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Uganda: Govt Finally Announces First Petroleum Exploration Licensing Round

By Ronald Musoke

An oil rig at one of the oil wells in Buliisa District. With the call for a new licensing round, more drilling for crude oil will soon resume across the region. Uganda has finally announced the country's first open competitive licensing round for petroleum exploration in six blocks covering almost 3000 sq km along the country's western frontier.

Speaking to journalists at the energy ministry's headquarters in Kampala on Feb. 24, Eng. Irene Muloni, the Minister of Energy and Mineral Development said this is an important milestone for Uganda as it lifts the moratorium on licensing of areas for petroleum rights in the country that has been in place since 2008.

Uganda so far has an estimated 6.5 billion barrels of 'in place petroleum resources' from exploration work in less than 40% of the Albertine Graben which lies along its western frontier.

The six blocks up for licensing include; Ngassa (410 sq km) in Hoima District, Taitai and Karuka (565 sq km) in Buliisa District, Ngaji (895 sq km) in Rukungiri and Kanungu Districts and Mvule (344 sq km) in Moyo and Yumbe in the North-western part of the country. Two other blocks, Turaco (425 sq km) and Kanywantaba (344 sq km) are found in Ntoroko District.

Muloni said these blocks already have both seismic and well data which were acquired by oil companies previously licensed in these areas.

The energy minister stressed that stratigraphic licensing [vertical licensing] will be applied to some blocks, meaning that one prospecting company interested in exploring for oil and another interested in gas could be assigned the same block.

The government has undertaken resource and risk assessment of the areas proposed for licensing, developed a data room and is making available data packages to prospective investors in preparation for this licensing round.

Muloni said the licensing round will be guided by the 2008 National Oil and Gas Policy for Uganda and the Petroleum (Exploration, Development and Production) Act 2013.

The announcement follows approval of Cabinet and submission of a report on the licensing round to Parliament at the beginning of this year.

In 2007, the government imposed a moratorium on new licensing of more prospecting companies to enable the country have in place the required legal, regulatory and institutional framework to ensure an open, efficient and competitive licensing process.

The moratorium was issued in order to address emerging issues in the petroleum sub-sector, such as the reduced petroleum exploration risk in Uganda, the need to put in place adequate health, safety and environment regulations and to update the national content requirements, among others.

According to a statement from the energy ministry, the main objectives of implementing the new license round are; to attract additional investment in the country's oil and gas sector; expand the country's resource base which is currently estimated at 6.5 billion barrels of oil in place (1.4 billion barrels are recoverable) and 500 billion cubic feet of gas.

This, the statement further notes, is expected to increase the revenue base; enhance the country's sustainability of oil and gas production; and respond to the significant number of investors who have expressed interest in investing in the country's oil and gas industry over the period since the moratorium on licensing was put in place."

The energy ministry will now publish a 'request for qualification' for the first licensing round for petroleum exploration in Uganda.

The qualified firms from this 'request for qualification' will be issued a detailed request for bids together with the modal production sharing agreement (PSA) for the specific blocks.

According to information from the energy ministry, about 400 prospecting companies are eyeing Uganda's petroleum resources.

It is some of these firms that will submit their bids from which the best bidder for each of the blocks will proceed to negotiate with the government prior to signing production sharing agreements.

Currently, three international oil companies, Tullow Uganda Operations Pty Limited, Total E&P Uganda and China National Offshore Oil Corporation (CNOOC) Uganda Limited are licensed in Uganda's Albertine Graben.

Twenty one oil and gas discoveries have been made in Uganda to date, four of which were relinquished to government.

Appraisal of 17 of the 21 discoveries has been completed and one production license was issued over the Kingfisher field while discussions on applications for production licenses over 15 fields are in advanced stages.

In 2014, the government and the companies currently licensed to undertake petroleum exploration, development and production in the country entered into a Memorandum of Understanding (MoU) for commercialization of the discovered resources.

The MoU includes development of a 60,000-barrel-per-day-refinery, use of crude oil to generate electricity and export of crude oil. The refinery project will be developed on a public private partnership basis.

Following a competitive process, the government recently chose a Russian consortium, RT Global Resources as the preferred bidder build Uganda's first ever refinery.

The ministry hopes to make available more detailed information on the blocks during the 7th East African Petroleum Conference and Exhibition which will be held in Kigali, Rwanda, March 4–6, 2015.

Transparency concerns

However, as the government announced the licensing round in the ecologically fragile Albertine region for oil exploration, Global Witness-- a UK-based campaign group-- called for the deliberate establishment of more control measures to avoid corruption and ensure stronger environmental protection for Uganda's unique ecosystems.

"The government needs to show it has a clear and open process for selecting the right companies on the right terms for both people and environment," said George Boden of Global Witness in a statement.

Uganda has in the past handed out oil contracts for highly sensitive areas in the Albertine Graben, including Murchison Falls National Park, on an 'ad-hoc basis' with little transparency or consultation with local communities, the statement adds.

"On a positive note, Uganda's new petroleum law sets the stage for an 'open, transparent and competitive' bidding process which could help it secure good deals with reputable companies but key aspects of this law have not yet been implemented, and it potentially allows the minister with responsibility for petroleum to circumvent the bidding process and enter into direct negotiations in order to advance the state's 'participating interest.'

"The government does not appear to have published allocation regulations for the bidding round or a new model contract, key documents for any bids."

"Furthermore, two key institutions responsible for managing the sector, the Petroleum Authority and the National Oil Company are not yet operational, making it unclear exactly how companies will be selected or even what will be in the contracts."

There are now calls for the government to select prospecting companies based on their previous track record.

"Those with a history of corruption, criminality, human rights violations or weak environmental protection should be excluded from the bidding."

"The government should also publish details of everyone behind the bids, including the ultimate owners of companies, so it is clear who will profit from future deals," said Boden.

A recent Global Witness report entitled 'A Good Deal Better?' showed that while Uganda has secured a good financial deal in its existing oil contracts, these deals and Uganda's current laws could leave people and the environment at risk.

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