DEEP earth

JANUARY WRAPPER

OIL AND GAS

Museveni, Besigye tour Bunyoro amid land, oil royalties squabbles

Kizza Besigye

President Yoweri Museveni

Bunyoro took centre-stage in Uganda's political arena in January as the two leading candidates for the February presidential elections – Yoweri Kaguta Museveni and Kizza Besigye – took their charm offensive to a region bubbling with oil, but one where some people remain dissatisfied over the sharing of royalties and the handling of the land question.

Besigye, who toured the region a few days before Museveni did, delivered his message to the people there in pretty much the same way he had drafted it in his manifesto – drumming up the injustice surrounding the acquisition of land in the region, and what solutions he had if elected. [In his manifesto's ten-point programme for the natural resources sector, where oil falls, Besigye dedicated the first seven points on dealing with just the land issue.]

The presidential flag-bearer for the Forum for Democratic Change promised the people of Bunyoro that he would institute a commission of inquiry into the allegations of land-grabbing, and also craft new laws that favoured the locals.

Allegations of businessmen and the politically-well-connected grabbing land continue to make the rounds in Bunyoro, an area that remains a hotbed of speculation over the forthcoming fortunes from the discovery of oil.

When it was his turn, Museveni, who spent five days combing the sub-region, steered clear of making promises surrounding the discovery of oil; he mainly stuck to the social services that his government would keep directing there. Tullow Oil has built a hospital there, while Cnooc has constructed houses.

Although in his manifesto he says that a committee was instituted to stop illegal land evictions in Bunyoro, Museveni kept much of his campaign rhetoric around how government will continue to improve infrastructure such as the road network like it did with the recently-built 92km Hoima-Kaiso Tonya stretch that connects to the refinery area in Kabaale.

If numbers are anything to go by, Museveni should be able to stream-roll over his opponents when the polls get underway after he garnered 85 per cent of the vote in this sub-region in the 2011 elections. Also, Museveni's selection of Bunyoro's Matia Kasaija as the minister of finance might – just might - sway more numbers to vote for him.

Things, however, could turn out different in the 2016 elections. Before 2011, the kingdom in Bunyoro still had hope that their demands for a percentage of oil royalties would be about 12 per cent at the very least, having agreed to knock down the figure from 25 per cent at some point.

Also, allegations of land grabbing had not yet come that much to the fore, while the compensation for people living in areas reserved for critical infrastructure such as the refinery had not yet started.

After 2011, so much appears to have happened in Bunyoro. Since then, King Solomon Iguru Gafabusa has made a futile trip to Parliament to protest against the manner in which their requests had been snubbed; petroleum laws have come into force with the percentage of oil royalties to the kingdom falling to less than seven per cent; there have been clashes and lawsuits over land; while deadlocks over the transfer of interests and tax disputes have slowed down the industry that many youths in the area wonder what became of all the promises of getting jobs.

Bunyoro accounts for much of the 6.5 billion barrels of oil resources discovered so far.

Search for Petroleum Authority boss starts

The search for the executive director of Uganda's Petroleum Authority is on. The country is looking for a Ugandan who has a minimum of a master's degree in petroleum engineering and geoscience and 10 years' experience in managing a busy and well-structured institution.

Government is receiving applications until the close of business in March 2, 2016.

While the authority already has a board, which Museveni inaugurated in October 2015, the delay to operationalize it has raised some questions on how Uganda's oil bidding round will be handled. The authority is mandated to advise the minister in the negotiation of petroleum agreements and in the granting and revocation of licenses.

Some experts we have spoken to though, say the final decision on who takes up this position could rest

UNBS approves petroleum, gas standards

The Uganda National Bureau of Standards has approved a list of standards, some of which are critical in setting up crucial infrastructure in the oil upstream industry.

UNBS announced it had approved external coatings for buried or submerged pipelines used in pipeline transportation systems, and field joint coatings, among others, that are found in the petroleum and natural gas industries.

In July last year, the UNBS put up a list of 14 different sections of equipment to use within the petroleum and gas industries, and called on the public to make comments regarding their standards.

Some of the equipment that the UNBS was keen on were the axial compressors, which pressurises the gas. UNBS looked at whether the equipment's international standards could be applicable in Uganda's local environment.

The approval of the standards is an important stage as Uganda looks to embark in setting up a $10 billion infrastructure programme, which will require building a refinery, central processing facilities, and different pipelines to develop the oil industry.

ELECTRICITY

Access Power to receive FMO's $5.3m as Uganda's solar attracts more money

FMO, the development finance arm of the Dutch government, has agreed to lend up to $5.35 million to Access Solar Power Limited to build a 10MW solar power project in Soroti, 290km east of the capital Kampala.

In a confidential letter dated January 20, 2016, a copy of which *Deep Earth* has, E.L.M Eurlings, the director of Energy at FMO, and J.J. de Vries Robbé, the manager of legal affairs at FMO, noted that they were satisfied with the conditions of the agreement the two parties signed in late November 2015, which had Deloitte Uganda as the security agent.

The solar project is part of GETFiT program, an initiative between the government of Uganda and KfW, to promote renewable energies on a small scale of five to 20MW. Up to 18 projects have received approval from the Electricity Regulatory Authority (ERA) to embark on power projects. At least five of these projects are in the construction stage, while another five are closing financing.

Uganda is looking keenly at promoting the use of solar as it seeks to deepen rural electrification. While much of the attention has been placed on the huge hydropower projects that Uganda is undertaking, so much activity appears to be happening in the solar power segment.

However, the Electricity Regulatory Authority has already called for caution among private players seeking to undertake solar power projects. Just over a year ago, ERA issued a regulatory notice, where it noted: "There is need to remain alert to the cost of power from this [solar] resource, as well as the technical capability of the national electricity grid to absorb this power without affecting the quality of electricity supply."

ERA further explained that "From a technical perspective, solar photovoltaic generation is associated with frequent power swings owing to its intermittent nature. This, therefore, calls for accurate determination of the extent to which the national electricity grid can accommodate power from solar without adversely affecting the quality of power supply."

Nevertheless, the private sector has not been dampened by ERA's fears.

For example, Kiira Motors, a government corporation, unveiled a solar-powered bus called Kayoola, which, it said, is a first in Africa.

The country is also looking at installing at least 20,000 solar systems in eight districts in the next financial year, plus also putting up solar-powered pumps in areas facing water shortages.

The private sector is also chipping in to attract more investment in Uganda's solar power industry, even though the cost of solar power projects tends to be relatively higher compared to other renewable energies.

For example, Tororo PV Power Company Limited has already applied for a licence to construct, generate and sell electricity from its proposed 50MW Solar PV power plant in Tororo district.

Emerging Power Limited plans to build a 15MW solar power project in Mayuge district at a cost of nearly $30 million.

MSS Xsabo Power Limited intends to generate 20MW of electricity from a solar power plant in Gomba.

Simba Telecom Ltd, owned by city businessman Patrick Bitature, has partnered Building Energy SpA to also put up a 10MW solar power project in Tororo district.

G-teck, a local firm that deals in energy solutions, is organising what it calls the Africa Solar Power summit, slated for late October in Kampala. The summit is expected to attract most solar service providers around the region and also international investors.

The Rural Electrification Agency, under the Ministry of Energy and Mineral Development, is mulling over different proposals by companies to boost off-grid solar power production. The agency has received a proposal from Kirchner Solar Ltd to supply power to 30 villages with about 150 households and businesses using a 22kW PV hybrid mini-grid. REMERGY Energy Solutions plans to supply electricity to three villages in Kasese district – 370 km west of the capital Kampala - using PV mini-grids. Still in Kasese, the Joint Energy and Environment Project Uganda installed a solar micro grid, where at least 100 households have been connected to power. Absolute Energy Ltd plans to set up a 230kW PV mini-grid at Kitobo Island on Lake Victoria to supply more than 400 households and businesses.

Access Power's solar project in Soroti will be the largest in Uganda after it is completed. Reda El Chaar, a representative of Access Power, whose main shareholders are France's EREN Renewable Energy S.A and Dubai-based Access Consultants DMCC, has already written to its contractors Electrónica y Electricidad of Spain to move ahead and start construction. The construction of the solar project is expected to take six months.

According to ERA, the average tariff for the Soroti solar PV project over the 20-year operation will be $16.37 per kWh. However, Uganda's electricity consumers will contribute only $11 per kWh through the tariff throughout the term of the project, while GET FiT will recover the rest.

KENYA

Base Minerals records low volumes as global uncertainties hit mining firms

Base Resources Limited had less tonnes of rutile and zircon mined at its Kwale Mineral Sands project during the three months to December as the company faced two separate incidents where it had to shut down the mines for maintenance, according to its quarterly statement.

The Kwale project, located 50 kilometres south of the prominent coastal town of Mombasa, is rich with rutile and zircon, two minerals that are mainly used in the ceramics industry in items such as paint.

The company, however, said there would be an increase in mining production in the current quarter. Company officials reiterated their desire to boost production at Kwale when Kenya's cabinet secretary for Mining, Dan Kazungu, and principal secretary Dr Ibrahim Mohamed, were on a familiarization tour at the Kwale project, still in January.

The company noted that it has an annual production of 80,000 tonnes of rutile, 360,000 tonnes of ilmenite and 30,000 tonnes of zircon.

The company announced that its main focus is now to expand its production of zircon. The company wants to hit a recovery rate of at least 78 per cent for its zircon resources, which will be in line with project designs.

Base Resources Limited said it was deepening its footprint in China, one of its biggest markets, where it has a warehouse.

However, Base warned that global economic conditions were weighing heavily on the company's future prospects.

"The economic uncertainty China and Europe experienced in the prior quarter continued to weigh on customer confidence through this quarter. This, combined with the usual seasonal slowdown in demand, has resulted in on-going cautious buying behaviour from customers," the company announced.

Base Resources noted that a significant proportion of global ilmenite production is experiencing mounting financial pressure from unsustainably-low market prices, which has forced some mining companies to stop production. For example, it said a major Russian producer of ilmenite announced in December that its operation was being placed on care and maintenance.

Officials from Kenya's ministry of mining toured the Kwale project in January

Govt approves $350 million Africa Oil, Maersk deal

Kenya's government has approved a deal that saw Africa Oil sell half of its shareholding in a number of oil blocks in Kenya and Ethiopia to Denmark's Maersk Oil &Gas A/S for a deal worth $350 million.

Keith Hill, Africa Oil's president and CEO, said the approval finally offers breathing space to the company at a time when the slump in crude oil prices has hurt the industry. He added that with Maersk Oil on board, the company might not need equity financing before Kenya gets first oil.

He said: "We are very pleased to have received approval from the government of Kenya. We feel Maersk will be an excellent partner in terms of technical and financial strength and experience critical to moving the development project forward." He then added: "This transaction puts Africa Oil in the enviable position of not requiring any additional equity financing prior to first oil and will allow us to weather the current difficult oil price environment should it continue into 2016."

According to the transaction, Africa Oil sold 50 per cent of its interest in blocks 10BB, 13T and 10BA in Kenya, and the Rift Basin and South Omo blocks in Ethiopia. The two, together with Tullow Oil, are already partners in the three oil blocks in Kenya. Africa Oil and Maersk control 25 per cent shareholding each, while Tullow has the remaining 50 per cent.

Simba taps top directors for $2.1 million Kenya oil plans

Senior directors of Simba Energy have bought more shares in the company in a private placement that fetched $2.1 million, an amount that is expected to fund "exploration commitments associated with the company's production sharing contracts in Kenya."

However, the deal needed the financial muscle of one of its newest directors, Gagan Goel, who is also a director in another firm, Essel Group Middle East, which, just over a month ago, bought 60% of Simba's interest in Kenya's Block 2A in a $100-million deal. The money is supposed to finance Simba's Africa oil exploration activities over the next 18 months.

Gagan is a director in Essel Africa and looks after the company's expansion strategy in Africa out of his office in Dubai.

This was the second year in a row that Simba Energy was selling shares to its directors, with the last one being in February 2015, where it collected $450,000, still to meet its oil contractual obligations in Kenya and Guinea.

Of the 42 million units that Simba Energy sold to its directors, Gagan purchased nearly 34 million shares, which took his total ownership in the company to 13%.

Kenya seeks consultant for its renewable energy master plan

Kenya is looking for a consultant who can develop a National Renewable Energy Master Plan.

The Kenyan government, through its ministry of energy, has carried out several renewable energy studies in the areas of biomass, solar, wind, small hydropower projects. It is also carrying out one on renewable energy resource assessment in 44 counties.

However, Kenya has not yet carried out studies about biomass for power generation, co-generation and waste to energy. The consultant will have to undertake these studies, combining them with the other studies that the government has undertaken. All this should be undertaken within 18 months after signing the agreement with the government.

Oil, Gas, Minerals and Energy News and Analysis

Inside Tanzania's billion-dollar graphite industry

Tanzania's graphite, which is mainly mined by Australian-based firms, is gradually becoming East Africa's next biggest mineral discovery, catching the attention of billion-dollar markets in Europe and Asia.

Information gathered by *Deep Earth* points to increasing interest in Tanzania's graphite industry even in the face of global dominance by China, which accounts for more than half of the world's production. The interest appears to be spurred by graphite being a crucial component in the manufacturing of car batteries. Also, China is said to be finding it difficult to supply its growing clientele large flakes of grahite, which appears to be in abundance in Tanzania. Tanzania's graphite is also said to expand more than that from China when heated, making it of high quality. With huge production coming from China, a number of customers are looking more at the quality, offering Tanzania's graphite an edge.

In our December wrapper, we reported how some companies mining graphite in Tanzania were scouting for financiers for their projects. A number appeared to have made headway.

Australian-based Kibaran Resources Limited, the owners of the Epanko project, received an expression of interest from African resources financier, Nedbank, which seeks to offer up to $30 million for the Epanko project, whose start-up capital is estimated at $77 million.

Nedbank senior investment banker, Mark Tyler, in a statement, said: "Having followed the graphite sector and the many global graphite projects over the past two years, Nedbank is delighted with the prospect of partnering with Kibaran Resources in Tanzania… we believe it's currently the best credentialed project for development in the graphite space."

Germany's Kfw IPEX-bank has started carrying out due diligence on the Epanko project, with the hope of financing the project too.

And if it is the market for graphite that potential financiers are worried about, Kibaran Resources Limited put those fears to rest recently. The company has also just signed a memorandum of understanding with Japanese commodities trader, Sojitz Corporation, which has agreed to source graphite in Tanzania exclusively from the Epanko project. Sojitz Corporation has net assets of close to $2 billion.

Kibaran already enjoys a 10-year deal that it signed last year with Germany's global industrial conglomerate, Thyssen-Krupp Metallurgical Products GmbH, to buy 30,000 tonnes of graphite per year.

IMX Resources Limited has also signed an agreement with China Gold Investment and CN Docking Joint Investment and Development Co. Ltd, a subsidiary of China National Building Material Group Corporation, to start negotiations that can hopefully lead to the development of the Chilalo graphite project, located in Tanzania.

IMX and China Gold Investment have been negotiating for the last seven months and the signing of this agreement is a step towards accessing finance for the mineral project.

Walkabout Resources Limited from Australia has just announced that it is carrying out studies that will inform its decision as it intends to fast-track the exploration and project development at Lindi Jumbo graphite project.

Magnis Resources Limited, which recently hired a consultant to come up with a bankable feasibility study as it looks for investors for its Nachu graphite project which covers nearly 200 square kilometres in South East Tanzania, reported recently that production rates at its project had shot up.

Other companies such as Black Rock Mining Limited have shown interest in expanding their graphite resources. The company had looked at taking up interest in the graphite resources at the Bagomoyo prospect but, instead, announced in January that it had abandoned the idea following due diligence. Black Rock has, instead, decided to stick to its graphite project at the Mahenge project.

The future for the graphite industry looks bright. A number of deals by international companies are being signed, which, ultimately, expand the demand for resources such as those found in Tanzania and East Africa. For example, Panasonic (Japan) and LG Chem (Korea) are developing the world's largest gigafactories for the growing battery market. Also, Panasonic still has its partnership with Tesla Motors, while LG Chem recently signed deals with many top manufacturers, such as Volkswagen, GM, Ford, and Daimler, all of which are bound to increase demand for graphite.

Kibo's Rukwa Coal Limited gets new prospecting licenses

Rukwa Coal Limited, a subsidiary of Kibo Mining Plc, has received three new prospecting licenses, which, the parent company announced, will widen the 109 million tonne Mbeya Coal mineral resource.

Kibo said the new licenses represent the company's commitment towards developing the Mbeya Coal to Power project. In the November wrapper, we reported that Kibo had hired Tractebel Engineering to carry out a definitive feasibility study for the Mbeya Coal to Power project, which could lead to a 250MW to 300MW plant being established.

The company said: "In the short term these new prospecting licenses will further enhance the bankable feasibility study and subsequent development of the project and in the longer term provide the company with significantly increased exploration potential."

Kibo said the new licenses will give it the ability to test for extensions to the coal resources in the area.

A pre-feasibility study noted that Mbeya could achieve annual revenues of $48 million, with a profit margin of $24 million to $27 million a year.

Kibo also recently took out a credit facility of £500,000 with Sanderson Capital Partners Limited. There was no indication as to how this money would be used.

Oil, Gas, Minerals and Energy News and Analysis

PEOPLE TO WATCH

East Africa's new nuclear power bosses

Eng. Collins Juma

Prof Peter Manase Salema

East African countries are in a race to build their first nuclear power plants, with Kenya and Tanzania appointing new bosses at their regulatory authorities, while Uganda looks to spend at least $4.2 million towards supporting the exploration of uranium.

In January, Kenya appointed Eng. Collins Juma as the chief executive officer of the Kenya Nuclear Electricity Board. Juma, who holds a Bachelor in Engineering, will be part of the team spearheading Kenya's plans to build its first nuclear power plant by 2022, which is expected to add at least 1,000MW to the national grid.

Tanzania has also appointed Prof. Peter Manase Salema to become the board chairman of the Tanzania Atomic Energy Commission. Salema, who until last year was a director at the International Atomic Energy Agency, will have to draw on some of his experience to push for an independent nuclear regulator. Tanzania does not have a fully-fledged institution to control all radiation facilities and activities in the country.

There appears to be little activity at Uganda's Atomic Energy Council, where Akisophel Kisolo is the chairperson, although cabinet last year approved the nuclear energy road map, which seeks to promote nuclear energy. For now, a review of the relevant policy, legal and institutional framework for nuclear power development for electricity production is being undertaken.

We are keeping our focus on the February 18 elections, and their possible impact on the economy. Compared to the previous presidential elections Uganda has had, this one is quite different partly because it has three strong candidates.

However, this presidential race will narrow down to the two main candidates – Yoweri Museveni and Kizza Besigye – who will be competing against each other for the same position for the fourth time.

Candidate Museveni remains popular in the countryside, where the construction of infrastructure such as roads has brought a sense of development.

In the urban centres, Museveni enjoys support among the elite who attach a premium to the security his government ushered in when it came to power in 1986.

Kizza Besigye, on the other hand, appears to have gained more ground during the campaigns, far more than what we had expected. His 'campaign of defiance' has been taken deeper into the villages, where his message of change appears to have struck a chord among voters.

While Besigye has in the past attracted huge numbers of followers – such as when he returned from exile in 2005 and during his presidential nomination in November last year – the numbers in upcountry crowds that have followed him during this campaign is a new phenomenon.

And yet, one of the defining factors in this whole political contest between Museveni and Besigye could come from the third player in the field – John Patrick Amama Mbabazi.

The former secretary general of the ruling National Resistance Movement, who broke ranks with the party to declare his intention to contest for the presidency mid last year, is not expected to record an impressive performance, although, depending on how much support he attracts, he could split the vote between the two leading candidates.

That said, we are worried by the threat of violence that has emerged from this campaign. A number of top police officers have declared their intention to arm crime preventers, a newly-formed unit within the force, in anticipation of violence.

We think investors could hold back making any significant decision until the elections are over.

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