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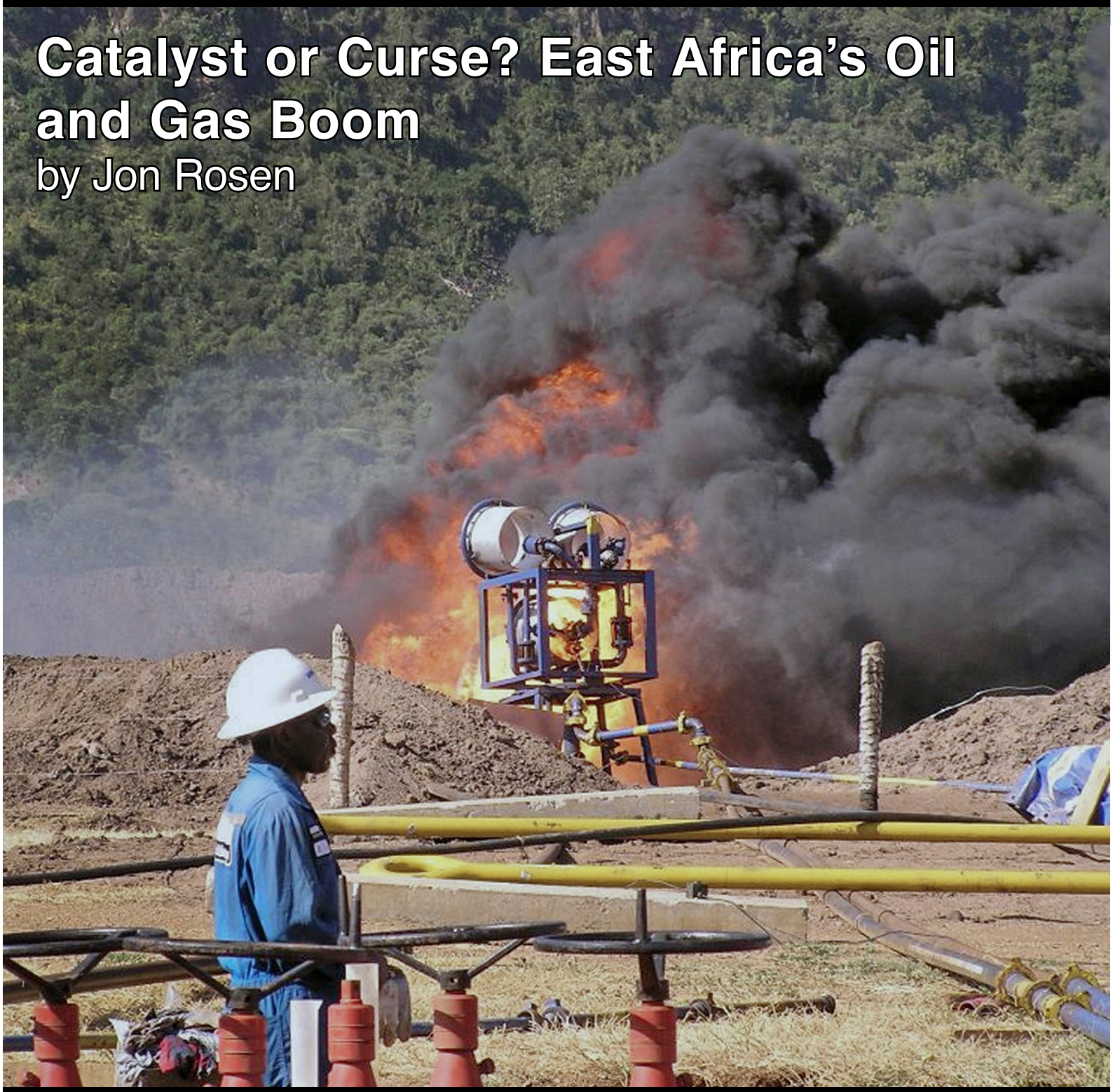
by Jon Rosen



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Cover image: An oil well undergoes testing in the Lake Albertine region of western Uganda, 2010 (AP photo by Monitor Publications Ltd).

CATALYST OR CURSE? EAST AFRICA'S OIL AND GAS BOOM

By Jon Rosen

KAMPALA, Uganda—As he delivers his lecture from the breezy, pink-hued classroom, Robert Rutaro is optimistic about Uganda's future in oil.

An attorney with a master's degree in oil and gas law from Scotland, Rutaro returned home this January to find a job in Uganda's Ministry of Energy and now doubles as a lecturer at the Institute of Petroleum Studies-Kampala (IPSK), a two-year-old university offering a range of degree programs in oil and gas sector management. Since 2006, when the Anglo-Irish firm Tullow discovered East Africa's first commercially viable oil in the vicinity of Uganda's Lake Albert, the country has been at the forefront of an emerging hydrocarbons boom that analysts say has the potential to transform the region. Now, despite oil's highly dubious record of driving development elsewhere on the continent, as well as evidence that Uganda's nascent industry is already plagued by corruption, Rutaro and his 20 undergraduates are betting their careers on the sector.

"Uganda has an estimated 6.5 billion barrels in the Albertine Graben," he tells his Fundamentals of Oil and Gas Law students during their first class of the semester, referring to a region in western Uganda. "But 60 percent of the basin is yet to be explored. We could become a very significant producer."

A New Frontier

A decade ago, Uganda, along with Africa's wider Great Lakes region, was little more than a footnote in the global hydrocarbons industry. Local fishermen have reported oil seepages on Lake Albert for generations, and wildcat outfits began drilling near its shores as early as the 1930s. However, with the exception of then-unified Sudan at

its fringes, the region was long considered what the consulting giant Deloitte has termed a "sleepy backwater for the upstream industry." With crude oil priced below $40 per barrel from the mid-1980s to the mid-2000s, and the Albertine Graben more than 700 miles from the nearest coast, drilling in the region did not make economic sense. Oil majors left East Africa largely untouched, focusing instead on the western part of the continent, where reserves were more easily recoverable and closer to the sea.

By the late 1990s, however, as a handful of small, equity-funded firms like Tullow began scouring parts of the world the majors had missed, countries like Uganda, where exploration licenses were cheap, finally started to draw attention. After Tullow, in 2006, made Africa's biggest onshore discovery in 20 years at Lake Albert, interest in the region spiked. More than 70 exploration wells later, the company estimates it has found 1.7 billion barrels of recoverable oil reserves in Uganda, with total reserves of 6.5 billion barrels according to the Ministry of Energy. That is enough to make the country a mid-sized producer within a decade.

Across Lake Albert in the eastern Democratic Republic of Congo (DRC), preliminary seismic surveys suggest that similar quantities of oil, yet to be confirmed by drilling, may also be in place. In northern Kenya, where Tullow and partner Africa Oil Corp. struck oil in 2012, the country estimates reserves of 600 million barrels, with future finds likely across the border in Ethiopia. Further south, significant reserves of natural gas have been discovered off the coast of both Tanzania and Mozambique, with the latter developing liquefied natural gas (LNG) infrastructure that could eventually make it the world's third-largest LNG exporter. With the bulk of the region's finds likely to come onstream by the end of the decade, East Africa is on the verge of a hydrocarbon-driven transformation.

"For an area that never before had these types of resources, these are massive discoveries," says Mwangi Kimenyi, director of the Africa Growth Initiative at the Brookings Institution in Washington. "All of a sudden, all of these countries are now looking into exploitation of oil and gas. This is a big change which could be very positive for development."

Toward Extraction

If Uganda's case is any indication, however, that path toward exploitation will be fraught with challenges. Although the country had hoped to begin production by 2009, Uganda's oil sector development has experienced myriad delays, linked to disputes between the government and oil companies, political maneuvering over infrastructure tenders and a protracted capital gains tax dispute after U.K.-based Heritage Oil sold its Uganda holdings to Tullow in 2010.

According to Ernest Rubondo, commissioner of Uganda's Petroleum Exploration and Production Department (PEPD), a body within the Ministry of Energy, getting Uganda's oil flowing will require at least $10 billion in investments. That figure would be lower were it not for the waxy nature of the Albertine crude and Uganda's insistence, in the face of industry objections, to channel some of the oil to a planned domestic refinery.

The biggest single expense, however, is likely to be a planned $4 billion, 875-mile heated pipeline. According to a memorandum of understanding signed between the governments of Kenya and Uganda this June, the pipeline will run from Hoima, near the shores of Lake Albert, via Lokichar in northern Kenya to the Kenyan coast at Lamu. It is part of the region's $25 billion Lamu Port and New Transport Corridor Development to South Sudan and Ethiopia (LAPSSET) project, launched in 2012. The project includes the construction of a port in Lamu three times the size of Kenya's current largest port in Mombasa, additional pipelines connecting to Ethiopia and existing oil producer South Sudan, a refinery near the Kenyan town of Isiolo and an ambitious road and rail network that is expected to considerably improve regional trade and transport.

Despite the high costs and uncertainties surrounding willing investors, it is these cross-border oil-related investments, rather than the oil itself, that analysts say will play the most significant role in regional development. Today, with a highly inefficient port in Mombasa and an aging, single-lane highway linking Kenya, Uganda, Rwanda, Burundi and eastern DRC to the coast, the region faces some of the highest shipping costs in the world. That, in turn, raises consumer prices,

discourages exports and stifles foreign investment. Yet according to Simon Ashby-Rudd, the London-based head of global oil and gas at South Africa's Standard Bank, infrastructural improvements linked to oil are likely to change that.

"The infrastructural corridor that will be created out of the Kenya-Uganda pipeline will massively enhance the economies it goes through," he says. "The oil itself will have an impact on GDP but the knock-on impact—the roads, the electricity generation, the construction—is going to be more material."

Avoiding the Curse

Gains from better infrastructure notwithstanding, East Africa's hydrocarbons gambit also comes with many dangers. As Kimenyi notes, the last half-century of oil production in Africa has brought forth a host of "very tragic cases" in countries like Nigeria, Angola and Equatorial Guinea, where oil rents have been captured by a small, politically connected elite and have failed to improve the lives of the masses. Commonly known as the "resource curse," oil's ill effects can arise in many ways, from increases in corruption, to the erosion of government's accountability to citizens, to economic distortions characterized by "Dutch Disease." The latter refers to the tendency for natural resource revenues to drive up local currencies, making exports, including those of other commodities, uncompetitive.

In Uganda, where roughly two-thirds of the population depends on smallholder farming for its livelihood, and agricultural products account for more than half of all formal exports, the risk that oil may undermine the agricultural sector is also acute. As Johns Hopkins University's Peter Lewis pointed out in his 2007 book, "Growing Apart," Nigeria's first two decades of large-scale oil production, from 1971 to 1991, coincided with a real decline in per capita agricultural output of 2 percent per year. The agricultural decline resulted from a neglect of the sector in favor of largely failed schemes for heavy industrial development. According to an International Monetary Fund study, Nigeria's GDP per capita, adjusted for inflation, actually declined between 1970 and 2000, while the poverty rate nearly doubled, from 36 percent to 70 percent.

However, there are reasons to believe East Africa may avoid a similar fate. For one, with the possible exception of gas in Mozambique—a country more closely linked to Southern than East Africa—the region's hydrocarbon finds are not big enough to override governments' reliance on revenues from other sectors. According to industry projections, Uganda's estimated oil reserves have the potential to generate approximately $2 billion in annual revenues over a period of 20 years, a figure that represents just 10 percent of Uganda's 2013 GDP and less than a third of its government budget when including foreign aid. In Kenya, which has a GDP more than twice the size of Uganda's and where estimated reserves are smaller, the impact of oil on the overall economy should be even less pronounced. In Nigeria, by contrast, oil receipts have historically accounted for more than 80 percent of government revenues and, for much of the 1990s and early 2000s, more than 40 percent of GDP.

Unlike Africa's existing oil giants, Kenya, Uganda and Tanzania will also begin oil and gas extraction with comparatively strong democratic institutions in place, along with the presence of civil society actors that have a voice in the resource development process. According to Kimenyi, this is particularly true in Kenya, where the executive is subject to increasingly strong parliamentary and judicial oversight. Moreover, President Uhuru Kenyatta has pledged to make all agreements signed with oil companies publicly available. Current draft bills in the Kenyan parliament have also called for the establishment of a sovereign wealth fund to manage the oil windfall and an independent agency to regulate the sector.

In Uganda, however, the regulatory framework that has emerged is more opaque. There, the government has refused to make public details of production-sharing agreements (PSAs) signed with Tullow and its partners, China National Offshore Oil Company (CNOOC) and French oil giant Total. Unproven allegations of contract-related bribery have also surfaced against several high-level officials, including former Prime Minister Amama Mbabazi and former Minister of Foreign Affairs Sam Kutesa, recently elected the first East African president of the U.N. General Assembly.

According to Ugandan civil society, President Yoweri Museveni has

increasingly undermined the independence of Uganda's parliament, dominated by his ruling National Resistance Movement (NRM), particularly after a failed attempt by lawmakers in October 2011 to halt development of the oil sector until concerns over transparency and corruption were addressed. In December 2012, under strong pressure from the executive, parliament passed the country's long-awaited "upstream" petroleum law, which contains a highly controversial clause granting the minister in charge of petroleum, rather than a previously proposed independent body, the power to award and revoke licenses for oil exploration and production.

According to Zac Niringiye, a retired Anglican bishop and member of the Black Monday Movement, a local campaign against corruption, the law effectively gives Museveni the ability to single-handedly control the sector, which will enable him to use Uganda's oil as a tool of patronage.

"Museveni made sure he had personal control over the oil," says Niringiye. "We lost that battle. It's over."

Local Conflicts

In Kenya, Uganda and Tanzania, concerns are also rife over conflicts between emerging industries and local populations and the effects of resource extraction on sensitive natural environments. In Turkana County, Kenya's long-neglected, drought-prone oil region, a group of 400 residents, angry over a lack of local oil-generated jobs, allegedly ransacked a Tullow drilling site in October 2013. This forced a two-week suspension of operations that ended only when Tullow promised to increase spending on local social projects.

In February 2013, residents of Mtwara, the southern Tanzanian region at the heart of the country's offshore gas boom, initiated a series of violent protests over a government decision to pipe the gas to a refinery in Dar es Salaam, the commercial capital, rather than build a local refinery and gas-fired power plant.

In Hoima, a district in western Uganda where the government has seized 11 square miles of land to build a refinery, evicting more than 7,000 residents, affected individuals say the resettlement process has

been sluggish and opaque. With nearly half of all families yet to be compensated and the government discouraging cultivation in the area, many locals are now "living like beggars" amid overgrown bushes in villages where schools and health centers, no longer supported by authorities, have collapsed, says Dickens Kamugisha, CEO of the Kampala-based NGO Africa Institute for Energy Governance. In all three countries, Kamugisha and other activists say, policies regarding revenue-sharing with locals remain poorly developed, and residents, who are often illiterate and uneducated, risk falling victim to politically connected speculators.

Across the region, environmental risks of oil are also acute, particularly in the Albertine Graben, which is rich in biodiversity and home to 75 percent of Uganda's protected areas, 50 percent of all birds and 39 percent of all mammals on the African continent. According to a May 2014 report by Uganda's auditor general, the country's National Environment Management Authority (NEMA) has failed to ensure the proper disposal of drilling-related waste there, heightening risks of soil and groundwater contamination.

Despite obvious threats to wildlife, and to Uganda's $1.7 billion tourism industry, the government has allowed Total, which purchased a third of Tullow's Uganda holdings in 2012, to drill at least eight wells inside or on the fringes of Murchison Falls National Park, Uganda's largest protected area. As the U.K.-based watchdog Global Witness notes in a recent report, Total's presence inside Murchison Falls is the company's only activity within a national park in the 130 countries in which it operates. In contrast to neighboring DRC, where preliminary oil exploration inside Virunga National Park has drawn sustained opposition from local and international activists, criticism of Murchison Falls drilling has been relatively muted.

According to Kamugisha, who says the government has threatened to "blacklist" NGOs operating in Uganda's oil region, this is largely a case of civil society choosing its battles. "What can we do?" he asks. "Whenever NGOs say this drilling is not good for wildlife, the government says we are sabotaging the oil development. And I tell you, no one is willing to be called a saboteur."

One Man's Oil

Despite the existence of many unresolved conflicts, it is clear East Africa's oil and gas development is moving ahead—a reality that will have a lasting impact on regional politics. Although some in Uganda worry that Kenya, with its more vibrant economy, access to the coast and comparatively fast-developing oil sector, will lure away oil-related investment, a more likely scenario is that oil will push the two countries toward cooperation. Plans for a joint pipeline, analysts say, are a major step forward.

So is continued deepening of the East African Community (EAC), a regional bloc consisting of Kenya, Uganda, Tanzania, Rwanda and Burundi, and eventually South Sudan. The members launched a customs union in 2005 and are working toward a common currency within a decade. Despite some tensions between Nairobi and Kampala over respective regional military footprints, including roles within the African Union peacekeeping mission in Somalia, relations between the two governments have historically been strong, and there is awareness in both capitals that oil's full potential will only be unlocked through cooperation.

"These countries need each other," says Kimenyi. "Kenya is now the biggest investor in Uganda. And Uganda, as a landlocked country, will not do much if it doesn't collaborate with its neighbors."

Although above all a regional story, the future of East Africa's hydrocarbon sector will nonetheless hinge on developments in domestic politics. This is particularly true in Uganda, where the political future of Museveni, a former guerrilla fighter who seized power in 1986, is increasingly uncertain. The 70-year-old president, a master of patronage politics who remains popular for bringing security to the country, is likely to remain in office after Uganda's 2016 elections. But his internal stability has eroded over time, a situation reflected in recent military reshuffles and last month's sacking of Prime Minister Amama Mbabazi, a long-time NRM stalwart who had cultivated a significant power base within the ruling party.

Should Museveni step down before elections in 2021—possibly in favor

of his son Muhoozi Kainerugaba, believed to be his top choice of successor—transition would occur around the time that oil production becomes significant. For many oil industry watchdogs, this represents a reason for optimism, as no successor will possess Museveni's ability to override Ugandan institutions and exert such a high degree of personal control over the industry.

"The pressure Ugandans will put on that new president is completely different from the pressure they can put on Museveni," Kamugisha says.

As long as Museveni remains in power, however, efforts to bring transparency to the sector will do little to undermine Uganda's deeply ingrained culture of corruption, which is only likely to worsen as the massive infrastructure projects needed to bring the oil onstream open up new avenues for graft. Like several other major public works investments, including a long-delayed, grossly over-budget 600-megawatt dam under construction on the Nile River, activists say deals surrounding Uganda's refinery, pipeline and other major oil-related projects are likely to be infected with debilitating red tape, controversial tenders and high-level kickbacks—all sanctioned by the presidency as part of an effort to fend off emerging threats to power. Although many in Uganda see Museveni's obsession with oil as an attempt to cement his legacy and further his status as a regional powerbroker, the reality, says Angelo Izama, a Kampala-based writer and security analyst, is simpler.

"Museveni is often seen as an imperial president, but at the heart he just thinks about survival," Izama says. "Oil to him is like a stack of meat in the hands of someone being chased by crocodiles."

In a sense, the students back in Rutaro's Kampala classroom are also chasing after the president's scraps. In a country that witnessed protests over rising costs of living in 2011, where even university graduates often struggle to find employment, Museveni is well aware of the need to create jobs, particular for young, independent-minded urban residents. Although oil is not a particularly labor-intensive industry, Rubondo, the petroleum commissioner, expects the sector to generate 20,000 jobs directly, plus an additional 100,000 in areas of

the economy that grow thanks to oil-related investment. Rutaro, who spoke with World Politics Review after finishing his first lecture of the semester—a broad history of petroleum, from the use of bitumen by ancient Babylonians to the dawn of Uganda's oil era—says he's confident that his students will be able to find employment in the sector.

"Those of us who've studied abroad, we've been absorbed by the industry very easily," he says. "But there still are many gaps. They're going to be in high demand." □

Jon Rosen is a freelance journalist based in Kigali, Rwanda and specializing in East Africa and Africa's Great Lakes region.

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