

# East Africa Crude Oil Pipeline (EACOP) Update

01 April 2019

## Predictive analysis

Assaye Risk’s initial [EACOP article](#) from June 2018 indicated that delays on the pipeline were inevitable due to project financing concerns and infrastructure issues. There has been a recent admission from the Ugandan Government that 2022 is a more realistic date for completion provided a final investment decision (FID) is agreed upon by all stakeholders in August 2019. As identified by our risk analysis pie chart, the most significant indicators leading to delay are likely to be rising project costs and issues with the FID. If the Ugandan and Tanzanian Governments are unable to forge a sustainable agreement, a further delay of a year may be expected, which could see the Kenyan Turkana-Lamu pipeline completed first. However, now that both major impact studies have been completed to allow for the construction of the EACOP, progress on the pipeline should begin to be made provided project financing concerns are resolved.

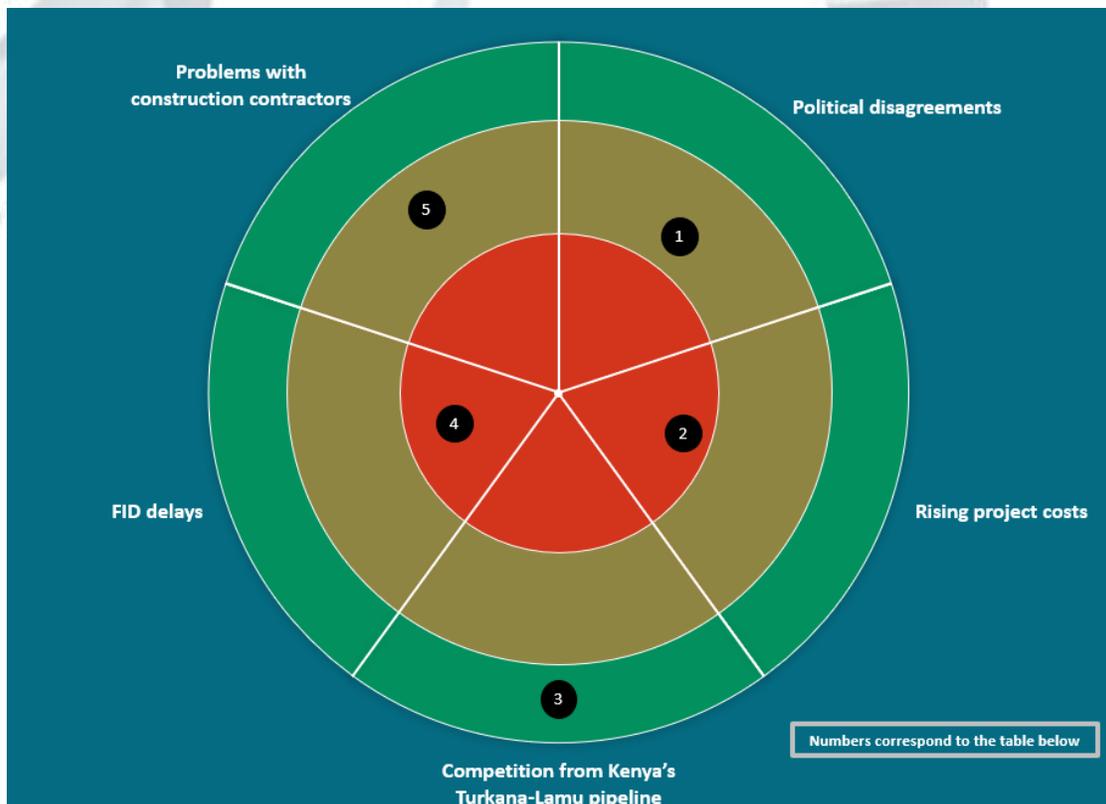


Image 2. Risk pie chart for the EACOP showing the main project delay indicators. The closer the indicator is to the centre of the circle, the higher the risk that it will delay the EACOP.

## Assessment

### 1.) Political disagreements

- Although there is progress between the Ugandan and Tanzanian Governments in the fields of environmental studies and security, a Host Government Agreement (HGA) is yet to be agreed upon and could prove to be an area of contention between both governments. However, President Museveni and President Magufuli have pushed forward an agenda of co-operation and it is expected that more issues will arise from the FID agreement with the private oil sector companies rather than at an inter-governmental level.
- As a government cabinet minister with an extensive background in energy projects, Uganda's Energy Minister Irene Muloni has provided realistic dates on the EACOP's progress thus far and it is likely her assessment of an expected delay out to 2022 is reliable given current discussion delays.

### 2.) Rising project costs

- Depending on the input of private stakeholders into the project, the Tanzanian and Ugandan Governments could be faced with the burden of increased costs if a stakeholder pulls investment from the project. This would likely lead to the Ugandan and Tanzanian Governments taking out further loans to cover the budget shortfalls, which may delay progress in acquiring project financing. At a time when the Ugandan and Tanzanian Governments are trying to fund other large infrastructure projects such as the Stiegler's Gorge hydro power dam, rising costs are highly likely to make the EACOP less viable.

### 3.) Competition from Kenya's Turkana-Lamu pipeline

- Currently the EACOP is making greater progress towards the construction phase compared with the Turkana-Lamu pipeline which is likely to be finished in late-2022 at the earliest. Kenya is yet to finalise land acquisition agreements and there is potential for further community disagreements in Turkana which would lead to a cessation of oil operations. Although unlikely, if serious obstacles arise to the EACOP, the oil industry may choose to increase support for the Turkana-Lamu pipeline.

### 4.) FID delays

- Likely to be the most important indicator for the EACOP's progress, a delay to the FID proposed for August 2019 could bring investment uncertainty for the main stakeholders in the project. Previous discussions have led to deadlock as the governments and private sector investors have disputed the level of taxation and ownership associated with the EACOP and it is unclear what the chances of an August 2019 FID agreement being made currently are.

### 5.) Problems with construction contractors

- When the EACOP begins further developments in the construction phase, companies could experience logistical difficulties when importing materials, employing skilled locals and partnering with suitable Tanzanian contractors. Even though this is not predicted to derail the project as funding will be secured by this stage, it could delay the completion date beyond 2022.

## Indicators of EACOP progress

The following presents key indicators which will provide a measure of EACOP progress:

Indicators of EACOP progress	Indicators of EACOP delays
<p><b>Indicator: Co-operation between the Tanzanian and Ugandan Governments</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- May 2017- Inter-Governmental Agreement (IGA) signed which laid the foundations for co-operation between the two governments.<sup>1</sup></li> <li>- March 2019- Joint security teams from Uganda and Tanzania hold a meeting in Kampala to discuss the proposed security arrangements for the EACOP. A draft security Memorandum of Understanding (MoU) was signed between both states for ratification in April 2019.<sup>2</sup></li> </ul>	<p><b>Indicator: Disagreements between the Tanzanian and Ugandan Governments</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- February 2019- Ugandan Energy Minister Irene Muloni states that the EACOP will now likely be completed in 2022 rather than 2020 due to disagreements in funding between stakeholders.<sup>3</sup></li> <li>- February 2019- Head of downstream operations at the Tanzania Development Corp, Emmanuel Simon Gilbert, says progress on the pipeline will be delayed until a Host-Government Agreement (HGA) is signed between Uganda and Tanzania.</li> </ul>
<p><b>Indicator: Completion of mandatory pipeline surveys required for construction.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- January 2018- Front End Engineering Design (FEED) study completed which covers estimates of labour requirements and technical specifications.</li> <li>- January 2019- Environmental and Social Impact Assessment (ESIA) completed and given to the Tanzanian National Environmental Management Authority (NEMA) for implementation.<sup>4</sup></li> </ul>	<p><b>Indicator: Rising costs for the EACOP leads to disagreement between stakeholders.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- March 2019- Report by Debtwire indicates that Uganda and Tanzania are pushing for USD\$7bn of funding for the EACOP, which is set to become the most expensive infrastructure project in East Africa.</li> <li>- March 2019- Uncertainty over the financing structure for the EACOP since Uganda is reported as having to now mobilise USD\$230m in funding and Tanzania is yet to confirm its contribution to the pipeline.</li> </ul>

<sup>1</sup> <https://www.pipeline-journal.net/news/east-african-crude-oil-pipeline-set-boost-regional-economic-growth>

<sup>2</sup> <https://twitter.com/foreigntanzania/status/1109065165021036551>

<sup>3</sup> <https://uk.reuters.com/article/oil-uganda-tanzania/uganda-expects-first-oil-production-to-be-delayed-to-2022-minister-idUKL3N20833P>

<sup>4</sup> [https://www.banktrack.org/project/east\\_african\\_crude\\_oil\\_pipeline#](https://www.banktrack.org/project/east_african_crude_oil_pipeline#)

<p><b>Indicator: Adherence to international oil sector initiatives.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- March 2019- Uganda joined the Extractive Industries Transparency Initiative (EITI) which ensures the ownership of licences, export values and expenditures are transparent to the public. Tanzania is also a part of the EITI.<sup>5</sup></li> </ul>	<p><b>Indicator: Progress in the Kenya Turkana-Lamu pipeline becomes a source of competition for the EACOP.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- March 2019- If the stakeholders in the Kenyan pipeline (Tullow Oil, Total and Africa Oil) complete their final investment decision by the end of 2019 as expected, construction will begin in 2020 and oil exports by 2022.<sup>6</sup></li> </ul>
<p><b>Indicator: FID is agreed upon by the government and stakeholders in August 2019.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- March 2019- The Uganda General Manager for Total E&amp;P, Mr Pierre Jessua, states that the company is planning for all agreements and the FID to be made with the government, Total, CNOOC and Tullow Oil by August 2019.</li> </ul>	<p><b>Indicator: FID scheduled for August 2019 experiences setbacks.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- March 2019- Tullow Oil is reported to disagree with the Ugandan Government over the percentage it is paying in Capital Gains Taxes and is allegedly considering selling part of its oil fields. The General Manager of the Ugandan Pipeline Company, John Habumugisha, states that the signing of a joint operating agreement will be difficult between the stakeholders.<sup>7</sup></li> </ul>
<p><b>Indicator: Tender vacancies for the construction of the pipeline and conferences detailing opportunities.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- January 2019- UK Export Finance (UKEF) hosted an investment event in London to encourage British companies to invest in the EACOP project.</li> <li>- February 2019- EACOP conference held in Dar Es Salaam presenting local procurement opportunities for oil and construction firms.</li> <li>- March 2019- Tender vacancies for crude oil heat exchangers, high power voltage cables and environmental consulting services advertised on the EACOP website.<sup>8</sup></li> </ul>	<p><b>Indicator: Problems with sourcing suitable contractors and importing supplies.</b></p> <p><b>Recent example:</b></p> <ul style="list-style-type: none"> <li>- February 2019- Updated business guidance from the UK Department for International Trade (DIT) notes that Tanzania’s main business challenges are a limited availability of skilled labour, an unreliable power system and a renewed focus on local partnership requirements for businesses.<sup>9</sup></li> <li>- February 2019- Tanzania Shipping Agencies Act passed which gives the Tanzania Shipping Agency Corporation (TASAC) exclusive power to carry out freight forwarding and carrying activities for the petroleum sector.<sup>10</sup></li> </ul>

<sup>5</sup> <https://www.theeastafrican.co.ke/business/Uganda-joins-lobby-to-enhance-transparency-in-oil-deals/2560-5010370-19x9giz/index.html>

<sup>6</sup> <https://www.businessdailyafrica.com/analysis/ideas/Who-will-be-first-to-export-oil---Kenya-or-Uganda/4259414-5010492-lu418w/index.html>

<sup>7</sup> <http://www.ntv.co.ug/news/national/Government-seeks-Shs847b-for-stake-in-oil-pipeline/4522324-5030802-vy1vxwz/index.html>

<sup>8</sup> <http://eacop.com/jobs-tenders/>

<sup>9</sup> <https://www.gov.uk/government/publications/exporting-to-tanzania/exporting-to-tanzania#challenges-doing-business-in-tanzania>

<sup>10</sup> <https://www.thecitizen.co.tz/News/--Sensitive--goods-to-be-cleared-solely-by-state-agency/1840340-4997996-n7xlq3z/index.html>