Red-tapes and shattered hopes: Uganda still waiting for oil riches

14 years after oil discovery, country could not extract a drop

BULIISA, Uganda: It was the promise of oil-billions of barrels of black gold, discovered locked beneath Lake Albert-and the riches to follow that brought electricity to Buliisa. Roads, piped water, and other unthinkable luxuries came next, as the poor farming village on the great lake's northern shores transformed into a booming frontier town, and Uganda braced for newfound prosperity as an African oil giant.

But those fortunes never transpired. The wells were never dug at Buliisa, the refineries never built and taps never turned. Fourteen years after the discovery of sub-Saharan Africa's fourth-largest oil reserves, not a drop has been extracted.

Bureaucratic delays and contract disputes have ground progress to a halt. And allegations of environmental damage and human rights abuses surrounding the oil fields have raised questions about resource exploration in one of Africa's great wildernesses.

Total official remains optimistic

"The beginning was bad, and we foresee that the oil will come, and make matters worse," said Mpangire Blasio Korokoni, who was evicted from his land at Kasenyi, a village near Buliisa, to make way for the oil project. But Uganda is not giving up on its oil dreams, and the country is still banking on production starting by 2023.

High hopes

The discovery at Lake Albert in 2006 sparked high hopes in Uganda, where one in five of the country's 42 million people live in abject poverty. Beneath the lake waters fed by the White Nile are an estimated 6.5 billion barrels of crude, about 1.4 billion of which were extractable.

The reserves are expected to last up to 30 years, with production peaking at 230,000 barrels a day. The government forecasts earnings of $1.5 billion a year, a windfall that could have driven GDP per capita from $630 a year to more than $1,000. However plans to tap the oil at Lake Albert, a vast, 160-kilometre (99-mile) long body of water separating Uganda from the Democratic Republic of Congo, have yet to materialize.

The planned projects are co-managed by French oil company Total, British outfit Tullow and China's CNOOC. But optimism ebbed as the ambitious projects ran again and again into obstacles and, almost a decade and at least $3 billion later, progress has ground to a halt.

"When you discover reserves, you hope to start production seven to 10 years later," says Pierre Jessua, managing director of E&P Total Uganda, a subsidiary of Total.

"So we have encountered a number of delays." Uganda has been slow to acquire technical expertise and legislate the necessary regulations. Initially it said it would build a pipeline through Kenya, before changing its mind and deciding on a 1,443-km pipeline from Uganda to the Tanzanian port of Tanga for export. Most recently, in August, Tullow abandoned plans to sell part of its stake in the fields and projects to CNOOC and Total due to a tax dispute with the Ugandan government.

"A lot of preparatory work has been done. The projects are technically ready. But some of the commercial negotiations are still ongoing," said Gloria Sebikari, an official of the Uganda Petroleum Authority.

Uganda is now aiming for the remaining hurdles to be resolved allowing for the crucial Final Investment Decision (FID) to be struck with partners this year, paving the way for production to start by 2023. "There's a real desire, a real commitment on both sides. I'm quite optimistic that these discussions will be fruitful," Jessua, of Total, said.

"Now, on the timetable, I think we have to be cautious," he added however. Uganda is relying on oil revenue to repay state debt that stood equivalent to 42 percent of GDP in 2018 — a share that could rise to 50 percent of GDP by early 2021.

Living in fear

The oil projects have proven controversial beyond the boardroom. Some 7,000 people were forced from their land in 2012 in Kabaale, about 150 km south of Buliisa, to make way for a refinery and international airport related to one of the projects. The airport is the only site where construction has begun and is due for completion in 2023.

Some of those expelled opted for land in return, but waited six years for lots they still don't have title deeds for. "We don't own this land legally," said Innocent Tumwebaze, 30, one of those dispossessed.

A boy stands next to a globe statue of the world at the Murchison Falls National Park in northwest Uganda. When exploitable crude oil deposits were discovered in 2006 in the Lake Albert region, Uganda began to imagine itself as a new oil Eldorado. — AFP

"We are cultivating it, but with that fear. Because at any time, you don't know what could happen."

Total and its subcontractor Atacama Consulting have been accused by civil rights groups of making late or below-value compensation payments to 600 people who were tossed from their homes around Kasenyi, where the company plans to build a plant for processing crude.

Total denies the allegations, saying it is "limiting relocations and providing support to those concerned". Six Ugandan and French non-governmental organisations have filed a lawsuit in France against Total, accusing it of not undertaking a "duty of vigilance" when considering the impact on local people. A court near Paris declared on January 30 that it could not try the case, referring it instead to a commercial tribunal.

Wilderness fears

The lawsuit also raised apprehensions about the long-term ecological consequences of mining for oil in a basin ecosystem home to half of Africa's bird species and more than a third of its mammals.

The impact on Murchison Falls National Park, in particular, has caused grave concern. This green jewel is home to a wide array of species and the spectacular waterfalls of the same name, as well as protected wetlands and the White Nile, under which an oil pipeline will pass. Isaac Ntujju, from Uganda's national environment authority NEMA, said the companies involved "do recognise that... the environment is very sensitive" and the need to be careful.

The government is expected to grant exploration licenses to five further oil blocks in Uganda, including one which crosses into Queen Elizabeth National Park, a UNESCO listed biosphere. "You are going to destroy a lot of biodiversity, a lot of wetlands, a lot of forests... These are impacts we haven't seen yet," warned Frank Muramuzi, executive director of the Uganda-based activist group Nape, one of the signatories to the French lawsuit. — AFP

PITTSBURGH, PA: Jets are parked on runway 28 at the Pittsburgh International Airport in Pittsburgh, Pennsylvania. — AFP

US could take equity shares in virus-hit airlines

WASHINGTON: The US government could take equity shares in airlines and other troubled but vital American corporations as it moves to stabilize an economy amid the new coronavirus pandemic, top US officials said Sunday. White House economics adviser Larry Kudlow said the government should get a stake in companies that receive direct cash grants from the federal government.

"I think in return for direct cash grants, which is what the airlines have asked for, I see no reason why the American taxpayer shouldn't get a piece," he said on "Fox News Sunday."

Treasury Secretary Steven Mnuchin, speaking on CBS's "Face the Nation" talk show, also said the government could take equity positions in return for infusions of taxpayer money.

"As the president said, we'll look at each one of these situations," he said. "Some of them are very good companies that just need liquidity and will get loans. Some of these companies may need more significant help and we may be taking warrants or equity as well as that.

"The president wants to make sure the American taxpayers are compensated. This is not a bailout."

Mnuchin said any such transactions would take the form of warrants, a type of security that gives its holder the right to buy or sell an asset at a certain price up to a certain date determined when it is emitted. Warrants can thus be converted into shares. The massive financial rescue plan passed by the US Congress designates $50 billion for the airline industry. Half that sum would take the form of loan guarantees, and the rest direct cash payments. Invoking their importance to the economy and the social risks if they fail, Boeing and the US airlines have demanded an unprecedented government bailout. Air transportation has been one of the hardest hit sectors by the COVID-19 epidemic. Most transatlantic flights by US airlines have been suspended, as have 40 to 70 percent of domestic flights. Bailouts using taxpayer money in the form of direct financial infusions or loans guaranteed by the federal government would follow a decade of growth in which the airlines made billions of dollars. —AFP

Outrage in Germany as Adidas, H&M stop rent payments

FRANKFURT: Global retailers including Adidas and H&M sparked outrage in Germany on Sunday after announcing they planned to stop paying rent on stores that have been forced to close over the coronavirus outbreak.

Finance Minister Olaf Scholz urged leading companies to refrain from taking rash action that could hurt property owners. "It's irritating when large companies simply announce a halt on paying rent," Scholz told the Bild daily, urging retailers to reach out to landlords to find solutions.

"Now is the time to work together," he said. The move comes after the German government unveiled a major rescue package to protect companies and jobs from the economic impact of the pandemic. It includes a provision that temporarily shields tenants from being kicked out of their homes or business premises if they experience financial hardship over the coronavirus measures. But Justice Minister Christine Lambrecht warned company bosses not to take advantage of the measure. "It is indecent and unacceptable if financially strong firms now just stop paying their rents," she said in Berlin on Saturday. German sportswear maker Adidas, which made a net profit of nearly two billion euros ($2.2 billion) in 2019, has been hard hit by a slump in Chinese sales and massive store closures. The company, one of Germany's best-known brands, told DPA news agency that it was "temporarily suspending rental payments, just like many other companies". German Transport Minister Andreas Scheuer said he was "disappointed by Adidas", pointing out that many small landlords would be left out of pocket.

German MEP Katarina Barley tweeted that she had bought her last pair of Adidas trainers, in a post that received over 9,000 likes. But the Bavarian giant hit back, with CEO Kasper Rorsted telling the Monday edition of the Frankfurter Allgemeine daily that the bulk of Adidas's German landlords were "large real estate companies and insurance firms" who had "mostly shown understanding" for the rent freeze decision.—AFP

BERLIN: One of German sporting goods company Adidas outlets is pictured in Berlin on Sunday. Major retailers in Germany say they plan to stop paying rent for stores that were told to close in order to slow the pandemic. — AFP

US package is biggest ever, but may not be enough

BOSTON/WASHINGTON: The Federal Reserve has offered more than $3 trillion in loans and asset purchases in recent weeks to stop the US financial system from seizing up, but it has not yet directly helped large swaths of the real economy: companies, municipalities and other borrowers with less than perfect credit.

That is partly because America's central bank is not allowed to take much credit risk itself, and loans to lower-rated borrowers have a higher chance of losses. The risk is exacerbated by efforts to stop the spread of coronavirus which have brought economic activity to a screeching halt.

To alleviate that constraint, the US Treasury - whose job is to manage the government's finances and help the Fed keep the economy steady - has taken on some of the risk that Fed loans will not be paid back. It has contributed about $50 billion from a pool of money called the Exchange Stabilization Fund. That money will be used to absorb losses from Fed loans that go bad. Assuming only a fraction of loans will default, the Treasury contribution has allowed the Fed to lend much more without taking on additional risk.

On Friday, the Treasury got about $450 billion more from Congress as part of a $2.2 trillion U.S. stimulus package, greatly increasing its ability to support the economy. Before the bill passed, the stabilization fund had about $93 billion in assets as of the end of February.

Treasury Secretary Steven Mnuchin told Fox News on Sunday he believed the additional funds could help the Fed and Treasury provide about $4 trillion in loans. But investors and economists said even this additional money may be insufficient, and Congress will likely need to pony up trillions of dollars more before the Fed and Treasury can make a significant dent in the real economy. If it does not, many US companies and local governments are at risk of defaulting on debt or even going under.

That is because of the sheer size of the world's largest economy, the unprecedented scale of economic disruption caused by attempts to contain the virus and higher credit losses if the government has to step in to support weaker borrowers, according to these experts. Scott Minerd, chief investment officer of Guggenheim Partners and member of an investor committee that advises the New York Federal Reserve on financial markets, told Reuters he believes the government needs to give the Treasury about $2 trillion to help prop up the economy. Using expected losses from companies in the lowest tier of investment grade, Minerd estimates that the money required last week might be only enough to absorb losses on loans of about $900 billion.—Reuters

Australia to offer wage subsidies

SYDNEY: The Australian government will promise to subsidize employee wages for up to six months, two sources familiar with the plan said, as it seeks to shelter the country's economy from the impact of the global coronavirus pandemic. Australia has ramped up social distancing measures in recent days, restricting public gatherings to just two people and shutting down clubs, gyms, beaches and parks, as it seeks to capitalize on a slowdown in the growth rate of new infections nationally. Officials in several states will bring in penalties from midnight including fines of up to A$1,600 and the potential of a six month jail term for anybody found breaching the new rules.

"That stabilization of numbers is what we are looking to do, that flattening of the curve so that we can have enough hospital and intensive care resources to use over the coming weeks if indeed we need those," Deputy Chief Medical Officer Paul Kelly said. "But this is not a time to take the foot off the brake." While the social distancing measures appear to have helped slow the spread of the virus, the shutdown of businesses across the country has led to swiftly rising unemployment and sharply falling consumer spending.

Economists expect the country's A$2 trillion ($1.23 trillion) economy to slip into its first recession in almost three decades because of the pandemic. Two sources with knowledge of the package to be announced yesterday said it would provide funds for six months. Australian Treasurer Josh Frydenberg declined to provide specifics ahead of the official announcement but said it would accelerate the country's economic rebound. "It is about providing additional income support and keeping employees connected to their employer, because once we get to the other side of this we want the recovery as speedy as possible," Frydenberg told the Australian Broadcasting Corp, which reported the package will pay businesses A$1,500 every fortnight per employee.—Reuters