THE
NATIONAL LAW REVIEW

East Africa Licensing Update

Monday, May 19, 2014

When bidding in Tanzania's 4th Offshore Licensing Round was officially closed on 15 May, the Tanzania Petroleum Development Corporation (TPDC) announced bids by CNOOC, RAK Gas, ExxonMobil/Statoil, Mubadala and Gazprom and with other licensing rounds in the region scheduled; there remain opportunities for exploration companies with an eye on the market to secure fresh acreage.

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Country-by-country

Tanzania

- 4th licensing round (consisting of seven offshore blocks and the onshore North Lake Tanganyika block) closed on 15 May 2014 with five bids submitted by CNOOC (Block 4/3A), RAK Gas (Lake Tanganyika North), ExxonMobil/Statoil (Block4/3A), Mubadala (Block4/2A) and Gazprom (Block 4/3B)

- **Regulatory update** – Gas Policy published October 2013 and draft Local Content Policy published April 2014. Draft of the Natural Gas Bill currently expected October 2014 with Natural Gas Utilisation Master Plan; upstream focused Petroleum Policy and Petroleum Bill to follow

Mozambique

- Launch of 5th licensing round (understood to consist of 12 blocks (onshore and offshore)) on hold pending ratification of the new Petroleum Law – now expected Q4 2014

- **Regulatory update** – new Petroleum Law currently expected to be approved in the next parliamentary session

Kenya

- Launch of 1st licensing round (understood to consist of 8 blocks) on hold pending finalization of Energy Bill and Energy Policy – now expected Q4 2014

- **Regulatory update** – draft Energy Bill alters current regime to add royalties and provide gas-sharing terms and windfall profits. Bill also sets out a new framework of environmental regulations to be enforced by Cabinet Secretary under a newly established National Fossil Fuels Advisory Committee. More stringent local content requirements also expected

Uganda

- Launch 1st licensing round on hold pending finalization of regulations related to the new Petroleum (Exploration, Development and Production) Act which will, amongst other things, set applicable signature bonuses – now expected Q4 2014

- **Regulatory update** – National Oil and Gas Policy, 2008; Petroleum (Exploration, Development and Production) Act, 2013 and Petroleum (Refining, Conversion, Transmission and Midstream Storage Act, 2013 all recently put in place. The formation of a new NOC will be a significant change going forward

10 key points for IOCs

- **Legislative change** As indicated above, unsuitable petroleum legislation and policies are being updated across the region creating a moving regulatory target for investors.
- **Production sharing contracts** Each of Tanzania, Mozambique, Kenya and Uganda grant oil and gas exploration and production rights through a form of production sharing contract/agreement. Each jurisdiction has its own model form which provides a basis for negotiations.
- **Bidding process** Licensing rounds are generally characterized by a public launch and a period for due diligence before bids are submitted and evaluated. Mandatory data packages are made available (often costing millions of dollars a time) and bids will be evaluated against criteria including strength of the proposed work program; technical capability; financial capability; fiscal package; and health, safety and environmental protection policy. In Tanzania, TPDC indicated that IOCs bidding in consortium or as part of a joint venture with domestic companies would be preferred.
- **Bonus/tax/royalties** In Tanzania, the new 2013 Model Production Sharing Agreement (MPSA) introduced bonuses of USD 2.5m and USD 5m on signature and production respectively (no bonuses previously); makes the contractor subject to general corporate tax (30% of income) as well as additional profits tax (25-30% for both onshore/shelf and offshore – previously only for onshore/shelf); and applies a royalty of 12.5% for onshore/shelf and 7.5% for deepwater (offshore up from previous 5%). Global trends have seen bonuses increase and this is likely to be reflected in forthcoming East African licensing rounds.
- **Production sharing/cost recovery** Again, the trend is towards a higher state-take and Tanzania's 2013 MPSA reduced the contractor's share of profits from deepwater gas finds from 20-50% to 15-40%. There was also a significant reduction in the deepwater cost recovery limit from 70% of production net of royalty to 50%.
- **Participation rights** In Tanzania, TPDC has an option to acquire a minimum 25% interest and greater state participation can be expected in future across the region. In Mozambique, ENH has an interest in existing blocks ranging from 10-30%. States can also be expected to take a more forward role in the development of their own blocks and two blocks were held back from Tanzania's licensing round for development by TPDC in conjunction with a "strategic partner".
- **Local content** Specific local content policy is likely to strengthen the force of local content provisions included in production sharing agreements. Under Tanzania's 2013 MPSA, contractors are required to comply with the government's local content policy.
- **Domestic market supply obligations** Tanzania's 2013 MPSA provides that TPDC and contractors must "satisfy the domestic market in Tanzania from their proportional share of production".
- **Capital gains** Capital gains tax regimes are being tightened across the region to capture disposals of assets via the sale in shares of offshore companies.
- **Investor protection** Recent trends are against the inclusion of economic stabilization clauses in East African production sharing agreements and Tanzania's 2013 MPSA does not contain any stabilization provisions. Various Bilateral Investment Treaties are in place with East Africa states and each of Tanzania, Mozambique, Kenya and Uganda is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.