condition that the country submits a High Level written request for technical assistance to USAID Mission Director and to Power Africa Coordinator.

Neighbouring Kenya has also joined the fray surrounding the exploitation of Uganda's geothermal resources. Geothermal Development Company Limited of Kenya (GDC), according to the report, has prepared a work plan for the

Buranga geothermal area.

This survey will involve geological mapping, geophysical survey and geochemical surveys, according to the report. The survey is estimated to cost $570,064 and is part of the implementation of the Memorandum of Understanding signed between the heads of state of Uganda, Kenya and Rwanda as part of Northern Corridor Regional Infrastructure Integration Projects.


President Yoweri Museveni and Guangzhou Dongsong's Lv Weidong (R) at the commissioning of the Sukulu phosphates project

# Osukuru phosphate plant comes with hope, dreams

Speak about Tororo and the first thing that comes to mind is cement. As one of the two cement manufacturers in Uganda, Tororo Cement has become the heart and soul of a town that was simply seen as a gateway to neighbouring Kenya.

And through the exploitation of carbonate limestone, Tororo Cement has managed to create business synergies that many people in the area have managed to tap into for more than 50 years.

However, there is some new buzz around Tororo town today. There is a new mining company in town that has taken many people's attention away from the cement manufacturers.

The emergence of Guangzhou Dongsong Energy Group Company Ltd, the new company prospecting for phosphates at Osukuru just a few kilometres from Tororo town, has set tongues wagging. The mining company has the potential to become far bigger than Tororo Cement, and could transform the image of the place in ways, unimaginable.

Speaking at the commissioning of the Sukulu Phosphate Comprehensive Industrial Development Project, last August, Lv Weidong, said the first phase of exploration of a 12.27sqkm revealed 217 million tons of iron and phosphate minerals, which included 62.45 million apatite, 429.8 thousand tons of niobium pentoxide and 890.6 thousand tons of Rare Earth Elements. The exploration of the remaining 14.23sqkm will be completed in 2015.

The Chinese firm has promised to invest more than $620m in the project. When completed, the project would include a phosphate fertilizer plant with a production capacity of at least 300,000 tonnes per annum.

That is not all. The company will also seek to exploit the iron ore deposits in the area by setting up a steel mill with a capacity of not less than 300,000 tonnes per year. A power plant of 12 megawatts will also be built including a sulphuric acid plant, with an annual capacity of 400,000 tonnes.

Guangzhou Dongsong says that the project would not only create more than 1,000 jobs but also pay Shs1.6 trillion in taxes annually.

It is these plans that have gotten the people around Tororo excited.

Wycliffe Odia, who leaves less than two kilometers from the Osukuru plant, is already planning an agricultural project that can make him money, especially supplying the workers at Osukuru.

"Getting employment at the factory will definitely be hard but I am targeting making money through the food industry and rental lockups," he said.

Odia has already identified some of the crops he intends to cultivate. He plans to grow vegetables like tomatoes, cabbages and carrots plus matooke and maize, among others, to serve the expected extra people coming in the area. He already has a three-roomed semi-permanent commercial building that he hopes to rent out to whoever wants to operate shops or restaurants.

Barbara Webombesa hopes to expand her food business by putting up a restaurant next to the Guangzhou Dongsong camp site. She said most of the workers at the site were already customers for her samosas and mandazis, which she has been selling on a small scale.

"I have already secured a piece of land on rental basis where I intend to erect a temporary kiosk, which will serve as a restaurant for my customers," she said.

However, there are worries that some people might have let a good opportunity pass them by. Some of the people who were compensated and got money in order to pave way for the site have squandered the money.

Charles Ajulu Orono, a former Osukuru sub county vice chairman, said: "Some people who were handsomely compensated for their pieces of land, which were previously their livelihoods, instead bought plots in already congested trading centres, where they have built beautiful houses for themselves without considering how they would grow food and make an income."

Ajulu is also worried that a number of businesses might head to Tororo to tap from the opportunities the phosphate plant intends to bring, side-lining the poor locals.

He argues that it would have been better if government first educated the local people about the prospects and risks that would come with the phosphate project so that they are prepared.

All hope is not lost though.

Ajulu believes there is still hope if the people around Tororo formed groups that could strengthen their bargaining power. He said he was part of Osukuru Lands Development and Organization (OLDAO), an activist group, which among others, planned to get a fair value for their goods and services when the Chinese company comes calling.

At the same ground breaking last year, President Yoweri Museveni called upon Ugandans to utilize the vast opportunities that the project intended to create.

"Utilize this business opportunity because there will be a vast market for both crop and animal products such as greens, matooke, including pork, which is a delicacy for the Chinese," he said.

He cautioned Ugandans not to ignore agriculture with the discovery of oil and minerals, describing agriculture as an infinite wealth.

"Minerals and oil are not personal. They are for all of us Ugandans, and they are finite, but agriculture is yours personally and it is infinite wealth," Museveni noted.

It is a message, which, if adhered to, could change the face of Tororo forever.

## Gulf Resources changes name to Namekara


Gulf Resources Uganda Ltd, the company that is the registered owner and operator of the Namekara Vermiculite Mine in eastern Uganda, has changed its name to Namekara Mining Company Ltd with immediate effect.

"The change in name has been necessitated by the need to reflect the fact that the company is no longer related in way, to its former Australian holding company, the ASX listed entity Gulf Industrials (www.gulfindustrials.com.au), following the separation agreement that was entered into during the first quarter of 2014," Henson Mambo, the Country Director said in a February 6, 2015 statement.

He also noted that the name change allowed the company to affirm its Ugandan roots and be identified with its product, Namekara vermiculite.

Manbo added that the ownership of the company remained unchanged. The management, physical and contact addresses too remain the same.

The changes have meant a new logo and letterhead for Namekara Mining Company are unveiled.

## Deloitte wants miners to be more innovative

Matthew Tallarovic
Partner, Deloitte, Uganda

In its 2015 edition of *'Tracking the Trends',* Deloitte, has taken a close look at the issues that miners will face this year and outlines a wealth of potential responses proposed from its member firms' global mining professionals.

Now in its seventh year, the report's predominant theme is an emphasis on the need to "keep calm and carry on".

"There is no doubt that mining companies operate in complex geographies where they face challenges in responding to regulatory and compliance requirements. At the same time, they have an imperative to adapt to changing market conditions while adopting new innovations as they seek to produce more for less cost. And these conditions remain the same, regardless of whether we are in a downturn, or a recovering market," Deloitte advises.

The statement is aimed at spurring frank discussions about the industry's strengths and weaknesses without either painting worse-case scenarios or donning rose-tinted glasses and it is hoped that its content will inform our clients' strategic decision-making.

Deloitte says the top 10 issues mining companies will face this year are: Back to basics – The pursuit of operational excellence, Innovation is the new key to survival – It's about more than cost control, the new energy paradigm – Reducing power project costs, Dwindling project pipelines – Walking the supply/demand tightrope, Financing's great disappearing act – The implications reverberate across the market, Survival of the juniors – Navigating troubled waters, Seeking new skillsets – Shifting industry realities for a new generation of talent, Riding the waves of geopolitical uncertainty – From best guess planning to embracing uncertainty, Rising stakes around stakeholder engagement – Companies struggle to balance competing interests and Engaging with government – Finding new ways to communicate and collaborate.

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An Aggreko power plant in South Africa

# Electricity from Uganda's oil & gas on hold

Uganda has stopped receiving requests for licenses to produce electricity using the country's unexploited oil and gas resources.

This follows a letter from the Ministry of Energy to the Electricity Regulatory Authority (ERA) advising the latter to halt the licensing process until a study on the future of power production in the oil-rich Albertine Graben is completed.

"The Authority has received communication from the Ministry of Energy to the effect that prospected power generation from crude oil and associated gas from the Albertine Graben Region shall be informed by the outcome of the study on utilization of excess associated gas which is currently on-going," reads a January, 2015 ERA notice.

The directive further noted: "… notice is hereby given that the Electricity Regulatory Authority shall not receive any applications submitted in accordance with Section 29, of the Electricity Act, 1999 for prospected development of thermal power plants that intend to utilize crude oil and associated gas from the Albertine, until such a time when the Ministry advises the Authority otherwise."

After completing the study, an appropriate developer will be procured to implement the selected utilization option through a competitive process.

Power companies could likely slowdown their investments in the oil industry.

ERA spokesperson, Julius Wandera, said it was understandable that the ministry to stop licence applications until a study was conducted.

"The ministry needed time to understand the sector very well before rushing to produce power," he said.

Based on the oil gas ratios for the different fields in the oil-rich Albertine Graben so far, associated and non-associated gas estimates

stand at 173 and 500 billion cubic feet of gas respectively, according to the Petroleum Exploration and Production Department.

Until now, a number of companies such as Albatross, Lake Albert Investment Services, and Norway's Jacobsen Elektro Holdings, have applied for licenses to put up power plants. Another energy firm, Aggreko, is also interested in the petroleum reserves.

The department, however, warns that the development of energy plants powered by gas is "very dependent on how the production of oil in the different fields will be carried out."

In September 2013, after Chinese firm CNOOC received a production licence for the Kingfisher field, Peter Lokeris, a State Minister in the Energy Ministry, said Uganda expected oil companies to come up with studies on how to develop the oil.

"CNOOC will undertake studies to determine the optimum solution for the utilisation of the gas that will not be used to generate power for the operations in the field...," he said.

Some of the options CNOOC was supposed to study included transportation of the excess gas to Kabaale refinery area for power generation; setting up of facilities to produce liquefied petroleum gas (LPG) for domestic consumption; and onsite generation and export of power from the Kingfisher field.

Estimates indicate that Kingfisher alone, which is one of the biggest oil fields in Uganda, has enough gas to power a 50MW plant for at least 10 years.

Uganda has discovered 6.5 billion barrels of oil so far. However, only 1.4 billion of this is recoverable.

It is not clear what the new directive means for the companies that already sent in their license applications.

Jacobsen said it wanted a licence to produce 100MW of power. The company, which already has a 50MW thermal power plant at Namanve, wrote in its licence application of how the IOCs had determined Uganda's gas reserves to be more than earlier anticipated.

"In order to enable production of the oil in ground, a sustainable solution is required to be in place for the handling of the associated gas. In addition, we are informed by the oil companies and PEPD that reinjection of the associated gas back into the well is impossible due to the nature of the shallow oil structures," Jacobsen writes in its March 2014 licence application.

It goes on to add: "As a result the only sustainable, stable and environment-friendly solution will be to use the associated gas as fuel for power generation."

Observers will be studying the Ugandan situation keenly, especially now that neighbouring Kenya has said it offers similar opportunities within its oil industry.

Kenya is already reviewing plans of developing power from the gas it has discovered so far. Media reports quote a figure of 1 trillion cubic feet of gas, which, the government says, can power a 550MW plant for 20 years.


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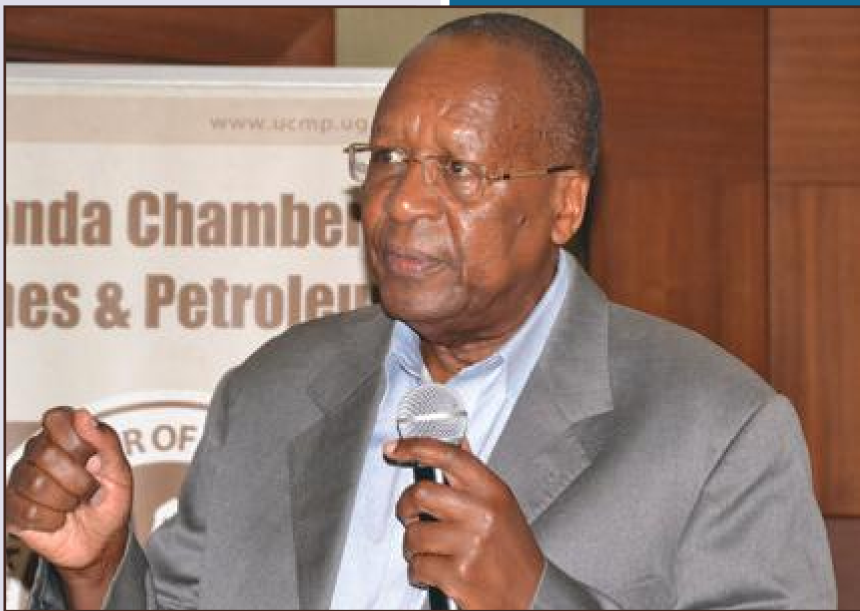
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| 108. | Velosi Corporate Services | Mr. Willie Rankin | Asset Integrity Management |
| 109. | CFAO Motors Uganda Limited | Ms. Tammy Hein | Car Dealers |
| 110. | Simba Mines and Mineral Resources Ltd | Mr. Jonny Sasirwe | Mining |
| 111. | Mantrac Uganda Ltd | Mr. Walid Hassan | Caterpillar Products |
| 112. | Tororo Cement Limited | Mr. Gagrani B. M | Cement Manufacturers |
| 113. | Beta Minerals Ltd | Ms. Jennifer Hinton | Mineral Exploration |
| 114. | TransAfrica Assurance Company Ltd | Mr. Madhav Kumar | Insurance |
| 115. | Ligomarc Advocates | Mr. Joshua Ogwal | Law Firm |
| 116. | Traminco U Ltd | Mr. David K Kawooya | Roads, Mining, Consulting, Construction, Earthmoving |
| 117. | Quantum Express Logistics | Mr. George Odeke | Freight Forwarding Logistics Services |
| 118. | Nangwala, Rezida, & Co. Advocates | Mr. Nangwala James | Law Firm |
| 119. | Niletrac Uganda Ltd | Mr. Mark Davidson | Dealers in plant & machinery |

## Chamber Individual Members

| | Name | Specialty |
|---|---|---|
| 120. | Mr. Brian Kaggwa | Lawyer |
| 121. | Mr. David Kyagulanyi | Mineral Consultant |
| 122. | Mr. Joshua Tuhumwire | Mining |
| 123. | Mr. Malkit Singh Saini | Construction |
| 124. | Mr. Minaz Karmali | Businessman |
| 125. | Mr. Rajesh Dewani | Construction |
| 126. | Harald Van Aubel | Fabrication |

# Chamber Members' Categories

www.ucmp.ug

## ABOUT UCMP

Uganda Chamber of Mines and Petroleum (the Chamber) is a not-for-profit, non-governmental umbrella body representing all aspects of the mining and petroleum sectors in Uganda. It was officially launched by H.E The President of the Republic of Uganda **Yoweri Kaguta Museveni** together with the South African President **H.E Jacob Zuma** on **25 March, 2010.**

**The Mission of the Chamber is,** to promote, through the collective action of its members, the growth and development of Uganda's mining and petroleum industries, for the benefit of all Ugandans and investors.

The primary function of the Chamber is to efficiently promote, encourage, protect and foster responsible exploration in the growing mining and petroleum sectors of Uganda to benefit the country and all stakeholders. **Other functions include among others;**

- Representation of crucial mining and petroleum industry issues to the Government and other relevant bodies on behalf of members.
- Dissemination of information about the mining and petroleum industry developments through the Chamber quarterly magazine.
- Promoting networking of members.

The Chamber acts as a coordinating and facilitating centre for information and administrative support to prospective and current investors interested in exploiting the exciting opportunities in the mining and petroleum sectors of Uganda.

***For more information please contact: Uganda Chamber of Mines and Petroleum***

***3rd Floor Block A, Amber House Plot 29/33, Kampala Road, Tel: +256 312 516 695, info@ucmp.ug, www.ucmp.ug***

3rd Floor, Amber House
Plot 29/33 Kampala Road
P. O. Box 71797 Kampala
info@ucmp.ug
www.ucmp.ug

**APPLICATION FORM FOR MEMBERSHIP**

To: The Executive Secretary,
Uganda Chamber of Mines and Petroleum
P.O. Box 71797 Kampala
E-mail: **info@ucmp.ug**

I hereby apply for membership of the Uganda Chamber of Mines and Petroleum

Company/Organization…………………………………………………………………..

Address:………………………………………………………………………………….

………………………………………………………………………………………………

Telephone………………………………………………………………………………...

Contact person: ………………………………………………………………………….

Position……………………………………………..Telephone……………………………

E-mail: …………………………………………………………………………………...

Please provide a brief description of your company/investment, its size and its activities.

Description.........................................................................................................................

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Signature of Applicant: ………………………….……… Date: ………………………

Your application will be considered by the Governing Council as soon as possible.