Black gold or poverty trap?
High risks and low prospects for Uganda’s oil sector
Fifteen (15) years after commercial oil reserves were confirmed in the Albertine Basin, Uganda still has high hopes for a profitable oil industry that will unlock the country’s potential. A number of key projects are planned to commercialise Uganda’s oil. Central to these are the extraction projects, the Tilenga and Kingfisher, through which between 1.4 to 1.7 billion barrels of oil will be extracted from oil fields in the Lake Albert area. The above barrels of oil will be extracted over a period of 20 to 30 years.¹

Uganda also plans to build an oil refinery with a production capacity of 60,000 barrels per day. Plans are also underway to construct the East African Crude Oil Pipeline (EACOP), which will transport 216,000 barrels of oil from Hoima in Uganda to Tanga in Tanzania, and thereafter to international markets.

The oil extraction in addition to the EACOP projects have led to the expectation of economic benefits. But years of delays, plummeting oil prices, and a growing number of human rights and environmental concerns should lead us to question: is oil an opportunity made of black gold, or is it a high risk, low returns trap that could jeopardize economic development and a thriving, sustainable future for the next generations?

We invite you to read this briefing that sheds light on the Tilenga, Kingfisher, and EACOP projects. The briefing weighs the economic, environmental, and social risks of the above projects while highlighting alternative paths to economic development to promote a thriving sustainable Ugandan economy in the post COVID-19 era.

This briefing places particular emphasis on the EACOP as it is Uganda’s flagship oil project.
Economy at risk

Uganda is faced with rising debt and economic burdens caused by the COVID-19 pandemic, over-borrowing by the government due to expectation of oil revenues, and other factors. Accordingly, in the 2020 Debt Sustainability Analysis Report that was produced by the Ministry of Finance, the ministry projects that Uganda’s nominal debt to GDP ratio will reach nearly 50% by June 2021 and will peak at 54.1% by 2022/2023. This is above the sustainable debt to GDP threshold. The debt will be pushed up due to borrowing to invest in the oil sector. Indeed, parliament was in March 2021 approached to approve a loan and supplementary budget request of $130 million to support Uganda National Oil Company (UNOC) to participate in the EACOP project and to pay for “historical” costs. Overall, UNOC will require $213 million to participate in the EACOP processes.

Oil companies insulating themselves

While the Ugandan government is incurring huge debts that this country will be hard-pressed to pay considering the low revenue collections and low returns on investments made in Uganda, risks such as plummeting global oil prices, worldwide clean energy transition efforts, and international litigation are increasing. The oil companies are reducing their risks through generous tax breaks and by seeking substantial additional concessions through laws such as the EACOP Bill that is expected to be tabled before parliament among others. This puts Uganda’s economic future at risk.
Livelihoods in balance

Yet the above isn’t the only challenge. The community livelihood risks are also immense. The EACOP will traverse through ten districts, 25 sub-counties, and 178 villages in Uganda as well as eight regions and 25 districts in Tanzania. Over 12,000 families in Uganda and Tanzania are expected to be displaced by the EACOP.

Families have experienced delayed compensation for their land that is being compulsorily acquired for the project. Those who speak up are intimidated. The delays in compensation and stopping people from using their land based on cut-off dates that were set nearly three years ago have had immense impacts. They have caused a reduction in family incomes and have increased school drop-out rates, particularly amongst girls. Further, until recently, families couldn’t use their burial grounds to bury their dead.

Moreover, community access to clean and safe water stands to be lost as water points in districts such as Mubende are being acquired.

Endangered environment

In addition to the economic and social risks, over a hundred oil wells, to be connected by a network of pipelines, are to be drilled in the heart of Murchison Falls National Park, Uganda’s oldest, largest, and one of the most visited parks. This puts biodiversity and tourism, which contributes nearly 10% to Uganda’s GDP and is responsible for 23% of Uganda’s exports as well as earnings of as much as $1.6 billion, at risk. Moreover, the EACOP is set to affect forests such as Taala, Wambabya, and others, putting forests, which contribute 6% to Uganda’s GDP and are important for climate stabilisation and biodiversity conservation among others at risk. Lakes such as Victoria and Albert are also at risk because of the EACOP as a third of the EACOP is located in the Lake Victoria basin. The slightest oil leak would be catastrophic for biodiversity and the 30-40 million people who depend on Lake Victoria. Yet oil leaks are hard to avoid. In the United States alone, 11 oil leaks were recorded per month in 2018.
Overall, Uganda’s oil industry and the EACOP pose immense risks. The industry is unlikely to drive national economic development in light of the clean energy transition and other efforts that countries are undertaking to align themselves to the Paris Climate Change Agreement and building back greener after COVID-19. Meanwhile, the oil projects are a risk to the economy, livelihoods, and the environment.

**What should parliament do?**

- **No more money for EACOP:** Parliament has been requested to approve a loan request for the EACOP. More approvals to support UNOC to meet all its EACOP obligations will be made. However, parliament should halt approval for any funds for the EACOP until an independent assessment has been undertaken to determine the economic viability of Uganda’s oil sector vis-a-vis the economic, climate change, and social risks posed by the sector, especially in a Paris Climate Change-aligned world.

- **Let people know:** Parliament must also demand that the Ugandan government publicises the Final Investment Decision (FID) conditions in addition to the Host Government, Shareholding and Tariff Review agreements that Uganda plans on signing with the EACOP developers. The public needs to know what the real cost of the EACOP for Uganda is.

- **Secure more viable, sustainable paths** to a prosperous future for Ugandans by investing in the country’s most promising sectors: agriculture, fisheries, tourism, and renewable energy.
A map showing the EACOP route
The global oil market has considerably deteriorated since Uganda first discovered commercial oil deposits fifteen years ago. The explosion of the U.S. shale oil sector, fights between oil giants such as Russia and Saudi Arabia, and collapsing prices seriously damaged the finances of major oil-producing countries and companies.

Global efforts to avert the climate catastrophe, and aggressive new net-zero policies being pursued by various countries in Europe not to mention the United States (U.S.) are accelerating the transition to a low carbon economy. The U.S. and Japan pledged to reach net-zero carbon emissions by 2050, while the UK has committed to reducing its emissions by 80% by the same time. On the other hand, the EU and China have committed to reducing emissions by 55% and 65% respectively by 2030.

Even Total, which is operating in Uganda, has pledged to reach net-zero emissions across all its production and energy products for Europe by 2050. The trend away from fossil fuels and towards renewable energy sources, whose costs keep falling, is so clear, that even oil giant Shell announced its oil production had peaked in 2019.

This challenging context was epitomized by oil barrel prices falling below $0 for the first time in history amidst the COVID-19 pandemic in 2020. Oil producers had to pay buyers up to $40 a barrel to take the crude off their hands as storage facilities overflowed.
While the golden age for oil is coming to an end, Uganda is seeking to develop its 6.5 billion barrels of oil resources that were discovered in the Albertine Graben beginning in 2006. Of these, between 1.4 to 1.7 billion barrels are recoverable.

While plans are underway to develop the resources under the Tilenga, Kingfisher, and EACOP oil projects, experts from the UK-based think tank Climate Policy Initiative (CPI) say that Uganda’s oil reserves have already lost over 70% of their value since 2013. With the world turning away from fossil fuels, they estimate that Uganda’s reserves could lose up to 88% of their initial value.

Figure showing the value lost for Uganda’s oil and that stands to be lost in a World Below 2 degrees Celsius
Delays and collapsing oil prices pushed Tullow to cut its losses by selling its entire stake in the Lake Albert project to Total in 2020. The sale that was expected to fetch $900 million in 2019 only fetched $575 million in 2020. Uganda agreed to take taxes amounting to $14 million in 2020, as opposed to the $167 million that the government had been demanding in 2019 when Tullow was selling only over 25% of its stake.

As Total bought Tullow out of Uganda's oil sector, Total's CEO Patrick Pouyanné made it clear that his strategy is to improve the company's profitability against this turbulent context was “acquiring long term resources at low cost”. **While profitable for companies and shareholders, this strategy relies on making host countries bear the brunt of the collapsing profits and global oil prices.**

In such a context, Uganda is at the whims of oil companies and has to incentivize them to invest. Little wonder that a few days before Uganda was expected to sign agreements such as the Shareholding as well as the Transport and Tariff agreements among others in March 2021, Ministry of Finance officials were pleading with parliament to allow them to borrow $130 million to enable UNOC to participate in the EACOP processes. The officials said that the companies had made the availability of those funds a condition for signing of the FID for the EACOP project. The Ugandan government appeared to be at the mercy of the oil companies.

In such an atmosphere, Uganda could also extend the existing 10-year tax holiday it granted the EACOP developers. Experts estimate this could cost Uganda 10% of the total revenues that the government would stand to earn.

Yet lower revenues are but one of the risks of the EACOP. The potential damage to the habitat of endangered wildlife including chimpanzees is also immense.

So is the threat to tourism. According to the Uganda Wildlife Authority (UWA), tourism contributes nearly 10% to Uganda's GDP and is responsible for 23% of Uganda's exports. The sector has also earned the country as much as $1.6 billion. Yet leisure tourism is underdeveloped compared to regional hotspots. Leisure tourism accounts for 21% of Uganda's visitors compared to 75% in Kenya and
Tanzania. Oil projects in Uganda’s national parks, forests, lakes, rivers, and other ecosensitive resources would threaten the development of a lucrative adventure tourism sector reliant on the country’s natural heritage.

Agriculture, which employs 70% of Uganda’s labour force including 90% women and 38% youth\(^{11}\), is also at risk due to the land acquisition and climate change concerns of the EACOP, Tilenga, and Kingfisher oil projects. The fisheries sector, which employs over 1.2 million people\(^{12}\) in Uganda and provides a livelihood for 1.4 million people majority of whom are youth and women, is also at risk because of the oil pollution threats to Lake Victoria, Lake Albert, wetlands, and rivers.
Uganda has been lured to join the *Energy Charter Treaty* (ECT) which allows oil companies to sue countries that are seeking to transform their energy policies away from fossil fuels.

Uganda expressed interest in joining the ECT in 2015. The country is being engaged to sign the treaty as other African countries are.

**While Europe wants out, the oil industry continues to lobby African nations to join the ECT to lure them into a litigation trap.** According to an OpenExp report, “African and Latin American countries are the main targets of ECT expansion policy”.

The Ugandan parliament should compel the government to reject the *Energy Charter Treaty*.

“**It is a bad idea for any African country to consider signing the Energy Charter Treaty**”

Mustaqeem de Gama, South African Mission in Geneva
Ugandan organisations such as AFIEGO, Foundation for Human Rights Initiative (FHRI), Global Rights Alert, and CRED Uganda as well as international NGOs including Friends of the Earth, Oxfam, and FIDH have documented systemic violations of oil-affected communities’ rights. In particular, delayed, under-, and unfair compensation have been documented.

“For the past three years, I have not been able to use my land to grow perennial crops such as cassava which is the staple here due to fear of losing it without compensation. Instead, I grow fast-maturing crops such as sweet potatoes or beans; this does not leave me and my family food-secure.

A farmer from Kikuube District who is a father to several children from two wives.”

Project-related human rights abuses, including intimidation of representatives from local communities, triggered the investigation of four UN Rapporteurs, including the Special Rapporteur on the Situation of Human Rights Defenders. Despite this investigation, nine journalists and environmental activists were arrested by Uganda police for denouncing the destruction of one of the country’s largest forest reserves, Bugoma forest.

The WWF points out that the EACOP will only create 300 permanent jobs. Meanwhile, at least 12,000 families and farmers are expected to lose land due to the megaproject. (WWF and FIDH)
Large oil projects are being undertaken in the country’s beautiful national parks, such as the Murchison Falls National Park on the Nile headwaters, endangering those amazing biodiverse forests and the local communities. At the same time, these worrisome projects also exacerbate the climate crisis.

Cardinal Peter K.A. Turkson, Ghana

Under the Tilenga project, Total plans to drill over 100 oil wells, connected by a network of pipelines, in the heart of Murchison Falls National Park. CNOOC will also drill for oil from within and around Lake Albert. The slightest oil leak into Lake Albert would be catastrophic for biodiversity and the people who depend on it. Yet such oil leaks are common. In the U.S. alone, 11 leaks were recorded per month in 2018. Oxfam and FIDH reveal that water contamination and limited access to drinking water have already been reported around the Tilenga oil fields.

The 1,443km-long EACOP is expected to cause significant disruption to 2,000 km2 of natural protected areas. The WWF reports that the fragmentation of protected areas will expose endangered species to increased poaching risks, and will seriously damage key chimpanzee and elephant biodiversity corridors.
At a time when the effects of climate change are clearer than ever and threaten the livelihood of local communities across Uganda, the exploitation of an additional 1.4 to 1.7 billion barrels of crude oil would only aggravate the climate crisis and appears to be in total contradiction of Uganda’s commitments to the Paris Climate Agreement. Climate change is predicted to have a significant impact on Uganda: Studies show that if no action is taken, annual costs could be in the range of $3.2 - 5.9 billion within a decade for Uganda alone, with the biggest impacts being on water, followed by energy, agriculture, and infrastructure. Over 40 years from 2010 to 2050, the costs of inaction are estimated at between $273 - 437 billion for Uganda.
In the Laudato Si, Pope Francis states, “We know that technology based on the use of highly polluting fossil fuels needs to be progressively replaced without delay (LS, 165). It is therefore imperative for the Ugandan government and investors in the EACOP project to redirect their financial resources to the renewable energy sector, so as to obviate the dangers of the climate change crisis.

Archbishop Stephen Brislin26 - Denis Hurley Peace Institute

The following alternatives should be invested in.

Tourism

The tourism and travel industry, which employs over 160,000 people, is a major economic sector and job creator in Uganda. With further investment in tourism and conservation, Uganda’s tourism sector can drive even greater economic benefits. Supporting Uganda’s tourism industry has trickle-down benefits for communities and entrepreneurs. There are countless examples of local innovation in the tourism industry among small and medium enterprises, and communities continue to participate in their local tourism economies through entrepreneurial efforts like the Uganda Women Birders tour guide association27 and community-based rural tourism initiatives.28
**Agriculture**

The agricultural sector employs more Ugandans than any other sector. Small-scale agriculture is the backbone of Uganda’s economy, providing the largest number of jobs and ensuring food and nutritional security. Yet, the small-scale farmers that drive this critical industry are woefully underfunded and under-supported. **Uganda has an opportunity to grow its economic strength and resilience by investing in and supporting sustainable, small-scale agriculture.**

The agriculture industry already contributes significantly to Uganda’s economy, creating an **annual economic growth rate of 7 percent**\(^{29}\) from 2006 to 2013. The sector contributes about 24.7% to GDP and 80% to the total export earnings. Small-scale farmers are driving this industry forward, contributing to 98% of Uganda’s total agricultural production.

**Fishing**

Uganda’s fishing industry is a major contributor to the economy. The industry is worth about $703.7 million annually\(^{30}\) and can be transformed into an economic stronghold with significant funding from the government, deeper investment from international allies, and sustainable fishing practices that allow fish populations to flourish. The industry contributes 3% to national GDP and 12% to the agricultural sector GDP.\(^{31}\)

**Renewable energy**

Investment in Uganda’s burgeoning renewable energy industry will generate more good jobs and position Uganda as a regional leader in the future of energy. There are also employment opportunities for Ugandans in building the future of pollution-free transportation in the region. Kiira Motors, a state-owned vehicle manufacturer, is set to produce 5,000 electric buses and other electric vehicles per year beginning in 2021, putting **14,000 Ugandans to work**.\(^{32}\) This number is expected to rise as global demand for electric vehicles grows. **Cleaner air would also make Ugandans healthier as well as attract more foreign investors and businesses.**


26. https://drive.google.com/file/d/1B_vb_3Xi-7IHe51ghbAO3mgdGZ0Ex6OwH/view

27. https://ugandawomenbirders.org/


31. Fortune of Africa. Fisheries sub-sector. Retrieved from https://fortuneofafrica.com/ug/ fisheries-sector-profile-2/1#:~:text=Fish%20is%20one%20of%20the,12%25%20to%20agriculture%20sector%20GDP.&text=The%20fisheries%20sector%20in%20Uganda%20is%20an%20exchange%20for%20the%20country


Oil in East Africa: Communities at risk https://www.fidh.org/IMG/pdf/oil_in_east_africa_oxfam-fish_nv_090920.pdf


About Africa Institute for Energy Governance (AFIEGO)

Africa Institute for Energy Governance (AFIEGO) is a public policy research and advocacy non-profit organisation dedicated to influencing energy policies to benefit the poor and vulnerable. Based in Kampala, Uganda, the organisation was born out of the need to contribute to efforts to turn Africa’s clean energy potential into reality and to ensure that the common man and woman benefits from this energy boom. Through lobbying, research and community education, AFIEGO works with communities and leaders to ensure that clean energy resources are utilised in a way that promotes equitable development, environmental conservation and respect for human rights.

Our Vision
A society that equitably uses energy resources for socio-economic development.

Our Mission
To promote energy policies that benefit poor and vulnerable communities.
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