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Oil in Uganda:

Hard bargaining and complex politics in East Africa

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Preface

Historically Africa is one of the world's most neglected energy provinces. In large part because of its relatively small reserves of oil and natural gas – despite notable exceptions such as OPEC members Nigeria, Angola, Algeria and Libya. However, new discoveries, particularly in Africa's formerly hydrocarbon-poor east, have sparked a new wave of developments that are likely to change the face of Africa as an energy producer. Given the lack of sectoral experience of the continent's new producers the challenge will be to successfully commercialise these newly found resources, to the benefit of its people, in the face of an array of over-ground risks including poor governance, political risk, and weak institutions.

The Oxford Institute for Energy Studies is committed to filling some of the gaps in the understanding of the African energy scene and has published papers, spanning the institute's oil, gas and electricity programmes, which include; a paper on Kenya's oil potential '*Kenya – An African oil upstart in transition*', a paper on Mozambique's LNG revolution '*Mozambique's LNG revolution – A political risk outlook for the Rovuma LNG ventures*', a paper on East African Gas '*East Africa Gas – The Potential for Export'* and a paper on Ghana's gas and electricity sector '*Gas-to-power market and investment incentive for enhancing generation capacity – an analysis of Ghana's electricity sector'*. This paper, on Uganda's oil sector, is the latest in this list.

Bringing in depth understanding to the current trends shaping the energy industry in African countries and analysing the political and socio economic challenges faced in these countries, in particular the development of their energy resources in an efficient and effective way, is extremely important; and I am grateful to Luke Patey whose commitment, enthusiasm and diligent treatment of the oil scene in Uganda has brought both to this paper.

The institute is dedicated to building its capacity in energy research on Africa, to enhancing understanding of the potential of this important continent and to seeking new funding for research on this often neglected energy province.

Bassam Fattouh

Executive Summary

From 2006 onward, a series of oil discoveries put Uganda on the global energy map. These were the largest onshore oil finds in sub-Saharan Africa in over two decades, and part of an oil and gas surge in East Africa and a wider energy boom on the continent. But almost immediately after the discovery of oil, a series of regulatory disputes between the Ugandan government and international oil companies delayed development and production. Uganda's first oil exports are now not expected until 2020 at the earliest.

Uganda's oil sector

Finding oil marked a successful end to over a century of on-and-off-again exploration for Uganda. The international oil price upturn over the past decade was instrumental in unlocking Uganda's oil resources by enticing international oil companies to prospect inland despite operational and security challenges. After passing the commercial threshold of oil discoveries in 2009, the industry shifted from small-sized 'wildcatter' exploration companies and oil independents to include large-sized oil majors keen on development and production.

By 2014, the Ugandan government estimated that there was 6.5 billion barrels of oil in place, but recoverable oil is estimated to be between 1.8 and 2.2 billion barrels. Oil production is expected to reach heights of between 200,000 and 250,000 bpd based on current discoveries. This places Uganda in the position to be a mid-level African producer, comparable with present day levels in Equatorial Guinea and Gabon.

Oil will only flow from Uganda to international markets with the construction of a regional pipeline. A route to the Kenyan coast has long been argued to be the most economically feasible, particularly after Kenya's discovery of oil in 2012, but a route through Tanzania may offer an alternative. In any case, the infrastructure and regional regulatory challenges are immense and investors may be cautious in the current lower oil price environment. Uganda also needs to settle regulatory issues in its own borders before regional cooperation can take shape.

Regulatory environment

Shortly after Uganda passed the commercial threshold for oil discoveries, a series of regulatory disputes between the Ugandan government and international oil companies delayed the industry's development. The regulatory issues came in three waves. First, President Museveni said he would prohibit oil exports, and instead, a large refinery would be built to process all of Uganda's oil in order to service the region. This was quickly followed by a number of capital gains tax disputes with international oil companies. Finally, long negotiations between the Ugandan government and international oil companies on terms for production licenses constrained the industry from moving forward. These regulatory disputes have arguably delayed first oil production by several years.

But hard bargaining from the Ugandan government on infrastructure, tax, and contract demands should not be overly conflated with unwarranted political intervention. Uganda possesses strong technical and bureaucratic capacity to negotiate with international oil companies and direct involvement from President Museveni to advance their position. It is not uncommon for oil producers around the world to change policies and laws governing the oil sector, particularly during a period of high international oil prices. While in Uganda these disputes came during the exploration phase of the industry's life cycle, they should not be taken out of this wider context.

At the same time, the delay in industry progress cannot be solely attributed to the Ugandan government's hard bargaining. International oil companies seek better contractual terms when the pricing environment upsets their previous valuations. The regulatory demands from the Ugandan government were also not too harsh. If they were, international oil companies would have abandoned the country. They did not. Sunk-capital and the promise of revenues from future production kept the companies from leaving. As a result, Uganda continues to command one of the most impressive consortiums in Africa, which includes Tullow Oil, a British oil independent with a strong track record for frontier success; Total, a French oil major with nearly unparalleled technical expertise and operational experience; and CNOOC, a Chinese state oil giant with sizable capital.

While no company entering Uganda in the future should neglect this history for regulatory battles between the government and investors, most of the disputes have been resolved. The government has accepted the construction of an export pipeline and answered questions over the size of a potential refinery, lengthy tax disputes have been settled, and production licenses could be finalized by the end of 2015 or early 2016. Lower international oil prices will also sap the last of Uganda's regulatory bravado.

In any case, Uganda did not miss much of the upturn in international oil prices. As a landlocked country with little supporting infrastructure and no regional agreement on an export pipeline, it would have taken a long time to produce oil even in an ideal scenario with few political and regulatory delays. After passing the commercial threshold of oil resources in 2009, it would take at least five to seven years to develop an export pipeline and for production to rise to high levels.

Politics

Is the relationship between Uganda and international oil companies reconcilable or bound for further turmoil? National and regional politics will answer this question in time. The regulatory environment in Uganda has been difficult to discern from its politics. The centralizing authority of President Museveni in recent years helps to explain the government's hard position on regulatory issues. The obscure control over the oil industry by Museveni and a small circle of Ugandan officials and international advisors has played a divisive role across government and society. This lack of transparency in the oil industry has led parliament to demand greater oversight. As such, Museveni's growing tendency to micromanage presents a concerning political risk for international oil companies. A quasi-authoritarian leader in a dysfunctional democracy could very well lead to further delays in the industry's development. An unpredictability remains for the oil industry in this hybrid governing system.

The overlap between politics and regulatory disputes in Uganda has also been associated with corruption. Capital gains tax disputes were regarded as a means for the ruling National Resistance Movement to tap new sources of campaign financing for national elections. Political intervention could widen as the industry heads towards the infrastructure-heavy development stage. The onset of production could also very well spark new legal and publicity battles within and without government, which slow industry progress and efficiency.

The inevitable process of political succession in Uganda is widely seen as a significant political risk. But a future leader, anointed by the longstanding president to lead the National Resistance Movement or coming to power from the political opposition, is unlikely to forward major policy changes for the oil industry. In the short and medium term, Museveni is likely to stay in power. He intends to run for president again in 2016 and will very likely win the election, but may be approaching his final term as Uganda's leader. Nonetheless, the Museveni government has negotiated very strong production sharing agreements with international oil companies that a new leader would be at pains to improve beyond underdeveloped areas on social and environment matters.

One of the largest political-regulatory risks still facing the oil industry is the development of a regional pipeline. Regional politics are central to the monetization of Uganda's oil industry. If Uganda and Kenya wish to see oil by the end of the decade, President Museveni and President Uhuru Kenyatta must compromise on domestic political goals to establish regional regulatory measures, such as financing and security for the pipeline, that allow its construction and stable operation. Alternatively, a route through Tanzania is emerging as a possibility for Uganda in a complicated game of regional politics.

Social concerns and insecurity

There is a dearth of responsibility in Uganda for the demands of local communities in oil areas. The central government is largely unwilling to find long-term solutions for social issues, and the capacity of local government is weak across the district, country, and sub-county levels. International oil companies and their contractors, working day to day in local areas, are on the frontline of social protest against the oil industry, leading to costly operational stoppages and a persistent, and difficult to retract, negative relationship with local communities.

Apart from generating petrodollars for the Ugandan government, the developmental impact of the oil industry is limited. Sub-national oil revenue sharing from the central government to both district level and cultural institutions will also be relatively small. Social investment can still have an impact, but communities in Uganda have generally not been heavily consulted on service provision, and corporate responsibility projects have not been aligned with central or district development plans. Social investments also do not counterbalance the negative consequences the industry can have on livelihoods. Oil infrastructure plans will continue to displace thousands.

The increase in army personnel and police in the Lake Albert region may only serve to enflame the social grievances of local populations towards the oil industry. The militarization of the region by the Uganda People's Defence Force (UPDF) and personalization of security by Museveni should caution rather than comfort oil companies. Although President Museveni has successfully quelled multiple insurgencies in Uganda over his tenure in office, and the UPDF remains strong, multiple sources of regional instability from eastern Democratic Republic of Congo (DRC) and farther afield due to Uganda's military presence in Somalia, could threaten the onshore oilfields.

Contents

Maps

© Nations Online Project
UGANDA
National capital
Chief Town
Town, village
Airport
International boundary
Main road
Secondary road
Railroad
0 25 50 75 100 km
0 25 50 75 mi
N
SOUTH SUDAN
KENYA
DEMOCRATIC REPUBLIC OF THE CONGO
RWANDA
UNITED REPUBLIC OF TANZANIA
Bahr el Jebel (White Nile)
Albert Nile
Victoria Nile
Lake Albert
Lake Kyoga
Lake Kwania
L. Bisina
L. George
Lake Edward
Kazinga Channel
Lake Victoria
Sese Is.
Winam Gulf
Speke Gulf
Equator
Mount Stanley (5,110 m)
Kampala
Kigali
Nimule
Lopodi
Moyo
Yumbe
Adjumani
Atiak
Kitgum
Kaabong
Kotido
Arua
Pader
Gulu
Nebbi
Pakwach
Moroto
Lira
Lothaa
Apac
Butiaba
Kaberamaido
Katakwi
Nakapiripirit
Namalu
Masindi
Soroti
Bunia
Hoima
Nakasongola
Kumi
Kapchorwa
Pallisa
Sironko
Kiboga
Mbale
Kitale
Kamuli
Luwero
Bundibugyo
Kibale
Kyenjojo
Fort Portal
Mubende
Kayunga
Bombo
Iganga
Tororo
Jinja
Buikwe
Bugiri
Bungoma
Busia
Mayuge
Mukono
Kamwenge
Kasese
Mpigi
Entebbe
Ibanda
Sembabule
Masaka
Kalangala
Bushenyi
Mbarara
Rakai
Rukungiri
Kanungu
Ntungamo
Kisoro
Kabale
Kyaka
Ukerewe

Introduction

High international oil prices from 2004 to 2014 brought Uganda into the world's petro-club. Enticed by expectations of high profits, international oil companies entered the landlocked East African country to seek untapped oil resources. Uganda's oil finds were the largest onshore oil discoveries in sub-Saharan Africa in over two decades, part of an oil and gas surge in East Africa and a wider energy boom on the continent.[1] But almost immediately after the discovery of oil, a series of regulatory disputes between the Ugandan government and international oil companies delayed development and production. Uganda's first oil exports are now not expected until 2020 at the earliest.

Many analysts see these events and caution investors that Uganda holds concerning levels of risk.[2] But if a broader perspective is taken, the long delays in Uganda's oil production are not particularly surprising and are nevertheless on the decline. Oil is a long-run business. It can take years for initial exploration and development work to be complete. In Uganda's landlocked onshore concessions, which require a pipeline to cross through another national jurisdiction some over 1,000 kilometres away, the time needed to monetise oil resources is even longer.

But hard bargaining from the Ugandan government on infrastructure, tax, and contract demands have been overly conflated with unwarranted political intervention. It is not uncommon in the international oil industry for governments to renegotiate contractual terms, particularly during periods of high international oil prices. The Ugandan government's dispute with international oil companies over the generous terms provided in initial exploration contracts was early in the life cycle of the industry, but it did not cause major investors to leave the country. At the same time, the delay in industry progress cannot be solely attributed to the Ugandan government's hard bargaining. International oil companies seek better contractual terms when the pricing environment upsets their valuations. Since production can last for decades, even in small-sized oilfields, a mutual understanding of contracts between the government and international oil companies will pay off for both sides in the long term.

Ironically, however, just when micro-country risk has fallen, the high oil prices that brought in international oil companies to Uganda in the first place have dropped sharply. Down from $100 per barrel highs in the summer of 2014, international oil prices averaged only $58 during the first half of 2015.[3] While the macro risk of a prolonged period of lower oil prices sensitizes international oil companies to existing risks in Uganda, it may also promote compromises between the government and international oil companies to advance the industry after long delays.

[1] As a whole, sub-Saharan Africa holds only a tenth of the world's crude oil, and while the fall in international oil prices will dampen future investments, Africa has been one of the fastest growing oil regions in the world over the past five years, accounting for 30 per cent of all new discoveries; International Energy Agency, 'Africa Energy Outlook', Special report, IEA, Paris, 48.

[2] 'A new frontier: Oil and gas in East Africa', *Control Risks*, 2012, https://www.controlrisks.com/~/media/Public Site/Files/Our Thinking/east_africa_whitepaper_LR_web.pdf

[3] Energy Information Agency, 'Spot prices for crude oil and petroleum products', 19 August 2015, http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm

The majority of research done on oil in Uganda examines the impact of the industry on politics, governance, development, human rights, and security.[4] But there is little perspective for the strategic thinking in the government and industry that ultimately plays a large role in how oil comes to influence these conditions. This paper provides an overview of Uganda's oil industry and the risks in the Ugandan and regional political economy that may undermine its growth in the future. It offers a resource to government officials, corporate executives and managers, development practitioners, and rights campaigners to better understand an industry that affects their work.

First, the paper provides an overview of the history of oil exploration in Uganda, stretching back over 100 years into the colonial period. It demonstrates how advances in technology, coupled with rising oil prices, led to the first commercial discoveries in 2006. It also considers future production and reserve levels, and the infrastructure development, particularly a regional pipeline, required before oil exports can start.

Second, the paper examines Uganda's regulatory environment through the refinery demands, tax disputes, and contractual negotiations between the Ugandan government and international oil companies. It suggests regulatory stability is increasing in Uganda. The legislative vacuum in the oil industry during the 1990s is being filled with new policies and laws, and lower international oil prices may dull hard negotiating positions of the past.

Politics, the subject of the third section, still may delay the advancement of Uganda's oil industry. The country's centralized, authoritarian control under President Museveni creates a risk of further delays in industry progress, and political instability associated with political succession is also widely seen as a future risk. However, a future leader, even one from today's opposition parties, is unlikely to make major changes in policy for the oil industry. The Museveni government has negotiated very strong production sharing agreements with international oil companies. But regional politics may yet stall Uganda's oil production. The construction of a regional pipeline from Uganda to Kenya or, alternatively, through Tanzania, requires significant compromise in financial and security arrangements. Uganda and Kenya must pull back on domestic political goals to establish the necessary regional regulatory measures for the pipeline to become operation by the end of the decade.

The final two sections of the paper respectively explore social concerns and insecurity in the oil industry in Uganda. Grievances arising from the social and environmental impacts of oil may lead to protest against a prone and spread-out onshore oil industry by local communities, and result in costly operational stoppages. The militarization of the region and personalization of security by President Museveni have exacerbated these grievances already. Museveni's strong arm should caution rather than comfort international oil companies. At the same time, regional tensions in the bordering DRC, and farther afield due to Uganda's military presence in Somalia, may, in a worst case scenario, make the oil industry a target for rebels and the highly mobile militant group, al-Shabaab.

[4] For excellent studies in these areas see: David M. Anderson and Adrian J. Browne, 'The politics of oil in eastern Africa', *Journal of Eastern Africa Studies*, Vol. 5, Iss. 2, 2011; Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012; Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, 2012; Ben Shepherd, 'Oil in Uganda: International lessons for success', Chatham House, 2013; James Van Alstine et al., 'Resource governance dynamics: The challenge of 'new oil' in Uganda', *Resources Policy*, Vol. 40, 2014.

Uganda's oil sector

From 2006 onward, a series of oil discoveries put Uganda on the global energy map. Finding oil marked the end of over a century of intermittent exploration. Rising oil prices over the previous decade were instrumental in unlocking Uganda's oil resources by enticing international oil companies to prospect inland despite operational and security challenges.

After passing the commercial threshold of oil discoveries in 2009, the industry shifted from small-sized 'wildcatter' exploration companies and oil independents to include large-sized oil majors keen on development and production. Significant infrastructure investments still need to be undertaken for Uganda to get to first oil by 2020, and investors will be cautious in the current lower oil price environment, but the development of a regional pipeline from Uganda to the Kenyan coast may help unlock the wider East African oil resources.

Exploration

Uganda is widely regarded as a new oil state, but the history of its oil industry is over a century old. Oil seepages along Lake Albert have been well known to local communities for generations. British explorers later made the first formal references to oil in the late 1800s. Some exploration began near the fishing village of Kibiro in the early 1900s, but was halted with the outbreak of World War I. In 1925, E.J. Wayland, director of the Geological Survey for the Uganda protectorate, mapped out indications of oil in the country to help re-spark exploration interest.[5] In 1938, the Johannesburg-based African European Investment Company drilled the first exploration well, Butiaba Waki-1.[6] However, progress in the oil industry chilled again with the start of World War II.

Following Uganda's independence in 1962, political instability and civil war continued to dissuade many investors, but the largest hurdle facing international oil companies was overcoming the operational challenges and costs of exploring for oil well over 1,000 kilometres inland from nearest major port at Mombasa, on the Kenyan coast. Uganda's concessions run across a narrow but long track of territory on the eastern shores of Lake Albert, beginning in the northwest near South Sudan and running 500 kilometres south on the border with the Democratic Republic of Congo.

In the late 1970s, following the Iranian revolution and nationalizations across the Middle East and North Africa, international oil companies ventured into periphery countries in search for exploitable reserves. Hoping to capitalize on the renewed attention on East Africa, Uganda passed new legislation and exploited international finance for preliminary exploration to attract investors; a 1983 World Bank-sponsored aeromagnetic survey gathered new data and mapped out sedimentary sub-basins.[7] A Petroleum Act was passed in 1985 to lay the legislation groundwork, and discoveries by Chevron in southern Sudan drew further interest to the East Africa region.

[5] Deloitte, 'The Deloitte guide to oil and gas in East Africa: Where potential lies', *Deloitte*, 2013, 27; 'Tracing Uganda's oil journey from 1913–2013', *Daily Monitor*, 2 January 2014.

[6] Brian Smith and John Rose, 'Uganda's Albert graben due first serious exploration test', *The Oil and Gas Journal*, Vol. 100, Issue 23, 10 June 2002.

[7] 'Untapped Oil Frontier: Hunting elephants in East Africa', *Cormark Securities Inc*., 3 February 2011, 36. 'The history and progress of petroleum exploration and development in Uganda', http://www.petroleum.go.ug/uploads/History_brief_20142.pdf

But politics in Uganda hindered the oil industry's advancement. The National Resistance Army of Yoweri Museveni overthrew the Obote government in 1986. The oil industry came to a standstill for five years after the newly sworn-in President Museveni cancelled negotiations with international oil companies, foreshadowing his recalcitrant attitude to the industry for over two decades. Museveni is said to have first wanted Uganda's capacity to properly manage the sector to improve before moving ahead with exploration.[8] In the late 1980s, Ugandan geoscientists were sent overseas to receive specialized training. A Petroleum Unit was established in the Geological Survey and Mines Department in 1990 and a year later reorganised into the Petroleum Exploration and Production Department (now called the Petroleum Directorate) within the Ministry of Energy and Mineral Development.

It was unlikely, however, that any of the companies Museveni claimed to have cut off talks with would have ultimately entered Uganda. International oil prices plummeted in the mid 1980s. By the time Uganda had passed key legislation, released important geological data, and designated five exploration areas, new investment into frontier markets was drying up. A case in point was Uganda's engagement with Petrofina. Uganda signed a Production Sharing Agreement (PSA) with the Belgian company for the entire Albertine Graben region in 1991, but two years later, Petrofina pulled out without completing any work. Another PSA with a small American company went unfulfilled in 1995.[9]

If Uganda was going to attract international oil companies during an extended period of low oil prices it would need to offer attractive contractual terms. In 1997, agreements with significant tax incentives were signed with two 'wildcatter' oil companies, Jersey-registered Heritage Oil and Hardman Resources from Australia. Heritage, owned by British businessman Tony Buckingham, a founder of the Executive Outcomes mercenary group, was awarded Block 3, which was later subdivided, on the south end of Lake Albert (see Map 1). Heritage was the first oil company to carry out serious exploration work, conducting Uganda's first seismic survey in the Semliki area of Block 3 in 1998.[10]

Oil prices were still not particularly high in the late 1990s, but along with favourable contracts, Heritage was able to operate in landlocked Uganda thanks to cost effective advancements in the global oil industry. It brought in a highly specialized, lightweight, slim-hole rig to drill its first well. Fully containerized, the rig was transported overland from South Africa. Drilling times were longer, but savings were captured from a shorter preparation time and smaller footprint.[11]

The security environment along Uganda's western border was poor in the late 1990s. The Congo Wars, which engulfed the border areas with the DRC. But Heritage received ample protection from the Uganda People's Defence Force (UPDF) and private security forces at their drilling sites, particularly the Ugandan subsidiary of Saracen International, partly owned by President Museveni's younger brother, General Salim Saleh.[12] After the 1999 Lusaka Accord was signed

[8] Today the Petroleum Directorate is staffed by individuals which were sent by Museveni in the late 1980s for overseas training; Reuben Kashambuzi, *The story of petroleum exploration in Uganda*, Impro Publications Ltd., Kampala, 2010; 'Donor engagement in Uganda's oil and gas sector', *Global Witness*, Briefing, 2010, 9.

[9] Morrison Rwakakamba and Daniel Lukwago, 'Farmers in Uganda's Oil Economy', Agency for Transformation, 2013.

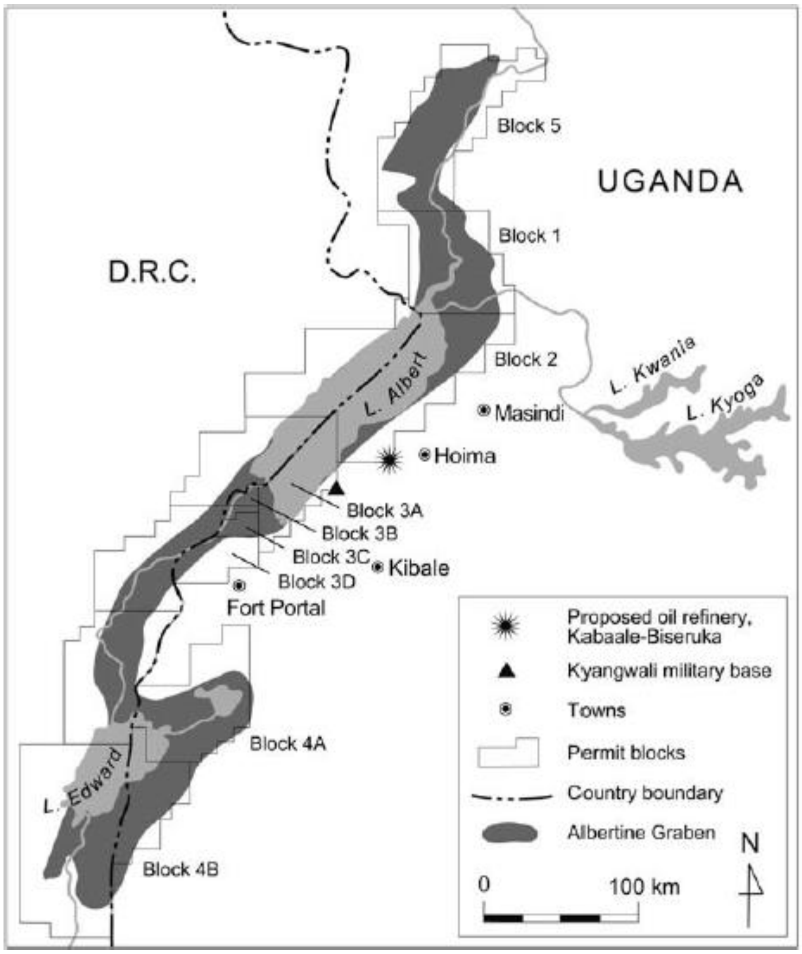
[10] 'Untapped oil frontier: Hunting elephants in East Africa', *Cormark Securities Inc*., 3 February 2011, 37.

[11] Brian Smith and John Rose, 'Meeting exploration challenges in Uganda's remote Albert graben', *The Oil and Gas Journal*, 17 June 2002.

[12] Interview, international oil company active in Uganda, 30 April 2015; 'New guns on the block', *Africa Confidential*, 17 December 2000.

between warring countries in the region, the security situation improved but remained tense, with Ugandan rebels and a myriad of militia groups active in the eastern DRC.

Map 1: Uganda's main concessions before 2012 reallocation



Source: Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012.

In the early 2000s, Heritage drilled three test wells in Block 3, where it brought in a partner, Energy Africa, with a 50 per cent stake. After a contractual relinquishment, the concession was subdivided, but the two companies held on to the most prospective area, Block 3A. In 2004, Heritage and Energy Africa also won an exploration license for Block 1 on the north end of Lake Albert. Hardman signed an exploration license in Block 2 in 1997. It pulled out shortly after, but remerged in 2001, also with Energy Africa as a partner, to conduct seismic work.[13]

The growing exploration activity of both Heritage and Hardman started to attract the attention of the global oil industry as international oil prices began to rise dramatically in the 2000s. Tullow Oil, a British-based oil company, made a big splash with the purchase of Energy Africa in 2004. The $500 million purchase gave Tullow assets in five African countries, including a 50 per cent stake in Blocks 1, 2, and 3A in Uganda.[14] The British independent arrived at the right time. In the

[13] Paul Busharizi, 'Australia's Hardman to search for Uganda oil', *Reuters*, 4 September 2003.

[14] 'Creating shared prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 4–6.

coming years, Heritage and Hardman continued to have drilling success. In June 2006, Hardman became the first company to discover oil in Uganda through its Mputa-1 well. Then Heritage followed through with the Kingfisher discovery.[15] Multiple oil finds, including by Tullow, made 2006 a breakout year for Uganda's oil industry. Thanks to the early discoveries, oil companies were able to better define the subsurface of the basin, snowballing drilling success in the years to come. President Museveni announced Uganda's first oil discoveries at a national Thanksgiving celebration.

Not all exploration companies were successful in Uganda. In Block 4B in the Lake Edward and Lake George area, Dominion, a subsidiary of Ophir Energy, conducted seismic tests in 2008. It drilled a well in 2010 but found no hydrocarbons, and elected to close its operations. In Block 5, north of Lake Albert, Neptune Petroleum, a subsidiary of AIM–listed Tower Resources, drilled three wells in 2009 without encountering oil and relinquished its license.[16] All in all, however, by mid 2014, there was clear exploration success in Uganda with 102 out of 116 wells discovering hydrocarbons. All of the oil finds are within the Albertine Graben, the western arm of the East African Rift System (see Map 2).[17]

Once production does begin onshore, the potential for offshore exploration in Lake Albert will increase. Exploration will be more expensive, particularly if environmental sensitivities, such as the cross-border implications of an oil spill, are taken into consideration. But some oil companies have argued that geological conditions are ripe for new discoveries; as Simon Potter, Hardman CEO, predicts, 'the big prize is still underneath the lake.'[18]

Away from Lake Albert, interest in Uganda's new exploration concessions has not been great to date. In early 2015, Uganda announced it was ending a nine-year freeze by offering six blocks for licensing.[19] Some of the concessions, including Ngasa in Block 2EA and Turaco in Block 3A, were earlier repossessed from Tullow after the company declared the concessions sub-commercial due to geological complexity.[20] In the new licensing round, Tullow was among the companies interested in bidding, but also a group of newcomers, including India's Oil and Natural Gas Corporation and Sasol Ltd from South Africa.[21] The majority of bidders, however, were frontier or shell companies with little operational capacity, some with questionable environmental and social track records.[22] Lower international oil prices, but perhaps also unattractive geological data for new prospects and Uganda's reputation for political and regulatory risk, dissuaded independents and oil majors from entering.

[15] 'Untapped oil frontier: Hunting elephants in East Africa', *Cormark Securities Inc*., 3 February 2011, 37–8.

[16] Deloitte, 'The Deloitte guide to oil and gas in East Africa: Where potential lies', *Deloitte*, 2013, 28.

[17] 'Progress of petroleum exploration and development in Uganda', Ministry of Energy and Mineral Development, Presentation, 22 July 2014.

[18] Daniel Wallis, 'Australia's Hardman hails Uganda oil tests', *Reuters*, 4 July 2006.

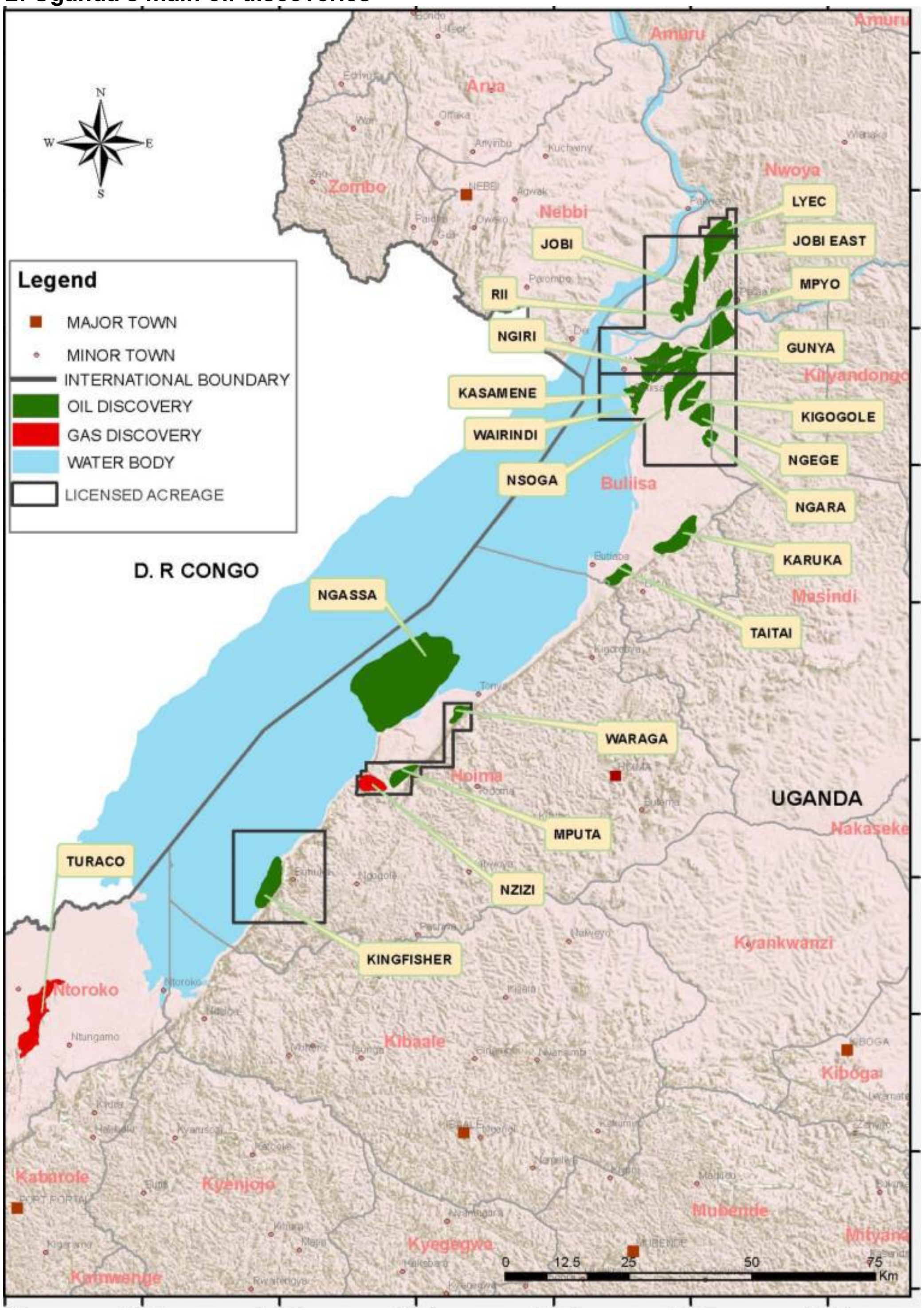
[19] Nicholas Bariyo, 'Uganda offers oil blocks, ending nine-year licensing freeze', *The Wall Street Journal*, 24 February 2015.

[20] Nicholas Bariyo, 'Uganda set to award new oil exploration licenses in 2015', *The Wall Street Journal*, 3 June 2014.

[21] Fred Ojambo, 'Uganda short-lists 17 companies in first oil-licensing round', *Bloomberg*, 1 July 2015.

[22] George Boden, 'Uganda's new oil contracts: Issues of transparency and the environment', *The East African*, 1 August 2015.

Map 2: Uganda's main oil discoveries



Source: Ministry of Energy and Mineral Development, Uganda

Development and Production

After multiple discoveries from 2006 to 2008, the value of Uganda's concessions grew substantially. Some international oil companies looked to consolidate their investments, while others to cash in through selling their assets. Tullow purchased Hardman Resources for $1.1 billion in 2007. This gave the British company 100 per cent control of Block 2. Gross estimates of oil resources passed the commercial threshold at 750 million barrels by 2009.[23] That year Heritage proposed the sale of its 50 per cent stake in Blocks 1 and 3A to the Italian oil major ENI for $1.45 billion, but Tullow invoked its contractual pre-emptive rights to buy the assets, giving it full operatorship of Uganda's oil-yielding concessions.

Shortly after, in early 2010, Tullow announced its intention to sell a third of its concessions in Blocks 1, 2, and 3A to both the French oil major, Total, and the China National Offshore Oil Corporation (CNOOC). The British company could not muster the more than $10 billion investment required to develop the oilfields on its own. The sale was valued at $2.9 billion, an amount that allowed Tullow to recoup its purchases of Hardman Resources and Heritage's Ugandan assets. Oil companies in the Ugandan industry shifted from small-sized 'wildcatters' and independents to include oil majors. Total and CNOOC were major players, possessing both sizeable capital and expertise in mid and downstream operations that Tullow lacked to steer the country towards production.

But contract negotiations and a tax dispute significantly delayed the formation of Tullow's new oil consortium with Total and CNOOC. It was not until early 2012 when the farm down was finalized. Tullow, Total, and CNOOC held a 33.33 per cent stake in each concession and divided operatorships. After the relinquishment of portions of the concessional areas: Total took operatorship of Block 1; Tullow, Block 2; and CNOOC, Block 3.

To the north of the concessional area, Blocks 1 and 2 consist of the Lyec, Paraa, and Buliisa discovery areas (see Map 3), which contain an estimated 75 per cent of the oil resources in Uganda; a 1 billion barrel plus potential argued to be the largest onshore oil discoveries in sub-Saharan Africa in over two decades. Further south, Blocks 2 and 3, the Kaiso-Tonya and Kingfisher discovery areas, hold 10 per cent and 15 per cent of Uganda's oil resources respectively.[24] By 2014, the Ugandan government estimated that there was 6.5 billion barrels of oil in place.[25] But recoverable oil is predicted to be between 1.8 and 2.2 billion barrels.[26]

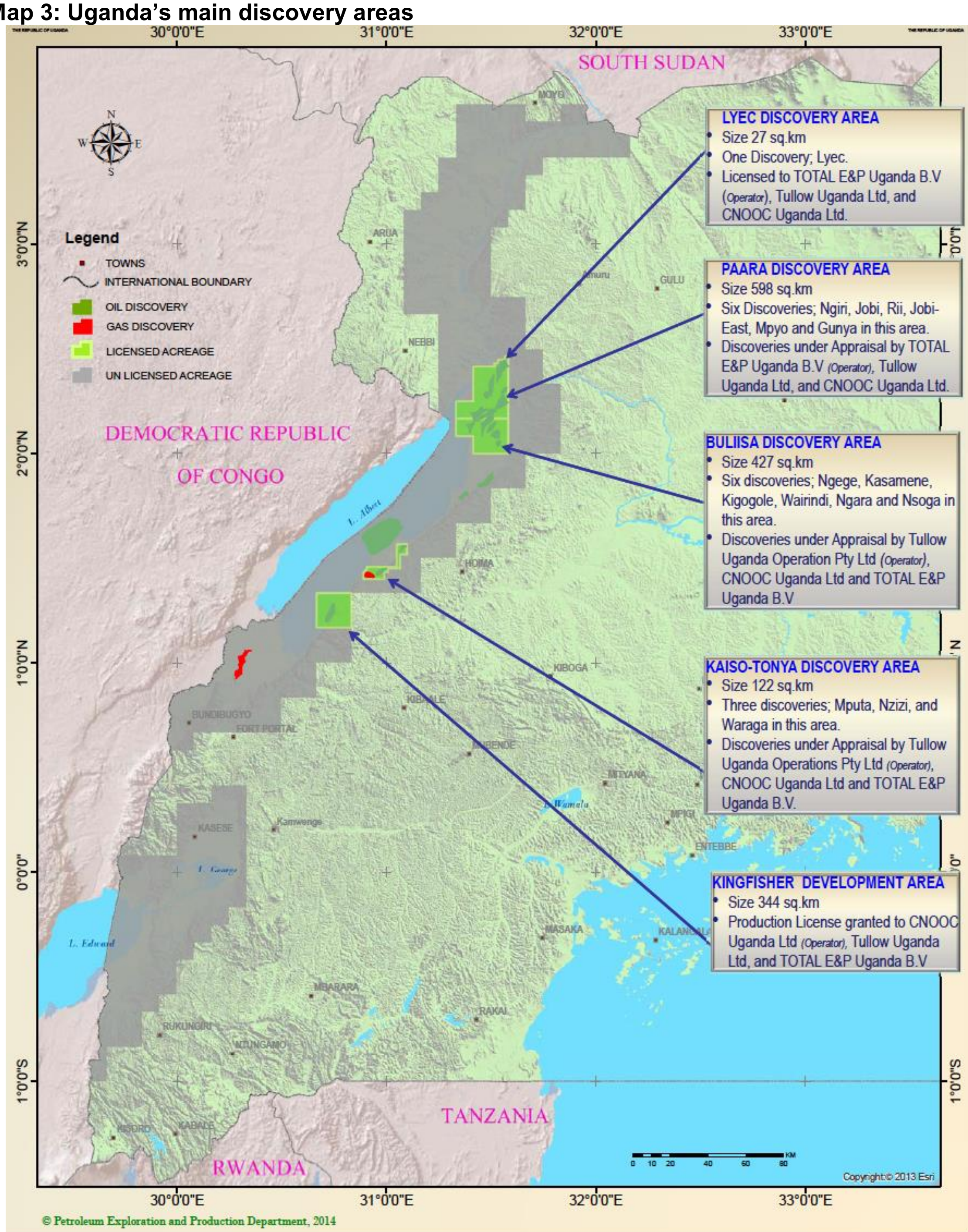
[23] 'Creating Shared Prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 6.

[24] 'Creating Shared Prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 7.

[25] Ronald Musoke, 'Uganda's oil reserves now estimated at 6.5 billion barrels', *The Independent*, 28 August 2014.

[26] 'Delivery of the Uganda Lake Albert Basin Development: Partner's Vision', Corporate Presentation, CNOOC, Total, Tullow Oil, Kampala, Uganda, 2014, 3 and 6.

Map 3: Uganda's main discovery areas



Source: Ministry of Energy and Mineral Development, Uganda

Uganda's oil production is expected to reach heights of between 200,000 and 250,000 bpd based on current discoveries.[27] Uganda has the potential to be a mid-level African producer, comparable with present day levels in Equatorial Guinea and Gabon. Peak production will last for an estimated ten years, while commercial production has a lifespan of three decades based on current discoveries and technology.[28] Before production begins, however, Uganda's oilfields require extensive infrastructure improvements, particularly the upgrading of roads and airstrips in the Lake Albert region. As Ugandan oil has a high wax content, being a solid in temperatures below 35°C to 40°C, crude pipelines and storage facilities will need to be heated to reduce viscosity.[29] In total, financing for the oilfield infrastructure and an export pipeline to the Kenyan coast will amount to between $18 and $22 billion.[30]

In 2007, before commerciality was reached, Tullow's Africa Managing Director Andrew Windham said that 'the objective is first oil in 2009' through an early production scheme.[31] By mid 2015, however, a final investment decision was still pending as only CNOOC was awarded a production license, and Tullow and Total, which applied for eight and two licenses respectively, were still negotiating terms with the Ugandan government.[32] Once the timescales are finalized for beginning production, it will take between five and seven years for production to reach a plateau.

Lower international oil prices since mid 2014 may further delay the advancement of the oil industry. Ernest Rubondo, Acting Director of the Petroleum Directorate, argues that the breakeven price per barrel for development plans is between $50 and $60.[33] Analysts have suggested a $75 barrel price, citing transportation costs of $15 per barrel and lifting costs of $2 per barrel, for the net present value of the investment to be positive.[34] But the ultimate oil price when Uganda is ready to produce is unknown; international oil companies will determine their involvement in high-level investments based on their own forecasts. They may need to lower their original valuations if oil prices do not rise in the coming years. Once production does begin, a discount to Brent should be expected for Ugandan oil in the initial years of exportation as world refineries adjust to its specific heavy and waxy qualities.[35]

The scale of Uganda's oil resources are neither transformative for the global oil industry, nor the African oil scene, where reserves and exports come predominantly from two large producer countries, Nigeria and Angola. But oil is significant in meeting the domestic needs and generating export revenues for the Ugandan economy.[36] In all likelihood, Uganda will not become a petro-state, but, conditional upon global oil prices, it will most likely experience a modest oil boom, where petrodollars represent a substantial, but not overwhelming, part of government earnings.[37] New discoveries and oil price trends will dictate the impact of oil in the long run. Forecasts that peg oil prices at $75, see peak oil production generating annual revenues of over $2 billion, a

[27] Nicholas Bariyo, 'Total sees Uganda oil output delayed by a year', *The Wall Street Journal*, 28 September 2012.
[28] 'Delivery of the Uganda Lake Albert Basin Development: Partner's Vision', Corporate Presentation, CNOOC, Total, Tullow Oil, Kampala, Uganda, 2014, 3 and 6.
[29] 'Creating Shared Prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 6.
[30] 'Delivery of the Uganda Lake Albert Basin Development: Partner's Vision', Corporate Presentation, CNOOC, Total, Tullow Oil, Kampala, Uganda, 2014, 10.
[31] 'Tullow sees Uganda oil production start in 2009', *Reuters*, 31 October 2007.
[32] Nicholas Bariyo, 'Uganda says 11 oil field appraisals are compete', *The Wall Street Journal*, 28 May 2014.
[33] 'Tullow trouble for Uganda', *The Independent*, 22 February 2015.
[34] Mark Henstridge and John Page, 'Managing a modest boom: Oil revenues in Uganda', OxCare Research Paper 90, University of Oxford, 2012, 6–7.
[35] 'Kampala hasn't chosen the best time to offer new acreage', *The Indian Ocean Newsletter*, No. 741, 3 March 2015.
[36] International Energy Agency, 'Africa Energy Outlook', Special report, IEA, Paris, 2014, 49.
[37] Mark Henstridge and John Page, 'Managing a modest boom: Oil revenues in Uganda', OxCare Research Paper 90, University of Oxford, 2012.

result in which oil would make up 15 per cent of total GDP and nearly double government revenues.[38] But if lower oil prices persist at under $50 per barrel, then oil revenues will decrease by one third of these predictions.

There has been little new investment coming into Uganda's oil industry in recent years. The moratorium on new exploration licenses until 2015 and the failure to award production licenses has stalled progress. After completing appraisal work, and still waiting to finalise their production licenses, Tullow and Total have cut their workforce, and demobilized and dispatched oil rigs elsewhere.[39] A Final Investment Decision (FID) is not planned until 2017 and first oil, at the earliest, will be 2020.

Regional Pipeline

Oil will only flow from Uganda to international markets with the construction of a regional pipeline. A route to the Kenyan coast is planned, but the infrastructure challenges are immense. Onshore discoveries in both Uganda and Kenya are far inland. Kenya is not landlocked, but its oil in Turkana County is still roughly 800 kilometres from the coast.[40] A regional agreement for the pipeline was made in August 2015, when Kenya and Uganda both released communiqués endorsing a 1,380 kilometre pipeline to be constructed along the northern route from Hoima in Uganda, through Turkana and ending at a new port in Lamu.[41] The Uganda–Kenya pipeline will be the first cross-border pipeline in sub-Saharan Africa taking crude from two separate jurisdictions. The quality of Ugandan and Kenyan crude is compatible and can flow in the same pipeline.

Toyota Tsusho (TT) finished a feasibility study of the northern route in April 2015. TT estimates the cost to be $4.7 billion.[42] Suggestions from Kenyan and Ugandan officials that the pipeline will be reverse-flow,[43] able to carry imported petroleum products from Lamu to Kampala, as well as crude in the opposite direction, may raise the cost further. The Kenyan side of the pipeline represents much of the distance of the route. Along with the terminal at Lamu, and other supporting infrastructure, it makes up $3.2 billion of the total cost.[44] The pipeline will have seven pumping stations and a capacity of 300,000 bpd with an additional 130,000 bpd in a high flow scenario.[45]

The agreement undermined the possibility of alternative routes going forward. A 1,300 kilometre southern route, taking oil from Hoima to Nairobi with a spur line from Turkana and ending at Mombasa (see Map 4), was regarded as a viable option. Another route running 1,400 kilometres along Lake Victoria from Uganda and Tanzania has also been under consideration. Since the regional pipeline needs to be heated, the piping comprises the highest cost of the project.[46] Longer routes will be at an economic disadvantage, particularly in attracting financing, compared to the shorter options.

[38] World Bank, 'Country assistance strategy', 2010, 9; International Monetary Fund, 'Uganda', IMF Country Report No. 13/215, 2013, 57–8.

[39] 'Tullow Oil: hidden depths', *Financial Times*, 15 January 2014.

[40] 'A New Frontier: Oil and Gas in East Africa', *Control Risks*, 2012, 2.

[41] Elias Biryabarema, 'Kenya, Uganda settle on crude pipeline route', *Reuters*, 10 August 2015.

[42] The annual operational expenditure is $131.5 million; Moses Michira, 'Northern Kenya areas chosen to host regional crude oil pipeline', *Standard Digital*, 23 June 2015.

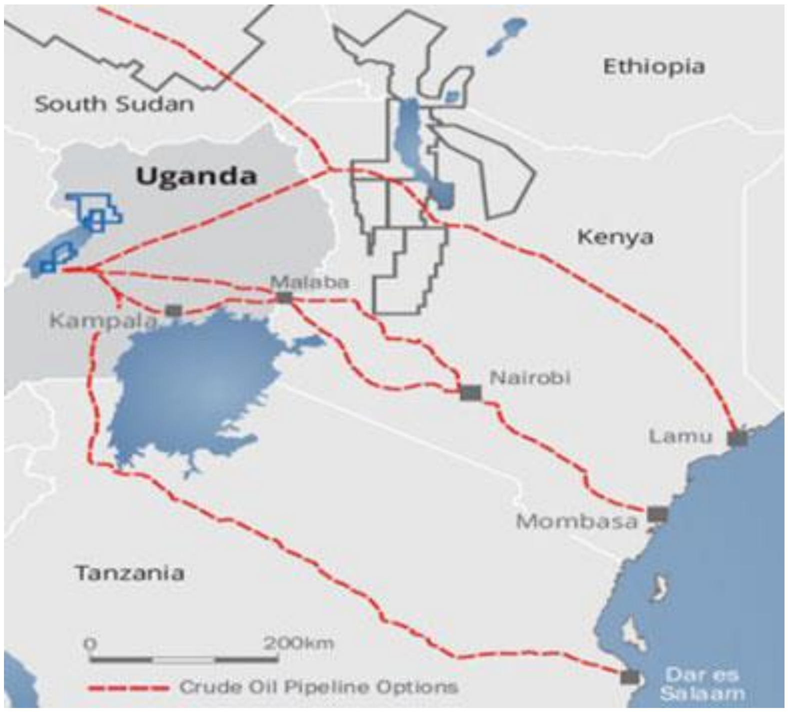
[43] Elias Biryabarema, 'Kenya, Uganda settle on crude pipeline route', *Reuters*, 10 August 2015.

[44] Interview, international oil company active in East Africa, 28 April 2015.

[45] Moses Michira, 'Northern Kenya areas chosen to host regional crude oil pipeline', *Standard Digital*, 23 June 2015.

[46] Interview, international oil company active in Uganda, 30 April 2015.

Map 4: Regional oil pipeline possibilities



Source: *The Observer*

The feasibility study for the northern route did not carry out a full comparison with the southern option.[47] The southern route runs along the path of an existing product pipeline from Mombasa to Nairobi, demanding only a widening of current land jurisdiction, and would utilize existing road and rail for construction, compared to the northern route, which will require significant supporting infrastructure. But the southern route requires a spur line from Turkana to Nairobi, which either needs to go through highlands, adding to the cost through the need for additional pumping stations, or circumvent them altogether, necessitating a longer pipeline length.[48]

Kenya was in a better position to construct an export pipeline on its own when the oil price was around $100 per barrel. The fall in prices since 2014 has made this possibility highly unreasonable, particularly if bearish price forecasts for the coming years prove correct. To date, Kenya's oil resources are estimated to be only 600 million barrels. Linking these to Uganda's 1.8 to 2.2 billion oil barrels is now regarded as a priority for potential investors in a regional pipeline.[49]

But Kenya's oil resources also strengthen the viability of Uganda's oil infrastructure needs. The late Total CEO, Christophe de Margerie, envisioned Uganda as 'a hub for different courses of crude' in East Africa. 'We say to Uganda as part of our long-term view', said de Margerie in late

[47] Interview, international oil company active in East Africa, 28 April 2015.

[48] Interview, international oil company active in East Africa, 28 April 2015.

[49] Appraisal work in Kenya is still ongoing. It will take two to three years to ascertain final commerciality: Interview, international oil company active in Uganda, 30 April 2015.

2011, 'you have to take into consideration what sort of oil can come from neighbour countries to make the pipe less expensive'.[50]

The regional pipeline is associated with the planned $25-billion Lamu Port South Sudan Ethiopia Transport (LAPSSET) corridor project of the Kenyan government. LAPSSET intends to develop Kenya's north and drive significant regional integration in East Africa. But the focus of the massive endeavour has become increasingly pragmatic since it was launched in 2012. Kenya launched the initiative alongside Ethiopia and South Sudan before its oil discoveries were confirmed, and with Uganda out of the equation. But after three years of little progress, a more practical arrangement of Uganda and Kenya establishing an export pipeline together, and constructing a product pipeline to Rwanda, has taken centre stage.[51] Other neighbours will potentially join through oil, road, and rail links in the medium and long term. Once a regional pipeline is finalized, if political stability is established in eastern DRC and South Sudan, and international oil prices do not fall too low, Uganda and Kenya's advances will help to de-risk oil exploration further afield and unlock the East African frontier.

Regulatory environment

Shortly after Uganda passed the commercial threshold for oil discoveries, a series of regulatory disputes between the Ugandan government and international oil companies delayed the industry's development. The regulatory issues came in three waves. First, President Museveni said he would prohibit oil exports, and instead, a large refinery would be built to process all of Uganda's oil in order to service the region. This was quickly followed by a number of capital gains tax disputes with international oil companies. Finally, long negotiations between the Ugandan government and international oil companies on terms for production licenses constrained the industry from moving forward. Altogether, these regulatory disputes have arguably delayed first oil production by several years. 'Complex projects, complex places,' remarked one international oil company manager.[52]

But hard bargaining from the Ugandan government on infrastructure, tax, and contract demands should not be overly conflated with unwarranted political intervention. It is not uncommon for oil producers around the world to change policies and laws governing the oil sector, particularly during a period of high international oil prices. In the 1970s, nationalizations of producing assets of international oil companies in the Middle East, North Africa and Latin America inspired the obsolescing bargain, a model that argues bargaining power shifts to the government after investment from companies increase. Tax disputes over value captured through oil production represent a modern equivalent of this phenomenon in international oil industry. While in Uganda these disputes came during the exploration phase of the industry's life cycle, they should not be taken out of this wider context. Uganda possesses strong technical and bureaucratic capacity to negotiate with international oil companies as well as direct involvement from President Museveni to advance their position.[53]

[50] Tom Bergin, 'Total eyeing South Sudan–Uganda oil pipeline', *Reuters*, 7 December 2011.

[51] Sulaiman Kakaire and David Tash Lumu, 'East Africa: Museveni, Kenyatta, Kagame in Ambitious East Africa Devt Plan', *The Observer*, 23 June 2013.

[52] Interview, international oil company active in East Africa, 26 June 2014.

[53] Sam Hickey, with Badru Bukenya, Angelo Izama and William Kizito, 'The political settlement and oil in Uganda', ESID Working Paper No. 48, 2015, 15.

The regulatory demands from the Ugandan government were also not too harsh. If they were, international oil companies would have abandoned the country. They did not. Sunk capital and the promise of revenues from future production kept the companies from leaving. As a result, Uganda continues to command one of the most impressive consortia in Africa, which includes Tullow Oil, a British oil independent with a strong track record for frontier success; Total, a French oil major with nearly unparalleled technical expertise and operational experience; and CNOOC, a Chinese state oil giant with sizable capital.

While no company entering Uganda in the future should neglect this history for regulatory battles between the government and investors, these disputes may be on the decline. The government has accepted the construction of an export pipeline and answered questions over the size of a potential refinery, lengthy tax disputes have been settled, and there is a positive outlook for production licenses to be signed by the end of 2015. Lower international oil prices will also sap the last of Uganda's regulatory bravado.

Refinery demand

As Uganda racked up oil discoveries in 2008, President Museveni said that companies would be obliged to send oil to a domestic refinery for processing and sale in Uganda and the region.[54] The position created a new and unwelcome planning perspective for international oil companies active in Uganda. 'Since we discovered oil, agents of foreign interests have been running up and down urging us to produce as quickly as possible so that we export it to sustain the good life of outsiders', Museveni later told a meeting of the ruling National Resistance Movement. 'I have rejected these pressures. This oil has been in the ground for the last 20 million years and it can stay there for more years until Ugandans get a formula that is acceptable to them.'[55] While it was not the message they wanted to hear, the irony of Museveni's anti-foreign tone was likely not lost on international oil companies. Uganda was, after all, accepting technical aid from the Norwegian government, advice from Swiss oil consultants, and legal support from American lawyers.

There was also an economic argument for constructing a refinery. In late 2010, Foster Wheeler, a Swiss-based engineering company, finalized a Norwegian-funded report for Uganda suggesting that a $2 billion, 150,000 barrel-a-day refinery would be a viable option. The report argued that Uganda would save $1 billion annually through self-sufficiency in petrol, diesel, and kerosene, and generate extra value through employment and supplying fuel to Rwanda, Burundi, and parts of Kenya.[56] In recent years, with high international oil prices, the IMF estimated that fuel accounts for over 20 per cent of Uganda's total imports and will still represent 10–15 per cent of imports with lower prices in the coming years.[57] The refinery would also allow Uganda to save by not having to transport fuel into the country.[58] The government was pushing for a large refinery to produce over six times its oil consumption of 22,000 barrels a day, roughly the size of the entire East African market.[59]

[54] 'The competition heats up', *Africa Confidential*, Vol. 49, No. 14, 4 July 2008.

[55] 'Uganda set to start oil refining in 2014 – President', *Dow Jones Newswires*, 17 October 2011.

[56] Esther Nakkazi, 'Swiss study urges Uganda to build oil refinery', *The East African*, 18 October 2010; 'Oil in Uganda Timeline, *Oil in Uganda*, Issue 1, 2012, 12.

[57] International Monetary Fund, 'Uganda IMF Country Report No. 15/175', 39.

[58] 'Speech to Parliament by H.E. Yoweri Kaguta Museveni President of the Republic of Uganda', 13 December 2012, 10–11.

[59] Nicholas Bariyo and Geraldine Amiel, 'Efforts to start pumping Ugandan oil stalls', *The Wall Street Journal*, 4 September 2012; Energy Information Agency, 'Total petroleum consumption', International Energy Statistics, http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=5&pid=5&aid=2, accessed 19 July 2015.

International oil companies were never against the idea that Uganda should build a refinery. While not willing to invest in one, they supported the usefulness of a small refinery to service local demand. 'The refinery is a political requirement, but it is difficult in building the economic product', said one international oil company vice president.[60] The argument against the large refinery was that it would need to compete with fuel imports from large-scale and efficient refineries in the Middle East and India. Even Kenya's coastal refinery at Mombasa has failed to be economically viable compared to these import alternatives. There may also be other new refineries in Kenya and South Sudan in the coming decade that would compete for regional consumers. The Foster Wheeler study was not publicly released. It likely considered multiple scenarios in terms of capacity, but it may have not fully considered the costly rail and road upgrades needed to transport fuel in East Africa or whether Uganda's neighbours were willing to be dependent on Ugandan-produced fuel.[61]

There are also limits to the import savings coming from a possible refinery. Just building the refinery would cost between $3 and $4 billion, the equivalent of several years of petroleum product imports, and since the government would likely apply restrictions on fuel prices to satisfy public demand, an annual subsidy bill was also be expected.[62] There would also be a premium on Ugandan fuel to cover transportation costs to the rest of the region.[63] At the same time, the refining process would produce high levels of choke as a by-product and require expensive environmental treatment.[64] Foster Wheeler also argued that the viability of the refinery was in an international oil price range of $60 to $80 per barrel,[65] prices were below this range in mid 2015. The economic viability of the refinery was even under question within Uganda's Finance Ministry, where some officials regard the project largely as a political decision taken by President Museveni from the State House.[66]

Examples of the failure of other refinery projects across the African continent may justify caution about the feasibility of a Ugandan refinery. Nigeria, sub-Saharan Africa's largest oil producer, still imports the majority of its petrol and diesel needs due to severe mismanagement of its refineries.[67] Even though landlocked Chad and Niger recently opened new refineries, local fuel still cannot compete with the price levels of low-quality fuel smuggled from Nigeria's underperforming refineries.[68] Offering a potential warning for Uganda, Mahaman Gaya, former secretary general at Niger's Ministry of Mines, regrets the construction of a small-sized refinery. 'It was political; we wanted our independence first', said Gaya, 'We still can't even pay off the loan [for the facility], and exportation is where the real money lies.'[69]

Economic drawbacks aside, a refinery holds strategic importance for Uganda that cannot be easily dismissed. Since Uganda is landlocked, fuel needs to come from transport links with neighbouring Kenya, where the supply network is prone to disruptions due not only to technical

[60] Interview, international oil company active in East Africa, 26 June 2014.

[61] Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012, 307.

[62] Ben Shepherd, 'Oil in Uganda: International lessons for success', Chatham House, 2013, 19.

[63] 'Delivery of the Uganda Lake Albert Basin development: Partner's vision', Corporate Presentation, CNOOC, Total, Tullow Oil, Kampala, Uganda, 2014, 7.

[64] Interview, international oil company active in East Africa, 26 June 2014.

[65] Angelo Izama, 'Year-Ender: Can Uganda benefit from low oil prices?', *Angelo Opi-Aiya Izama*, 30 December 2014.

[66] 'Museveni gets his refinery', *Africa Confidential*, Vol. 56, No. 5, 6 March 2015.

[67] William Wallis, 'Africa's richest tycoon adds another $2bn into Nigeria refinery', *Financial Times*, 14 December 2014.

[68] Romain Dittgen and Daniel Large, 'China's growing involvement in Chad: Escaping enclosure?', Occasional Paper No. 116, South African Institute of International Affairs, 2012, 16.

[69] Celeste Hicks, *Africa's new oil: Power, pipelines, and future fortunes*, London, Zed Books, 2015, 115.

inefficiencies, but also political instability. For instance, the violence that followed Kenya's national elections in 2008 caused severe shortages of fuel in Uganda and major price increases in its market-based system.[70] Tullow knows the delays of fuel shortages well. During the Kenyan violence, supply disruptions were so severe in Uganda that the British company was forced to delay well drilling.[71]

In early 2014, a breakthrough came in the dispute when the Ugandan government relented in its demand for a large refinery. With the 2016 election on the horizon and few results to show in the oil industry, Museveni bowed to the pressure of long delays and diplomatic urging from Britain, France and China to strike the deal.[72] In a memorandum of understanding with the consortium, the two sides agreed that an export pipeline could be built for the majority of Uganda's oil production, but a small refinery of 30,000 bpd would have first call on oil output.[73] Although the refinery plan still had scalability up to 60,000 bpd, Uganda no longer sought to satisfy fuel demands across East Africa. Eight years after first discovering oil, Museveni summed up the agreement well, 'We have wasted too much time.'[74]

Uganda intends to attract private investment for 60 per cent of the refinery's cost and cover the remainder through its own public investment and investment from regional neighbours.[75] Six investors were interested: Marubeni of Japan, Vitol, the China Petroleum Pipeline Bureau, Russia's RT Global Resources, SK Energy, and Petrofac. This was short-listed to RT Global Resources and SK Energy, with the Russian firm ultimately selected. Valued at between $3.3 to $4 billion, the project includes the refinery, a product pipeline to Kampala, and other infrastructure. The refinery project has the potential to be the largest ever investment in Ugandan history. As such, delays should be expected. Already in 2015, the area designated for the project was found to need expansion for security reasons due to the close proximity of airstrips, and RT has already indicated that bringing in equipment and materials from the Kenyan coast will delay progress.[76]

There are also international and regional ramifications for Russia's engagement in Uganda's oil industry. RT is a subsidiary of the state-owned Russian Technologies State Corporation, better known as Rostec. The refinery was seen as linked to an earlier arms deal with another Rostec

[70] David M. Anderson and Adrian J. Browne, 'The politics of oil in eastern Africa', *Journal of Eastern Africa Studies*, Vol. 5, Issue 2, 2011, 389.

[71] 'Tullow, Heritage press exploration in Uganda', *The Oil and Gas Journal*, 11 February 2008.

[72] 'Refinery deal struck', *Africa Confidential*, Vol. 55, No. 17, 29 August 2014.

[73] The final solution paralleled the initial position of oil companies in Uganda over ten years previously. In 2002, Heritage CEO Michael Wood reasoned that if oil resources were ultimately small, then a refinery would have commercial potential to supply local markets as the cost of importing refined petroleum products to Uganda was high. If resources proved to be over 500 million barrels, Heritage argued oil should be exported through Mombasa with an 8,000–20,000 barrel a day refinery supplying local demand: Brian Smith and John Rose, 'Meeting exploration challenges in Uganda's remote Albert graben', *The Oil and Gas Journal*, 17 June 2002; Raj Rajendran, 'Heritage hopes for major Uganda oil find', *Reuters*, 3 July 2002.

[74] Nicholas Bariyo, 'Uganda Reaches Deal on Refinery, Pipeline', *The Wall Street Journal*, 15 April 2013; 'Uganda', US Energy Information Agency, Country Analysis Note, August 2014.

[75] The government allocated a 30-square-kilometre area of land in the Kabaale Burseruka sub-country of Hoima district for construction: Adam Green, 'Uganda and oil companies: everyone happy?', *Financial Times*, 10 February 2014; James Kynge, 'Uganda turns east: Chinese money will build infrastructure says Museveni', *Financial Times*, 21 October 2014.

[76] Personal communication, International oil company active in East Africa, 24 September 2015.

subsidiary, Rosoboronexport.[77] Russian tanks sold to Uganda were later used to support Salva Kiir's government in South Sudan's civil war, and since April 2014, Rostec CEO Seri Chemezov has been subject to US and EU sanctions due to Russia's military involvement in eastern Ukraine.[78] A Russian partner in Uganda, the engineering services company Tatneft, will be essential in the refinery's construction,[79] but whether sanctions against Rostec's chief will impact the planned refinery is still uncertain. Uganda's energy ministry is concerned how sanctions may come to restrict access to western technology in Uganda's oil industry.[80]

Tax disputes

A series of tax disputes in Uganda emerged from the sale of concessions between international oil companies. In 2009, Heritage sought to sell its oil stakes to Italy's ENI, but its partner, Tullow, used its contractual rights to make the $1.4 billion purchase itself. The Ugandan government cautioned that it could veto the sale, as Tullow would hold a monopoly over the industry.[81] Eni, striving to expand its Africa assets by entering Uganda, reportedly offered Kampala a $300-million cash sweetener to win the deal.[82] Tullow made known its intention to seek new partners in Total and CNOOC, but questions lingered about whether Uganda preferred ENI while both the Italian and British foreign ministries lobbied on behalf of their own corporations.[83]

The competition to enter Uganda's oil industry was enveloped in a corruption scandal.[84] Members of parliament accused Tullow of bribing officials to secure the entry of Total and CNOOC, and rumours swirled that ENI made personal payments to Museveni and other officials.[85] Ugandan and British authorities later dismissed the allegations against Tullow,[86] while President Museveni deflected the claims that ENI made illicit payments: 'To get money from a muzungu (a westerner) or anybody, for my personal use, is contempt of the highest order'.[87] It was Tullow that ultimately won the stakes.

The first tax row between Uganda and international oil companies began shortly after Heritage finalized the sale to Tullow, when Heritage was charged $434 million in capital gains tax by the

[77] In 2011, Uganda purchased $740 million worth of military arms, including 6 Sukhoi Su-30 fighter jets, 44 Russian T-90 tanks, and other military equipment: Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 49; 'Museveni gets his refinery', *Africa Confidential*, Vol. 56, No. 5, 6 March 2015.

[78] Katrina Manson, 'Sanctions-hit Russian group wins $4bn Uganda refinery deal', *Financial Times*, 17 February 2015.

[79] Fred Ojambo, 'Russia's RT Global wins contract to build oil refinery in Uganda', *Bloomberg*, 17 February 2015.

[80] 'Museveni gets his refinery', *Africa Confidential*, Vol. 56, No. 5, 6 March 2015.

[81] James Herron, 'Tullow pre-empts Eni in Uganda oil purchase', *The Wall Street Journal*, 26 January 2010.

[82] 'Eni may raise Uganda stakes offer-paper', *Reuters*, 24 January 2010.

[83] 'Eni pulls out of Uganda oil deal', *Reuters*, 5 February 2010; Holly Watt and Heidi Blake, 'William Hague "lobbied strongly" for oil companies run by Tory donors', *The Telegraph*, 10 February 2011.

[84] MP Gerald Karuhanga, a youth representative from western Uganda, presented documents that pointed to Prime Minister Amama Mbabazi, Foreign Minister Samuel Kutesa, and Internal Affairs Minister Hilary Onek, who formerly held the energy profile, receiving bribes from Tullow to secure its position to bring in Total and CNOOC. The prime minister was also accused of having dubious ties with ENI. Some regarded the allegations as attempts to undermine the positions of Mbabazi and Kutesa, in particular. Both are viewed as potential replacements for Museveni when his presidency ends: 'Oil in troubled waters', *Africa Confidential*, Vol. 52, No. 21, 21 October 2011.

[85] 'Oil in troubled waters', *Africa Confidential*, Vol. 52, No. 21, 21 October 2011; Wikileaks cable: 'Uganda: Corruption allegations accompany arrival of major oil firms', 3 December 2009, https://wikileaks.org/plusd/cables/09KAMPALA1356_a.html.

[86] 'Creating shared prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 3.

[87] Josh Korn, 'Uganda's oil could be gift that becomes curse', *The New York Times,* 25 November 2011.

Ugandan Revenue Authority. Rejecting the charge, Heritage argued that a stabilization clause in its contract protected it from changes in tax conditions, which Uganda adjusted to include capital gains in 2010.[88] The stakes were high for both sides. 'I sense this is the defining battle', wrote Uganda Revenue Authority Commissioner General Allen Kagina, 'Let those who are on the Lord's side stand up and be counted.'[89] Heritage brought the case to the Ugandan Tax Appeals Tribunal, which required it to pay $121 million of the charge. But the oil company lost the ruling in Uganda in 2011 and later an arbitration case in London.[90]

While a decision on the Heritage capital gains tax charge was pending, the Ugandan Revenue Authority designated Tullow as agent to the transaction, and demanded it pay the remaining $313 million until the dispute with Heritage was settled.[91] Tullow obliged. It had little choice after the Ugandan government shutdown its operations until the payment was made. But Tullow then went on to claim the charge as an indemnity, successfully suing Heritage in the High Court to retrieve the amount in June 2013.

After Heritage's exit, Tullow quickly found itself in a similar situation as its former partner. In 2012, Uganda claimed that Tullow owed $474 million in capital gains tax on its $2.9 billion sale to Total and CNOOC. Tullow disputed the charge in the Ugandan Tax Appeals Tribunal. Similar to Heritage, Tullow insisted that a previous agreement signed between former energy minister Syda Bbumba and Hardman Resources and Energy Africa, firms Tullow later purchased, exempted it from taxes.[92] These incentives were offered to offset the risk of spending hundreds of millions in exploring still virgin territory for oil in the early 2000s. Uganda argued the former energy minister was acting outside his legal authority and only parliament could award any exemptions.[93]

In 2014, the Ugandan court upheld the charge, albeit at the lower amount of $407 million.[94] Tullow then took the case to arbitration at the International Centre for the Settlement of Investment Disputes (ICSID), a World Bank division, in Washington DC. But before the decision was made, Tullow and the Ugandan government settled the dispute. In mid 2015, Tullow agreed to pay $250 million to the Ugandan Revenue Authority, putting an end to a long running tax saga.

Tullow and the Ugandan government gave little feedback to why the dispute was resolved, except that the two sides were now free to focus on developing Uganda's oilfields. This could have been reason enough for the settlement. International oil prices were falling fast in 2014. Despite a large base of discovered reserves, Tullow's market capitalization dropped from $11 billion in 2011 to $4.4 billion in late 2014 as a result.[95] The tax dispute and other regulatory holdups in Uganda did little to encourage its investors. The Ugandan government, nearly a decade after discovering oil, was also under pressure to show results. There were also other disputes to settle at ICSID: one over value-added surcharges imposed on its imports of machinery and equipment with Tullow,

[88] Michael Kavanagh, 'Heritage plays down ruling on Uganda oil asset sale', *Financial Times*, 5 April 2013.

[89] 'Tax hearing opens', *Oil in Uganda*, Issue 3, 2012, 3.

[90] Ismail Musa Ladu, 'Government wins Heritage Oil case', *The Daily Monitor*, 25 February 2015.

[91] Christopher Thompson, 'Tullow Oil faces new tax row in Uganda', *Financial Times*, 31 March 2011; 'Creating shared prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 10.

[92] 'Tullow to challenge Ugandan court order to pay $407 mln tax bill', *Reuters*, 16 July 2014.

[93] Jeff Mbanga, 'Questions as Tullow settles $250 tax row', *The Observer*, 24 June 2015.

[94] 'Uganda advised on oil tax laws', *The Observer*, 15 February 2015.

[95] Michael Kavanagh, 'Tullow Oil to slash exploration budget', *Financial Times*, 12 November 2014.

and one with Total over the imposition of $30 million in stamp duties.[96] At the same time, the arbitrator in the case, the ICSID at the World Bank, was seen to favour corporations in such disputes. In 2014, it awarded $1.6 billion to ExxonMobil in a case against Venezuela.[97] The Ugandan government may have perceived its chances of success were not as great compared to its case with Heritage.[98]

Uganda's regulatory spats with international oil companies also fit into wider trends in African and international oil industries. A decade of high international oil prices rekindled resource nationalism among many oil producers, encouraging them to seize a larger stake in their energy assets. In Chad, where President Idriss Déby Itno has ruled for a quarter of a century, Chevron and Petronas also went through a similar tax dispute in 2006. The Chadian government denied a tax exemption granted by the oil minister and charged the two companies over $500 million in unpaid taxes. Chevron and Petronas agreed to pay $280 million to settle.[99] Uganda's tax dispute came before rather than after production, contradictory to the obsolescing bargain, which hypothesizes that governments change terms after development investments have been sunk and production is underway.

But Uganda's tax disputes should not be regarded as an African anomaly in the international oil industry. In 2010, the Californian city of Richmond settled a utility tax disagreement with Chevron for $114 million; Shell won a Bombay High Court ruling against the Indian government on the taxability of $2.5 billion in transfer pricing in November 2014; and in April 2015, Exxon launched a $160 million arbitration case against Russia over a tax row involving its Sakhalin-1 oil and gas project.[100] These cases were primarily over value capture in the production phase, while Uganda's occurred before income has been generated from oil output. This may be a consequence of the super cycle in international oil prices increasing government confidence to generate income from the oil industry preproduction, but it is also a reflection of a lack of established policy and legislation, which were outdated or non-existent in Uganda when oil was first discovered.

It is, however, difficult to attach blame solely on the government for changing tax laws. When an international oil company elects to invest in a relatively unchartered oil industry, it is taking a calculated risk. Heritage, Hardman, Tullow, and other oil independents have actually made it their deliberate strategy to enter these countries exactly to avoid heavy competition from counterparts less willing to operate poorly regulated markets. The tax disputes represent the risk of this first-mover advantage. Nonetheless, the settlement of tax cases may produce enough precedent to allow for more conciliatory relations between the Ugandan government and international oil companies.

Contractual negotiations

The Ugandan government's position on prohibiting oil exports and various capital gains tax disputes certainly had a hand in lack of progress in the oil industry. But it was the protracted

[96] Nicholas Bariyo, 'Tullow Oil refers fresh Ugandan tax dispute for arbitration', *Dow Jones Newswire*, 17 December 2012; 'Oil interrupted', *Africa Confidential*, Vol. 56, No. 5, 6 March 2015; Elias Biryabarema, 'Total seeks arbitration over Uganda tax dispute', *Reuters*, 31 March 2015.

[97] Kejal Vyas and Daniel Gilbert, 'Exxon Mobil awarded $1.6 billion in Venezuela case', *The Wall Street Journal*,

[98] Gaaki Kigambo, 'How URA–Tullow tax row could affect oil, gas production in Africa', *The East African*, 5 August 2014.

[99] 'Chad settles oil taxes dispute', *BBC News*, 7 October 2006.

[100] David R Baker, 'Chevron, Richmond end dispute over taxes', *San Francisco Chronicle*, 13 May 2010; 'Shell wins India tax case', *Reuters*, 18 November 2014; 'Exxon lodges claim at Stockholm court in Russia tax dispute – ministry', *Reuters*, 2 April 2015.

negotiation of new production sharing agreements with Tullow and Total that arguably led to the longest delays. Both sides have played a role in stalled negotiations. Just as governments use the rise of oil prices to renegotiate better terms, oil companies exploit the fall of prices to improve their own stance. When oil prices fell in 2008 and 2009, Tullow told Ugandan government officials it needed to renegotiate its MoU on early production scheme to maintain its commercial viability profits.[101] More recently, Total reportedly approached the Ugandan government in September 2015 about renegotiating production sharing terms on account of the fall in international oil prices.[102] The delay in industry progress cannot be solely attributed to the Ugandan government's hard bargaining. International oil companies seek better contractual terms when the pricing environment upsets their valuations. The obsolescing bargain can, in fact, work both ways.

In production sharing agreements, international oil companies are able to recoup their exploration costs once production begins. How international oil companies can account for these costs in Uganda is particularly important because of the challenging operational area. In 2012, Tullow General Manager Eoin Mekie said, 'The difficulty with this development is that it's spread over a massive geographical area: the basin is 160 kilometres long, it's a very long way from the marketplace, and it's an incredibly environmentally and socio-economically sensitive area.'[103] Consequently, a number of sticking points on basin development between oil companies and the Ugandan government have delayed the signing of production licenses and the start of production.

First, the oil consortium of Tullow, Total, and CNOOC seeks an integrated basin-wide development programme that allows individual operators to achieve economies of scale by sharing project costs between concessions.[104] This would allow the consortium to recover its investment at a faster pace. Some oilfields overlap between the Paraa and Buliisa discovery areas of Blocks 1 and 2, operated by Total and Tullow respectively, making this an acute concern for the oil consortium. But the government is keen to limit costs that companies can claim to costs within the borders of the individual concessions,[105] arguing this would speed up initial oil production,[106] and allow it to clearly regulate costs associated to the different operators.

The second point of contention concerns recoverability levels. The Ugandan government is demanding minimum recovery of 30 per cent of oil in place from the consortium, which argues such a level would be very difficult to achieve with current technology and owing to the complexity of the subsurface.[107] Finally, the Ugandan government also sought a longer, lower plateau to protect the longevity of the reserves, while the consortium prefers rapid growth to plateau in order to recoup investments.[108]

Without production licenses in place, the consortium has moved the completion of the Front End Engineering Design, a major capital outlay essential to planning midstream production, until mid

[101] Wikileaks cable, 'New discoveries confirm Uganda oil potential', 24 December 2008, https://wikileaks.org/plusd/cables/08KAMPALA1648_a.html.

[102] Personal communication, International oil company active in East Africa, 24 September 2015.

[103] 'Tullow: National oil company may share in production, but government must make up its mind over basin development', *Oil in Uganda*, 14 May 2012.

[104] Sam Hickey, with Badru Bukenya, Angelo Izama, and William Kizito, 'The political settlement and oil in Uganda', ESID Working Paper No. 48, 2015, 16.

[105] Isaac Imaka and Frederic Musisi, 'Government to announce oil refinery investor', *The Daily Monitor*, 25 February 2014.

[106] Sam Hickey, with Badru Bukenya, Angelo Izama, and William Kizito, 'The political settlement and oil in Uganda', ESID Working Paper No. 48, 2015, 16.

[107] Haggai Matsiko, 'Uganda oil now for 2020', *The Independent*, 8 February 2015.

[108] Nicholas Bariyo, 'Uganda reaches deal on refinery, pipeline', *The Wall Street Journal*, 15 April 2013.

2016. This, in turn, has delayed the Final Investment Decision until 2017, and first oil until 2020.[109] In mid 2015, Ugandan officials said the establishment of a petroleum authority had delayed production licenses from moving forward and they would be complete by year's end.[110] But such promises have been made several times in the past without their finalization.[111]

This delay has certainly upset the interests of international oil companies. All three of the partners have cut their investment budgets by 20 to 30 per cent, significantly downsizing Uganda staff, due to low oil prices.[112] Total has spent over $2 billion to buy into and work in Uganda, but has no returns to show for its investment. But Total is an oil major. It is able to balance these costs with its large portfolio of global investments.

Tullow, however, has a smaller asset base and more to lose. Uganda has become a critical asset for Tullow's strategic development. 'We are an exploration business', insisted CEO Aidan Heavey in 2010, 'exploration is in our blood.' His company's forays into the development and production game in Uganda and Ghana have brought Tullow to 'a whole new level'; that of an oil producer rather than purely an exploration company.[113]

But the strategy has also exposed Tullow to risks that exploration companies typically do not stick around long enough to endure. Technical difficulties delaying higher production in Ghana, long contract negotiations in Uganda, and the fall in world oil prices have dealt a series of blows to the company. Tullow reported its first pre-tax loss in 15 years in February 2015.[114] Its share price was at a ten-year low in mid 2015. The British company's worldwide exploration budget will be around $200 million for the year, falling from a targeted peak of $1 billion, and it will focus on producing and development assets, particularly in Ghana.[115] This is part of large company-wide cuts, including to personnel, to balance against loses from the lower price environment.[116]

Tullow and Total are not the only companies hurt by the standstill. Oil service and construction companies such as Baker Hughes, Schlumberger Halliburton, and Weatherford finished with appraisal work in Uganda, and with no production to begin, have also shifted their operations to Kenya. There has been growing frustration over Kampala's hard negotiating position. 'Time for excuses is done', said Elly Karuhanga, Chairman of Chamber of Mines and Petroleum and former

[109] Haggai Matsiko, 'Uganda oil now for 2020', *The Independent*, 8 February 2015.

[110] Frederis Musisi, 'Oil production licenses to be issued this year', *Reuters*, 18 September 2015.

[111] Mark Keith Muhumuza, 'Delayed oil dreams hurting many Ugandans', *The Daily Monitor*, 15 September 2015.

[112] Paul Bagabo and Thomas Lassourd, 'Low oil prices impose difficult choices in Uganda', *Natural Resource Governance Institute*, 8 June 2015.

[113] Carola Hoyos, 'Tullow Oil placing to buy assets in Uganda', *Financial Times*, 28 January 2010.

[114] Karolin Schaps, 'Tullow remains in the red as weak oil prices eats into revenue', *Reuters*, 29 July 2015.

[115] Selina Williams, 'Tullow Oil to slash exploration spending', *The Wall Street Journal*, 12 November 2014; Emma Farge, 'Africa's oil "sweet spots" still viable after price rout', *Reuters*, 10 March 2015.

[116] The lower oil price environment has also sparked takeover rumours for international oil companies active in East Africa. Africa Oil, Tullow's partner in Kenya, needed to issue new shares to raise capital for appraisal and development work in early 2015, devaluing the company, and making it a potential takeover target, with Total, and potentially Tullow as buyers to expand their East Africa presence. Tullow could also find itself as a target if its stock continues to drop. An oil major, such as Total, looking to expand their African investments and willing to take a risk and carry out the proper due diligence, may find the British company an attractive buy if lower oil prices continue in the coming years. CEO Aidan Heavey has dismissed the possibility of a sale. 'They don't even bother', said Heavy, 'we're in so many African countries, you'd have to negotiate with every single government.'; Daniel Dickson, 'Africa Oil says to place new shares, take impairment charges', 12 February 2015; Interview, international oil company active in East Africa, 30 April 2015; Paul O'Donoghue; 'Tullow is a $1bn buyer and not for sale – Heavey', *Irish Independent*, 2 May 2015.

Tullow Uganda president, 'you can't keep holding back the whole sector simply because of just 2 or 5 per cent of the oil to be recoverable.'[117]

Unlike its western counterparts, the Chinese oil giant CNOOC was granted a license in September 2013 for its Kingfisher oilfield. The 200 million barrels of recoverable reserves will begin production after a four-year development phase and reach an eventual plateau at 30,000 to 40,000 bpd.[118] Uganda's broader relationship with China was seen to reinforce CNOOC's position: the signing of the production license coincided with a number of other large investment deals with Chinese energy and infrastructure companies.[119] This may partly explain the early approval of its production license.[120] More substantially, however, CNOOC's Kingfisher oilfield is wholly within one concession, avoiding the cost unitization question facing overlapping oil fields in Tullow and Total's case.[121] Ultimately, CNOOC will not be able to move forward with large-scale production from Kingfisher until negotiations are settled between the Ugandan government and consortium partners.

The negative side effects of Uganda's prolonged regulatory disputes, however, should be considered with a broader outlook. If the position of the government on capital gains tax and contractual terms were overly harsh, international oil companies would have abandoned the country. Sunk costs and possible future high-level profits have kept the companies in the country. As a result, Uganda sports an impressive consortium to develop its oil resources: CNOOC, a large Chinese national oil company; Total, an oil major with world-class technology and expertise; and Tullow, an oil independent with a track record of opening new markets.

In any case, Uganda did not miss much of the upturn in international oil prices. As a landlocked country, with little supporting infrastructure and no regional agreement on an export pipeline, even in an ideal scenario with few political and regulatory delays, it would have taken a long time to produce oil. After passing the commercial threshold of oil resources in 2009, it would take at least five to seven years to develop an export pipeline and for production to rise to high levels.

Is the relationship between Uganda and international oil companies reconcilable or bound for further turmoil? 'Relations between the government and industry are not a clean slate', said one international oil company manager.[122] New regulatory risk for international oil companies could come out of the National Content Policy that strives to increase the employment of Ugandans,

[117] Haggai Matsiko, 'Uganda oil now for 2020', *The Independent*, 8 February 2015.

[118] Fred Ojambo, 'Cnooc of China wins Uganda's first oil production license', *Bloomberg*, 25 September 2013.

[119] In late 2013, Uganda signed agreements with Sinohydro Corporation and China International Water and Electric Corp. to respectively build the 600MW Karuma and the 188MW Isimba hydroelectric dams. Two billion dollars in loans for the projects came from the Chinese policy banks, the Export-Import Bank of China and China Development Bank. Uganda also signed a deal worth over $3 billion with the China Harbour Engineering Corporation to construct a standard gauge railway network which will connect Kampala to Kenya and South Sudan as part of a massive regional railway transportation undertaking; Steve Mbogo, 'Uganda-China oil deal seals development pact', *Financial Mail*, 24 October 2013; 'China set for $3.2b Uganda rail plan', *East African Business Week*, 8 April 2015.

[120] President Museveni's has called China Uganda's preferred development partner. In size and character, China's loans to Uganda have stood out from other international financing. 'I was a bit embarrassed when I was talking to [representatives from] the World Bank,' Museveni said. 'They talked about a lot of things like structural adjustment, but they don't understand the basics. How can you have structural adjustment without electricity? The Chinese understand the basics.'; James Kynge, 'Uganda turns east: Chinese money will build infrastructure says Museveni', *Financial Times*, 21 October 2014.

[121] Personal communication, international oil company active in Uganda, 18 May 2015.

[122] Interview, international oil company active in Uganda, 30 April 2015.

local enterprise development, vocational and higher education training, and the procurement of local goods and services. These are all laudable goals, which international oil companies welcome, particularly because local staff and contractors are generally less expensive than expats. But if domestic engagement does not meet international standards, or its development delays industry progress, then companies will continue to seek international partners.[123] The introduction of Uganda's newly formed national oil company, entitled to a 15 per cent stake in existing and future exploration and production licenses, may also cause further regulatory disputes with international oil companies.

But hard bargaining by the government should not be conflated with unreasonable political intervention. Uganda is far from the only oil state in the world to be known as a tough negotiator. Its capacity to manage the oil industry is still improving, with support from the Norwegian government and other international partners, and its political leaders are learning the limits of their negotiating positions. The legislative vacuum in Uganda's oil industry in the 1990s has been mostly filled since initial oil discoveries were made. Albeit not without inherent shortcomings and potential for deviations in practice, the adoption of the 2008 National Oil and Gas Policy, 2013 Petroleum Exploration, Development, and Production Act, and the 2015 Public Finance Management Act eliminates some of the uncertainty surrounding oil governance. Precedence has also been established through the various lengthy tax arbitration cases, which will encourage both the Ugandan government and international oil companies to avoid such outcomes in the future.

Finally, the fall in international oil prices will dull the sharp negotiating stance of the Ugandan government. Regulatory bravado cannot be sustained in this new price environment. The 2015 licensing round demonstrated that interest in Uganda's new concessions is not limitless. 'If you want to get companies to start looking at licenses again then they have to be made more attractive', said Tullow CEO Aidan Heavy in the face of a fall in oil and gas investments in Africa in 2015.[124] While Uganda's current partners may attempt to extract better conditions for their production licenses due to the fall in international oil prices, the settlement of the capital gains tax dispute with Tullow in mid 2015 should provide some goodwill for stalled production license negotiations to be complete.[125] After long and acrimonious negotiations, the regulatory environment in Uganda is stabilizing.

Politics

The regulatory environment in Uganda is difficult to discern from its politics. The centralizing authority of President Museveni in recent years helps to explain the government's hard position on regulatory issues. The opaque control over the oil industry by Museveni and a small circle of Ugandan officials and international advisors has played a divisive role across government and society. This lack of transparency in the oil industry has led parliament to demand greater oversight. As such, Museveni's growing tendency to micromanage presents a concerning political risk for international oil companies. Intervention by a quasi-authoritarian leader in a dysfunctional democracy could very well lead to further delays in the industry's development. An unpredictability remains for the oil industry in this hybrid governing system.

[123] Edward Ssekika, 'Local content: Uganda's mixed bag of oil fortune', *The Observer*, 29 December 2013.

[124] Emma Farge: 'Africa's oil "sweet spots" still viable after price rout', *Reuters*, 10 March 2015.

[125] Mark Keith Muhumuza and Frederic Musisi, 'Why government accepted less pay in Tullow case', *The Daily Monitor*, 28 June 2015.

The overlap between politics and regulatory disputes in Uganda has also been associated with corruption. Capital gains tax disputes were regarded as a means for the ruling National Resistance Movement's to tap new sources of campaign financing for national elections. Political intervention could widen as the industry heads towards the infrastructure-heavy development stage. The onset of production could also very well spark legal and publicity battles within and without government that slow industry progress and efficiency.

The inevitable process of political succession in Uganda is widely seen as a significant political risk. But a future leader, either anointed by the longstanding president to lead the National Resistance Movement or coming to power from the political opposition, is unlikely to forward major policy changes for the oil industry. In the short and medium term, Museveni is likely to stay in power. He intends to run for president again in 2016, and will very likely win the election, but may be approaching his final term as Uganda's leader. Nonetheless, the Museveni government has negotiated very strong production sharing agreements with international oil companies that a new leader would be at pains to improve beyond underdeveloped areas on social and environment matters.

One of the largest political-regulatory risks still facing the oil industry is the development of a regional pipeline through Kenya. Regional politics are central to the monetization of Uganda's oil industry. If Uganda and Kenya wish to see oil by the end of the decade, President Museveni and President Uhuru Kenyatta must compromise on domestic political goals to establish regional regulatory measures, such as financing and security for the pipeline, that allow its construction and stable operation.

Centralizing political authority

According to Andrew Mwenda, a prominent Ugandan journalist, navigating politics in Uganda is simple: 'don't challenge the president, but feel free to do anything else at all'.[126] Oil has fallen into and reinforced the existing political pattern of neo-patrimonial and centralized, one-man rule under President Museveni.[127] Some parliamentarians and political opponents regard oil as a means to widen political space in Uganda, while President Museveni has exploited it as a means of further control, cautious of oil upsetting political cohesion through the large economic incentives it offers.[128] Democratic or quasi-authoritarian governance is not necessarily a threat to the oil industry; international oil companies have global operations in countries across the political spectrum. But since Uganda falls between these two political categories,[129] an ongoing hybrid political process presents the oil industry with an unpredictable political environment.

There has been a noticeable centralizing of political power and patronage in Uganda in recent years. President Museveni came to power after a five-year insurgency ending in 1986. He went on to eliminate the threat of armed insurgencies, despite a long-running battle against the Lord's Resistance Army.[130] In his first decade of power, Museveni led a one-party state, in which the National Resistance Movement was presented as offering a 'big tent' for political competition to take place. The economy boomed. Growth rates were between 8 per cent and 11 per cent, and

[126] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 59.
[127] 'Donor engagement in Uganda's oil and gas sector', *Global Witness*, Briefing, 2010, 7.
[128] Interviews with international civil society group campaigner and international oil company advisor, London, 30 April 2015.
[129] Aili Mari Tripp, *Museveni's Uganda: Paradoxes of power in a hybrid regime*, Lynne Rienner Publishers, Boulder, CO, 2010.
[130] Petrus de Kock and Kathryn Sturman, 'The Power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 9.

Uganda established itself as a 'donor darling', strengthening government institutions, spreading political power through devolution, and establishing a relatively free press and civil society, particularly in the capital, Kampala.

At the turn of the century, however, Museveni closed space for political competition. A multi-party system was introduced in 2005, but Museveni relied increasingly on patronage politics to rule, and diluted the power of political districts by increasing their number.[131] He has been successful in maintaining control over the ruling National Resistance Movement, co-opting or nullifying political opposition, and gaining a strong hold on the army and security forces.[132] Economic growth, however, has slowed to between 5 per cent and 7 per cent, and corruption scandals, a lack of democratic reforms, and the passing of legislation criminalizing homosexuality soured Uganda's relations with donors.[133]

In line with his centralizing political authority, President Museveni has been adamant that he will maintain firm control over the oil industry. The day-to-day government managers of the industry are Permanent Secretary Kaliisa Kabagambe and the Acting Director of the Petroleum Directorate Ernest Rubondo, both at the Ministry of Energy and Mineral Development.[134] But Museveni has the last word on key policy decisions. 'In the case of petroleum and gas, I direct that no agreement should ever be signed without my express written approval of that arrangement', he said in 2010.[135] From the State House, Museveni and his inner circle govern the oil industry, while most government ministries and bodies have little sway.[136] Bishop David Zac Niringiye, a leading political figure in the opposition said, 'You can't build institutions while Museveni is still in power – he is the institution.'[137]

If Museveni can create a predictable governing system, the centralization of power in Uganda is not necessarily a problem for the oil industry. But if Museveni degrades the functionality of formal institutions managing the economy in the process, international oil companies will continue to face delays in moving forward. Uganda's oil industry is coming out of a transitional period where some key decisions have been made without the appropriate institutions and regulations put in place.[138] To date, government bodies and laws do not have political space to fully function. As the oil industry has experienced, President Museveni's demand that his stamp of approval be on all major deals makes his schedule quite full, delaying key investments.[139]

[131] Joel D. Barkan, 'Uganda: Assessing risks to stability', A Report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 6–8.

[132] Petrus de Kock and Kathryn Sturman, 'The Power of Oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 15.

[133] Newspapers and radio stations have also been closed after criticizing the president, and a public order bill passed in 2013 prohibits groups of three or more from openly discussing political issues.

[134] Benjamin Auge and Rose Nakayi, 'Eastern Africa: A new oil and gas frontier', *Observatoire des Grands Lacs en Afrique*, No. 1, 2013, p 14.

[135] Eric Watkins, 'Uganda's president wants final approval of all oil, gas deals', *The Oil and Gas Journal*, Vol. 108, Issue 32, 30 August 2010.

[136] Sam Hickey, with Badru Bukenya, Angelo Izama, and William Kizito, 'The political settlement and oil in Uganda', ESID Working Paper No. 48, 2015, 15.

[137] Magnus Taylor, '"We shall manage you": Oil, NGOs and journalists in Uganda', *African Arguments,* 28 April 2014.

[138] Personal communication, oil industry insider, 29 August 2015.

[139] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 60.

Ineffective parliamentary oversight in the oil industry is similarly a political risk. Museveni's earlier support of decentralization has emboldened a group of young parliamentarians concerned with oil issues to speak out.[140] In 2010, a Parliamentary Forum on Oil and Gas was established among concerned MPs from the ruling and opposition parties to promote greater transparency and accountability. In October 2011, a moratorium on signing new oil contracts was passed in parliament due to a lack of transparency of contracts.[141] The draft petroleum bill was also criticized for providing excessive authority to the energy minister without independent oversight.

Such oversight is not a risk for international oil companies when it can produce lasting policy change, but in Uganda it is unpredictable, slowing key legislation without reforming it. Despite objections from parliament, the moratorium on oil contracts was overturned, and after Museveni won the 2011 elections, he appointed a close supporter, Irene Muloni, to post of energy minister. The following year, the petroleum bill was passed with little amendment.[142] In 2013, Museveni then expelled NRM MPs critical of his presidency and management of the oil sector.[143] Without greater transparency over the industry, a lack of information will continue to create political divides and potential delays for the oil industry.

Corruption

The intermingling of business and politics in Uganda tends to require new investors to gain high-level political acceptance to move forward with their plans. Rent-seeking in Uganda, from the central government to local authorities, is widespread.[144] Many fear that Uganda's Vision 2040, a policy that plans a massive increase in infrastructure investment to build new highways, educational institutions and energy projects, was designed for purposes of political graft and patronage. But the length to which corruption will impact the oil industry is still unclear. It is inherently difficult to decipher overlap between regulatory changes and political intervention in the oil industry. In Uganda, clear causality between the two has not been presented, but correlations are hard to dismiss.

While President Museveni remains a key ally for the United States and Europe in the fight against terrorism in East Africa and western oil companies continue to invest in Uganda, aid from western donors has fallen from 55 per cent of government's expenditures in 2004 to 26 per cent in 2010.[145] As a result, oil is now key for Museveni to continue his rule through increasing demands for patronage.[146] The short-term goal of ensuring his grip on power may help explain why Museveni dug in his heels on regulatory issues in the oil industry, delaying the ultimately more profitable start of oil production.

There are clear consequences for the oil industry from political corruption in Uganda. Shortly before the 2011 general election, the government passed a supplementary budget of $257

[140] Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012, 312.

[141] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 49.

[142] Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012, 308.

[143] Yasiin Mugerwa, 'Repeat of history as NRM expels "rebel" MPs', *The Daily Monitor*, 16 April 2013.

[144] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 56-8.

[145] Joel D. Barkan, 'Uganda: Assessing risks to stability', A Report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 11.

[146] Joel D. Barkan, 'Uganda: Assessing risks to stability', A Report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 12.

million, $34 million of which went directly to the State House.[147] This coincided with EU representatives indicating that large sums of money and gifts were distributed in the lead up to polls. Uganda also failed an IMF programme review that year.[148]

Museveni personally and publicly distributes cash donations to constituents across the country. These state funds are drawn from the Office of the President as donations, $24 million in each of the last two fiscal years. Other National Resistance Movement politicians and opposition leaders, such as former Prime Minister Amama Mbabazi, engage in this practice. Citizens expect that politicians hand out cash at increasing levels to win their support and votes. Government budgets are easily exploited for patronage purposes. 'It is bad but it is reality', said Mathias Mpuuga, a municipal legislator, 'That is the culture President Museveni has entrenched in our society'.[149]

The oil industry feeds this political culture. The Heritage capital gains tax case came a year before the election, when President Museveni and the National Resistance Movement were keen to raise funds for campaigning and political support. When there is resistance, the objectives of the industry will be blocked. Tullow's activities, and sale to Total and CNOOC, were stopped by government intervention until Tullow agreed to pay $313 million to cover Heritage's charge while the case was pending.[150]

More recently, the Tullow capital gains tax settlement, from its 2012 sale of stakes to Total and CNOOC, comes a year before the next general election in 2016. The company already paid $142 million to bring the case to arbitration and will pay the remaining $108 million in even instalments over the next three years. The deal has fed other concerns of government finances and projects being exploited for political campaigning by the NRM in the lead-up to national elections. At over $7 billion, the 2015/16 government budget is the biggest in Uganda's history, nearly doubling in a special parliamentary sitting in late May 2015, just over a month before the new fiscal year began.[151] Simply put, corruption is 'a fixture of the electoral cycle'.[152]

Even before the start of production, civil society groups and the political opposition worry that government revenues generated from the oil industry are already narrowly controlled. 'All this is being handled personally and exclusively at the kitchen table of the president', said opposition leader, Olara Otunnu.[153] 'We already know … the oil revenue will become part of his personal ATM machine.' Even those close to the president have questioned his decisions. In 2011, Uganda's longtime central bank governor Emmanuel Tumusiime-Mutebile was critical of Museveni's decision to withdraw $400 million from the bank to help pay for $740 million in arms purchases from Russia without first gaining parliamentary approval.[154] The withdrawal brought reserves to levels amounting to only six months' worth of imports. The president's rhetoric does not help to relax his critics. Speaking about the ultimate aims of his political opponents in the 2016 general election, Museveni remarked, they want 'to eat the benefits from my oil'.[155]

[147] 'Spending for victory', *Africa Confidential*, Vol. 56, No. 7, 3 April 2015.

[148] Katrina Manson, 'Uganda bank governor criticises Museveni "Marxism"', *Financial Times*, 13 June 2011.

[149] Haggai Matsiko, 'Museveni's cash worries MPs', *The Independent*, 17 May 2015.

[150] Emily Gosden, 'Tullow Oil wins $313m from Heritage in Ugandan tax dispute', *The Telegraph*, 14 June 2013.

[151] 'Big budget. Big dreams. Big fears', *The Independent*, 7 June 2015.

[152] Angelo Izama: 'Total E&P chief Rafin leaving Kampala and other news', *Angelo Opi-Aiya Izama,* 14 January 2015.

[153] 'Corruption threatens Uganda oil revenue-opposition', *Reuters*, 13 August 2010.

[154] Katrina Manson, 'Uganda bank governor criticises Museveni "Marxism"', *Financial Times*, 14 July 2011; 'Museveni, Central Bank boss clashed over Sh63bn choppers', *Daily Nation*, 13 August 2012.

[155] 'I'll not let opposition touch my oil', *The Insider*, 18 July 2015.

Political corruption could very well widen in the development stage of the oil industry. Supporting infrastructure such as roads and power plants may not be as corruption free as the core sectors of the industry. As Ugandan journalist Angelo Izama writes, 'The oil sector is thus far "relatively" scandal free … The rest of government procurement, however, is poke-full of holes like a Texas fracking field.'[156] The service and construction contractors of Uganda's three major oil companies will surely 'encounter not just red tape but barbed wire fencing of projects by clusters of colluding elites'.[157] New policies of the government to forward local content in the oil industry are prone to rents and corruption.[158] If the Ugandan political economy maintains this trend, the oil sector should expect political intervention on various levels of government, and legal and publicity battles from corruption allegations.

Political succession

It is hard to imagine a Uganda without Yoweri Museveni. There is a strong possibility that Museveni will remain in power in the short and mid term. He intends to run for election again in 2016, and is widely predicted to win, extending his tenure in office to 2021, when oil production should begin. But the reality is that oil will outlive the long-time Ugandan president. Museveni, who turns 71 this year, has led Uganda for over three decades. But even if he rules for another, the 30- to 40-year lifespan of the oil industry will witness a transition of power. Museveni's replacement, whether through death, the anointment of a successor, or the election ballot, will mark a critical political turning point for Uganda.

Due to the close connection between business and power in Uganda, any change in political leadership typically comes with a shift in patronage networks and thus an adjustment of economic fortune for investors.[159] However, this may not be so severe for the oil industry. A new leader from either the National Resistance Movement or the political opposition will likely do little to upset its development.

Before announcing his intention to run for another term, discussion of Museveni choosing a successor to lead the NRM gained some traction. Museveni would have to do extensive lobbying within the NRM to forward the case of any candidate, but so far he has not given any indication of a preference for, or even consideration of, anointing a successor.[160] Nonetheless, the president's eldest son, Brigadier Muhoozi Kainerugaba, who commands the UPDF's Special Forces Group (SFG), is widely seen as a possible successor. The president's wife, First Lady Janet Museveni, who has been a member of parliament, and is minister of Karamoja Affairs and applying for the National Resistance Movement Vice-Chair position is another. Museveni's younger brother, General Salim Saleh, has also been considered as a possible replacement. Given the close ties of each of these individuals to Museveni, they will likely continue to forward his agenda if they come to power. Museveni's legacy will underpin their position in the short and medium term.

Uganda's largest opposition party, the Forum for Democratic Change, along with other groups, is planning to stand behind a single presidential candidate in 2016 under the banner of the

[156] Angelo Izama, 'Uganda announces first crude oil sale and auction of new exploration blocks', *Angelo Opi-Aiya Izama*, 12 February 2014.

[157] Angelo Izama, 'Oil&Gas ScrapBook: Total E&P chief Rafin leaving Kampala and other news', *Angelo Opi-Aiya Izama*, 18 July 2015.

[158] Personal communication, international oil company active in Uganda, 7 September 2014.

[159] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 72.

[160] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 71.

Democratic Alliance.[161] But few changes for the oil industry should be expected in the unlikely consequence of the political opposition winning. Amama Mbabazi, the former prime minister and NRM secretary general, is arguably Museveni's strongest opponent in the 2016 national election.[162] Museveni ousted Mbabazi in late 2014 when his presidential ambitions became commonly known and his exit from the NRM marks another separation of a high-ranking and long-serving leader from Museveni. He was known as 'Mr Fix-it', once simultaneously holding the roles of attorney general, defence minister, and foreign affairs minister.[163] Nonetheless, as an architect of the movement and government policy, he'll offer few new changes if he comes to power.

Kizza Besigye, a three-time presidential contender for the Forum for Democratic Change, and Major General Mugisha Muntu are other potential candidates.[164] But even in the event of an improbable victory by an opposition leader, any changes in the oil industry would be minor. As an analysis by Global Witness of Uganda's production sharing agreements shows, the financial terms for the government's take in oil contracts is competitive by global standards. Although still lacking human rights and environmental protections, the 2012 agreements improved on financial conditions from those established in 2008.[165] It is actually a missed opportunity for President Museveni to publicly release oil contracts, both to quell concerns over the deals, but also to demonstrate the government's success on the financial terms in the agreements. As such, it would be difficult for a new government to extract further stakes from international oil companies beyond what the Museveni has achieved.

Regional pipeline politics

One of the largest political risks still facing the advancement of the oil industry in Uganda, and the East Africa region, is the development of a regional pipeline. Cooperation between Uganda and Kenya, the two countries promoting the pipeline, is central to its financing, construction, and operation. Often preoccupied with domestic political goals,[166] Uganda and Kenya are challenged with finding common ground on regional policies for the development of the pipeline.

Only recently have bilateral relations warmed to the possibility. Leading up to the 2013 Kenya general election, fearful of a repeat of the 2007/08 post-election violence that shut Uganda off from key imports from the Kenyan coast, President Museveni was cautious about fostering closer ties with Nairobi. He was exploring cooperation with Tanzanian president Jakaya Kikwete about an export pipeline along the western shore of Lake Victoria and through Tanzania to the coast.[167]

[161] Frank Charnas, 'Uganda's "Buhari moment"?', *Daily Maverick*, 20 July 2015.

[162] The divide between the two opened up in September 2013 when Museveni met Zhang Dejiang, Chairman of the Standing Committee for the National People's Congress of China, who thanked the Ugandan president for choosing Mbabazi as his successor. Fearing that China may be financing a Mbabazi presidential run – the former prime minister was active in arranging the Chinese investment in oil and hydropower – Museveni moved to check the position of Mbabazi within the NRM. Showing that China's growing influence in Uganda is not impervious to Ugandan politics, Museveni also is alleged to have sunk the possibility of a Chinese firm winning the refinery bid due to Mbabazi's close connection with Chinese government and state company officials. Haggai Matsiko, 'Unrefined oil politics', *The Independent*, 6 July 2014; 'Refinery deal struck', *Africa Confidential*, Vol. 55, No. 17, 29 August 2014.

[163] J. P. Lawrence, 'In Uganda, Museveni finds biggest election obstacle in former friends', *CS Monitor*, 14 July 2015.

[164] Elias Biryabarema, 'Uganda's opposition groups say uniting for 2016 elections', *Reuters*, 10 June 2015; 'Drawing the battle lines', *Africa Confidential*, Vol. 56, No. 13, 26 June 2015.

[165] Global Witness, 'A good deal better? Uganda's secret oil contracts explained', September 2014.

[166] Joel D. Barkan, 'Uganda: Assessing risks to stability', A report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 5–6.

[167] Julius Barigaba, 'Museveni's dilemma as Kenyans elect president', *The East African,* 2 March 2013.

Kenya for its part, initially did not initially invite Uganda to participate in LAPSSET, its regional infrastructure project in 2012. But following Uhuru Kenyatta's victory in the 2013 elections, relative stability after the vote, and Kenya's own expanding oil industry, the political and economic viability of cooperation improved.

The East African Community (EAC), a regional intergovernmental organisation made up of Burundi, Kenya, Rwanda, Tanzania, and Uganda, has flirted with the development of large-scale regional infrastructure for decades. The discovery of oil in Uganda and Kenya has reignited such plans. Uganda, Kenya, and Rwanda have moved forward to develop export and product pipelines. These tripartite moves, while permissible by the East African Treaty, have left out other EAC members, particularly Tanzania, which arguably may be leaning towards greater alignment with the Southern African Development Community, another regional body of which it is a member.[168]

The August 2015 visit of President Kenyatta to Kampala led to the signing of an agreement designating the pipeline to take a northern route from Lake Albert to Turkana and onward to Lamu. This was chosen instead of an alternative southern route running through Nairobi and ending in Mombasa.[169] Yet there were striking differences between the two sides on key issues for the pipeline's development. The Ugandan communiqué of the agreement stated the implementation of the pipeline route was pending Kenya's guarantee of the security on its side of the route, agreement to the financing of the project, and a transit fee no higher than alternative routes. The Kenyan 'joint' communiqué noticeably left out these stipulations.[170] Discussions, albeit now centred on the northern route, were clearly still ongoing.

The northern route presents the challenge of building the pipeline and supporting infrastructure in isolated regions of Kenya, along with possible delays from land ownership issues, which are largely customary. Large projects in Kenya typically are encumbered by land access, including the Standard Gauge Railway, Lamu Thermal Power Plant, Kinangop Wind, and Lake Turkana Wind.[171] Concerns abound over land speculation along the pipeline route, and inflated construction contracts going to individuals and companies close to Kenyan government officials. The wider LAPSSET project is regarded as a vehicle to expand the interests of the Kikuyu elite of Nairobi and the central highlands, from which President Kenyatta hails. 'The pipeline is an enabler of political consensus through rent seeking it provides,' said one international oil company manager, 'LAPSSET is an opportunity for rent seeking of monstrous proportions'.[172]

If Kenya and Uganda wish to attract a variety of funders for the pipeline, they will need to settle the political and security risks already attached to the pipeline. Both countries are already burdened by debt at a time when competition for international financing will be fierce due to the fall in commodity prices.[173] There are huge capital needs in the wider East African region, with offshore gas projects in Tanzania and Mozambique and other major infrastructure projects underway in Uganda, Kenya, and Ethiopia.[174] Not all the mega infrastructure projects will find support.

[168] Sulaiman Kakaire, 'Why Museveni met Kenyatta, Kagame', *The Observer*, 28 June 2013.

[169] Elias Biryabarema, 'Kenya, Uganda settle on crude pipeline route', *Reuters*, 10 August 2015.

[170] Frederic Musisi, 'Cracks emerge in Uganda–Kenya oil pipeline deal*', The Daily Monitor*, 15 August 2015.

[171] 'Oil interrupted', *Africa Confidential*, Vol. 56, No. 5, 6 March 2015; Personal communication, international oil company active in East Africa, 13 August 2015.

[172] Interview, international oil company active in Uganda, 30 April 2015.

[173] 'End of Museveni–Kenyatta honeymoon', *The Indian Ocean Newsletter*, No. 1393, 12 December 2014.

[174] Personal communication, international oil company active in East Africa, 24 September 2015.

Kenya and Uganda will also need to ensure the appropriate level of environmental integrity over the pipeline.[175] Environmental and social impact assessments and strategies must adhere to International Finance Corporation Performance Standards for multinational donors. Chinese banks may offer alternative finance venues, but the Export-Import Bank of China and China Development Bank are increasingly cautious about environmental and social risk in the projects they finance overseas. There are also security concerns about the targeting of the pipeline by local militias as well as the regional militant group al-Shabaab, particularly in Turkana, Lamu, and Garissa counties.

Total has been more adamant in supporting the southern route. In addition to security concerns, the supportive infrastructure for the northern route, including roads and utilities essential to power the heated pipeline and prevent oil from congealing, may bring the cost to $5.2 billion, while Total argues the southern route would be $4.5 billion.[176] Total and its partners have reportedly commissioned a feasibility study of the southern route by Gulf Interstate Engineering, an American consultancy, and the Kenyan government has had one completed by Inter Pipeline Ltd., a Canadian energy infrastructure company.[177] Initially President Museveni was said to have backed Mombasa as an end point. But he eventually supported Kenyatta's demand for the northern route.

After Kenya and Uganda announced the northern route as the preferred option, Total sent its vice president for East Africa, Javier Rielo, to Tanzania to meet President Jakaya Kikwete concerning the prospects of running a 1,400 kilometre regional pipeline from Uganda to Tanzania's port of Tanga. Total was not yet finished trying to convince Museveni to reject the possibility of the northern route. The transit fee Uganda and Kenya established has a range of $5 to $15.7 per barrel depending on the oil price range.[178] Tanzania could potentially offer Uganda a lower transit fee than Kenya. Tanga could be a legitimate option, although one that would exclude the benefits of consolidating Ugandan with Kenyan crude, or Tanga could be a lever to get Kenya to move forward with its southern route as per Total's wishes.[179] Tullow, with assets in both countries, is keen to see progress of any kind. 'Without the pipeline, we don't have a project', said Uganda general manager Jimmy Mugerwa.[180]

Kenya appears to have made compromises to bring Uganda over to its side. Kenyatta opened Kenya's economy to Ugandan sugar imports to sway Museveni.[181] The Kenyatta government also reportedly shelved plans for building its refinery capacity to service the East Africa region in order to avoid duplicating the capacity of Uganda's future refinery. Kenya is said to have pulled back on the construction of a refinery in Isiolo and will likely only focus on retooling its Mombasa refinery to handle waxy Kenyan crude.[182] Furthermore, Kenya agreed to invest an estimated 2.5 per cent in Ugandan refinery.[183] The investment commitment is on the low side, as Uganda seeks regional

[175] Personal communication, international oil company active in Uganda, 7 September 2014.

[176] 'Oil firms prefer Tanga pipeline route to Lamu', *The East African*, 14 September 2015.

[177] 'The pipeline of discord', *The Indian Ocean Newsletter*, No. 1407, 10 July 2015; Personal communication, oil industry insider in East Africa, 7 May 2015.

[178] 'Total brandishes Tanzanian card to thwart Lamu pipeline scheme', *The Indian Ocean Newsletter*, No. 752, 1 September 2015.

[179] 'Warming up the Kenyatta–Museveni axis', *Africa Confidential*, Vol. 56, No. 18, 10 September 2015.

[180] Edward Ssekika, 'Uganda: Oil firms, govts differ on export pipeline', *The Observer*, 27 May 2015.

[181] 'End of Museveni-Kenyatta honeymoon', *The Indian Ocean Newsletter*, No. 1393, 12 December 2014; 'Kenya–Uganda Pipeline', *The Indian Ocean Newsletter*, 12 August 2015.

[182] Interview, Leading Kenyan civil society campaigner, 20 May 2015.

[183] David Lumu and David Lukiiza, 'Kenya wants shares in Uganda's oil refinery', *New Vision*, 12 March 2015.

governments to cover 40 per cent, but it is another indication of compromise between Uganda and Kenya.

But Uganda still appears to be unconvinced. 'The Kenyans are the bullies in the relationship,' said one international oil company manager, 'but they can't push too hard.'[184] Without Uganda's oil in the mix, a pipeline may not be viable with Kenyan oil alone in a lower price environment. Ugandan officials still question the viability of the northern route as its demand from Kenya on financing, security, and tariff conditions demonstrate. The Lamu, Mombasa, and Tanga routes are all still on the table and Uganda is commissioning a comparison of the northern and southern routes in Kenya.[185] President Museveni's vocal support of President Kenyatta and his deputy William Ruto against International Criminal Court charges have helped to foster closer ties between the two East African countries, but the lingering decision on the pipeline may yet produce political friction.

The regional pipeline debate is not simply about finding the best economic route, but is entrenched in domestic politics of the East African countries involved. In Kenya, the Kenyatta government is promoting the northern route exactly because of development and security challenges it faces. It regards the pipeline as essential in kick-starting the wider LAPSSET infrastructure agenda to develop the country's north, which will satisfy an electoral manifesto and act as a powerful campaigning tool in 2017 general elections. Kenyan officials argue infrastructure will bring development and ease tensions in these marginalized areas, placing the isolated north into the orbit of the Kenyan economy.[186] Whether Kenya is prepared to make further compromises on financing and security to quell Ugandan concerns remains to be seen. These political goals may yet delay Ugandan oil from hitting international markets for even longer than expected.

Social concerns

There is a dearth of responsibility in Uganda for the demands of local communities. At the same time, Uganda's politics can also transform into societal issues for the oil industry. The centralization of authority, in particular, is incubating grievances among local communities in the oil-rich Lake Albert region. While international oil companies do not have direct responsibility for the equitable governance of the oil industry, they will be held partially accountable at the very least for the Ugandan government's management, or lack thereof, of oil's social and environmental impacts. Rather than central government officials, it is international oil companies and their contractors, working daily in local areas, which tend to be on the frontline of community responses. These societal grievances may lead to protest against an onshore oil industry, costly operational stoppages, and a persistent, and difficult to retract, negative relationship with local communities.

Community relations

When national governments are unwilling or unable to establish clear laws and regulations, marrying operational goals with the societal demands of local communities continues to be a challenge in the international oil industry. The goal of 'managing expectations' tends to focus on how to sensitize local communities to the operational practices of international oil companies,

[184] Interview, international oil company active in Uganda, 30 April 2015.

[185] 'Oil firms prefer Tanga pipeline route to Lamu', *The East African*, 14 September 2015.

[186] Interview, international oil company active in Uganda, 30 April 2015.

from exploration to development and production, rather than company managers taking on a greater understanding of local politics and culture. Demands of local communities are often only taken seriously when social protest has already materialized. Even though it is a long-term business, oil companies and their contractors tend to exhibit short-term thinking tied to managerial goals and compensation, searching for quick fixes to overcome tensions with communities. In many communities, there is often an individual focus by members on the benefits that can be extracted from the oil industry, while collective and long-term goals are neglected.[187]

The central government is largely unwilling to find long-term solutions for social issues, for instance over land use, and the capacity of local government is weak across the district, country, and sub-county levels. Oil companies, and particularly their contractors, actually have the highest level of contact with communities compared to central or even local government.[188] This has essentially led to self-regulation of social and environmental practices becoming the norm.

Outside generating petrodollars for the Ugandan government, the developmental impact of the oil industry is limited. As a technical and capital intensive industry, oil will likely only create a few thousand jobs for Ugandans, some in specialized positions, but most will be in semi-skilled, ancillary jobs in catering, security, transport, trucking, and other similar areas.[189] There are commercial incentives for international oil companies to train local staff since expatriates generally are more expensive.[190] In 2012, Tullow employed 177 Ugandan nationals, 88 per cent of its workforce, but this number fell considerably as work stalled due to negotiations over production licenses.[191] Employment will vary over the life cycle of the industry. When oilfield and support infrastructure is built, five to ten thousand jobs will be created. The need for welders, electricians, plumbers, and bricklayers will grow substantially in this period, but ultimately be limited in the long run when production begins.[192]

Social grievances can, however, grow over the small development benefits that the oil industry does provide. Tullow is on the forefront of community engagement in the international oil industry. It has pursued a transparent agenda by publishing the figures of its economic contributions in Uganda through taxes, local content expenditure, employment and social investment.[193] The British company established liaison offices in Hoima and Buliisa, held dialogue and sensitisation meetings with communities, provided basic services such as bore holes, mosquito nets, school materials, and invested in the construction of the Buliisa Health Centre IV, the first in the district.[194]

But the initial high expectations of local communities for the developmental impact of the oil industry has been soured by lack of information and little involvement in the planning of social investment projects of oil companies.[195] Across the oil industry in Uganda, communities generally

[187] Interview, international civil society group active in East Africa, 2 September 2015.

[188] James Van Alstine et al., 'Resource governance dynamics: The challenge of "new oil" in Uganda', *Resources Policy*, Vol. 40, 2014, 55–6.

[189] Ben Shepherd, 'Oil in Uganda: International lessons for success', Chatham House, 2013, 27.

[190] 'A wider take on Uganda's oil industry', *Oil in Uganda*, Issue 3, 2012, 15.

[191] 'Creating shared prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 2.

[192] 'Tullow: National oil company may share in production, but government must make up its mind over basin development', *Oil in Uganda*, 14 May 2012.

[193] 'Creating shared prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, 2.

[194] International Alert, 'Governance and livelihoods in Uganda's oil-rich Albertine Graben', 2013, 33.

[195] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 22; Gabriella Wass and Chris

still feel they have not been consulted on social service provision, and corporate responsibility projects have not been aligned with central or district development plans.[196] There is no systematic approach to the way the industry engages communities, but rather this is left ad hoc, with vast differences between the companies that have operated in Uganda over the past decade and a half.

While communities are appreciative of health, educational, and employment opportunities offered by oil companies, such investments could lead to conflict between groups in regions where such resources are scarce. Social investments also do not counterbalance the negative consequences the industry can have on livelihoods.[197] Subsistence farming and fishing are central to communities living in the Lake Albert region. The loss of communal lands to speculation and oil infrastructure has had the largest impact on communities in the Lake Albert region.

In 2005, before oil was discovered, Hoima district received only fourteen applications for land registration from the customary system. This number increased to 1,235 by 2008 after major discoveries of oil were made. 'The current land grabbing has been institutionalized', said Winfred Ngabiirwe of Global Rights Alert, a civil society organization working in the Albertine Graben area, 'customary landowners are too weak and disorganized to defend their land, giving investors and speculators a field day.'[198] The loss of land is depressing the livelihoods of sustenance farmers and building resentment against the oil industry.

The central government's refinery resettlement plan in Kabaale, Buseruka sub-county, Hoima, will displace an estimated 30,000 people. The process is already well underway, with some locals and civil society groups challenging eviction orders due to a lack of transparency over compensation and resettlement, and many more left unsatisfied.[199] Sub-county leaders have been effectively shut out of the process. The Albertine Graben oil infrastructure plans will continue to displace locals in a densely populated region of the country. A central processing facility, waste treatment plants, internal crude pipelines, the export crude pipeline, and other infrastructure must be built.

One partner that could aid in addressing social grievances in the oil industry, civil society, is largely closed off from communities. The Ministry of Energy and Mineral Development issued a directive in 2009 requiring all organizations and individuals to attain its approval before working in communities in oil-bearing regions.[200] At the same time, the operational space of civil society groups to engage on the oil issue is tightening with the passing of the Public Order Management Bill and NGO Bill, the latter scrutinizing civil society finances. These growing constraints will do

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Musiime, 'Business, human rights, and Uganda's oil', ActionAid International Uganda and International Peace Information Service, 2013, 18.

[196] International Alert, 'Governance and livelihoods in Uganda's oil-rich Albertine Graben', 2013, 45; Devin Holterman, 'The biopolitical war for life: Extractivism and the Ugandan oil state', *The Extractive Industries and Society*, Vo1. 1, No. 1, 2014, 32.

[197] Petrus de Kock and Kathryn Sturman, 'The Power of Oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 27.

[198] Edward Ssekika, 'Uganda: Oil-rich Hoima struggles to solve the land question', *The Observer*, 29 July 2015.

[199] International Alert, 'Governance and livelihoods in Uganda's oil-rich Albertine Graben', 2013, 40.

[200] James Van Alstine et al., 'Resource governance dynamics: The challenge of "new oil" in Uganda', *Resources Policy*, Vol. 40, 2014, 54.

little to help groups build their capacity to address technically difficult oil and gas issues.[201] While companies can work to empower the role of local authorities and civil society through advocating their position to central government officials, without a drastic change in the way the Ugandan government manages the social impact of the oil sector, future operational disruptions directed towards the industry should be expected.

Another aspect of the broader social relationship between the oil industry and local communities is sub-national oil revenue sharing from the central government to the district level and cultural institutions. The 2015 Public Finance Management Act awarded 6 per cent of oil royalties to districts within petroleum exploration and production areas, and 1 per cent to cultural and traditional institutions, particularly the Bunyoro kingdom.[202] Total government oil revenues, including the government's share of profit from oil, taxes, and signing bonuses, will not be shared with the local level, only revenues from royalties, and this 6 per cent will be divided between districts, amounting to quite a limited sum.[203]

The oil industry's relationship with the Bunyoro kingdom is a critical point of social destabilization. The Bunyoro kingdom covers Hoima and Buliisa, among other oil districts. It initially sought 12.5 per cent of oil royalties, but was ultimately only granted 1 per cent.[204] A historical grievance of political marginalization among the Banyoro – British colonial rulers promoted the Baganda – may fuel animosities over oil sharing.[205] Social tensions over the oil revenues between Kampala and districts and Bunyoro kingdom may grow once production begins, particularly because the lack of transparency in the Ugandan oil industry. Uganda has not sought to join the Extractive Industries Transparency Initiative, while the government of Kenya has demonstrated a willingness to do so on several occasions.

Environmental Impact

Where the oil industry is operating outside of communities, degradation of the ecological biodiversity of the Lake Albert region is under threat by poor environmental governance. The pristine natural environment and rich wildlife of the Albertine Graben, along with eco-tourism in Murchison Falls National Park,[206] where 40 per cent of Uganda's discovered oil resources are located, is under threat if the industry does not follow the international environmental standards. Since Uganda's oil is waxy, infrastructure requirements are larger, and will leave a large footprint on the natural environment: extra power plants will be needed to deal with heating, storage, and transport of oil, and the shallow depths of oil wells and weak natural flow pressures will require significant water injection for oil extraction.[207]

To date, companies are basically self-regulating. Uganda's National Environment Management Authority is underfunded, understaffed, and lacks political authority. Environmental Impact Assessments have been conducted, but there are few guidelines on waste management.[208] The early exploration by Heritage left mud cuttings, drill cuttings, and other hazardous wastes

[201] Personal communication, Leading Ugandan civil society activist, 17 June 2015.

[202] The Public Finance Management Act, Government of Uganda, 2015, Section 75, 69.

[203] 'Uganda's oil revenues: Ten key questions', *Oil in Uganda*, Issue 3, 2012, 10.

[204] Isaac Imaka, 'Bunyoro wants 12.5% of oil funds', *The Daily Monitor*, 1 June 2012.

[205] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 26.

[206] 'Creating Shared Prosperity in Uganda', Tullow Uganda Country Report, Tullow Oil, London, 2013, p. 7.

[207] Wikileaks cable, 'Uganda oil: Plans taking shape, but public remains in the dark', 8 April 2009. https://wikileaks.org/plusd/cables/09KAMPALA366_a.html

[208] 'Environmental capacity under fire', *Oil in Uganda*, Issue 3, 2012, 5.

untreated, risking contamination of underground aquifers.[209] Current companies operating in these concessions will be expected to take responsibility for clean up, although these may ultimately be accounted for as costs charged to the government.

Despite the slow progress of Uganda's oil industry, government environmental measures are still catching up. Only in July 2015 did Uganda's Cabinet approve a framework on Strategic Environmental Assessment for the Albertine Graben.[210] But industry advancement continues to take priority. New exploration licenses planned within Queen Elizabeth National Park between Lake Edward and Lake George border the DRC's Virunga Park, where oil operations and the threat to wildlife have been well publicized. Companies entering these new concessions will face increased international scrutiny.

Insecurity

If left unsettled, political and social instability brought on by the oil industry can degenerate into insecurity. Although Museveni has been in power for three decades, political change in Uganda has historically been accompanied by violence.[211] Political risk is one source of insecurity. If Museveni were to die in office with no clear successor in the National Resistance Movement in place, such political change could spark conflict. But social issues can also produce security dilemmas. The increase in army personnel and police in the Lake Albert region may only serve to enflame the social grievances of local populations towards the oil industry. The militarization of the region by the Uganda People's Defence Force (UPDF) and personalization of security by Museveni should caution, rather than comfort, oil companies. Finally, insecurity in bordering eastern DRC, which has already led to security risks for oil companies, and farther afield due to Uganda's military presence in Somalia and South Sudan, may, in a worst case scenario, draw in the oil industry as a target for insurgents and the mobile militant group al-Shabaab.

Militarization of the Lake Albert region

Since serious prospecting work began, the Lake Albert region has seen the influx of military police, and other Ugandan government security personnel. When Heritage began its exploration in the late 1990s, it was well aware of the risk and cooperated closely with UPDF; a local brigade held daily briefings and weekly meetings with drilling teams.[212] In the past, border regions with the DRC have been the staging ground for the insurgency of the Allied Democratic Forces (ADF), a group of Islamist and local opposition forces. The strength of the ADF, however, is in steep decline despite the Ugandan government stance that it still represents a threat.[213]

Heightened security may, however, have a paradoxical outcome for the oil industry. While the military has always played a large role in Ugandan politics,[214] its increased role is a sign that Museveni's ability to govern the country through political means is slipping. The personalization of

[209] Benjamin Auge and Rose Nakayi, 'Eastern Africa: A new oil and gas frontier', *Observatoire des Grands Lacs en Afrique*, No. 1, 2013, 14; International Alert, 'Governance and livelihoods in Uganda's oil-rich Albertine Graben', 2013, 41.

[210] 'Uganda approves environment plan for oil', *East African Business Week*, 26 July 2015.

[211] Joel D. Barkan, 'Uganda: Assessing risks to stability', A Report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 4.

[212] Raj Rajendran, 'Heritage delays maiden Uganda oil drilling to Sept.', *Reuters*, 30 August 2002.

[213] Elias Biryabarema: 'Uganda says kills 60 gunmen, troops deployed near oil area', *Reuters*, 7 July 2014.

[214] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 13.

military forces in oil regions underlines this trend. Salim Saleh, the younger brother of Museveni and retired UPDF Lieutenant General, is partial owner of Saracen Uganda, which provided security inside some of Heritage's drilling site operations.[215] It spun off from Executive Outcomes, a private security company co-founded by Heritage's CEO Tony Buckingham.[216] Saracen has a dubious track record in the region, and was implicated in the plundering of natural resources in the eastern DRC along with a network that included high-ranking UPDF officers by a 2002 United Nations panel of experts. Museveni's grip on security in oil areas is bolstered by a US government funded Special Forces Group of the presidential guard brigade mandated to protect Uganda's strategic assets, including its oil fields, and led by Brigadier Muhoozi Kainerugaba, the president's son.[217]

Many Ugandans still support Museveni for bringing stability to the country, and are wary of civil war,[218] but a young population, with little memory of past conflicts, may be less willing to back the president if their livelihoods are threatened. There are still a significant number of demobilized soldiers, who, if the politics were to shift suddenly, could be used as a fighting force.[219] The increased military presence has brought stricter security and decreased mobility to the Lake Albert region, stirring up social grievances towards the oil industry among the local population. There are fears that grievances over the management of oil revenues and the negative social and economic footprint of the industry in local areas will 'unleash the genie of civil war and insurgency in Uganda.'[220] Already, pre-existing conflicts over land and between communities have been exacerbated by oil discoveries.[221]

Regional insecurity

There are multiple sources of regional insecurity for Uganda's oil industry. The first emits from the instable border region of the eastern DRC. While Uganda and the DRC have signed agreements on joint exploration of Lake Albert and territory along the border, these have not materialized into any substantial action. Instead, a number of security incidents involving oil have taken place. In 2007, following a string of Heritage and Tullow oil discoveries, tensions flared between the Ugandan and Congolese military on the border over territory. In August, Congolese soldiers killed British geologist Carl Nefdt, who was working for a Heritage contractor, in a dispute over whether the exploration team was conducting seismic work on the Congolese side of Lake Albert.[222]

President Museveni met with his Congolese counterpart Joseph Kabila, the following month in Tanzania in an effort to calm the rising tensions between the two countries. They signed the Ngurdoto Agreement, promising to establish a joint permanent boundary commission and cooperate on oil exploration. But the military build-up on both sides continues with little progress to the agreement.[223] In November 2007, Congolese soldiers arrested two geologists working for a

[215] 'Donor engagement in Uganda's oil and gas sector', *Global Witness*, Briefing, 2010, 14.

[216] Interview, international oil company active in Uganda, 30 April 2015.

[217] 'Donor engagement in Uganda's oil and gas sector', *Global Witness*, Briefing, 2010, 7; 'Putting US aid to other uses', *Africa Confidential*, Vol. 55, No. 19, 26 September 2014.

[218] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 20.

[219] David Booth, Brian Coosey, Frederick Golooba-Mutebi, and Karuti Kanyinga, 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania, and Uganda', Overseas Development Institute, Report, May 2014, 74.

[220] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 20.

[221] International Alert, 'Governance and livelihoods in Uganda's oil-rich Albertine Graben', 2013, 36.

[222] 'Oil team attacked, Briton killed', *New Vision*, 4 August 2007.

[223] Richard Vokes, 'Briefing: The politics of oil in Uganda', *African Affairs*, Vol. 111, No. 443, 2012, 310.

Heritage subsidiary, again claiming they entered Congo illegally.[224] DRC leadership naturally harbours concerns that Ugandan infringement on its territory may have other motives, with proxy armies of Uganda looting Congolese resources during past wars.[225] They have watched as the Ugandan oil industry has moved forward while exploration on the DRC shore has practically ground to a halt.[226]

While Uganda's oil industry is under the strong-arm rule of President Museveni, Congo's oil governance is more convoluted, with advisors, ministers, and the president holding varying and shifting levels of authority and control.[227] Prospects of linking potential oil discoveries in the DRC with those in Uganda are far off. In recent years, Museveni has exploited minor rebel activities in the Lake Albert region as justification to heavily bolster the UPDF's presence. But President Kabila's drive to stay in power in the DRC, despite constitutionally mandated term limits, and his efforts to divide the present 11 eleven provinces into 26 in order to delay elections, could spark instability that spreads regionally.[228] An adventurous Ugandan military, already active in Somalia and South Sudan, may head into the DRC with the ostensible aim of protecting its territory and oil assets.[229]

Another regional source of insecurity for Uganda's oil industry emanates from the Ugandan military's presence in Somalia. Uganda is the largest contributor to the African Union peacekeeping mission in Somalia, AMISOM, providing 6,000 to 8,000 troops. Despite diplomatic divides between Uganda and the United States over the former's anti-gay laws, Museveni's active role in the fight against terrorism, particularly al-Shabaab, in the Horn of Africa makes Washington a close security ally. The UPDF's involvement in Somalia also allows Uganda to maintain a battle-tested army for potential counterinsurgency warfare at home.[230]

But Uganda's presence in Somalia could come back to threaten the oil industry. There are growing concerns that the last vestiges of the ADF may link up with al-Shabaab to carry out joint attacks against Uganda.[231] Al-Shabaab struck Kampala in a devastating bomb attack in July 2010, killing 70 people, due to the Ugandan military's involvement in AMISOM. The previous

[224] Eric Watkins, 'Tullow finds more Uganda oil, nears award of Congo blocks', *The Oil and Gas Journal*, 13 April 2009.
[225] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 54.
[226] There was once much promise for the western side of Lake Albert. Heritage had been active in the DRC since 2002, and built a partnership with Tullow on a number of concessions in 2006. President Kabila elected not to approve the Tullow deal, which was signed with the DRC deputy oil minister. In 2010, he awarded the blocks to Caprikat and Foxwhelp, offshore companies with no oil experience or substantial holdings, linked to Khulubuse Zuma, the South African president's nephew, and Dan Gertler, an Israeli businessman with a track record as a dealmaker in the Congo: 'Hidden depths', *Africa Confidential*, Vol. 49, No. 10, 9 May 2008; 'Congo president cancels Tullow block agreements', *The Oil and Gas Journal*, Vol. 108, Issue 26, 19 July 2010; Mubatsi Asinja Habati, 'Oil could cause war', *The Independent*, 1 October 2011; Katrina Manson, 'Congo threatens to take back oil blocks', *Financial Times*, 24 June 2012.
[227] Benjamin Auge and Rose Nakayi, 'Eastern Africa: A new oil and gas frontier', *Observatoire des Grands Lacs en Afrique*, No. 1, 2013, 15.
[228] Sarah M. Kazadi and Rebecca Sesny, 'Congolese see no end to president's final term', *International New York Times*, 8 August 2015.
[229] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 54.
[230] Joel D. Barkan, 'Uganda: Assessing Risks to Stability', A Report of the CSIS Africa program, Center for Strategic and International Studies, Washington DC, 2011, 19.
[231] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 57.

involvement of Saracen International in Somalia and its connection to Museveni's brother, did not position Uganda as an uninterested actor; in particular, Saracen's connection to looting Congolese natural resources aroused suspicions that it sought a stake in Somalia's budding oil industry.[232] Al-Shabaab may very well try to hit at Uganda's oil industry, or indirectly at a future export pipeline in Kenya, both counties where it has attacked before.

Uganda's deployment of thousands of soldiers in South Sudan presents another possible regional threat to stability in the oil industry.[233] Uganda has an economic stake in seeing stability in South Sudan. The conflict cut off much of the $1.3 billion worth of Ugandan exports to South Sudan in 2012, which was Uganda's leading source of foreign revenue that year, overtaking tourism.[234] Museveni has also been a long-time supporter of South Sudan's ruling party the SPLA in a long civil war against the government in Sudan.[235] Sudan provided arms and support to the Lord's Resistance Army in a drawn out proxy war. The rivalry continues as Uganda supports the Sudan Revolutionary Army, a Sudanese rebel group.

Altogether, although President Museveni has successfully quelled multiple insurgencies in Uganda over his tenure in office and the UPDF remains strong, multiple sources of regional instability could threaten Uganda's onshore oilfields. Uganda's military adventures in the region do not necessarily imply a position of strength and stability for the oil industry.

Conclusion

Even before the first oil barrels have been sold in Uganda, there has been plenty of regulatory activity and political intrigue. One of the newest members to the world's petro-club, Uganda has been branded as a risky investment by many analysts, but instead of political intervention in the oil industry, it has been hard bargaining by the government that best characterizes the business environment. Beginning well before production, the timing of disputes over the size of refinery, capital gains tax, and within contract negotiations are relatively new in the international oil industry, but are not unique in the broader context of government and company relations across the global energy map.

Politics is still a concern for the advancement of the oil industry as President Museveni seeks to maintain power heading in the 2016 national elections and beyond. Discord within the ruling National Resistance Movement and political corruption may evolve into legal and public battles that hamper the oil industry. But whether or not Museveni will be able to find compromise with his Kenyan counterpart, Uhuru Kenyatta, over a regional pipeline is turning into the largest hurdle facing Uganda's industry from first oil.

In Africa, onshore oil production, whether in Chad, Sudan, or South Sudan, has typically been delayed and stalled by political and security risk. In Uganda, regulatory battles have taken centre

[232] Petrus de Kock and Kathryn Sturman, 'The power of oil: Charting Uganda's transition to a petro-state', Research Report 10, South African Institute of International Affairs, Johannesburg, March 2012, 57.

[233] Shortly after the outbreak of South Sudan's civil war, Uganda sent troops to protect Salva Kiir's government, arguably helping the embattled South Sudan president avoid losing power to opposition forces led by former vice-president Riak Machar. 'South Sudan, Uganda deny deployment of additional troops', *Sudan Tribune*, 10 February 2015.

[234] Nicholas Bariyo, 'Uganda's Central Bank cuts key lending rate to 11%', *The Wall Street Journal*, 4 June 2014.

[235] Nicholas Bariyo, 'Uganda to hold talks with South Sudan rebels', *The Wall Street Journal*, 21 July 2014; Jeremy Binnie, 'South Sudan opposition says Uganda has deployed Su-30s to Juba', *IHS Jane's Defence Weekly*, 26 November 2014.

stage, but politics and security issues may arise over time. A Uganda without Museveni is still a largely unknown quantity. While the oil industry will likely receive strong political priority from Uganda's next leader, the patronage culture Museveni has instilled in the country may devolve into social grievances and insecurity as oil production and billions in petrodollars begin to flow in the next decade.