In the fast-moving news cycle, terror attacks next door in Nairobi and the merrymaking over Primary Leaving Examinations results in the week of January 18: the French oil major Total’s chief executive and chairman, Patrick Pouyanne, jetted into the country for discussions with President Museveni.

Mr Pouyanne, who was named chief executive of the French multinational oil giant in October 2014, first visited Uganda was in mid-December, 2015 to among others underpin his company’s choice of the southern—Hoima to Tanga—route for the proposed crude oil export pipeline, now known as the East African Crude Oil Pipeline (EACOP).

His recent visit was purposely to review the [slow] process of operations in Uganda; the issues at hand included closing the Anglo-Irish Tullow Oil’s farm down transaction; particularly the contention on paying Capital Gains Taxes (CGT), and resolving some of the sticking issues that clouded the ongoing EACOP negotiations.

The sticking issues included co-existence of Uganda’s proposed refinery alongside the pipeline which presented a challenge of crude oil supply and led to shuffling on an agreeable pipeline business model.

**Business model**

In developing the EACOP business model, initially the government and oil companies were working with recoverable oil volumes between ranges of 0.8 billion and 1.1 billion barrels. Later confirmed 6.5 billion volumes. However, for purposes of approaching international financiers, both parties agreed to zero down on “derisive” volumes.

In statistical representation, three models were advanced; Probability (P90)—that the 1/3/7 billion barrels are available or could even exceed; P50 or the mean of saying Total believed the 4/5/6 billion barrels that the volumes could be lower. Sources familiar with ongoing discussions told Daily Monitor that the safest model the both parties decided to work with—the lowest financiers are willing to work with anyway—is the P50: in effect bringing down [re-]are willing to work with anyway—is the safest model the both parties decided on.

The big question: Whether the timelines can be met. For Uganda, the coming months until 2021 will packed with politics: with the incumbent fighting all at costs to remain. Financials usually prefer to watch events from an arm’s length.

The sticking issues are taxes and greater leverage on local content, for which they are interested in: the oil companies are interested in steady crude supply and cheap project: while Tanzania’s main concern is taxes and greater leverage on local content, for which they are actually playing hardball.

**Meetings**

Meeting. Front left to right: The minister of Energy, Ms Irene Muloni, President Museveni and Total Group CEO Patrick Pouyanné in 2016 in Uganda. (PPU PHOTO)

After the Mr Museveni and Mr Pouyanné meeting, it was indicated that the latter’s side would put the deliberations into writing as a declaration of commitment and share the communication with President Museveni in Davos, Switzerland the week that followed: when the two principals agreed to meet again on sidelines of the World Economic Forum. Sources confirmed to this newspaper that the communique detailing Total E&P’s commitments was shared with government at the end of January. The commitments include paying some Capital Gains Tax on top of the Shs85 billion paid by Tullow out of the Shs167bn (Shs69bn x tax assessment); as a result it is expected that Total E&P and Cnooc will pool Shs62m (Shs32m).

Cnooc told this newspaper “the CGT issue is still under discussion: so far no conclusion has been reached from neither parties nor government.”

The matter is still under intense discussions including a payment schedule, but in the likely event that Cnooc balks on payment of the 6.5 per cent stake in the project.

The same commitments were reiterated by the Total E&P Uganda general manager, Mr Jessuca, in a February 1, memo describing the Museveni-Pouyanné meeting as “warm and fruitful” leading to significant progress on the issues at hand.

In the memo, Mr Jessuca reinforced the company’s support for Uganda’s 60,000 barrels per day (kbpd) refinery: fixing the tariff to Shs12.77—cannot go above this mark regardless of the project economics: a “pragmatic approach” to finalising Tullow’s farm down: and, “smoothly working towards translating all elements of the Inter-Governmental Agreement (IGA) which the governments of Uganda and Tanzania signed in May 2017, “into law to create the necessary framework for the pipeline.”

Loosening up

It has also been resolved that the pipeline will take 230,000 barrels per day (kbpd), pending the refinery. When the refinery, which particularly President Museveni has remained fervent about despite its debatable economics, comes on board whenever, it will get its share of 60,000 barrels lessened from the 230,000kbpd feed to the pipeline.

Both government and industry sources described the January 18 meeting “as a good visit” that loosened up things—to speed up negotiations and conclusion of the Host Government Agreement (HGA).

The HGA—a precursor to other key agreements such as the shareholders agreement, and establishment of a pipeline company (PipeCo), which will in turn negotiate the Project Financing Agreement and Transportation Agreement—details the rights and obligations of each of the parties involved in the multi-billion-dollar project.

The parties are, Uganda through the National Pipeline Company (NPC), and Tanzania through its national oil company—Tanzania Petroleum Development Corporation (TPDC); and Total E&P, Cnooc, and Tullow. NPC is the subsidiary of the Uganda National Oil Company (UNOC), which is mandated to handle the country’s commercial in
Oil pipeline talks

**Pipeline Project**

Phases. The project Engineering, Procurement and Construction (EPC) has been divided into three lots: the Tanzanian pipeline segment will be constructed in two parts, to be awarded to separate contractors, and a lot for the Ugandan segment. Construction is expected to take at least 36 months, creating some 10,000 jobs and a lot of local prospects for local content for both countries. The pipeline represents the largest trade deal between Tanzania and Uganda currently comprising $120m (Shs425b) annually in each direction.

Different parties, each with different interests

Negotiations on the HGA commenced in August 2017, but are taking longer than expected. Technocrats from Uganda and Tanzania convened in Kampala on January 25 for the third round of discussions on the HGA and again in Dar-es-Salaam a fortnight later in an attempt to harmonise the two HGAs but that did not materialise.

In Kampala, the weeklong discussions started with meetings of technocrats and climaxed with the meeting of ministers of Energy, Finance, Lands, and Constitutional Affairs. Both sides, the meeting which was earlier scheduled to run up to 4pm run until 9pm. When they eventually came out, disagreement was clearly written on their faces.

Energy minister Irene Muloni and her Tanzanian counterpart Medard Kalemani during the Kampala meeting said the two sides had failed to agree on "certain aspects" such as arbitration which they said had been referred to the Heads of State for more guidance before each side can pronounce itself on the matter.

There are two HGAs for Uganda and Tanzania being negotiated in parallel, but require harmonisation. Once the two have been harmonised, the two sides will negotiate the same with the oil companies and subsequently sign.

The National Pipeline Company general manager, Mr. John Habumugisha, told Daily Monitor that the HGA details aspects of fiscal regime (taxation), legal content, movement of labour/contractors and material, among others.

"The good side here is the share of the aspects such as who are you taxing: you need a legal entity—each state has its own legal entity. There are legal regimes in both countries but we have been able to harmonise some of the aspects such as who are you taxing: you need a legal entity—each state wanted to be clear on what is the structure of this entity to be able to maximise returns," the National Pipeline Company General Manager, John Habumugisha.

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Mr. John Habumugisha added, "So we had to structure a company that allows Uganda as an oil producer to also achieve its interests of maximising value in the upstream, but for that to happen you needed a low tariff because it’s about how much barrel you produce and what is the price of the barrel less cost of the transport, which is called tariff: so the lower the tariff, the better."

Mr Habumugisha added optimism that the remaining agreements can be concluded and FID announced in the next months within the set deadline.

The capital expenditure for the project is $3.55b (Shs13 trillion), 70 per cent of which will be raised from international lenders. Each of the party has financial transactional advisers—Stanbic Bank for Uganda and Tanzania, Japan's Sumitomo Mitsui Banking Corporation Europe Ltd for Total E&P and Industrial and Commercial Bank of China Limited (ICBC) for Cnooc—on board.

Cnooc told this newspaper in an email that as partners they will fine tune the project “at the respective level of their equity in upstream.” The composition is upstream/oil fields is Cnooc and Total E&P each 37.5 per cent shareholding: Tullow with 10 percent; and Unoc with 15 percent, although the financing structure of the pipeline is yet to be built.

Questions

Uganda will be taking a 15 per cent stake in the pipeline to match the interests in upstream; the big question, however, is where the money, approximately $230m (Shs838b), will come from. No one has the answer for now.

Officially Tanzania is yet to decide how much stake they will take in the project. But according to the country’s lead negotiator on EACOP, Mr Goodluck Shirima they are already in the “initial” process of mobilising their equity.

Sources indicated that the dragging on the HGA is the need to harmonise interests of all parties.

Uganda as the oil exporting country is mostly interested in optimal development: the oil companies are interested in steady crude supply and cheap project; while Tanzania’s main interest is taxes and greater leverage on local content, for which they are actually playing hardball.

Eighty [80] per cent of the pipeline, 1,147km, will be on the Tanzanian side and it is estimated that 80 percent of the project capex will be spent in Tanzania.

Notwithstanding, the EACOP project director, Mr Maxim Marchenko, separately told this newspaper that all preparatory activities—such as the technical Front End Engineering Design (FEED) studies to define characteristics of the pipeline to evaluate the costs in the schedule of implementation, pipeline design, mapping of the pipeline corridor from Hoima to Tanga, environmental social impact assessment, resettlement action plan studies, geotechnical and geophysical studies—have been completed.

"The major cornerstone of this project is the Inter-Government Agreement which we are now translating into the Host Government Agreement; one for Uganda, and another for Tanzania, with the aim of giving a stable and harmonised project frame for investors, and shippers of oil from Tanzania, a stable regime; which is being finalised, but hope can finally everything soon,” Mr Marchenko said.

In the second part tomorrow, we look at the uphill task of acquiring land for the pipeline from Hoima to Tanga.