

UPSTREAM OIL AND GAS COMMERCIAL CONSIDERATIONS (UGANDA & TANZANIA)

In recent years, two East African jurisdictions that have attracted significant attention from international oil companies ("IOCs") are Uganda and Tanzania. The well-known discoveries of substantial oil reserves in Uganda's Albertine Graben (6.5 billion barrels, of which 1.7 billion barrels are estimated to be recoverable) and the large, predominantly offshore, gas reserves of Tanzania (57 Tcf of which 49 Tcf are located offshore), have triggered the rapid development of industry-specific laws and institutions in both jurisdictions.

Both countries possess active upstream sectors that have undergone bidding rounds and which have attracted noteworthy IOCs. They are also some way down the road towards joint implementation of one of the most interesting midstream projects on the continent, namely, the 1,450 km crude oil pipeline from Hoima in eastern Uganda to Tanga on the north-western coastline of Tanzania. Notably, Uganda has plans to construct a USD 4 billion oil refinery with an initial capacity of 30,000 barrels per day ("bpd"), rising in time to 60,000 bpd, and Tanzania intends to construct a USD 30 billion two-train

onshore liquefied natural gas ("LNG") export terminal where each train will have a capacity of 5 million tonnes per annum ("MTPA").

In an effort to make it easier for IOCs to navigate the institutional and legal waters of the Ugandan and Tanzanian upstream sectors, this infographic provides synopses of the relevant frameworks, the key terms of the applicable model PSAs, as well as hyperlinks to the websites of important institutions and copies of pertinent policies, statutes and regulations.

LEGAL FRAMEWORK

UGANDA

Constitution of the Republic of Uganda, 1995 ("the Constitution") Article 244 of the Constitution vests ownership and control of petroleum in the Government, while also empowering Parliament to make laws regulating, amongst other things, the exploration for, and exploitation of, the resource.

National Oil and Gas Policy, 2008 ("NOGP") Uganda's key oil and gas policy document, a copy of which is available [here](#). A copy of the latest report on the progress that has been made towards its implementation is available [here](#).

Petroleum (Exploration, Development and Production) Act, No.3 of 2013 ("Upstream Act") The Upstream Act addresses, *inter alia*, institutional arrangements, licensing, State participation, national content, the payment of royalties and signature bonuses, etc. A copy of the Upstream Act is available [here](#).

Petroleum (Exploration, Development and Production) Regulations 2016 ("Upstream Regulations") The Upstream Regulations offer detailed guidance on licensing as well as, amongst other things, the requisite content of an application for approval to drill a well and the procedures to be followed for the approval of work programmes and budgets. A copy of the Upstream Regulations is available [here](#).

Miscellaneous There are a variety of additional policies and laws that will impact upon an upstream venture including, for example, the Petroleum (Exploration, Development and Production)(National Content) Regulations, 2016 and the Petroleum (Exploration, Development and Production)(Health, Safety and Environment) Regulations, 2016. Copies of these regulations are available here: [National Content](#); [HSE](#).

TANZANIA

National Energy Policy, 2015 ("NEP") The NEP's key drivers include, *inter alia*, "ensuring prudent management of petroleum resources and accrued revenue for the lasting benefits to the society" and "promoting usage of locally produced goods and services in the petroleum industry." A draft copy of the policy is available [here](#).

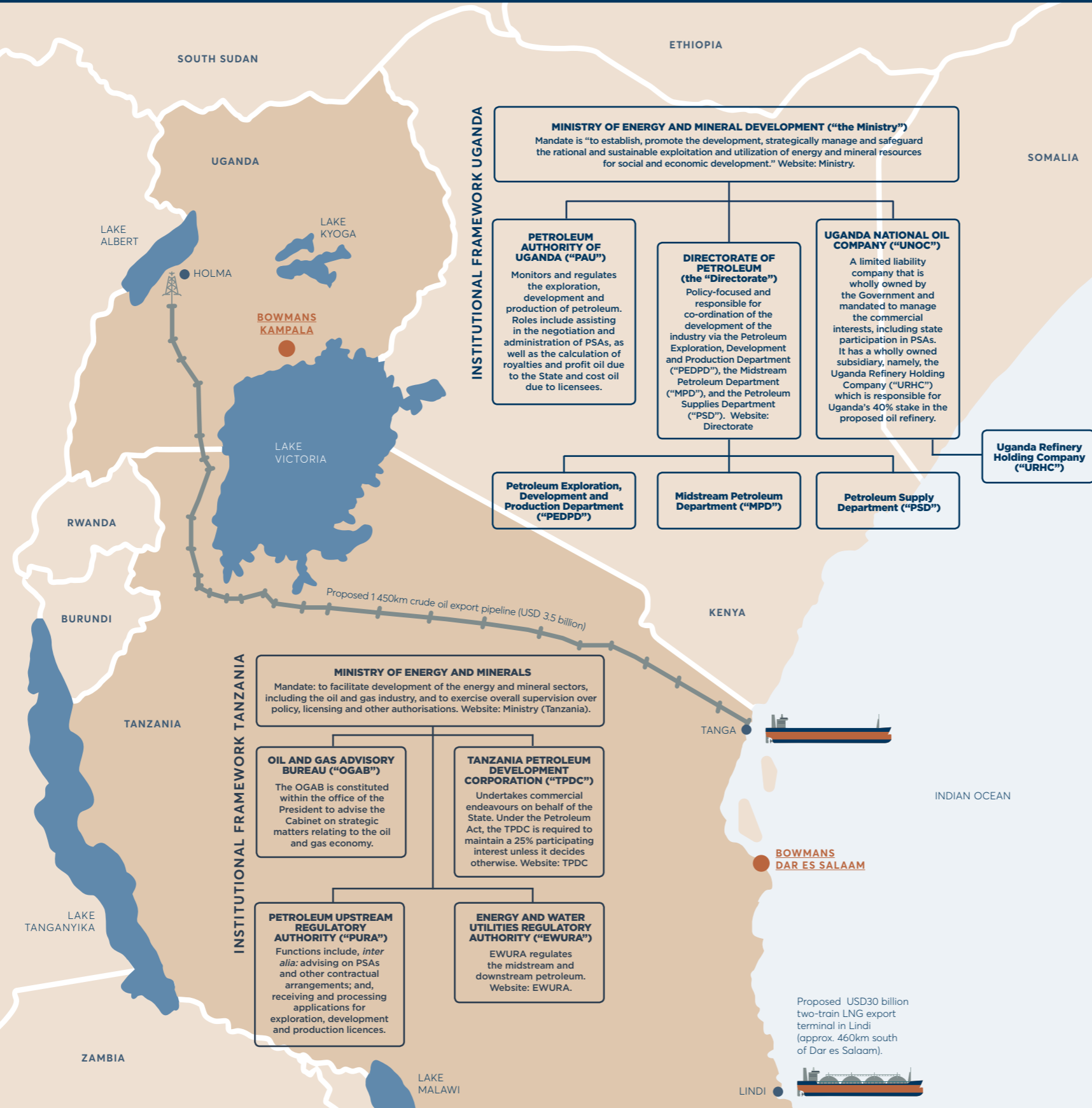
Petroleum Policy, 2015 ("Petroleum Policy") The main objective of the Petroleum Policy (a draft copy of which is available [here](#)) is to provide a framework "to explore, produce and utilise the country's petroleum resources in an effective and efficient manner that ensures lasting benefit to the nation as well as minimizing negative impacts to the society and environment."

Local Content Policy of Tanzania For Oil and Gas Industry, 2014 ("Local Content Policy") The Local Content Policy aims to generate and promote an adequate supply of local workforce and to foster the transfer of knowledge and technology, as well as enabling the involvement of local businesses in the entire value chain. A copy of the policy is available [here](#).

Petroleum Act, 2015 ("Petroleum Act") The Petroleum Act is the principal legislation governing upstream, midstream and downstream activities. It empowers the relevant Minister to enter into petroleum agreements on behalf of the Government. It also regulates, amongst other things, PURA, the TPDC and EWURA. A copy of the Petroleum Act is available [here](#).

Oil and Gas Revenues Management Act, 2015 ("OGRMA") The OGRMA provides for, amongst other things, the collection and auditing of oil and gas revenues, and the establishment and management of the Oil and Gas Fund. The OGRMA can be accessed via this link: [OGRMA](#).

Miscellaneous There are a variety of additional laws that impact upon the upstream sector including, for example, the Environmental Management Act, 2004.



KEY TERMS OF MODEL PSAs

In recent years, Tanzania and Uganda have relied on more than one form of model PSA and, consequently, it should be noted that what follows is a discussion of the most recent model PSAs, namely, the Ugandan PSA of 2006 and the Tanzanian PSA of 2013. While it is not our intention to undertake a comprehensive analysis of these PSAs, the following main elements should be noted:

Provision	Tanzania	Uganda
Parties	The Government of the United Republic of Tanzania represented by the Minister of Energy and Minerals; the Tanzania Petroleum Development Corporation ("TPDC"); the Contractor.	The Government of the Republic of Uganda acting through the Ministry of Energy and Mineral Development ("MEMD"); the Licensee.
Term	Exploration: up to 12 years (four years with an initial extension not exceeding three years and a second extension not exceeding two years, followed by a further possible extension of not more than three years). Production: 25 years with a possible extension not exceeding 20 years.	Exploration: up to six years (two years with a maximum of two renewals not exceeding two years each). Production: up to 20 years with a possible extension not less than five years.
Bonuses	Signature bonus: not less than USD 2.5 million Production bonus: not less than USD 5 million	Negotiable signature bonus payable in USD.
Royalties	Offshore (areas beyond water depths of 500m): 7.5% of total production (prior to cost oil and/or cost gas recovery). Onshore (includes shelf areas up to water depths of 500m): 12.5% of total production (prior to cost oil and/or cost gas recovery).	Negotiable sliding scale with maximum rate reached where production exceeds 7500 bpd. Royalties on gas will be negotiated upon the discovery of gas.
Annual fees	Initial Exploration Period - USD 50 per km' First Extension Period - USD 100 per km' Second Extension Period - USD 200 per km' Development - USD 500 per km'	Annual fees are negotiable.
Production Sharing	Cost recovery is limited to 50% of production per period (net of royalty). Profit oil (or gas) split is subject to negotiation and is based on volumes produced.	Cost recovery cap is separately negotiated for oil and gas. Profit oil (or gas) split is subject to negotiation and is based on volumes produced. Royalty is allocated before production sharing is calculated.
State Participation	The TPDC is entitled to not less than 25% and is not required to reimburse exploration costs. The TPDC may elect to be carried through development, in which case its share of costs will bear interest at the London Interbank Offered Rate ("LIBOR") plus 1% and will be recovered from Cost Oil and/or Gas.	Government, or its nominee, is entitled to no more than 20%. Licensees carry development costs which are recoverable with interest at LIBOR.
Stabilisation	Stabilisation provisions are not included.	Changes in law that materially reduce economic benefits allow the parties to negotiate modifications to the PSA so as to restore the Licensee to substantially the same overall economic position as prevailed prior to the changes.
Title to Fixed Assets	Title passes to the TPDC after expiry or termination of the PSA, or at the time when the cost of acquiring an asset has been recovered by the Contractor out of Cost Oil and/or Cost Gas, whichever occurs first. Where more than 50% of the cost of acquiring an asset has been recovered, the TPDC may elect to have the asset transferred to it upon payment by the TPDC of the unrecovered portion.	Title passes to the Government upon the earlier of the date upon which: (i) the asset has been fully depreciated for Income Tax purposes, or the costs thereof have otherwise been fully recovered; or (ii) the PSA is terminated.
Domestic Supply Obligation	The Contractor is obliged to satisfy domestic market requirements from its proportional share of production, which will be paid for at market-related prices. The volume to be supplied shall be determined by mutual agreement and shall be on a pro rata basis with other producers.	In certain circumstances, the Government may take a quantity of crude oil to satisfy domestic consumption requirements. Government is obliged to reimburse the Licensee at market-related prices.
Local Content	The Contractor is bound to comply with the Government's Local Content Policy (available here : LCP Tanzania) and to purchase Tanzanian goods, services and materials, as well as train and employ Tanzanian nationals.	Save for certain exceptions relating to issues such as quality and price, the Licensee shall give preference to Ugandan goods and services. The Licensee also bears certain training and employment-related obligations including the payment of negotiable amounts towards the training of Government personnel.
Decommissioning and Abandonment	A decommissioning fund must be established. The costs for site cleaning, decommissioning and abandonment are to be determined by an independent third party in accordance with, <i>inter alia</i> , the Environmental Management Act, 2004 and Best International Petroleum Industry Practices.	Establishment of a decommissioning fund is not required. However, upon expiry or termination of the PSA, or relinquishment of acreage, licensees must, <i>inter alia</i> , "remove all equipment and installation[s]... in terms of an abandonment or decommissioning plan... and take all action necessary in accordance with Good Oilfield Practice to reclaim and rehabilitate all lands..."