



MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

**STATEMENT TO PARLIAMENT ON THE LAYING OF THE
HOST GOVERNMENT AGREEMENT, TARRIF AND
TRANSPORTATION AGREEMENT AND SHAREHOLDERS
AGREEMENT FOR THE EAST AFRICA CRUDE OIL
PIPELINE**

WEDNESDAY, 28TH APRIL 2021

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INTRODUCTION

1. Rt. Honourable Speaker and Honourable Members of Parliament the purpose of this statement is to: -
 - i) *Present the key terms agreed in the agreements for the East Africa crude Oil Pipeline (EACOP)*
 - ii) *Lay three (3) agreements before the House, namely, the Host Government Agreement, the Tariff and Transportation Agreement and Shareholders Agreement for the EACOP.*

2. Rt. Hon. Speaker, you will recall I presented a statement to the house on 14th April 2021 on the key agreements that were signed on 11th April, 2021 at a ceremony that was graced by the two Heads of State, His Excellency President Yoweri Kaguta Museveni and Her Excellency Samia Suluhu Hassan, the President of the United Republic of Tanzania. In the statement, I detailed the significance of the agreements in unlocking the award for Engineering, Procurement and Construction (EPC) contracts for the project which present significant opportunities for Ugandans and Ugandan companies to provide goods and services for the construction of the EACOP.

3. The Agreements signed are aimed at facilitating the development of the East African Crude Oil Pipeline (EACOP). It is estimated that about US\$ 15 Billion will be invested in the sector within four(4) years. This investment is expected to have significant direct, indirect and induced benefits on all sectors of the economy.



BACKGROUND

4. In February 2014, Government and the International Oil Companies (IOCs) entered into a Memorandum of Understanding (MOU) regarding the commercialisation of the discovered oil and gas resources. The commercialisation options agreed in the said MOU included export of crude oil and refining.

5. Rt. Hon. Speaker, you will recall that in 2017, the Republic of Uganda and the United Republic of Tanzania entered into an Inter-Governmental Agreement (IGA) to facilitate the development of the EACOP Project. This was subsequently followed by the negotiation of the Host Government Agreements (HGAs) for the EACOP between the IOCs and the Governments of Uganda and Tanzania in February 2018. Rt. Hon Speaker, as mentioned earlier, the negotiation of the Uganda HGA was concluded on 11th September 2020 and subsequently initialled by Government and Total East Africa Midstream B.V (on behalf of the project developers). The HGA was finally signed on 11th April 2021 following harmonisation with the Government of Tanzania on some fiscal terms.

6. One of the key issues agreed with the project developers in the HGA is the need for the State to ensure that there is an enabling legislation to facilitate the implementation of the EACOP Project in Uganda. This will be achieved by making amendments to some existing laws as well as adding to the existing legislation to ensure the creation of a legal framework that will foster an environment for the lawful implementation of the EACOP Project. The undertaking to put in place the Enabling Legislation for the Project was made by Uganda and Tanzania in the Inter-Governmental Agreement (IGA) and reaffirmed in the HGAs for



the two states. The drafting process of the bill has been concluded and it will soon be considered by Cabinet and consequently tabled for debate in this house.

7. I wish to recognise the different MDAs that supported my Ministry during the negotiations of the project agreements, namely: -
- i) Ministry of Justice and Constitutional Affairs,
 - ii) Ministry of Finance, Planning and Economic Development,
 - iii) Ministry of Internal Affairs,
 - iv) Ministry of Foreign Affairs,
 - v) Ministry of Lands, Housing and Urban Development,
 - vi) Bank of Uganda (BOU),
 - vii) Petroleum Authority of Uganda (PAU),
 - viii) National Environment Management Authority (NEMA),
 - ix) Insurance Regulatory Authority (IRA),
 - x) Uganda Revenue Authority (URA) and
 - xi) Uganda National Oil Company (UNOC).

KEY TERMS IN THE AGREEMENTS

8. **The Host Government Agreement (HGA):** - The purpose of this agreement is to provide a legal framework and contractual obligations between Uganda as the host country and EACOP Company as the project company. The key aspects covered in the agreement include, but are not limited to: -
- i) Commitment of each party to ensure the implementation of the Project within the agreed timelines;
 - ii) The tariff for the crude oil transported through the pipeline of USD 12.77 per barrel to be paid by the shippers (owners of the crude oil including Uganda);



- iii) Protection of investments including provisions concerning expropriation and nationalisation;
- iv) Granting of land rights and necessary consents, permits and authorisations;
- v) Freedom of transit and free movement of project personnel and goods associated with project activities;
- vi) Government's role in providing for the safety and security of the project;
- vii) Third party access to the pipeline;
- viii) National content to ensure employment of Ugandans and supply of goods and services by Ugandans;
- ix) Applicable Environmental, Health and Safety (EHS) standards; and,
- x) Co-operation to ensure facilitation of financing of the project.

I wish to lay on table before the House, a copy of the Host Government Agreement for the EACOP Project. I beg to lay.

9. The Tariff and Transportation Agreement (TTA): The EACOP Company and the owners of the crude oil (shippers) including the Uganda National Oil Company which is a nominee of the Government of Uganda entered into a Tariff and Transportation Agreement. The TTA defines the framework under which oil will be transported including the rights and responsibilities of the shippers (owners of crude oil) and the transporter who is the EACOP Company.

10. The key aspects covered by this agreement include, but are not limited to: -

- i) **Responsibility for facilities** details the obligations of the transporter to construct, install, test, commission and operate the EACOP system and also the obligations of the crude oil



- owners to ensure construction and operation of upstream facilities;
- ii) **Tariff payment:** details the obligation by the crude oil owners (shippers) to pay the agreed Tariff and also the mechanism for invoicing and payment;
 - iii) Crude oil measurements, tests and analyses;
 - iv) Delivery and offtake rights and obligations;
 - v) **Quality and off specification crude oil:** Specifies the specifications expected at the entry of the pipeline and how to treat off-spec crude oil;
 - vi) **Sanctions:** stipulates treatment of parties or any party that faces international sanctions that could hinder the operations of the project; and
 - vii) **Compensation for crude oil lost during transportation;** It was agreed that in the event of loss of crude oil in the EACOP system beyond the allowable system operational losses, the transporter, EACOP Co, shall compensate the Government of Uganda.

I wish to lay on table before the House, a copy of the Tariff and Transportation Agreement for the EACOP Project. I beg to lay.

11. **The Shareholders Agreement (SHA):** - This agreement was signed between the EACOP Co. and the shareholders who are the National Pipeline Company (U) Limited (wholly owned subsidiary of UNOC); Tanzania Petroleum Development Corporation (TPDC); Total Holdings International B.V (Total Shareholder); and China National Offshore Oil Company Shareholder (CNOOC Shareholder).



12. The SHA describes how the EACOP Co. shall be operated and defines shareholders' rights and obligations. The SHA covers aspects such as the mechanisms for approval and settlement of the historical costs, transfer to EACOP Co. of activities arising out of the historical activities, conditions for SHA completion, governance structure, board matters, senior management and other staff, budgeting, financing arrangements, equity contribution mechanism, events of default and remedies, governing law and dispute resolution, among others.
13. Rt. Hon Speaker, I wish to inform you that this particular agreement was initialed by the CNOOC Shareholder. Their signature awaits their internal approval process even though in principle they are agreeable to the agreement. CNOOC will also determine their shareholding entity as part of their internal approval process.
14. Rt. Hon. Speaker, the shareholding is as follows: -
- i. Uganda National Oil Company (GoU Shareholder) - 15%,
 - ii. Tanzania Petroleum Development Corporation (TPDC) ≤ 15%
 - iii. CNOOC Shareholder - 8 %, and
 - iv. Total East Africa Midstream B.V - 62%.

I wish to inform you that GoT represented by TPDC has a right to reduce its 15% shareholding downwards to a minimum of 5% within 30 days after signature date of the SHA. If TPDC elects such reduction, then (i) CNOOC will have the first right to take up any percentage so released and (ii) thereafter, TOTAL will take up any remaining percentage such that the overall shareholding totals to 100%.



Colleagues, the Shareholders Agreement provides for the terms and conditions under which the shareholders will invest in the EACOP Company including, but not limited to: -

- (a) the manner in which the equity contributions will be made by the Shareholders to ensure successful completion of construction of the EACOP System;
- (b) the level of participation of each shareholder with UNOC taking a 15% stake through its wholly owned subsidiary, the National Pipeline Company (U) Limited;
- (c) a mechanism through which the project development costs (historic costs) borne by the Shareholders prior to the incorporation of the EACOP Co. shall be reimbursed to such Shareholders by the company;
- (d) how the EACOP project will be financed. The agreed projection is a 60:40 debt to equity ratio. EACOP Co has kicked off the process of sourcing for project financing. Colleagues, it is important to note that prior to draw down on any project financing, the shareholders will be investing the equity proportional to their respective shareholding;
- (e) a mechanism through which shares may be transferred amongst Shareholders and from Shareholders to third parties;
- (f) the governance mechanism for management of the EACOP Company's affairs including board and shareholder decisions;
- (g) composition, appointment, and removal of the board of directors and senior management of the project company; and
- (h) Tax treatment of payments due to Shareholders from the project company.



I wish to lay on table before the House, a copy of the Shareholders Agreement for the EACOP Project. I beg to lay.

CONCLUSION

15. As I conclude, Rt. Honourable Speaker and Hon. Members of Parliament, let me take this opportunity to thank you Rt.Hon. Speaker and through you, I wish to thank the Parliament of Uganda for the support it has extended to my Ministry over time that has enabled us to achieve our mandate in all the sub-sectors.
16. My Ministry is committed to advance the petroleum sub-sector and we count on your support as we deliver our mandate.
17. Finally, Rt. Hon. Speaker, I would like to inform this August House that the HGA, TTA and SHA are commercial agreements that have confidentiality clauses to which the government is bound and I would therefore wish to request you Rt. Hon. Speaker to ensure that Parliament handles these agreements in a manner that preserves their confidentiality so that government does not breach its obligations under the agreements.
18. I thank you for this opportunity.

FOR GOD AND MY COUNTRY



DR. KITUTU KIMONO MARY GORETTI (MP)

MINISTER OF ENERGY AND MINERAL DEVELOPMENT