



MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

PRESENTATION

AT

**THE NATIONAL BUDGET CONFERENCE AND
ECONOMIC GROWTH FORUM FY 2019/20**

BY

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AT

SERENA INTERNATIONAL CONFERENCE CENTRE

KAMPALA

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Honorable Ministers

Permanent Secretaries

Chief Executives of Government Agencies

Captains of the Private Sector

Government Officials

Members of the Press,

Ladies and Gentlemen

A. INTRODUCTION

1. It is my honor and pleasure to engage in Expanding and Positioning Uganda's Technical Capabilities for the Oil and Gas Industry in Uganda. I want to thank my Colleague the Minister of Finance, Planning and Economic Development for the focus on Industrialization for Job Creation and Shared Prosperity and making it a Theme for our Attention in the FY 2019/2020.
2. Following the enactment of the required legal framework for the Oil and Gas sector in Uganda, which included the approval of the National Oil and Gas Policy in 2008, assent by the President in 2013 of both the Petroleum (Exploration, Development and Production) Act, 2013 and the Petroleum (Refining, Conversion, Transmission and Midstream) Act, 2013 together with the attendant Petroleum Regulations which my Ministry passed in 2016, Uganda now has a modern legal and regulatory regime to attract investment in this sector. In addition, to this regulatory framework this year we have had Cabinet approving the National Content Policy for Uganda.

3. The National Oil and Gas Policy and the laws recommended the separation of roles within the management of the Oil and Gas sector. The roles recognized are;
 - (i) policy review and licensing of acreages to oil companies which is now directly the responsibility of my Ministry,
 - (ii) the regulatory and monitoring role which is the responsibility of the Petroleum Authority of Uganda; and
 - (iii) the Commercial and state participation role which has been assigned to Uganda National Oil Company.

I am happy to report that these institutions are now in place and have taken up their roles.

B. CURRENT STATUS OF THE OIL AND GAS SECTOR IN UGANDA

4. Ladies and gentlemen, with that brief introduction to this topic, I would like now to present the current status of the Oil and Gas sector. I will present the Upstream sector first and then the Midstream sector.
5. **Exploration** – Following the signing of three (3) Production Sharing Agreements (PSAs) with Oranto Petroleum Ltd (Two (2) PSAs in Ngassa area) and One (1) PSA with Armour Energy Ltd (in Kanywataba area) last year, these two Licensees have embarked on the implementation of the agreed work program. For this Calendar Year 2018, the two licensees had a budget of United States Dollars Six million and two hundred Thousand approved to carry out the

following work programs;

- (i) Acquire and process new 2D Seismic data in excess of 450-line Kilometres.
- (ii) Reprocessing of existing 2D (1000-line Km) and 3D Vintage Seismic data (250 sq. Km).
- (iii) Carrying out some Geological and Geophysical studies
- (iv) Undertaking an Environmental, Impact Assessment (EIA) for seismic acquisition.
- (v) Undertaking Drilling solution studies for Lake Albert.

These work programs are on-going. The contract for new seismic acquisition has been signed and the implementation is starting in the last Quarter of 2018.

In order to prepare for the second Licensing Round, my Ministry has embarked on the process of reviewing the 2016 Model PSA together with identifying of blocks that will be available for licensing.

6. Uganda has Twenty-one (21) discoveries;
- (i) Four (4) discoveries were relinquished back to Government; and
 - (ii) Seventeen (17) discoveries were appraised and application for Production Licenses submitted to Government.

The three oil companies Total (E&P) Uganda B.V, CNOOC Uganda Ltd and Tullow Uganda Operations Pty Ltd were given Production Licenses of fourteen (14) discoveries out of the seventeen. The other three discoveries are being discussed for consideration of possible issuance of Production Licenses.

7. **Development and Production-** Ladies and gentlemen, allow me to present to you the progress of the work programs and plans for the fields that were issued

with production licenses; whose work programs are being taken under the Tilenga project for the Buliisa fields and Kingfisher development for the Kingfisher Development Area (KFDA).

8. The Front-End Engineering Design (FEED) studies includes among others the following work program:

- (i) the Geotechnical and Geophysical studies,
- (ii) two planned Central Processing Facilities,
- (iii) the Well pads (35 Well pads for Tilenga and 4 Well pads for KFDA),
- (iv) the two Feeder pipelines,
- (v) the in-field pipelines connecting different well heads,
- (vi) studies on drilling of the planned wells,
- (vii) Sub-Surface Studies the Resettlement Action Plan (RAP) and;
- (viii) the Environment, Social Impact studies.

9. Ladies and Gentlemen, let me now present the Kingfisher project.

The Kingfisher project is operated by CNOOC Uganda Limited (CUL). The project includes development of a Central Processing Facility (CPF) with a capacity of 40,000 barrels of oil per day and 31 wells (11 injectors and 20 producers) to be drilled on 4 well pads. The project will have 16 kilometres of flow lines and a 55km feeder pipeline from the CPF in Buhuka, Hoima district, to the export hub and refinery in Kabaale.

The FEED for the Kingfisher Development Area (KFDA) project has also been completed.

a. **Midstream** – In order to commercialize Uganda’s oil and gas, there are

two midstream projects which are being taken forward by both Government of Uganda and the Licensees. In the following presentation, let me highlight the progress of the two commercialization projects.

10. **Uganda Refinery Project** - The Project Framework Agreement (PFA) for the development of a 60,000 barrels per day refinery was signed between Government of Uganda represented by the Ministry of Energy and Mineral Development together with the Uganda National Oil Company and AGRC (the developer) on 10th April 2018. We are in the process of creating a Joint Coordination Committee (JCC) and Project Management Team (PMT) for the Refinery Development. The Lead Investor is expected to commence the Front Engineering and Design study before the end of this year.

11. **East Africa Crude Oil Pipeline (EACOP) project** - the planning of the construction of the East African Crude Oil Pipeline (EACOP) of a 1445km, 24-inch buried and heated crude oil pipeline (EACOP) from Kabaale, Hoima in Uganda to Chongoleani in Tanga, Tanzania have progressed during the year. The pipeline will have a loading pad in Kabaale, six pumping stations and 27 heating stations along the route together with a facility to load crude oil on to tankers at Chongoleani. The key activities undertaken during the year are highlighted below:

- (i) Laying of the Foundation Stones
- (ii) Front End Engineering Design (FEED) Study
- (iii) Negotiation of Host Government Agreement (HGA)

- (iv) Undertaking of Technical Surveys for the EACOP Project
- (v) Engaging and Cooperating with the Energy, Water and Utilities Regulatory Authority (EWURA) of Tanzania to discuss the modalities of sharing information related to the EACOP project and to agree on how to regulate the integrated pipeline.
- (vi) Land Acquisition for EACOP
- (vii) Statutory Instrument No. 19 Of 2018 On EACOP Early Project Activities
- (viii) Development of the EACOP Tariff Regulation
- (ix) Discussion on the EACOP Business Model Submitted by the Pipeline Project Team (PPT)

C. WHAT ARE THE PROSPECTS OF OIL AND GAS PRODUCTION IN UGANDA

12. Ladies and gentlemen, having highlighted the above progress in the Upstream and Midstream sub-sectors of the Petroleum value chain, the prospects for production of oil are high. You can realize there are enormous opportunities that are coming very soon (ED/PAU will highlight the opportunities in his presentation). And we have to get ready as a country.

D. HOW CAN UGANDA ENCOURAGE DEVELOPMENT OF PRODUCTIVE LINKAGES BETWEEN ITS EXTRACTIVES AND LOCAL ECONOMY?

13. A country's natural resource exploitation can become an 'enclave economy', disconnected from the rest of the economy, making macroeconomic indicators look better, but without creating jobs or broad-based prosperity.

14. To avoid this, linkages between the extractives sector and the rest of the economy need to be strengthened through clear policy measures and strategies that will enable other economic sectors to leverage on opportunities created by a growing extractives sector.

15. These linkages can take a form of

a) Spatial linkages: The extractives require critical infrastructure to enable resource extraction. A lot of investment is needed into infrastructure projects such as pipelines, Refineries, electricity generation plants, roads and ports, airports etc. and governments often contribute significant funding towards some components of the required infrastructure. Such investments can be designed to maximize benefits to other economic sectors – for example, the airport can be used to attract tourists through eased accessibility to these areas.

b) Backward linkages which involve extractives companies employing local people and procuring goods and services from local companies e.g. food supply, construction material, services etc. This can bring significant social and economic benefits, with the multiplier effect of wages and revenue spent locally providing a further boost to local economic development. From the extractive's companies' perspective, it can help to secure their 'social licence' to operate

c) Forward linkages involve boosting the broader economy by processing the natural resources extracted and using them to produce finished goods, rather than exporting them in their raw state. This can help to retain more of the wealth created by natural resource exploitation in the country, as well as

promoting employment, industrialization and economic diversification. Uganda's decision therefore to build a refinery will therefore promote this linkage.

d) Knowledge linkages: The extractive industry by their nature require highly technical and competent based skills which most of the low developed countries lack. The development of the sector therefore brings along skills development and technological innovation. This ensures a creation of highly skilled technical people that can be used to develop other sectors of the economy. In addition, the local companies can share with or take up the new technology brought by international companies working in the sector.

16. What are we doing to promote these linkages? My ministry and the sister MDAs are working with key players in the other sectors of the economy to ensure that they leverage on the opportunities that the oil and gas sector presents in order to promote these linkages as exemplified below;

a) Ministry of Agriculture, Animal Industry and Fisheries (MAAIF); we have been working with MAAIF and the licensed oil companies to develop the Agriculture Development Program for the Albertine graben to ensure that the capacity of the farmers in the region is developed to enable them to meet the food demand for the oil and gas sector. When the capacity is developed not to only meet the quality but also the quantity, the agricultural sector can even leverage on the existence of a new international airport at Kabale to export some of the food.

b) Education Sector; the Ministry of Education and Sports and the oil companies have been working together to ensure training and skills

development is undertaken to prepare Ugandans with the relevant skills to work in the extractive sector through;

- Skills Dialogue
- Training of technicians under cost recovery
- Undertaken Studies like the capacity needs analysis study and the workforce skills development strategy and plan
- Efforts towards accreditation of training institutions to offer international certification.

The skilled workforce will not only be able to work in Uganda but can also be exported to other countries since they will be internationally recognized.

- c) Housing Sector; the sector is also working with various players in the Housing sector like Ministry of Lands, Housing and Urban development, National Housing Corporation, Housing Finance Bank and NSSF to identify the potential opportunities that will be created by the oil and gas industry where each of the players can participate.
- d) Tourism Sector; the sector is also working with the Ministry of Tourism, Wildlife and Antiquities to identify the potential areas of tourism development which can also leverage on the high inflow of workforce, the developed infrastructure like roads and airport to grow foreign revenue into the country.
- e) Medical Sector; the sector is also working with the Association of Medical Practitioners to ensure that the opportunities availed by the industry like emergency medivac, Rapid responses to situations and supply of medical equipment and necessities can be easily be done and implemented by Ugandans.
- f) UNBS; Lastly, we have been working with UNBS to develop various standards for

the oil and gas industry. As you are aware the industry demands high standards. The newly developed standards if implemented and adopted by the Ugandan companies and citizens, they will be able to offer goods and services that are competitive on the international market, hence creating an opportunity for export in other countries especially the frontier neighbors like Congo, South Sudan, Tanzania and others.

With the above measures therefore, Uganda is encouraging and will continue to find all ways of encouraging and developing productive linkages between its extractives and local economy.

E. Case studies: Strategies and Policy interventions other resource endowed countries have implemented to promote local content development in the Oil and Gas Sector

17. Different countries have different approaches to local content development however the key pillars of concern across the board include; emphasis on utilization of local goods and services, employment and training of the indigenous people, local supplier development programs, investment in capacity building and technology transfer programs and intensive monitoring to ensure adherence to requirements as set out in the legislative framework. I have summarized three case studies including Nigeria, Ghana and Norway to provide a picture of the local content policy requirements in each of countries;

Nigeria

18. The Nigerian Oil and Gas Industry instituted local content policies and laws in 2010 with an objective of providing adequate opportunity for the Nigerian

indigenous service companies and individuals to participate in petroleum activities.

19. The local content policy objective and the overall obligation imposed in respect to transactions within the Oil and Gas industry require Nigerian independent operators to give first consideration in the award of oil blocks, oil field licenses, oil lifting licenses to Nigerian companies.
20. The policy framework emphasizes exclusive consideration to Nigerian Indigenous service companies which demonstrate ownership of equipment, Nigerian personnel and capacity to execute such work.
21. In addition, Nigerians are given first consideration for employment and training in any project executed by any operator or project promoter'. An Employment and Training Plan is provided with specific commitments and targets on training. Whenever Nigerians are not employed because of lack of training, a succession plan for a Nigerian to understudy an expatriate is agreed upon.
22. One of the key considerations of the Nigerian Local content policy is the requirement for domiciliation of petroleum activities in the Country. The policy frameworks require that all activities including Fabrication, Engineering Designs and FEED studies are done within the country. This is one of the measures that support in country value addition.

Ghana

23. Ghana introduced requirements for local content into its regulatory framework. These requirements aim to create jobs, promote enterprise development and accelerate the transfer of skills and technologies. Local content is enforced in

the petroleum industry from the beginning to the end of the industry's value chain.

24. The contractors and sub-contractors are required to ensure that Ghanaians with the requisite expertise and qualifications are employed in preference to foreign nationals. In this case the contractor develops and implements plans and programs for the training of Ghanaians in job classifications and in all aspects of petroleum operations.
25. In addition, the contractor is required to pay to the State agreed sums for training and technology support for the building of local capacity and whenever requested, the contractor is also obliged to provide training for mutually agreed number of persons seconded for on job training with the contractor.
26. Where Ghanaians are not employed because of lack of expertise, the contractor is mandated to ensure to the satisfaction of the Ghana National Petroleum Commission that every reasonable effort is made to provide training for Ghanaians in that field. The policy framework further emphasizes that only Ghanaians can be employed in junior level or middle level position in the oil and gas industry. The contractor is also required to furnish the Ghana National Petroleum Commission with a succession plan for any such position occupied by non-Ghanaians.
27. The policy regarding utilization of local goods and services was designed to ensure maximum participation of Ghanaians in the Sector. The country aims at ensuring that priority consideration is given to Ghanaian companies in the award of oil blocks and associated projects in the oil and gas industry.

28. Foreign business entities are required to have at least five percent (5%) equity participation by indigenous Ghanaian Companies in order to qualify to enter into a petroleum agreement or qualify for a petroleum licence
29. All operators in the oil and gas industry are required to use goods and services produced or provided in Ghana for their services. The operators are required to give priority to the purchase from citizens of Ghana, local products and services that are competitive in terms of price, quality and timely availability.
30. A non-indigenous Ghanaian company which intends to provide goods and services to a contractor, is required to incorporate a joint Venture Company with an indigenous Ghanaian Company and afford that Company an equity participation of at least 10%.
31. In addition, upon the execution of a petroleum agreement and prior to the commencement of petroleum activities, the Contractor is required to submit a programme for research, development and budget to the Ghana National Petroleum Commission for the promotion of education, practical attachments, training and research and development in relation to its overall work programs and activities in Ghana.

Norway

32. Norway has had a success story on local content development in the Oil and Gas Sector and it was majorly attributed to instituting a very clear legal framework with a corresponding monitoring system to ensure adherence to the legal requirements.

33. The Country required the licensees, their contractors and subcontractors, employ, build capacity and transfer technology to the Norwegians.
34. The licensees were required to undertake training of personnel from the Ministry, the [Norwegian Petroleum Directorate] NPD in order to build their capacity in technical fields.
35. In addition, licensees were required to use Norwegian goods and services to the extent they were competitive in terms of quality, service, schedule of delivery, and price with foreign goods and Norwegian contractors also had to be included in invitations for tenders to the extent they produced goods or rendered services of the kind required.
36. Given the above case studies and the consideration that my ministry has put to National Content development through a robust legislative framework that emphasizes the need for value addition in the Country, am convinced that as a country we are on the right track.
37. The Petroleum Authority of Uganda that is tasked with the responsibility of regulating the Petroleum Sub Sector is going to update the Forum on the Implementation of the National Content Policy and share the Progress and Challenges experienced this far.

38. I want to thank my Colleague Minister of Finance, Planning and Economic Development for organizing this Forum in preparation for the Budget for FY 2019/2020 and I am ready to participate in the ensuing general discussions.

I thank you for your kind Attention.

Eng Irene Muloni (MP)

MINISTER OF ENERGY AND MINERAL DEVELOPMENT