



THE REPUBLIC OF UGANDA

MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

BRIEF STATEMENT ON THE RECENT DEVELOPMENTS IN THE OIL AND GAS SUB-SECTOR IN UGANDA

1. **The Rt. Hon. Speaker and Hon. Members**, this week Parliament asked my Ministry to make a statement on the latest developments in the industry.
2. The recent happenings in the oil and gas sub-sector have created anxiety among many stakeholders including the media, civil society organizations, business community and the general public. The first event was the expiry on the 29th August, 2019 of the Sale and Purchase Agreements (SPAs) by which Tullow (Tullow Uganda Operations Pty Limited and Tullow Uganda Limited) was farming down some of its interests to Total E&P Uganda B.V and CNOOC Uganda Ltd.
3. The second one, is the announcement of commencement of suspension of various activities that were being undertaken by the International Oil Companies' contractors and sub-contractors on the following projects: -

- i. The East African Crude Oil Pipeline (EACOP) that is supposed to transport crude oil from the export hub (delivery point) in Hoima in Uganda to the port of Tanga in United Republic of Tanzania),
 - ii. The Tilenga Project, which includes the Central Processing Facilities, the drilling pads, flowlines located in Buliisa and Nwoya Districts
 - iii. The Kingfisher Development Area (KFDA) which will include the Central Processing Facilities, the drilling pads, flowlines in Kikuube and Hoima Districts.
4. Government is fully aware that, the above developments affect the taking of the Final Investment Decisions (FID) which were expected late this year and/or next year. The FID would give way to the Engineering Procurement and Construction (EPC) phase of the projects, that would be characterized by the award of contracts to providers of the required goods and services for construction of the facilities. Failure to take FID affects our obligations with the developers of the Refinery who cannot proceed with the development without certainty of crude oil availability.
5. **Rt. Hon. Speaker and Hon. Members**, at the issuance of the PLs in 2016, Government and the IOCs agreed to several milestones to achieve FID. This included identification of areas that needed action from both Government and the oil companies to achieve FID and First Oil. Government committed to upgrade the identified roads, facilitate grant of certifications and approvals among others.
6. In this regard, government is investing more than one billion United States dollars (USD 1 Billion) dollars to construct more than 700 kilometers of roads, constructing an international airport in Hoima which will not only support transportation of equipment

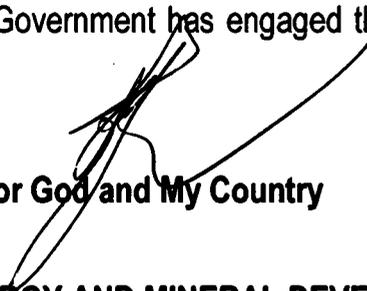
for the oil and gas sector but also support agriculture and tourism in the region and country at large.

7. It is important to note that the JVPs have also made significant progress in taking forward the technical aspects for the key projects leading up to First Oil. The FEED, ESIA and Land Acquisition studies for all the projects have either been concluded or are in advanced stages; geotechnical surveys for the facilities have been concluded.
8. **The Rt. Hon. Speaker and Hon. Members**, on 11th October 2017, Tullow Uganda Limited and Tullow Uganda Operations Property Limited (Tullow) entered into two separate Sale and Purchase Agreements (SPAs) with Total E & P Uganda B.V (Total) and CNOOC Uganda Limited (CNOOC) relating to the sale of 21.5686% of Tullow's interests in Exploration Areas (EAs) EA1, EA1A, EA2 and EA3A to Total and CNOOC) in equal shares (the farm-down transaction). Under the SPAs, completion of the SPAs was conditioned among others, on the satisfaction that the corporate income tax treatment of any income, gain or loss arising on disposal is satisfactory to the sellers.
9. On 19th October 2017, in accordance with the Petroleum (Exploration, Development and Production) Act, 2013, Tullow wrote to the Minister of Energy and Mineral Development (the Minister) seeking for consent to transfer its interest in the above exploration areas to Total and CNOOC. On 21st November 2018, the Minister issued two conditional consents:
 - i. The payment by Tullow of all taxes accruing from the transaction as shall be assessed by the Commissioner General of Uganda Revenue Authority (URA) and

- ii. The treatment of the transaction in respect to the transferees in accordance with the determination made by the Commissioner General in accordance with the tax laws of Uganda.
10. Subsequently, Uganda Revenue Authority issued Tullow with an assessment of USD 167,838,866 in Capital Gains Tax (CTG) arising from the sale of Tullow's interests to Total and CNOOC in EA1, EA1A, EA2 and EA3A.
11. On 29th August, 2019, Tullow Oil Plc announced the expiry of the SPAs with TOTAL and CNOOC for its interests in Blocks EA1, EA1A, EA2 and EA3A. The expiry of this transaction occurred before resolution of the outstanding issue between the Government and the Partners regarding some aspects of the tax treatment of the transaction. Tullow also announced its intention to initiate a new sales process to reduce its stake in the above-mentioned Blocks. Total on the other hand also indicated that they would pre-empt any such new sales process when launched.
12. On Government's part we have closely and continuously worked and engaged the oil companies, stakeholders to support progress of the sub-sector. Some of the key actions that government has undertaken, include putting in place the necessary Legal and Regulatory framework to facilitate effective regulation, resource management, revenue collection and management, Health, Safety and Environment and local content development. Government has also established a conducive environment and created an enabling fiscal regime for the projects through incentives like reduction of Withholding Tax (WHT), waiver of VAT and Import Duties on imported goods and services for use in the field development project, among others.

13. Regarding the EACOP project the government is closely working with the government of the United Republic of Tanzania with which it facilitated the feasibility studies that enabled selection of the route, negotiation and signature of an Inter-Governmental Agreement (IGA) in 2017.

14. In conclusion, Rt. Hon. Speaker and Hon. Members; plans are underway to invite Tullow, Total and CNOOC for a meeting so that Government gets to know the exact reasons why they are taking such decisions. Once Government is informed of the reasons of suspension, then it will engage them with an ultimate goal of having oil and gas production soon in the country. Finally, Parliament as an institution, it will be updated on any progress once Government has engaged the Joint Venture Partners and a way forward agreed.



For God and My Country

MINISTER OF ENERGY AND MINERAL DEVELOPMENT