48 % local ownership of service companies unrealistic, says Tullow Boss

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Hon. Elly Karuhanga speaking at the summit (Photo: FN)

A section of Uganda's business community has criticised a local content provision in the recently enacted Petroleum Exploration Development and Production Act 2013, that allows local businessmen to enter joint ventures with international firms servicing the oil and gas industry.

In the Act, the second clause of Article 125 states, "Where the goods and services required by the contractor or licensee are not available in Uganda, they shall be provided by a company which has entered into a joint venture with a Ugandan company provided that the Ugandan company has a share capital of at least forty eight percent in the joint venture."

But while addressing a COMESA Oil and Gas Summit in Kampala last week, the President of Tullow Oil's Ugandan subsidiary, Hon. Elly Karuhanga, described the provision as unrealistic, despite its good intentions.

"If they (Parliamentarians) had used their brains, they would have known that we do not have such capacity and we need to train these people," he told the delegates.

"Tullow is a twenty billion dollarcompany so if you say 48 % of Tullow must be owned by Ugandans, are you saying that Ugandans bring 10 billion dollars and Tullow shareholders should sell to Ugandans by force, by law? Is that realistic?" he asked.

The Country Senior Partner of Pricewaterhouse Coopers in Uganda, Francis Kamulegeya, was in agreement with Hon. Karuhanga, and pointed out that Ugandan businessmen lacked the financial muscle to fully benefit from such a provision.

“How do you protect against dilution because if the joint venture company is now providing oil services and there is a capital call, how do you deal with that?” he argued.

“The foreign companies are all listed in London, New York, Shanghai, Singapore; they can go to the stock exchange and raise money very fast and within a week or two, the money is here,” he said.

Mr. Kamulegeya noted that gradually, the local investor’s shares would be diluted because the foreign partners would keep on bringing in additional capital and yet the local investor may not match up the capital calls.

“This (article) is a good section in terms of intentions, but it is the wrong approach,” he said.

“I know this is a very hot topic but we must embrace it, we have to face the very hard facts that we are confronted with. We must have a very open debate to ensure that national content results in national contentment ,” he concluded.