

THE GEOPOLITICS OF ACCESS TO OIL RESOURCES.

THE CASE OF UGANDA

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Table of Contents

DECLARATION OF AUTHENTICITY	vi
ACKNOWLEDGEMENTS.....	vii
DEDICATION	x
ABSTRACT.....	xi
ABBREVIATIONS	xii
LIST OF FIGURES.....	xv
CHAPTER ONE	1
1.0 INTRODUCTION	1
1.1 Background of the study	1
1.1.2 The regional Dynamics of Oil:	3
1.1.3 The International players	4
1.2 Justification of the study.....	6
1.3 Research questions	9
1.4 Thesis Statement	9
1.5 Methodology.....	10

1.6 CHAPTERISATION	11
1.7.0 Literature Review	12
1.7.1. Introduction.....	12
1.7.2 Foreign policy and diplomacy in exploiting their oil and gas resources	13
1.7.3 Contemporary trends of oil trade and Diplomacy	16
1.7.3. Geopolitics and the Resource Curse	20
CONCLUSION.....	24
CHAPTER TWO	26
2.1 GEOGRAPHY AND DEMOGRAPHY	26
2.2 POLITICAL AND ECONOMIC CONTEXT.....	29
2.2.1 Political context	29
2.2.2 Economic Overview	31
2.3 The History and Progress of Oil Exploration and its Development in Uganda.....	36
2.3.1 Introduction.....	36
2.3.2 The Background to and History on Exploration of Uganda's oil.....	37
2.3. The Legal and Institutional Frame Work	41
2.5. The Infrastructural Development in the Oil Sector	42
2.6.1 The Future of oil in Uganda	46
2.6.2 Sustainable exploitation of oil Resources.....	48

2.6.3 Facets to consider in commercial oil restoration and production.....	49
Conclusion.....	52
CHAPTER THREE.....	56
3.0 The role of the state in oil management	56
3.2 Negotiation of oil contracts.....	57
3.3 Resources and Revenue Management.....	63
3.4 Democracy and adherence to the rule of law as essential elements in oil management	68
3.5 Trans-boundary dynamics in the management of Uganda's Oil	72
3.6 International Human rights standards on oil management	74
3.7 Conclusion.....	76
CHAPTER FOUR	78
4.0. Regional and International Geopolitics of oil	78
4.1. Introduction	79
4.2International influence of Access to oil	80
4.2 Region Geographical Aspects of Uganda’s Access to Oil	85
4.3 The ICGLR Membership and Regional Peace.....	88
4.4 .0 Environmental Issue and Climate Change.....	90
4.4.1 National Environmental Concerns for Uganda	90
4.4.2 International Environmental Concerns	91

CHAPTER FIVE	95
5.0. CONCLUSION AND RECOMMENDATIONS.....	95
5.1.1 National Realities of Uganda's access to her oil	95
5.1.2 Foreign policy perspective	96
5.1.3 Summary of the objective of the study.....	97
5.2.0 FINDINGS AND RECOMMENDATIONS OF THE STUDY	98
5.2.1. The Geographical Location of Uganda.....	98
5.2.2. The Small Quantity of Oil the Reserves.....	99
5.2.3. The Regional Influence.....	100
5.2.4. Trans-boundary natural resources and environmental concerns.	101
6. Uganda's Oil and Gas Policy.....	101
7. Corruption and Political Instability.....	102
8. Influence of the Western and Eastern super powers	103
REFERENCES.....	105

DECLARATION OF AUTHENTICITY

I hereby declare that the dissertation submitted is my own and that all passages and ideas that are not mine have been fully and properly acknowledged. I am aware that I will fail the entire dissertation should I include passages and ideas from other sources and present them as if they were my own.

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Date and Place: 28th June 2016

Signature:

A handwritten signature in blue ink, appearing to be 'Fauzia Nkunyingi', with a horizontal line extending to the right.

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DEDICATION

To my baby girls, for inspiring me each day ...

ABSTRACT

Ten years ago, Uganda joined other sub-Saharan African Countries with new discoveries of oil; and just as the case always is, this news comes with high prospects for development and economic transformation. These ambitious projections are always based on the success stories of oil money in other countries without prejudice to the fear of the infamous oil curse that results from poor exploitation of oil revenues. With these aspirations at hand, Uganda has clearly stated in its national policies and development plans the fact that the country's development in the next 30 years shall be largely dependent on exploitation of its natural resources- such as oil.

What remains to be seen however is how Uganda intends to handle foreign interests that have for decades been associated with the "black Gold" ranging from the far-fetched interests of Western and Eastern powers, to the very eminent interests of neighboring East African Community Member states and other countries of the great lakes region. In face of the volatile oil prices, over which a Uganda clearly has no control, and the threat of global

warming which has questioned the sustainability of continued use of fossil fuel, it remains to be seen how developing countries, like Uganda as a case study in this thesis– with new oil discoveries shall succeed in an already saturated oil market.

This thesis explores different geopolitical concerns that Uganda ought to have regarded to as she accesses her oil, and the need to strike a balance between her national interests as a sovereign state, without jeopardizing its international relations with other stakeholder states.

ABBREVIATIONS

ABMAK	Akenna, Byabashaija, Muwonge, Akunobere and Kaliisa, law Attorneys
CNOOC	China National Offshore Oil Corporation
DRC	Democratic Republic of Congo
EAC	East African Community
EITI	Extractive Industry Transparency Initiative
EU	European Union
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Product
ICBT	Informal Cross Border Trading
ICCPR	International Covenant on Civil and Political Rights”

ICESCR	International Covenant on Economic, Social and Cultural Rights”
ICGRL	International Conference of the Great lakes Region
IFC	International Finance Corporation
IMF	International Monetary Fund
LRA	Lord’s Resistance Army
MPs	Members of Parliament
NGO	Non–Governmental Organization
NRGI	Natural Resource Governance Institute
NRM	National Resistance Movement
OPEC	Organization of Petroleum Exporting Countries
PEPD	Petroleum Exploration and Production Department
PLC	Private Limited Company
PSA	Production Sharing Agreement
SPLA	Sudanese Peoples’ Liberation Army
UK	United Kingdom
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization

UPDF	Uganda Peoples' Defense Forces
US	United States of America
UG	The Republic of Uganda
UNHCR	United Nations High Commission for Refugees

LIST OF FIGURES

Fig 1: Map of Eastern Africa Showing the Location of Uganda and the oil resources in the region

Fig 2: Map showing Uganda's licensed oil Blocks by 2012

Fig 3: The issue of pipelines and the Geopolitics of Oil in Uganda

Fig. 4: Crude Oil Production Percent of total World Production

Fig. 5: Oil Pipelines Africa

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Uganda is a democratic State on the African Continent. It is regionally located in East Africa and it shares borders with Kenya on the East, Tanzania on the South, South Sudan on the North, Rwanda and Burundi on the South West. Uganda and its six neighbors i.e. Kenya, Uganda, Tanzania, Burundi, Rwanda and South Sudan form the East African Community. The East African Community (EAC) is a regional body aimed at enhancing cooperation between the East African states for the economic, Political and Social benefit of all. According to the 2014 National Population census, Uganda, which is a land locked country with an area of 93,065 square miles, has a population of 37.8 people (UBOS, 2015).

The confirmation of the existence of commercially viable oil reserves in Uganda, in the year 2006 (National Oil Policy, 2008, p.1) tremendously increased the country's hope in the oil sector as enunciated in the national strategic plans of the country, as per the National Development Plan two and the Uganda Vision 2040. It is important to note that Commercial viability in the extractive industry refers to a situation where the mineral deposits (or in this case oil) discovered underground have the potential to generate revenues over and above the cost of extracting them from the ground.

However, it is also worthy to note that the oil prices of the time were approximately one hundred US Dollars a barrel. Given the current oil prices that are far below the price in 2006, the question of viability has now come back to haunt Ugandan decision makers.

(Henry Bazira, 2015)

The fact that oil prices are set by the international players, (Paul Kosakowski, 2016) for if removed from Uganda, confirms the assertion that geopolitics and international diplomacy have a pivotal place in the access to oil in any split into geo-political categories, (Henry Bazira, 2015) all of which have influence on production, exportation, and oil pricing.

1.1.2 The regional Dynamics of Oil.

The discovery of oil in Uganda coincided with discoveries of hydro carbon in other African countries (Luke Patey, 2015). Here the need for cooperation with other external and international players became evident. The peculiar discovery of oil in the western region of Uganda six years after oil was discovered in Kenya had already caused a hype among many external and internal observers over which country could produce oil first (Luke Patey, 2015). The construction of an oil pipeline to transport petroleum from Uganda to the east African coast is raising the most highlighted geopolitical issues at the moment, following somewhat conclusive negotiations with Kenya over two oil exporting pipe line routes.

In regards to this Uganda went ahead and signed a memorandum of understanding with Tanzania for a third alternative pipeline route (Mbanga, 2015), which was eventually confirmed due, by the Ugandan and Tanzanian Presidents (Fredrick Musisi *et al*.(2016) . The change of the pipeline route from Kenya to Tanzania was in disregard of Uganda's initial arrangement with Kenya in view of the pipeline going through Kenya's North

corridor, (Lillian Ochieng, 2015) (through the oil-rich Turkana land) to the deep water port of Lamu Indian Ocean.

It is argued that due to the Somali's Terror group *Al-Shabab*, the viability of this route become questionable hence Uganda finally decided to settle for the Dar es Salaam route.

East African Community's newest member, South Sudan was equally interested in using this pipeline to export its crude oil through Kenya (Pipelines international, 2013) to the coast given the intricacies surrounding the politics of the Sudan (Juba and Khartoum Governments).

In a nutshell, the discussion of Uganda's oil pipeline goes through more than five countries which are; Kenya, Tanzania, Sudan, South Sudan, Somalia and Uganda itself. The geographical location of these countries offers varying comparative advantage to each state, a fact that justifies the need for partnership (Luke Patey, 2015) among states.

1.1.3 The International players

The inception of International oil companies was marked by the entrée of PLC-Heritage Oil and Gas Ltd as the sole licensee, until in July 2010 when it sold its exploration licensee on the Albertine Graben to Tullow Oil (Angelo Izama *et al*, 2011), a British company following

a Farm down by Tullow in 2012, China's China National Off Shore Oil Company (CNOOC) and Total Plc. from France which had also set foot in Uganda with the three countries holding thirty three per cent stakes in the sector.

Only these three companies were operating in the oil sector until February 2015, when Uganda awarded the contract to build and operate its oil refinery to a consortium led by Russia's RT Global Resources (Elias Biryabarema, 2015). However, this very much attracted expression of disapproval from the then US Ambassador to Uganda, Scote Delisi who was quoted saying inter alia that "this venture was not a done deal" (Fredrick Musisi, 2015). This caution came partly as a result of the sanctions against Sergiei Chemezov, the parent company of RT Global Resources. It is also not to dispute that the divergence of the Russian and American foreign policy could have been an undertone in this disapproval.

Reflecting on the above its worth noting that a proper policy in place and a proper regulatory and institutional framework is important for any country to succeed especially in the oil industry. Uganda has to this effect put in place a National Policy on oil and Gas, an Upstream Law, (The petroleum (Exploration, Development and Production) Act 2013) the mid-stream Law (The petroleum (Refining, conversion, Transmission) Act 2013) and finally the Public Finance Act 2014, (also referred to as the downstream Act). These laws

elaborately state how Uganda's oil industry will be run and institute such as the petroleum Authority and the National Oil Company will operate.

Uganda currently seems to be inclined to running the oil industry as a public-private sector partnership although the ongoing establishment and operationalization of the National Oil Company raises questions as to whether Uganda intends to nationalize its oil in the future.

It is the aforementioned interplay of both national and foreign interests in Uganda's mushrooming oil and gas industry that make it pertinent to assess the geopolitical dynamics of the sector.

1.2 Justification of the study

It remains undisputed that Africa is a resource-rich continent, but equally undisputed is the fact that the continent continues to suffer abject poverty, disease, political instability and innumerable socio-economic problems. Even though Africa's trade with the international world has increased, with the value of her exports quadrupling, the continent only benefits a fraction from international trade. Recent Oil and gas discoveries across different parts of

Africa have led to the conclusion that Africa is the new hydrocarbon frontier (David E. Brown, 2014).

Oil and gas are of strategic importance to Africa both in the short term, given that 57% of Africa's export earnings are derived from hydrocarbons (KPMG 2015, p. 1). In the long term, oil production is a step in the right direction towards shifting the balance of power between Africa and the Western notwithstanding the attendant geopolitical and social economic risks that come with oil.

With the recent discovery of oil in various parts of Africa like Ghana, Uganda, Kenya, Ethiopia, DRC, Sierra Leone, Sao Tome and Principe, Africa's oil export is expected to increase. The Great Lakes Region, comprising of Burundi, Democratic Republic of Congo, Kenya, Rwanda, Tanzania and Uganda is arguably the most resource-rich region in Africa. Uganda's oil discoveries in 2006 are found in the Albertine Graben region which lies in the western rift valley running geologically from Sudan, South Sudan, Uganda, Eastern DRC, Rwanda, Burundi, western Tanzania, northern Zambia, Malawi and western Mozambique (KPMG 2015, p.21). At East African community level, there are strong efforts to jointly develop petroleum sector infrastructure (East African Business Week, 2015) a discourse that makes access to oil discussion not just a national issue but of regional concern and that of a land locked Uganda is currently at the center of this dilemma.

There is extensive literature on the geopolitics of oil but most of those who write always focus on the role of the Western powers and International oil companies' vis-à-vis world energy security for the United States, Russia and more recently China.

They analyze the pivotal role oil has had in triggering, financing and facilitating wars especially in the oil rich middle east, and also discuss the infamous "oil curse" while looking more on how the revenues that accrue to governments more often always leave the oil producing countries worse than they were before the oil discovery. Little has however been written on the diplomatic ramifications for African countries with new discoveries both at regional and international level.

This study is an appraisal of the geopolitical concerns of land locked Uganda that currently stands at crossroads ahead of its anticipated commencement of oil production by the year 2020.

In this Thesis, the researcher also explores potential measures that can enable African states to retain control over their oil resource without compromising the International Relations.

1.3 Research questions

1. Why is it important for developing Countries, like Uganda to pay attention to foreign policy and diplomacy in exploiting their oil and gas resources?
2. Given the contemporary trends of oil trade and diplomacy, what measures can states with new discoveries take to ensure that they retain sovereignty over their oil without compromising international relations?

1.4 Thesis Statement

In light of the fact that petroleum politics are increasingly becoming an important aspect of diplomacy across the globe, developing countries ought to approach oil exploration and production with keen attention to foreign policy. Issues of Oil nationalization, alternative fuels/energy, oil price volatility, and the relationship between producer and consumer countries have now more than ever highlighted the need for a diplomatic approach to the exploitation of Oil and gas, especially for developing countries like Uganda.

1.5 Methodology

This study employs both the quantitative and qualitative research methods i.e. desk research, Literature Review, stakeholder mapping and findings analysis hence enriching the quality of understanding Uganda's looming oil sector.

Desk research forms the bulk of this thesis, it being a primary and leading source of content on the subject. The researcher looks at Laws and policies (both national and international), books, Articles, magazines, and other publications by reputable scholars to give a detailed insight on the research.

For this thesis, the researcher also **interviewed** some key informant stakeholders in Uganda's oil and gas sector for their opinions on the research questions. In-depth and semi-structured interview have been carried out with concerned officials in relevant institutions in the framework of purposive sampling.

Purposive sampling is defined as that form of research where respondents are sampled in a strategic manner, so that those sampled are relevant to the discussion chosen; in this case

these included officials from Uganda's Ministry of Energy and Mineral Development, and the Ministry of Foreign Affairs, International Oil Companies, Civil Society and some from the Academia.

1.6 CHAPTERISATION

This study is divided into five chapters, which are as follows;

Chapter One gives the main introduction of the thesis and it entrails the background of the study, the research questions, justification of the study, methodology and literature review.

Chapter Two; This Chapter is a brief exposition of Uganda, looking first at the country's history and geographical location, the political and economic situation of the country. The chapter also addresses the geopolitical issues of Africa's great lakes region and East African Community in which Uganda is a member state. This is summed up by a brief on the status of Uganda's oil sector and the future prospects of it.

Chapter Three; deals with the role of the state in oil management i.e. negotiating of oil contracts, management of the resources and well as management of its revenue. It also

covers citizen's participation, and efforts to be adopted, the international human Rights standards in exploiting the resource as well as transparency and accountability initiatives for good governance of oil.

Chapter Four contains an analysis of the geopolitical and international factors that shape the exploitation of Oil and international laws and policies that govern access to oil. This chapter also looks at the role of major International oil companies and nationalization of oil, issues of national security and the interests of other oil producing countries, and oil diplomacy in general.

Chapter Five deals with the conclusion of the study and recommendations that Uganda or any other sub-Saharan country with new oil discoveries need to adopt for equitable exploitation of oil without compromising diplomacy.

1.7.0 Literature Review

1.7.1. Introduction

The need for states to pay attention to foreign policy and diplomacy in the exploitation of Oil and gas cannot be over emphasized. This ranges from aligning national laws on petroleum with international laws and treaties on oil to which a state is signatory, to putting

in places institutional mechanisms of ensuring compliances with internationally accepted practices without compromising the interests of the host state. Uganda, like a host of other African countries that have new discovered resources like oil continue to ponder on the question whether this resource will be a blessing or curse, given the international interests and the national anxiety and expectations of the same.

The million dollar question then becomes how to maintain the standing diplomatic ties with its neighbors and foreign partners, which already existed, while protecting Uganda's national economic and political interests.

1.7.2 Foreign policy and diplomacy in exploiting their oil and gas resources

Paying immense attention to foreign policy and diplomacy keeps the harmony that countries have maintained over the years and also allows for the growth of all governments (OPEC Secretariat, 2013). This can only be done if transparency is exercised and steps in policy formulation are followed and consultations with other government heads are made before passing new resolutions; a case in point is the formation of Organization of the

Petroleum Exporting Countries (OPEC) in 1959. (OPEC Secretariat, 2013) (Andrew Bauer and et al, 2013)

Developing countries should pay attention to foreign policy especially as regards land rights so that during compensation of affected persons they are also able to give them their dues as per the international guidelines on compensation and claiming for damages. Some of the renowned Authors that agree to this line of thought include Dr. Emmanuel Kasimbazi, (Lisa Sachs, 2013) and Daniel Kaufmann of the Natural Resource Governance Institute.

Global events in recent years have demonstrated the interconnected nature of today's world (OPEC Secretariat, 2013, p.62). It is thus more important than ever to coordinate actions and work together with others when tackling these global challenges. This is especially true for the oil industry, which reaches and affects all corners of the globe (OPEC Secretariat, 2013), (Natural Resource Governance Institute, 2015), and (OECD Guidelines for Multinational Entrepreneurs, 2011).

In this way, good diplomacy of all countries can be maintained and pertinent issues arising can be resolved by a single entity because better communication ensures better policy formulation that is inclusive of all nations.

Paying attention to foreign policy enables developing countries to make sound policies (Andrew Bauer and Juan Carlos Quiroz, 2013 p. 501) with few or no loopholes that may leave room for corruption like the Nigerian National Petroleum Corporation that is constantly plagued by bureaucratic inefficiency, excessive interference by government officials, and a chronic inability to position the oil sector as a key driver of the country's economic development(Andrew Bauer and Juan Carlos Quiroz, 2013), (U4 Partner agencies,2009), (Frederick van der Ploeg, 2010). As a result of this, unfortunately billions of dollars have been swindled from the corporation in the last few years.

Paying attention to foreign affairs promotes awareness of the underlying issues that affect other countries hence making it easier to draft regulations that favor the needs of developing countries in line with those of the more developed countries(OPEC Secretariat, 2013), (IFC Performance Standards, 2012).

In this way developing countries can surely grow economically while keeping up with the current foreign policies in order to promote good will.

1.7.3 Contemporary trends of oil trade and Diplomacy

States with new discoveries as an obligation should go through the proper legislation process so as to protect their long term interests and sovereignty (Global Witness, 2012), (Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz, 2004). This will include allowing sufficient time for parliamentarians to scrutinize the legislation thoroughly and for all relevant stakeholders including ordinary Ugandan citizens to have their say (Global Witness, 2012). In this way they will be able to cater for the needs of the ordinary citizen while not undermining international relations.

According to Global Witness, transparency and accountability should also be observed so that all stakeholders are aware of what is going on (Revenue Watch Institute, 2012), (Paul Collier and Anthony J. Venables, 2010). This will reduce suspicion from the public about the motives of the government and also ensure that government treads carefully in order to provide for the best interests of its citizens. In this way international bodies will not feel the urge to intervene in the country's policy formulation thus maintaining their sovereignty.

Joining existing international oil bodies like OPEC will ensure sovereignty in that despite the fact that the coalition has its rules and legislative framework that govern it, member states

can still have a say in determining the price of oil that can be suitable to sustain their economy thus reducing on the donor aid and interference in their policy making to suit the donor country's needs. (David Kigozi, 2012).

The role of the state in the ownership, control, and development of energy resources, with major implications regarding to the role of policy, regulation, and geopolitics (Andrew Bauer and Juan Carlos Quiroz, 2013 p. 15) in many countries, this role extends to setting prices and conditions for the consumption of, notably, petroleum products and renewable electricity (Andrew Bauer and Juan Carlos Quiroz, 2013), (Michael L. Ross, 2013). This will maintain the sovereignty of the country since they stand to remain financially independent and also make policies that suit the needs of the people without necessarily compromising international relations.

Signing up to the EITI- Extractive Industry Transparency Initiative will ensure economic growth for developing countries and also encourage participation of citizens in decision making as regards which sector should benefit most from the oil proceeds (Revenue Watch Institute, March 2014), (NRGI Reader, March 2015), (Columbia University of New York, 2012) . This initiative also reduces human and environmental rights violations as regards security arrangements by the government, position of traditional artisanal miners and regulations followed during the compensation and resettlement process hence promoting sovereignty of the state without compromising international relations.

Detailed research should be carried out to determine important aspects such as; the size of oil wells, geographical locations of other oil producing countries, legislative frameworks that govern oil exploration in other countries, political influence, autonomy of the government in decision making and business models adapted by these countries so that they can also be adapted by developing countries (Revenue Watch Institute, March 2014), (NRGI Reader, March 2015). In this way, means to maintain their sovereignty can be devised especially as regards political and economic independence.

According to the 2014 Annual Report of Baker Institute for Public policy, having noncommercial objectives, financing activities through international capital markets, clearly defining the roles and responsibilities of management responsible and looking for opportunities for vertical integration with non-oil producing countries can also help underdeveloped economies to maintain their sovereignty without compromising international relations, (Baker Institute Policy Report, April 2007)(Global Witness, 2013). Entering into strategic partnerships with international oil producing countries will greatly boost Uganda's economy as this provides employment to her people, technological skills and access to frameworks that other countries are using. These partnerships will ensure that

both the investing and host country stand to gain economically at the end of the day while maintaining their sovereignty and strengthening relations between the two. (Frederick van der Ploeg, July 2010)(Daniel Kaufmann, 2014)

Basic institutions with the rule of law need to be established to keep both the government and oil companies in check (Daniel Kaufmann, 2015). This will create an “enabling environment for civil society and media to function without” (Kaufmann 2015) repression or rebuke and also allow for the public to freely speak out their minds on issues that affect them in the oil sector.

Communication channels between the government and citizens should be open to prevent misinterpretation of information concerning the oil sector (Lawrence Bategeka, Julius Kiiza& Sarah Ssewanyana, 2011), (Baker Institute Policy Report, April 2007). For example citizens should feel free to express their views on the current finding of oil and what implications this will have for them as individuals and a nation as a whole. In the same spirit government should publish their findings and make them available for all to see so that citizens do not get suspicious and selfish about the interests of government in the oil sector. A good political climate will definitely attract foreign investors and also keep the citizens in check.

Implementation of sustainable development policies and projects by developing countries will ensure that they retain their sovereignty which will in turn improve their international relations with other countries, (Baker Institute Policy Report, April 2007), (Columbia University,2012).

1.7.3. Geopolitics and the Resource Curse

The resource curse debate decouples the role of geopolitical factors in resource economies and governance from the causes of underdevelopment. Thus the debate does not incorporate the impact of the international political system on the resource curse in the so called weak states. Kaldor et al (2007) argues that recent geopolitical competition together with violent predatory behavior of non-states foreign and domestic actors contribute to the resource curse through their means of getting access to oil rent, be it fair or foul (Kaldor M, Karl Lynn, and Said Y., 2008).

This also tends to adversely affect the weaker force in the competition. Rent seeking attitudes of states and non-state actors in resource governance ought to be a major concern

for any attempt to establish a clear understanding of why there is scarcity in the midst of abundance.

Most of the conflicts prevailing in most extractive economies can hardly be disassociated from imperialism, and this dates back to the colonial, post-colonial and even (post-) cold war era. Moreover, Omeje (2005) highlights the impact of the IMF and World Bank's Structural Adjustment Program on the conflicts in the West African sub region.

“Contemporary forces of globalization and imperial supervision and governance that define the international environment in which postcolonial states operate have in diverse ways contributed to the political and economic malaise of these less privileged states” (Omeje K. , 2005, P.14).

Perkins (2004) also reveals how powerful imperial powers interfere and manipulate the economies of weak states in order to gain control and consequently quench their resource thirst. Powerful foreign entities (states and non-state) actors classify certain resources as of important strategic interest in which they employ every means possible to access them (Omeje 2008). On the other hand, the role of the efforts geared towards the creation of global political and economic empire(s) by super powers is shockingly ignored in the

resource curse debate. The Angolan resource conflict is a good example to explain the role that imperialism plays in the resource curse.

The interest of the two great powers during the cold war motivated the formulation of liberation movements along distinct and competing ideologies in the international political ecology in the ambit of domestic ethnic divisions (Malaquias 2001).

These movements were sponsored and supported by imperial powers with strategic interest in Angola. Again, since exploitation of natural resources especially oil and gas requires a huge investment of capital and high level of expertise that the possessing states like Uganda often lack, foreign investors get to easily manipulate the situation because of the same reason. This consequently gives way for the larger chunk of the profit made out of those resources to be sent or invested outside of the producing economies by the foreign oil companies. With this, the situation of the already weak economies are further exacerbated and incapacitated to create jobs, and especially for youth.

The result then becomes increasing poverty and frustrations and later on grievances, all part of a recipe for resource conflict. This brings in the complexity of grievances and greed which requires urgent attention of scholars in addressing the resource curse conundrum (McNeish & Logan et al 2012).

Thus geopolitical and economic dynamics coupled with historical factors are important factors in explaining the connection between the natural resource and economic development. (Hudson 2005) and (McNeish & Logan et al 2012) further elaborate the destructive impact that the global financial system (Hudson, 2005) has on the oil sectors. Access to oil and gas is a very capital intensive process, and governments that nationalise their oil industry always borrow heavily to support the preliminary states of the sector.

The same applies to international Oil Companies that equally seek financial leverage until the sector becomes self-sustaining. Thus the activities of the IMF and the World Bank further worsen the economic plight of the developing countries by indebting them to an unbearable degree in order to get significant influence and consequently dictate to them. This is elaborated exhaustively by Moyo (2009) that by the end of the 1980s, the cost of servicing loans to African states (in the form of aid) grew rapidly to the extent that it eventually surpassed the inflow of aid to Africa. Both bilateral and multilateral aid agreement between governments to governments, and institutions to governments respectively from the late 1980s to 1990s were heavily intensified. Thus the indebtedness of African states increased hugely. Currently, Ghana which has since its discovery of oil been Africa's oil success story faces a similar stalemate for having used their oil reserves as collateral for a loan from China.

Furthermore, ideological struggles may not be as obvious in recent times as they used to be, but are still subtly alive. This has given the stronger states the impetus to usurp the bounty (resources) of the weaker ones. That is such countries try all means possible to secure all forms of essential non local supplies in order to gain economic strength to push forward their ideological agenda. The recent activities (resource and land grabbing) of China in Africa and other parts of the world make it abundantly clear how desperate they are in their quest to balance the power which they have already achieved, though arguable, and subsequently surpass that of the United States in the international political system. Political realists have argued that the international system is anarchical; there is no central authority to ensure order.

CONCLUSION

In view of the foregoing, this study identifies that most of the exiting literature focuses on the influence of major oil producers, the super power countries and Multinational oil companies. Others explore the issues of the resources curse that befall under developed

countries upon discovery of oil. Not much literature covers the issues of foreign influence and pressure that sub Saharan African countries like Uganda with oil always have to deal with, and the conflict that the countries have in ensuring that they meet the expectations of their citizens and also comply with international geopolitical requirements. It is this gap that this study wishes to cover by addressing the research questions above.

CHAPTER TWO

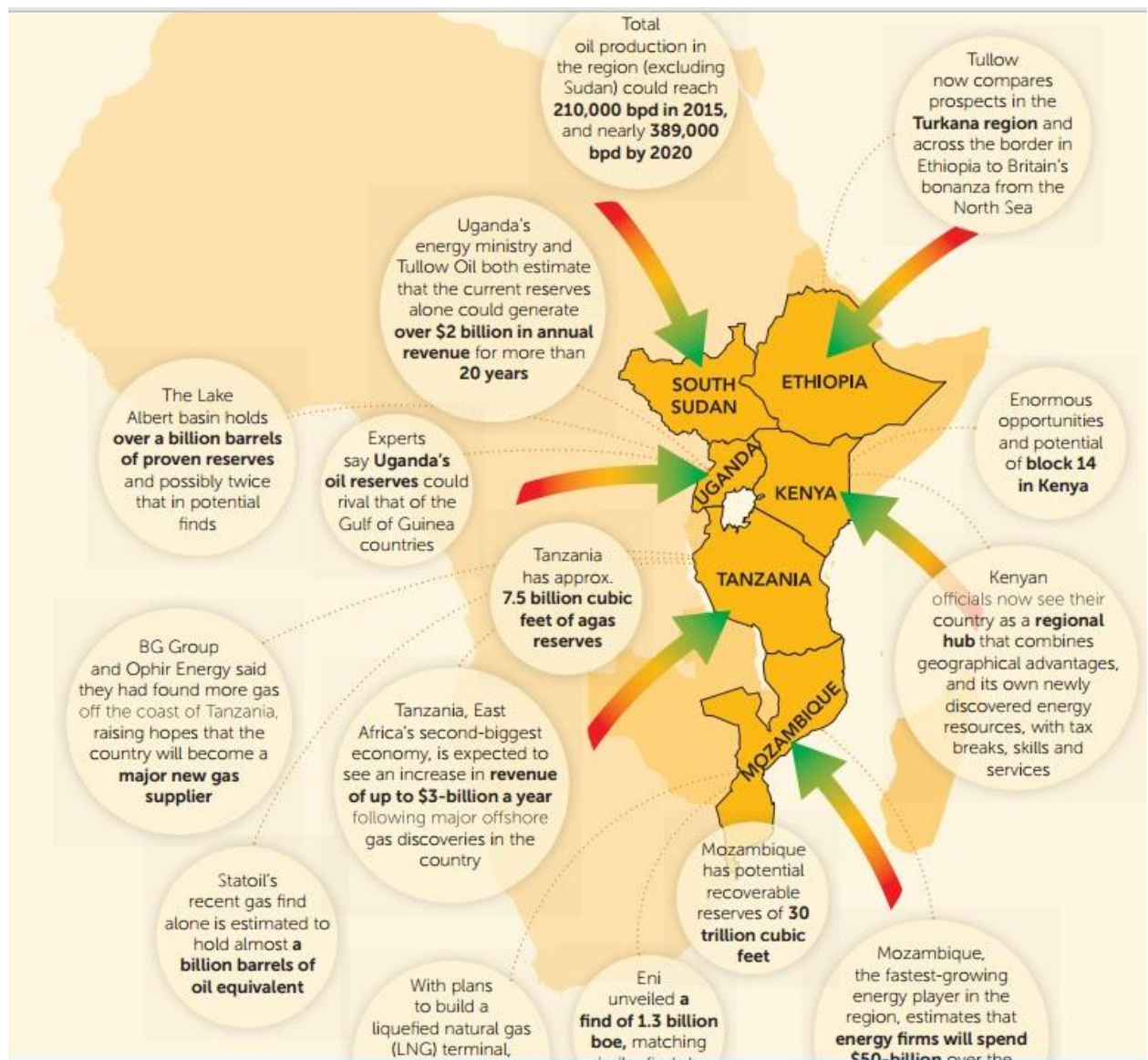
2.1 GEOGRAPHY AND DEMOGRAPHY

Uganda is a landlocked country in East Africa, and Africa (CIA World Fact Book, 2016). It is bordered by Kenya to the east, South Sudan to the north, the Democratic Republic of Congo to the west, Rwanda to the southwest and Tanzania to the south. Uganda covers 241,551 square kilometers of which 197,323 square kilometers are land area. The country has access to a number of lakes, including Lake Victoria, which is Africa's largest lake. Uganda has an estimated population of 37.6 million and an estimated population growth of around 3.2% per year, making it one of the fastest growing populations in the world. Around 85% of the population lives in rural areas, depending mostly on subsistence farming, with Matooke or what you would call Bananas as the main staple food.

Uganda has a very young population; with an estimated 55.3% of the population being below the age of 18 as of 2010 (UNICEF, 2012). The average life expectancy in Uganda at birth is 54.1 years. Uganda is also ranked number 161 out of 187 on the 2012 Human Development Index, which indicates significant challenges in economic and social development ahead.

Besides oil and gas, Uganda is blessed with substantial variety natural resources, having been referred to as "The Pearl of Africa" by Sir Winston Churchill. These include large quantities of mineral deposits such as copper and cobalt deposits, Gold, phosphates, Iron ore, and Diamonds to mention but a few (Uganda Chamber of Mines and Petroleum, 2015). Uganda is also endowed with fertile soils and regular rainfall. Other water bodies such as, rivers and swamps covering about 20% of Uganda's land surface, fishing is an important economic activity and possibilities for the production of renewable energy are abundant (Uganda Chamber of Mines and Petroleum, 2015). With this diverse eco-system, Uganda is constantly reminded to take an environmentally friendly approach in exploiting its oil and gas. In fact, the ongoing Oil developments are taking place in the Albertine Graben that has national parks, lakes and rivers including the great river Nile.

Fig 1: Map of Eastern Africa Showing the Location of Uganda and the oil resources in the region



2.2 POLITICAL AND ECONOMIC CONTEXT

2.2.1 Political context

In 1971 after gaining independence from British colonial rule, a military coup led by Idi Amin led to a long period of conflict and serious mismanagement of the economy of Uganda. Following an invasion from Tanzania, a series of coups and a disputed election, relative political and economic stability was restored in 1986, when the National Resistance Movement (NRM), led by Yoweri K. Museveni, took power and instituted a no-party democracy, under which political parties were only allowed to operate with severe restrictions. Uganda is a fragile democracy that only reintroduced competitive party politics in 2006 after 20 years of ‘no-party democracy’.

In the first multiparty elections, held in 2006, President Museveni was re-elected and his party, the NRM, won an overall majority in Parliament. In the recent 2016 elections, President Museveni was again voted president with over 68% of the vote, and the NRM retained its majority in parliament with the most seats.

All the three 2006, 2011 and 2016 elections were disputed by the opposition and the results contested in court (Kafeero, 2015) . In a report published after the 2016 elections, the EU Election Observation Mission states that "...the elections fell short of full compliance with international principles for genuine democratic elections, in particular because a level playing field was not in place. The electoral process was marred by avoidable administrative and logistical failures that led to an unacceptable number of Ugandan citizens being disfranchised..." (European Union Observer Mission Report, 2011). Museveni has now been in power for 30 years, which makes him one of the longest-serving heads of state on the continent.

Besides her membership in the East African Community (EAC), and the International Conference on the Great Lakes Region (ICGLR), Uganda is also a member of the AU (African Union) where again it is actively involved in Governance and security of the Continent. As a global player under the United Nations framework, Uganda's Sam Kutesa has served as the secretary General of the General Assembly. All these go to show Uganda's active participation regional and internationally which is integral to Uganda's development and very crucial to the oil and Gas industry. This is in view of the fact that most of the countries that surround Uganda have had recent discoveries of hydro-carbons and

Uganda's central location has become geopolitically strategic, not only for infrastructure development but also as a uniting partner to other member states.

2.2.2 Economic Overview

Starting in the late 1980s, the Ugandan Government has pursued a series of stabilization and pro – market structural reforms. This effort has stagnated in recent years, however, and despite more than a decade of relatively strong economic growth, the number of impoverished Ugandans has changed little as the population has doubled since 1990 (Heritage, 2016).”Uganda has been transformed from a country tormented by a troubled past to one with a promising future to wit, economic growth. Since its independence from Britain in 1962, Uganda has endured a military coup followed by the dictatorship of Idi Amin (uprooted by invasion from Tanzania in 1979), disputed elections in 1980 and a deadly five year bush war that brought Yoweri Museveni and the National Resistance Movement (NRM) to power in 1986”. (August 2012 Rachael Boriase/BBC Media Action, 2012)

Uganda also had to contend with a brutal 20 year old insurgency in the North, led by the Lord's Resistance Army (LRA). The years under NRM rule have been marked by a steady high economic growth with annual real GDP growth averaging at 7% in the period 2002–2014 (World Bank, 2016). This growth has, however, been accompanied by high population growth, resulting in an average GDP growth per capita of 7% per year," placing Uganda among the 15 fastest growing economies in the world. However, over the past decade, the country witnessed more economic volatility" (Stenstrom, 2016) and the growth in gross domestic product slowed to an average of just about 5%.

Most of the population still lives in rural areas (85%), where agriculture is the most important source of livelihood. However, agriculture only accounted for 24.4% of the GDP in 2011, while services and industry accounted for 44.3% and 26.4% respectively. Meanwhile, recent data indicates that agriculture still employs around 66% of the labour force, and that 4/5 of all women are employed in the sector (Economic Policy Research Centre, 2012). Coffee remains the most important export commodity, accounting for 18.5% of total exports in 2014. Fish and fish products are the second most important, accounting for 5.6% (Bank of Uganda 2014)

Other important agricultural commodities, i.e. cotton, tobacco, tea, maize, beans and flowers, together account for 12.3% of the exports (Bank of Uganda, 2014) Non-agricultural and important exports include base metals & products (4.4%), (used) cell phones (3.9%) and cement (3.1%). Unconventional export, such as Informal Cross Border Trading (ICBT) and oil re-exports, account for 16.6% and 4.2%.

Uganda is a member of the East African Community (EAC), together with Kenya, Tanzania, Rwanda, Burundi and South Sudan, the new entrant. The EAC is one of the fastest-growing economic blocks in the world and these also seem to be doubling as new hub for natural resources with discoveries of Oil, natural gas, Gold, phosphates and other minerals in various parts of the region (Angello Izama, 2012).

Over the past decade Uganda has established its pivotal role in the region, increasing its volume of regional trade within the EAC and with regional markets outside the EAC, such as the DRC and South Sudan, over the past five years. Uganda's exports to the four EAC partners have grown at a rate of 2% faster than the rest of the world. As a result, its share of the total EAC regional exports increased from 15% in 2007 to 25% in 2011. Exports to non-EAC regional trading partners (South Sudan and DRC), grew even more rapidly during

the same period, at a rate of 10%. For these markets, the share of Uganda's exports rose from 32% in 2007 to 48% in 2011.

Despite records of a high economic growth, poverty is still endemic in Uganda. But it's also worth noting that, poverty levels have declined substantially. In 1992/1993, 56.4% of the population were living under the (Ugandan) poverty line, while in 2009/2010 absolute poverty had fallen to 24.5%.

According to the Poverty Status Report, Ministry of Finance, Planning and Economic Development, May 2012. Poverty is measured against the Ugandan poverty line, which reflects the cost of consuming 3000 calories per day based on the food basket of the poorest 50% of the population, with a 1993 baseline. An allowance for non-food requirements was also made at that time.

In the same period, the proportion of people that have moved out of poverty increased from 33.4% to 42.9% and the middle class grew from 10.2% to 32.6%. Uganda has thus surpassed its millennium development goal of halving the proportion of the population living in poverty by 2015. At the same time, economic inequality among and within regions, as well as between rural and urban populations, is on the rise with the Gini-coefficient up from 0.365 to 0.426 for the same period.

The sustainability of these positive developments is shadowed by governance issues. Uganda is at the bottom of the East African Bribery Index 2012.¹⁷ The World Bank's Governance Indicators support public perceptions, rating Uganda among the quarter of countries that have the least control of corruption. Corruption scandals continue to surface and several key donors have blocked aid to the country, demanding repayment of stolen funds and legal action against those responsible.

The Western donors have also played a critical role in Uganda's economic and political life since 1986, when President Yoweri Museveni captured power, by inspiring and financing key reforms. (August 2012 Rachael Boriase/BBC Media Action, 2012)

A major problem for Uganda is that the impressive GDP growth rates of 1992 – 2007 are associated with a significant level of donor-financing. However, the proportion of the budget funded using foreign aid is on a downward trend. It decreased from 52% in 2002/03 to 39% in 2006/08 before declining further to 28% in 2008/09. (Kavuma, 2012).

The declining significance of foreign aid in the national budget demonstrates Uganda's determination to reduce donor dependence 'with or without oil revenues'. An emerging issue of interest is whether or not the discovery of oil will lead to a switch from donor dependence to oil dependence?

The country continues to play an important regional role in peacekeeping operations in Somalia and in the fight against terrorism, but the U.S. and other international players have criticized its intervention to prop up the president of South Sudan against rebel forces (Heritage, 2015). The whole idea of economic freedom is to empower people with more opportunity to choose for themselves how to pursue and fulfil their dreams, subject only to the basic rule of law and honest competition from others (Heritage, 2015).

2.3 The History and Progress of Oil Exploration and its Development in Uganda

2.3.1 Introduction

The confirmation of the existence of commercially viable oil reserves in Uganda, in the year 2006 (Uganda National Oil and Gas Policy, 2008, p.1) tremendously increased the country's hope in the oil sector as enunciated in the national strategic plans of the country (NDP 2 and Vision 2040).

Uganda has five sedimentary basins in Uganda to wit, The Albertine Graben, Hoima Basin, Lake Kyoga Basin, Lake Wamala Basin, and Kadam–Moroto Basin. Of these five, the Albertine Graben has so far been discovered as the most prospective area for petroleum in Uganda. It forms the northern most part of the western arm of the East African Rift Valley System, 500 km long, averaging 45 km wide and 23,000 sq. Km. It runs along Uganda's western border with the Democratic Republic of Congo and is a distance of 1,200 Km from the nearest coast. The growing uncertainty in Uganda's oil and gas with recent passing of conventional oil and gas Bill – a statutory, legislation aimed at controlling oil and gas activities' seems to suggest economic and geopolitical uncertainty.

2.3.2 The Background to and History on Exploration of Uganda's oil

The backbone of oil exploration antecedes to the 1920s when E.J. Wayland who was chosen as the government geologist at the time did document his discovery of hefty amounts of hydrocarbons in the Albertine Graben region of Uganda.

In addition to his findings, in 1938 this was followed by numerous drillings of wells which were suspected to contain more hydro carbons. Again in 1940, and consequently in 1950

supplementary exploration was done in many more depthless wells for stratigraphic reasons, and this where oil discovery and exploration kicked off. However as we will see in this thesis, stability affects economic growth, and consequently after the 1950's, Uganda was affected by war and this put further discovery of its oil to a halt until the 1980's.

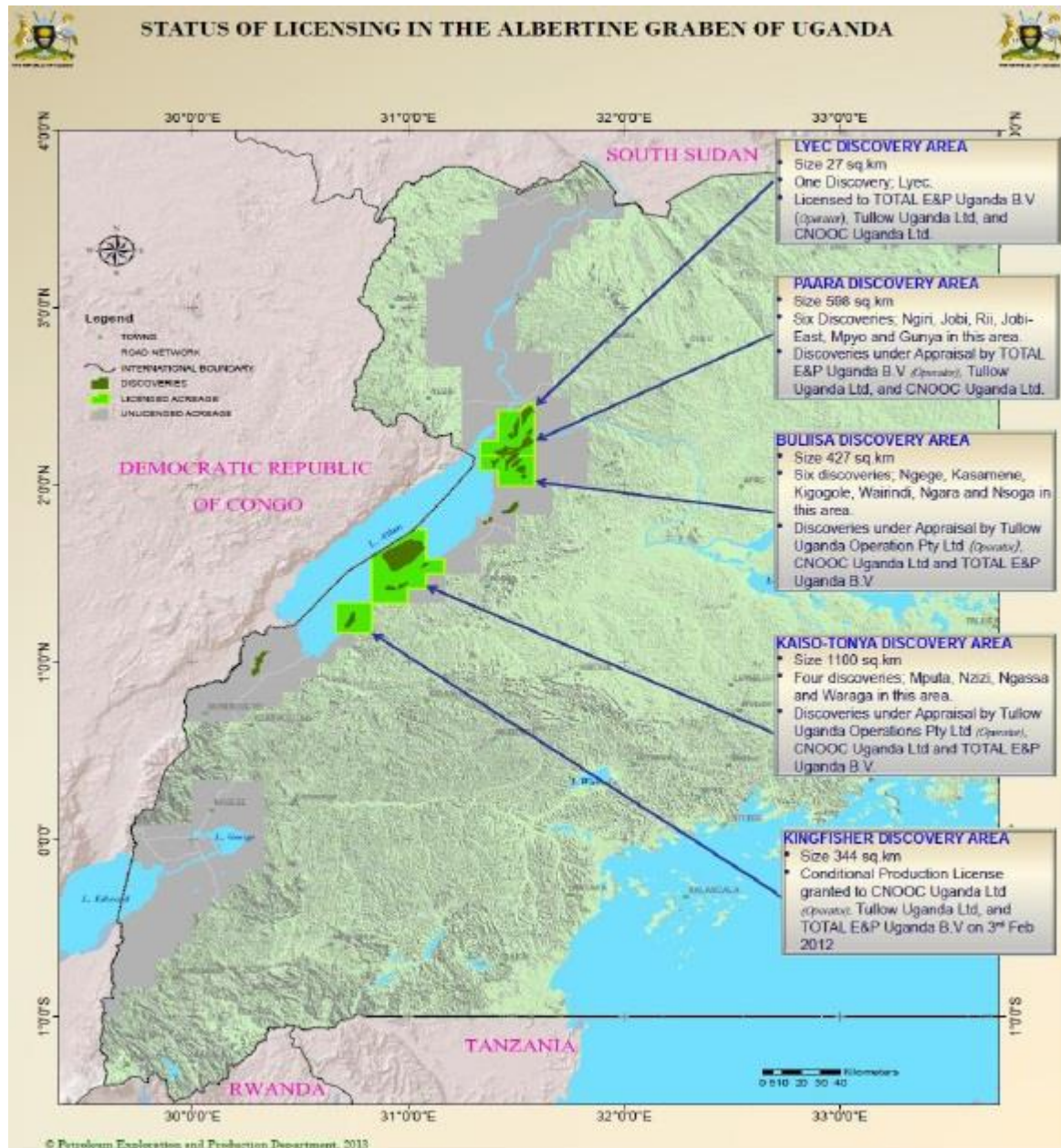
In 1983 towards 1992, aeromagnetic surveys were deployed and these woke up the oil exploration activities in the country. Resultantly four more sedimentary basins in the country were spotted in the region, and these included; Lake Kyoga basin, Lake Wamala basin, Moroto- Kadam basin, Hoima basin. The on ground surveys continued and of these the Albertine Graben was picked out as the most prospective oil rich basin in the western region of Uganda.

In the commentary reports of the African development Bank, it's echoed that the exploration and drilling of oil in the country since continued and in 2008, with technical support from the World Bank and other stake holders, the government took on appropriate studies aimed at confirming presence of commercial grade oil deposits. There after many multi National oil companies such as CNOOC, Tullow oil, and Total B.P, Shell, Exxon Mobil among others were given license to drill in the Albertine Graben region. (Mawejje & Bategeka, 2013)

Many more oil companies are coming on board and are anticipated to invest tremendously in the oil sector. Not to forget mentioning, it is very evident that the political stability of the country has attracted more investment in Uganda's oil. At least in the region Uganda has been favorably seen as more peaceful and stable for quite a number of years, and issues like conflict, war or terrorism have not much affected the economy and consequently the oil sector. This in future if maintained while polishing on other aspects like the legal frame work and 'contractual intelligence' will prosper the oil sector.

The map below sights licensed oil Blocks as they evolve by 2012 in the Albertine Graben Region, and can throw more light on oil evolution in those companies licensed to deal with the exploration.

Fig 2. Map showing Uganda's licensed oil Blocks by 2012



(The Map is from Uganda' Petroleum Exploration and Production Department (PEPD) Portal)

2.3. The Legal and Institutional Frame Work

Petroleum wealth has the potential to help raise millions out of poverty, but it also runs the risk of plunging Uganda towards the resource curse (Global Witness, 2012, p.5). A robust legislative framework in place provides for transparency and accountability in the management of the sector- this is and should be a first vital step to ensuring that Uganda gets a fair deal for its resources and ordinary Ugandan citizen's benefit. In 2013, Uganda enacted two petroleum laws " The Petroleum (Exploration, Development and Production) Act, and the Petroleum (Refining, conversion, Transmission and Midstream Storage) Act , 2013)" in Line with the 2008 National Oil Policy.

These have been commended by both local and international policy analysts as paving the way for the Government of Uganda to allocate the remaining rights to the country's oil (Global Witness, 2013).

A number of countries, ranging from Azerbaijan, Bolivia, Liberia and Ghana, require parliamentary approval of their major natural resource contracts, including petroleum agreements. Parliamentary approval would be a more robust check and provide a more directly democratic branch of government to be involved in the most important decisions (Global Witness, 2013).

Ben Sheperd in his research on “Oil in Uganda” writes that” Uganda did a buildup of considerable abstruse knowledge in the preparatory phases of oil development, remarkably in the Petroleum Exploration and Production Department of the Ministry of Energy.

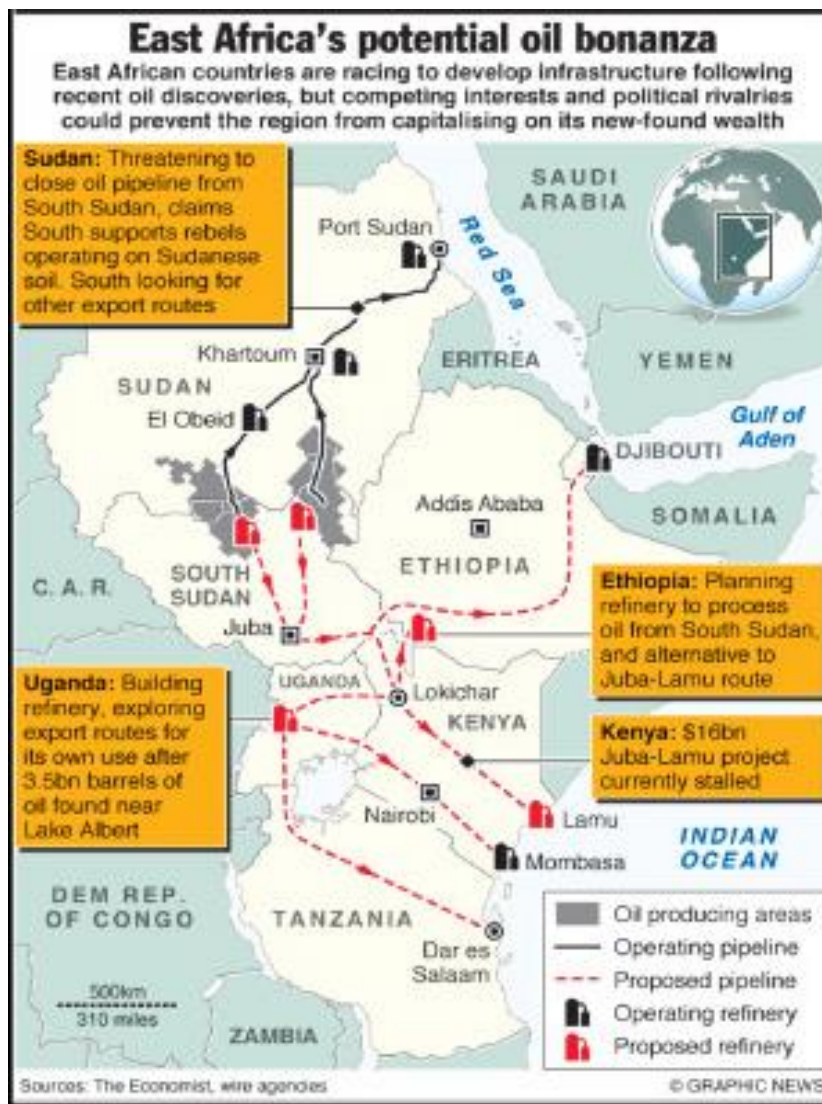
Although the administration of the oil sector is expected to transition when new oil legislations are put in place. Yet these changes will expose the role of Uganda’s technocrats to be confused, and overshadowed or subverted by the involvement of political actors.

2.5. The Infrastructural Development in the Oil Sector

Access to oil and gas requires quite a number of infrastructure in place ranging from basic infrastructure such as roads that are leading to the oil wells, to construction of very complex and specialized ones such as processing plants, refineries and oil pipelines for

transportation purposes. To this effect, Uganda being landlocked has had to collaborate with its neighbors like Kenya and Tanzania that have access to the Indian ocean to provide link to the Western markets. The negotiations on the development of these oilfields involve complex legal, technical and commercial issues (Constantine Arvanitopoulos, 1998, p. 2). Getting oil from a well to a refinery, and getting the products to service stations, requires a complex system of transportation and storage (OPEC Secretariat, 2013, p.40). EAC states have already expressed interest in having joint regional infrastructural projects with the pipelines and oil refineries as shown on the map below.

Fig 3. The issue of pipelines and the Geopolitics of Oil in Uganda



The majority (63%) of the world's daily oil production is transported by sea to consuming nations (Andreas Goldthaw 2013, p.200). With deals to develop the oilfields in Uganda already signed, the biggest problem facing foreign investors is how to transport the oil to foreign markets. Unlike other big oil producers, Uganda is landlocked. As seen in the Fig 4 above, just six months ago, Uganda was faced with three alternative pipeline routes, two of which were through Kenyan and the third through Tanzania. It is the Tanzania route that

has finally been confirmed, notwithstanding the regional importance of the Northern route as given the interest of not only Kenya but also South Sudan in the Lamu Route.

The issue of pipeline selection has therefore acquired enormous geopolitical significance for the future of the country. These *key straits* are all of critical geopolitical significance, but their importance clearly extends beyond oil into military and security considerations since ensuring smooth passage of goods and oil also ensures some degree of political equilibrium (Tiron AMI, 2012)

Although pipelines are less flexible than other forms of transportation, they are the safest, most efficient and most economical way to move oil.

The geopolitical landscape of oil is fascinating and ever-changing. Creating wealth and power from oil requires advanced engineering and is very costly. The process of finding, extracting, refining, moving, and using oil brings together people who often have vastly different agendas and interests. Its unavoidable: oil is political.

The construction of an oil pipeline to transport petroleum from Uganda to the coast is raising the most highlighted geopolitical issues at the moment. Following somewhat conclusive negotiations with Kenya over two oil exporting pipe line routes, Uganda in 2014, went ahead and signed a memorandum of understanding with Tanzania for a third alternative pipeline route (Jeff Mbanga, 2015).

2.6.1 The Future of oil in Uganda

Oil, gas, and mining have gained a lot of importance in Africa's economic development (Daniel Kaufmann). The way people live; work and travel all depend on production of oil.

Oil is, in fact, the world's most important transportation fuel. About 90% of all transportation fuels come from crude oil.

Rather than facing an imminent shortage of hydrocarbons, the world still hosts plenty of oil and gas resource (BP, 2014). This means that, in the coming years, oil production can still expand, although the unit cost of marginal production (also known as: short-run marginal cost) will likely rise (Verbruggen, A., Van de Graaf, T. 2013, p.53).

Uganda is likely to witness increased political competition and exaggerated promises to the electorate, in the near future for this reasons.

"Oil is the world's single most important commodity and its political effects are pervasive" (Jeff D. Colgan, 2013). It is in this light that management of expectations of the various stakeholders becomes very important (L.Bategeka, J.Kiiza & S.Sewanyana, 2008).

Already, various stakeholders in Uganda's oil wealth have formed false expectations. Some Government officials say that donor dependence will end immediately; that Uganda should strengthen her long term planning and avoid conditionality by the donors to which they attribute Uganda's development challenges. The electorate expects general improvement in the quality of life for all Ugandans.

Communities in the areas where oil has been discovered expect their long standing poverty to become a thing of the past. Some groups in those areas are making big demands for infrastructure development and delivery of social services. There is an extent to which these expectations will shape Uganda's politics, which Government should not ignore. Some interviewees reported that the people of Bunyoro, who have been marginalized, might be forced to fight Government either politically (through denial of votes) or through armed struggle if they do not reap substantial development dividends from the oil wealth.

Some analysts anticipate Uganda's Albertine Graben may hold more than 6 billion barrels of oil, placing Uganda among the foremost African oil producers (Tumusiime F, 2011).

Given the volatility of oil prices, it is difficult to estimate Uganda's likely revenues from oil. Yet, if production goes ahead without hitches, the country's budget looks likely to receive a major windfall – potentially doubling Uganda's revenue base within six to ten years (World

Bank, 2010, p.60). It's expected that more discoveries are yet to be made and given the expanse of the area yet to be tested for prospective development (Shepherd, 2016).

In the end, if mother land Uganda does not waste time 'ranting' and creating room for political interference, in her baby stages of oil exploration it may avoid the famous "oil curse .

2.6.2 Sustainable exploitation of oil Resources

Insofar as saving for the future is concerned, the National Oil and Gas Policy (NOGP) states the government's intention to 'put in place a sustainable asset; in the form of a petroleum fund to store revenues not used in the national economy and creation of a permanent source of wealth as a provision for intergenerational equity' which would be administered by the Central Bank.³⁹ A supplementary policy balancing the use of petroleum revenues between current domestic investment and receipts retained for future use; the terms for management, including the rules for deposits into the fund, investment strategies, withdrawal provisions; and systems for oversight and audit are needed, ensuring regular disclosure requirements for amounts received, on hand and amount spent.

There will be considerable monetary problems from sudden inflow of oil revenues into the Ugandan economy. The inflation likely to result will undermine all efforts to improve the

life expectations of Ugandan citizens; plus there is the potential corruption and political interference; the fund should be established via an amendment to the Constitution or by legislation that cannot easily be revised by the normal operations of politics.

2.6.3 Facets to consider in commercial oil restoration and production

There are quite a number of challenges that a developing country like Uganda faces as it picks up steps in expanding and growing her oil sector. This can be as a result of being ill equipped or poor, to manage her resource well. When she discovered her curable oil, the next hurdle was to learn or see a way to convert the crude oil into a profitable product without compromising both her interests and key stakeholders who are the big oil companies investing in the sector. Issues like rejecting movement of “waxy” crude oil lots of miles through the poor infrastructure across the East African region came up as not being favorable and would make the process tedious, so an alternative would have to be sought.

The question that followed these brainstorming sessions for Uganda was how does a poor country do this while not jeopardizing her local interests, consumer demand as well as ‘governance’ affairs especially with her neighbours like Rwanda with whom she has deep interest in Democratic Republic of Congo? To take you back on this, Uganda and Rwanda extend their interest in Democratic Republic of Congo as they share access to one oil field that is in Lake Albert. Auxiliary to this are examples of Kenya and Tanzania who continue to pursue relations on sharing port facilities on the Indian Ocean just for political and economic interests. Another case in point is South Sudan’s continued frantic push to have access and control on the Red sea pipeline.

That aside, another political challenge Uganda might seem to be facing is the political future of the current president of the state. Since he has been president for the last three decades, he may seemingly want to see himself as the president of the East African Community. (Manyak, 2015)

Negotiations on oil contracts are not a topic that should be looked at lightly, for example as discussed in this thesis once a few aspects are skipped while negotiating, drastic events may take over. Uganda in this case took seven years in total before an official oil agreement was reached later in 2013. The parties in this negotiation and contract agreed to build a \$4.27 billion oil refinery and crude pipeline that goes up to the Indian Ocean with a linkage to South Sudan, and across the east African region .

More similar projects were drawn at the time such as that to extend finished product from Kenya to Uganda and it involved play of other East African states like Burundi, Kenya, Rwanda, Tanzania and South Sudan as well as Uganda. (Shepherd, 2015) While negotiating the major oil companies contracting refused the prior government proposal of 180,000 barrel per day which was considered madly expensive. (Karugaba, 2013). Eventually the concluding agreement called for a lesser sum of 30,000 barrel per day facility as sighted by Hart Energy in 2013. Eventually, an agreement was reached upon that a 2.5billion oil refinery was to be put up in the district of Hoima , choosing Russia's RT global and a South Korean Consortium. The capacity would be aimed at enriching all consumers' needs for Uganda and the East African community. (Gelb & Majerowicz, 2011).

The negotiators for Uganda in these aspects of the agreements view the refinery 'process' as a blessing as it will tie up depletion of her oil deposits while giving room to enjoy her oil propagated revenue. (Hart Energy, 2013)

There is a lot of hope and anticipation in the refinery project for the whole East African region. The pipeline is goes as planned will disburse processed oil all the way from Hoima district which is the western part of the country at an estimate of \$97million. It will also be extending to Mombasa and Eldoret, later will extend to Rwanda and Burundi. Other

Infrastructure such as roads, railway construction shall also accompany this project to give more meaning to the East African integration (Kasasira, 2013).

When we are talking contracts, we do not have to forget consideration or funding in the sense. In these proposed projects, China agreed to finance the projects with concessional loans. Her China Import and Export bank is expected to be providing a \$2 billion to fund the projects. As we all know the importance of funding and the consequences of missing it, in appreciation to this offer China, through CNOOC was granted the first production license and a contract to erect a 600-megawatt hydroelectric station on the Nile which so closely situate to the oil fields (Ojambo, 2013).

Conclusion

Uganda is an African State, regionally located in East Africa. It shares boarders with Kenya on the East, Tanzania on the South, South Sudan on the North, Rwanda on the South West and the Democratic Republic of Congo (DRC). Uganda is a country gifted by nature with a large portion of the world's largest fresh water lake, Victoria, Is the Source of River Nile,

forests, national parks, wildlife as well as, over 50 types of Minerals in commercially viable quantities. As of 2006, Oil was added to this endless list of blessings from Mother Nature.

The discovery of oil has come with more questions for Uganda than those posed by the other natural resources.

Given Uganda's active role in the East African Community, the African Union, and the United Nations. Uganda has had to deal with a host of geopolitical issues. These range from social economic issues to security in region.

With regard to security, the Country is relatively stable and this stability has not only allowed Uganda to send peace-keeping troops to DRC, Somalia, and Central African Republic among others. Uganda has also grown to become a regional haven for refugees from neighboring countries such as the Democratic Republic of Congo, South Sudan, Burundi, Eritrea, Somalia and many more around the great lakes region. The populations of refugees and asylum seekers in Uganda has tremendously increased in the recent past from mainly because of continued conflict around the region , and a fact that Uganda is considered more stable compared to her neighbours in Conflict.

The UNHCR monthly statistical update as of February 2016 recorded an increase in the number of refugees in the country by 25% for Democratic Republic of Congo refugees, 15%

for Burundi, 3% for Somalia, 55% for South Sudan and a 2% for other nationalities all hosted by Uganda. And as of today many more are still flocking into the country seeking asylum because of the ongoing conflict mainly from South Sudan.

This ‘phenomenon’ is also reflected in other states neighboring Uganda such as; in Rwanda and presence Congolese refugees in Rwanda; There were at least 36,000 Congolese refugees in the country before tribal conflict and fighting in 2012. An additional 12,500 arrived in Rwanda following the M23 rebellion in North Kivu.

There are also Somali refugees in the Horn of Africa; the total number of Somali refugees in the Horn of Africa was about 1,000,000 by 2012 (UNHCR stats, 2012).

Burundian refugees in Tanzania which was about 38,000 Burundian refugees in Tanzania as of 2012. Ethiopia in this regard also hosts about 65,131 refugees from South Sudan.

Security and Conflict greatly impact on forced migration and stability of a country in any case to allow any economic activity in the first place to co-exist;

A good look at the graph below (UNHCR, 2012) on selected statistics shows the impact of conflict on migration can throw some light on how conflict displaces people and in the end greatly destabilizes the economy.

COUNTRIES	REFUGEES FROM	REFUGEES IN	IDPs
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CHAD	42,640	366,494	124,000
DJIBOUTI	602	20,340	0
ERITREA	251,924	4,719	0
ETHIOPIA	70,610	288,844	0
KENYA	8,745	566,487	300,000
SOMALIA	1,077,048	2,099	1,356,845
SOUTH SUDAN	1	105,023	560,161
SUDAN	500,014	139,415	2,433,520
UGANDA	5600	139,448	29,776

Uganda's main legislation on refugees is the Refugee Act (Refugees Act, 2006). It's believed that when a legislation of a nation empowers or defends an activity it causes that 'activity' to be firm in that state. The refugee Act therefore also favors the refugee 'influx' as it reflects much on the 1951 UN Convention on the rights and obligations of refugees and asylum seekers-, which unlike many states hosting refugees especially those in the great lakes region provides more flexibility in all aspects of living in a host community for refugees. To this end therefore, Uganda has continued to exhibit regard for foreign policy in its governance and implantation of her laws and thus this will equally be needed for the sustainable exploitation of Uganda's oil and gas.

CHAPTER THREE

3.0 The role of the state in oil management

3.1 Introduction

Oil as a natural resource is vested in the state on behalf of Ugandans. The understanding of this is very critical if oil is to be efficiently managed and utilized for the benefit of all Ugandan citizens. The burden on the Ugandan leadership is therefore heavy for it is this leadership that will greatly influence how much the nation benefits from oil (Bategeka, L., Kiiza, J., & Ssewanyana, S., 2008, p.8) No individual, whatever their position in government should claim or attempt to personalize the ownership of oil (Muhereza R. 2015). Therefore,

statements like, “my oil” as often referred to by Yoweri Kaguta Museveni our president should be greatly avoided for they are potential for future disagreements and creation of conflicts concerning oil.

The expected oil production has given many Ugandans high expectations of better lives when the production and exportation of oil eventually begins. However, as seen from examples of other African countries like Nigeria, big oil revenues do not necessary spell a period of economic prosperity. The politics of each oil producing state will always determine whether or not the majority of the citizens and the country at large benefits from oil. The state therefore has a crucial role to play as far as oil management is concerned as clearly explained before.

3.2 Negotiation of oil contracts

When Uganda was discovered as a country that has oil, as a natural resource, its people's dreams and aspirations to benefit from the natural resource were heightened. Many saw this as hope to elevate the small poor country out of the traits of a struggling developing country. In most cases when these aspirations are focused on, the principles are forgotten.

The constitution of Uganda under Article 244 vests powers over mineral exploitation in government and emphasizes that the parliament of Uganda shall be the law regulating body and shall set conditions for payment of indemnities arising out of exploitation, as well as directing conditions regarding restoration of derelict lands. The article in its clause (1d) commands that exploitation of these minerals shall be done while taking into account public interests of individual land owners, local government and government.

The implementation of this article is explored in this thesis, however while taking into account, this Article it shows that a number of factors have to be considered while negotiating oil contracts to embrace the investors wishes as well as manage expectations of the citizens for an equilibrium , without taking advantage of any party. Uganda as a developing state and a baby at exploration has to therefor take caution of these aspects while relating with her international counter parts in the sector, who are mostly large oil companies, both to flourish her industry while protecting her interests from exploitation.

Auxiliary to the above, due to the limited resources and technological expertise, Uganda, as a developing country would find it quite difficult to produce oil on her own. As a result, it becomes essential to involve other stakeholders in negotiating her oil contracts. The actors in this would therefore require being international companies who are possessed of the requisite expertise and finances to ensure that oil production in Uganda takes place. As of today, Uganda has engaged several companies to achieve this purpose. The engagement of

these companies is always premised on the basis that they will provide the requisite expertise and funding for production and then share in the oil (Kirsten, B).

The above relationship between the government and the foreign states require a production sharing agreement (PSA). This agreement details the rights and duties of the parties. The state as a trustee of the people of Uganda must ensure that Ugandans get the best out of it. This therefore means that it must negotiate terms favorable to the interests of Ugandans. However, in these negotiations, the state must ensure that it does not discourage the investment or operations of the oil companies. The Ugandan government has reportedly had a hard stance as far as the issue of negotiations of these agreements is concerned (Oxford Institute for energy studies, 2015, p.13).

As a result, it is reported that this has contributed to the delay in oil production. Whether the state's act will end up benefiting Ugandans in the long run remains to be seen. The state may not be blamed for trying so hard to get the best deal for its citizens.

The negotiations between the Ugandan government and oil companies over the PSAs were however marred by lack of transparency in the whole process (Shepherd, 2013). As direct beneficiaries of the natural resources, Ugandan citizens are entitled to know how their resources are going to be used. This was however lacking as far as negotiations of the PSAs were concerned.

Government conducted its negotiations in secrecy. Few Ugandans including members of Parliament who have the constitutional mandate of monitoring the acts of the executive were aware of what was going on as far as the negotiations were concerned. Members of the civil society and other Ugandans at large could not effectively give their input due to the fact that they had little or no knowledge at all on what was going on. After the agreements had been made, it remained and still remains hard for all interested Ugandans to access these agreements.

The state's deliberate effort in denying Ugandans access to these agreements is a fundamental mistake on its part. First and foremost, it is a violation of the citizens' constitutional right to access to information enshrined under Article 41 of the Ugandan Constitution. Secondly, it raises suspicion on the part of the stakeholders that what was negotiated was for the benefit of few individuals and not the entire nation as a whole. To date, this suspicion still lingers in the minds of many Ugandans and has attracted a lot of criticism for the government, which government does not come out to explain or give a clear position on this agenda. This situation may easily lead to unwarranted conflicts.

What is interesting to note is that oil companies have expressed their willingness to share the PSAs if the state can give its consent. The state however in response to its citizens demanded reacted by enacting the Petroleum (Exploration and Production) Act of 2013 that expressly forbids oil companies from giving information to the public except with the

express approval of the state. Such a law curtails the oversight functions of the civil society and may easily encourage abuse and corruption by government officials. It may easily lead to impunity.

In conclusion of this, for successful negotiations in oil contracts, it requires considering aspects such as;” Setting the parameters such as who else besides the contracting parties is involved, the landowners and indigenous communities for example who will demand compensation for their land government may acquire in exploration– this has been evidenced in Uganda with the residents Hoima and Buliisa districts as highlighted in this research. It also requires considering who will be part of the negotiating team.

Jenik Radon in his working paper series as an Initiative for Policy Dialogue “How to Negotiate an Oil Agreement” recommends that good tactics have to be deployed while negotiating an oil agreement. That “negotiable factors like compensation have to be separated from non–negotiable factors such as regulatory matters while considering interests of the investor...”

For a country to excel in its oil sector a good legal structure has to be put into place, and that country has to ensure political stability. In this thesis, it’s discussed that countries that have failed to show stability do not attract investors, instead and their resources have been wrongly exploited in disguise.

Further to this discussion, a good example is “Norway, the model of stability, initially had to entice oil companies with a favorable tax regime of ordinary or standard taxes (i.e. no higher or super profits tax), and only a 10% royalty and license fee, so that they would invest in the geologically challenging and still uncertain North Sea oil development”.

(Radon, 2011)

The information environment should also be put into account while targeting successful negotiations in oil contracts.

“Transparency is the key to achieving public acceptance of a contract. Transparency is a necessary condition to allow civil society to provide an informal mechanism of checks and balances where formal mechanisms do not operate. The contractual form i.e. licensing or service agreements should also be reflected in these contracts to avoid confusion and provide specificity. This also calls in the issue of how to structure payment and compensation which should not be over looked.” (Radon,2011)

3.3 Resources and Revenue Management

Oil is not a non-exhaustible resource. It is predicted that in Uganda, commercial oil production will just span for a period of thirty years. This means that the state must ensure that oil is properly utilized to benefit the present and future generations. Oil in Uganda has so far been discovered in the Albertine region that is has sensitive eco systems. 40% of the oil so far discovered lies in Uganda's biggest National Park, the Murchison falls National Park that is home many critical and endangered species and hence a major source of tourism (Tullow Uganda, 2016). Some oil wells have been drilled on the shores or in the vicinity of Lake Albert a major lake providing food and water to millions of Ugandans, hence exposing them to unwarranted damage as a result of oils disposal.

It is important and critical that oil production is managed in such a manner as not to disrupt and destroy these critical ecosystems which will still be playing a critical role in the development of the country long after oil has ceased to be economically viable. At the moment, there are already fears that adequate protections are not in place to protect the environment from pollution always associated with oil. The residents in Buliisa, one the districts in which oil has been discovered already complain of disposal of oil waste into a

river that they suspect may end up being harmful to their health and life (Ssekika, Edward, 2014).

The oil spills have a high pollution potential that can adversely affect food production and place the health and lives of people living in oil production areas at a great risk of diseases, malnutrition and death. Uganda must therefore guard against pollution from oil industry if oil is not to end up becoming a curse as experienced by the Ogoni people in Nigeria.

Having already seen that oil is an exhaustible resource, it is important that the revenue generated is well managed whose benefits will continue being felt long after Uganda has ceased producing it. Therefore, the resources generated once commercial production begins should be utilized efficiently for this purpose.

Unfortunately, Uganda does not boast of a good record of financial management. Recent records of gross financial mismanagement can be given of the Global and GAVI funds which were mismanaged by government officials some of whom hold cabinet positions.

Most officials in senior government positions have been implicated in one corruption scandal or the other. Parliament does not have sufficient independence to exercise its oversight functions with the President using the NRM caucus on numerous occasions to guide parliament (Mafabi D., 2016).

The prevalence of corruption and lack of political will to fight it leaves many Ugandans with little hope that oil will be utilized for the benefit of all. This is coupled with President Museveni's politics of patronage over the resource referring to it once as "my oil". This patronage leaves many to believe that oil production will benefit Mr. Yoweri K. Museveni and a few of his cronies leaving the rest of the country languishing in poverty and under development. This has potential to develop into a potential resources conflict and hence retard the economic and political development of the country.

The above potential challenges facing oil management can best be avoided if Uganda adheres to the principles of good governance. It has been stated that good governance is essential to successful management of natural resources. For Uganda to reap the benefits of oil production there must be sufficient political and social will in place to enable her do so.

It is important for Uganda to have in place systems that can control spending of money obtained from oil so that it is channeled in the priority sectors (Mafabi D, 2016).

Furthermore, it is critical to have independent oversight bodies in place that can effectively check abuse.

At the moment, Uganda has the oversight bodies in places. Parliament is in place to check the excesses of the judiciary while institutions like the Inspectorate of Government and ultimately courts of law are in place and can check corruption.

The only challenge as already noted above concerning Parliament is too much influence from President Museveni who has a final say in matters which he deems critical enough to justify his interference. A good example can be given of his directives to the Members of Parliament belonging to the National Resistance Movement on who to choose as the speaker and deputy speaker (Nelson Wesonga, 2016). It is worth noting that MPs received five million shillings each from the president termed as a “gift” before voting (The Daily Monitor Team, 2016). With such interference, Parliament, whose majority members are from the NRM party cannot do much to check abuse of power and consequently resources from the executive if any. Given Uganda’s recent history on mismanagement of public resources, it is likely that mismanagement of oil revenues is likely to occur.

The other oversight bodies noted that is the Inspectorate of Government and the judiciary are not free from political interference either.

The judiciary can only function well if there measures in place to guarantee its independence. This means it must be allocated sufficient resources to perform its functions.

At the moment, the judiciary is underfunded and understaffed (Kiyonga, D, 2016). This greatly impacts on its effectiveness and creates case backlog.

The gross political interference faced by the judiciary means that it is hard for the sector to act independently. President Museveni has on numerous occasions criticized judges for the decisions and at one time vowed to go back to the bush if courts continue giving judgments which in his opinion are contrary to the ‘interests of Ugandans’. In addition the state’s deliberate refusal to comply with the decisions of court greatly undermines the independence and effectiveness of the judiciary. After the Constitutional Court decision in *Muwanga Kivumbi Vs. Attorney General*, Constitutional Petition No. 9/2005, that successfully challenged police’s interference in the rights of citizens to peaceful demonstrations, police responded by increasing on its crackdown of peaceful demonstrations. Government then responded by enacting the Public Order and Management Act of 2013 which is seen by many as directly reversing the Constitutional Court decision in *Muwanga Kivumbi Vs. Attorney General* and hence unconstitutional (Human Rights Network for Journalists-Uganda, 2016). With such interference, the judiciary cannot be expected to perform its oversight functions and hence check the abuse of oil revenues from oil.

3.4 Democracy and adherence to the rule of law as essential elements in oil management

It has been proved that countries which depend on petroleum resources for a large part of their export earnings tend to be less democratic (Timothy Mitchell, 2011, p.1). It is important that the rule of law is institutionalized in Uganda if Uganda is to avoid the oil curse. The absence of strong structures to check abuse and the abuse or perceived abuse and mismanagement of state resources by some few individuals in the state without any sanctions is likely to result into conflicts in the long run that may culminate into insecurity. This would greatly interfere with oil production activities.

Uganda has a political past characterized by insecurity and dictatorship. Since independence, the country has never experienced a peaceful transition of power. President Museveni in power for thirty years was looked at as a person who could reverse the historical trend. However, he has become increasingly repressive of political dissent as he attempts to entrench himself in power. President Museveni must be credited with establishing relative peace and security in the country. However, great uncertainty looms over the post Museveni future. At the moment, the political environment in the country

does not favor democracy as well as transition from Museveni to another leader. Museveni has increasingly become repressive violently cracking down any voices of dissent. His chief political opponent, Dr. Kiiza Besigye, has been arrested over forty three times without any charges being preferred against him and is now in jail (Eriasa Mukiibi, 2015).

It is important for the state and all relevant stakeholders to critically deal with the issue of transition from Museveni to another leader. Museveni now in his 70s and serving what many hope is his last term will soon or later relinquish the reins of power. In the past, he has stated that he does not want to leave power in the hands of wolves who will mismanage oil (Muhereza, R, 2015). With commercial production of oil expected to span a period of thirty years and to begin in 2020, Museveni will evidently be succeeded by another leader while Uganda is still in the production phase. The country will greatly benefit from the oil resource if the current relative peace and security remains. This is only possible if there is a peaceful transition of power.

The issue of transition aside, it is important for Ugandan citizens to freely participate in the oil industry to avoid potential conflicts that may brood insecurity. The 1995 Constitution of the Republic of Uganda, under article 38, recognizes the right of all citizens of Uganda to freely participate in the civic activities of their country. Therefore the lack of transparency

that shrouded the PSAs was an inhibition. The NGO Amendment Bill of 2015 is greatly seen as being aimed at stifling the influence of the civil society on the governance issues in Uganda yet the civil society is influential in keeping the populace informed and empowering it to demand for accountability and good governance (NGO Law Monitor, 2016). Such a population is required to put pressure on the government to ensure that revenues from oil are not mismanaged. It is thus important that Uganda does not stifle the civil society space.

Oil operations require a lot of land. Land is needed for the pipeline, refinery, among others. Bunyoro region in which most of the oil discovered has been inhabited for thousands of years. The need for land means that some displacements have to be made uprooting people from land they have inhabited for generations as well as deeply rooted traditions. These displacements must be done in a manner that does not result in a crisis.

The Constitution provides for a prompt, adequate and fair compensation for those whose land is acquired by government for a public purpose before government takes over possession as per article 26 of the Ugandan Constitution. Taking the land requirements for the oil refinery for example, there have been displacements in Bunyoro region which is in the south western part of Uganda, so far with many communities complaining of gross

abuse of human rights by government (Oil in Uganda, 2016). These were discussed with interviewees and residents in these regions who were affected. They admitted that government destroyed their houses and plot of land confiscated in the name of oil exploration and drilling however they were not compensated. Local NGOs came on board to help advocated for their affected rights, suits were sent to court and even judgments was passed to have these residents compensated. That even when this was all done, majority has been displaced and not compensated a penny leaving them vulnerable. Many people have been evicted without being compensated or alternative places of settlement being provided (ASF, 2015, p.30).

As a result, some communities have been relegated to living in camps where standards of living are appalling. Such gross neglect and abuse of the citizen's human rights by the state may not agree well for the oil industry. It has already created discontent on the part of the displacement communities who may, due to desperation end up taking arms and destabilizing the region and the oil industry at large if their grievances are not urgently addressed by the government.

3.5 Trans-boundary dynamics in the management of Uganda's Oil

As mentioned in Chapter two, Uganda is a landlocked country. It is therefore important that she maintains a good relationship with her neighbors for the purposes of exportation of oil as well as the importation of the necessary equipment.

Furthermore, the success of the oil industry in Uganda much depends on Uganda remaining secure. A stable security situation in the neighboring countries is key to Uganda's own security concerns.

Uganda is a key player in the security matters of the great lakes region. It is indeed stated that President Museveni regardless of his ever increasing repressive rule is at the moment and indispensable partner to the west because of the critical he is playing in the security of the region. The UPDF has played a role in Somalia and greatly contributed to the pacification of the country. This has however come with consequences on Uganda. In 2010, Uganda was bombed by Al Shaabab terrorist who claimed that their attacks were in retaliation to the UPDF's intervention in Somalia. They have since threatened to strike again.

Such attacks from Somalia insurgents yet Somalia are not an immediate neighbor to Uganda greatly underlies the critical importance of Uganda being at peace with her neighbors.

Uganda has for long been involved in the politics of Southern Sudan. It greatly supported the SPLA war against Khartoum and when the new South Sudan State plunged into civil war, the UPDF rushed into the country to support President Salva Kiir. Such acts may create insecurity in the country in case of retaliation by Southern Sudan.

In the late 1990s, Uganda invaded the Democratic Republic of Congo on the pretext of fighting the Allied Democratic Forces rebels. Therein, there was looting and Uganda was ordered to pay US dollars of ten billion to the Democratic Republic of Congo which up to now has not been paid. Such acts have the impact of souring relations between Uganda and the DRC which may be a recipe for insecurity.

Oil has been discovered on the Democratic Republic of Congo side of Lake Albert as well. It is fundamental that Uganda deals diplomatically with the DRC to avoid disruptions on Lake Albert that would greatly disrupt the oil industry. So far, there have been cases of the DRC abducting employees of the oil companies in Uganda on the premises that they were drilling in the DRC side (ASF, 2015, p37) Secondly, there is a fear that since Uganda is likely to begin exploiting oil before the DRC; it may end up encroaching on its neighbor's share. Though this later point has been dismissed by the Ugandan officials, it is important that

these issues be handled diplomatically to avoid potential conflicts which would greatly disrupt the oil industry.

Security concerns aside, the East African Community offers Uganda a big market for its oil products in case the plans to have an oil refinery in Uganda materialize into the refinery being built. Uganda would reap big by exporting to her East African Partners and this chiefly hinges on her ability to maintain a good relationship with her neighbors.

3.6 International Human rights standards on oil management

Uganda is a party to many international human rights instruments like the Universal Declaration on Human Rights, the ICCPR and the ICESCR. Under all these instruments, the state is under a duty to uphold the rights of its citizens. Mismanagement of the oil industry would most likely lead to violation of rights like the right to life, property and health provided for under the aforesaid instruments.

The Ugandan state is under an obligation to respect, protect and fulfill the rights of its people. If this is done, then it would be able to avoid mismanagement of the oil resource.

The United Nations has come up with guidance principles to guide extractive industries termed, “*UN Guiding Principles on Business and Human Rights*”.

Though not legally binding, they would do well to guide a state well committed to the tripartite human rights obligations. Among these principles is that the states must protect against human rights abuses within their territory or jurisdiction by third parties including business enterprises as under Guidance Principle No.1, as well as set out clearly the expectations that all business enterprises domiciled in their territory and jurisdiction respect human rights throughout their operations as per the Guiding principles on business and human rights implementing the United Nations ‘protect, respect and remedy’ framework (2012).

The political trend in Uganda at the moment does not show serious commitment towards respect of international law as well as international human rights. A clear example can be given the act of the state hosting the President of Sudan Bashir who is wanted by the International Criminal Court for war crimes and crimes against humanity. Uganda is a party to this court which President Museveni has referred to as “a bunch of useless people” (The Sunday Vision, May 2016). Being party means it has to adhere to the obligations under the Rome statute which required arresting president Bashir once he stepped in Uganda, but this did not happen on numerous occasions he came visiting the country, one of which was a presidential swear in ceremony for the now president of the republic of Uganda.

Such actions reveal that Uganda is not committed in fulfilling her obligations under International law as well as under international human rights instruments, which are binding on it. What is not in doubt is that if Uganda strictly adhered to the International Human Rights Instruments she is party to, she would be able to steer her oil industry in a direction that would be enviable and benefit the interests of her citizens. But this largely depends on the political will of her leadership.

3.7 Conclusion

The success of Uganda's oil industry largely hinges on the politics of the country internally, and with other states. There must be a political will to create and facilitate independent institutions that will oversee the operations of the oil industry. Good governance is essential while peace and security remain an integral element of the success of the industry. How all these will play out remains to be seen.

At the moment, there are many worrying signs that oil in Uganda may not end up benefiting the country as was greatly expected. Whether this will turn out to be a true prediction or not, largely depends on how the state acts and continues to act as Uganda approaches the phase of commercial production of oil.

When a country ignores putting effort into its legal frame work, the executive is prone to judgments from its citizens, and this was exhibited when Uganda discovered its oil stakes.

It's not a lie that the chieftain of a country especially of a developing country like Uganda often take advantage of the country resources when explored- a good reflected example is minerals in other countries like DR Congo, the rich corrupt politicians have benefited immensely in the gold minerals yet the biggest percentage of the country's citizen are suffering in poverty and seeking refuge in neighboring states. This is similar to the situation of oil discovery in Uganda, where residents in the Albertine Graben region are suffering evictions and displacement without suited compensation because of lack of a strong legal back bone on oil sector they can rely on for protection.

It may therefore be a truism that having 'safe and secure' access to oil, is an important determinant of a state's power. (Manyak,2015)

CHAPTER FOUR

4.0. Regional and International Geopolitics of oil

4.1. Introduction

With the current oil abundance across the world, it may seem an odd time for countries with new discoveries to be excited over their oil (Marita Noon, 2015). However, the world continues to witness a rather unprecedented strife among foreign governments over control of the new hydrocarbon frontiers. According to the World Energy out-look of 2013, the United States became the world's largest producer of natural gas in 2012, and expected to become the world's largest oil producer by 2015 (Sara O. Ladislaw et al, 2014).

Notwithstanding the United States ambitions endeavors, China's demands for imported oil have increased rapidly in the recent years. This has led many observers, scholars and politicians to assert that China will resort to all means to extract all available oil and gas resources, thereby destabilizing the regional and even global order.

Russia's annexation of Crimea and the conflict in Ukraine got the European Union and the United States to adopt sanctions against Russia. This was in attempt to disarm what they referred to as "Russia's energy weapon." (Avielvs. Et al, 2015, p.21) a big percentage of the country's use of gas supply was cut off as a negotiating tool.

The oil and gas questions continue to fuel wars in the Middle East, oil prices have also dropped considerably since the 1990s, and the major International oil companies (the seven sisters) are currently struggling to maintain their grip of the world's oil in face of the

powerful OPEC. It is also argued that the projected effects of climate change are sufficient reasons for the reduction of dependency on the fossil fuel.

The above are some of the overriding International concerns that Uganda ought to pay attention to in the bid to exploit its oil. This is without prejudice to the regional dynamics such as the conflict prone Great Lakes region to which Uganda belongs and East African community's need to have concerted exploitation of the oil resource.

The interplay of the foreign influence security concerns and climate change highlight the fact that there is a downside to accessing additional oil deposits because this perpetuates oil domination of energy systems (Michael Renner, 2006).

This chapter thus analyses the different foreign policy perspectives that Uganda ought to be aware of while accessing its oil.

4.2 International influence of Access to oil

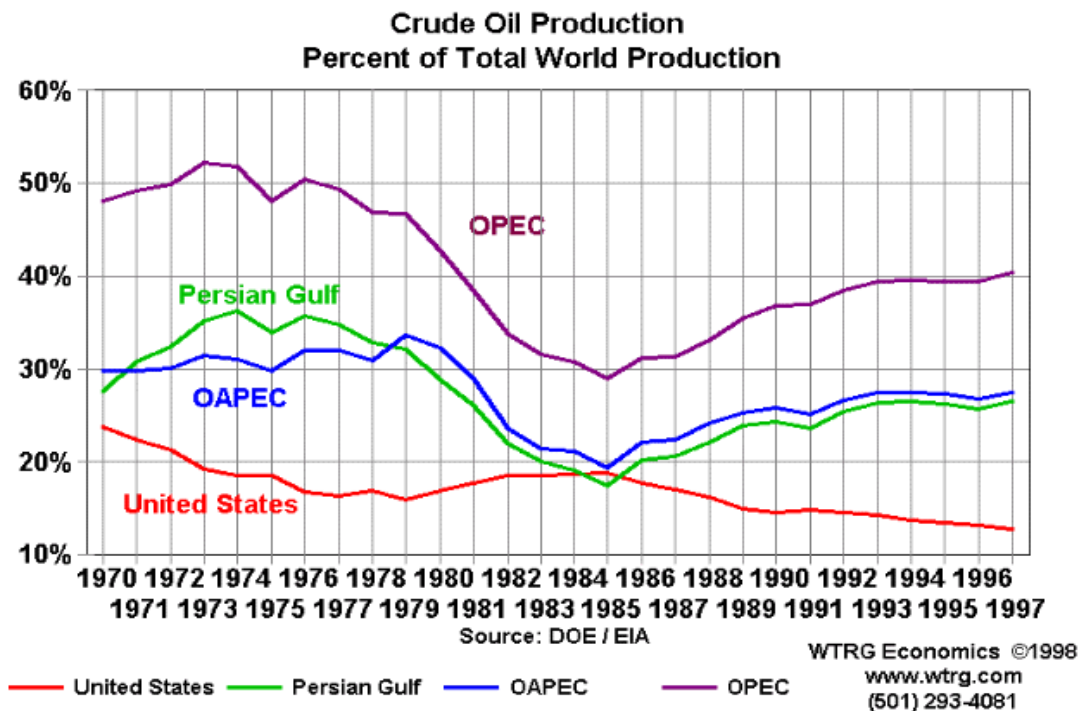
Upon discovery of oil by a number of underdeveloped countries at the beginning of the 20th Century, there emerged demand for expertise and financing of production and marketing of oil (Adam Bird and Malcom Brown, 2005, p.2). The absence of funds and technical capacity for these underdeveloped countries to take the risks associates with oil drill,

created room for the already established oil companies to dominate oil production across the world. These companies include Exxon, Shell, BP, Texaco, Gulf and Chevron, also known as the “Seven Sisters” (Aljazeera, 2013).

The compositions of these companies include five huge American companies, one British Company and one Anglo-Dutch company. They have dominated the petroleum industry for most of the 20th Century until the emergence of the organization of petroleum exporting countries (OPEC) that was founded by five countries in 1960. The establishment of OPEC by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, as founding members of this permanent intergovernmental organization brought together top oil producing countries. The OPEC membership had risen to 13 members by 1973 and the crude oil production share of 50% of the world’s production was what they boasted of (James L. Williams, 1999).

The graph below show crude oil production figures over three decades that succeed the formation of OPEC. As seen by the purple line, the OPEC countries contently topped the percentage contribution to the total world production. It is this predominance in supply that has helped OPEC to continue having as say in the setting of oil prices at the world market.

Fig. 4 Crude Oil Production Percent of total World Production



It is at this point that the membership of OPEC controlled their domestic petroleum industries through nationalization of their oil, hence acquiring a major say in the pricing of crude oil on world market.

It is clear that none of these countries previously had a say because the industry was run by the seven sisters, which by default furthered the interests of their countries of origin. It is for this shift in the balance of power that the 1970s are on record for having had most significant geopolitics of oil and gas, as the former power cartel of the oil companies lost grip to a cartel of states that had decided to have a united position.

In the bid to contain the power of OPEC, this triggered the 1973 Arab Oil Embargo and the outbreak of the Iranian Revolution. Lessons from this that Uganda ought to live is that in so far as oil production is concerned, it matters a lot which countries you choose to align with.

In light of the oil companies operating in Uganda today, and other companies that the government has contracted to construct oil and gas infrastructure, Uganda is living more to the East than the west of the three companies carrying out exploration in Uganda (Total E & P, Tullow PLC and China National Offshore Oil Corporation – CNOOC) on the Chinese CNOOC has been given a production license and the other two continue to plead with government to be given production licenses to no avail.

When it came to the construction of the oil refinery, the government of Uganda selected Russian RT Global resources for building the refinery (Rostic, 2014).

According to Global witness, a UK based NGO, RT Global resources is a subsidiary of state owned Russian arms and industrial company Rotec, which is on the European Union and United States Sanctions list (Global Witness, 2015). Uganda's identification with China and Russia in its oil and gas sector as major international partners serves to confirm Uganda's drifting to the East in terms of its foreign policy on access to oil.

The writing is on the wall that as part of China's oil Diplomacy, Africa which is the new frontier for hydrocarbons has become an easy target. Unlike other super power states that used private companies (the seven sisters) to expand their horizons in the quest for oil, China is using state owned companies in its expedition. This seems to be setting China on a collision course with The United States who first and foremost look at such dealings as a threat to their security interests, but also equally have vested interests in the oil.

This cold war between these two super powers was earlier on reported in 2007 in Darfur – South Sudan (F. William, 2007).

Besides the fact that China and Russia are both having projects in Uganda, the last two years have also seen them sign bilateral arrangements on oil and gas, with the west attempting to slap sanctions on Russia over Crimea and Ukraine (August 2012 Rachael Boriase/BBC Media Action, 2012).

It is therefore right to say that, the lines have since been drawn and Uganda is most likely choosing the East over the west in its foreign policy on access to oil. This decision was further buttressed when EU, US and Canadian diplomats walked out on president Museveni during his swearing in for his 5th term of office (August 2012 Rachael Boriase/BBC Media Action, 2012). Then president has also publicly uttered praise for China's good relationship

with Africa that is based on utmost good faith unlike the west that has always had strings attached to their aid or other assistance they render (Uganda, 2016).

4.2 Region Geographical Aspects of Uganda's Access to Oil.

As mentioned in the preceding chapters, Uganda's oil pipeline project has been at the forefront of the geographical concerns of East African Community member states with all the East African countries having interest in this pipeline including South Sudan, Uganda was faced with the option of choosing the Kenyan Route, which would support South Sudan, Kenya and even Ethiopia as earlier maps projected. Uganda confirmed to Kenya that the most feasible route both geographically and commercial was the route from Hoima in Western Uganda to Lamu at the Kenya coast. Unfortunately, this decision was changed months later and Uganda opted for the Tanzanian route (Reuters, 2016) to the port of Tanga, the Kenyan president Uhuru Kenyatta personally addressed journalists on the matter where he said "Museveni betrayed Kenya." (Paul Amisi, 2016).

Having such a statement made by the Head of State of a major trading partner is not issue one should take lightly. This implies that in future, the country ought to exercise a high level of prudence and diplomacy in making commitment to trading partners.

Fig. 5

AFRICA'S OIL PIPELINES

Africa's oil pipelines is shown below, with red lines representing gas pipelines, green for oil and blue for oil products such as refined gasoline, propane and heating oil. Planned pipelines are shown as dotted lines. North Africa is the contents most pipeline dese region followed by West Africa. East Africa Only has an oil products pipeline. See Figure 4 for the planned oil pipelines for East Africa.



4.3 The ICGLR Membership and Regional Peace

Uganda, which is located in Africa's great lakes region, and is also a signatory to the international conference for the great lakes region (ICGLR). An intergovernmental forum with twelve member states (ICGLR, 2016). The countries in this region have been prone to civil wars and armed conflict both internally and at the international level. Uganda's role in restoring peace in the region cannot be over emphasized with troops in over four countries at the moment.

On the other hand, Uganda has also previously been implicated for atrocities in those countries such as the Uganda-Congo conflict over Gold that was taken from Congo by Uganda People's Defense Forces (Fredrick Musisi et al, 2013) on their pursuit of the Lord's Resistance Army. This dispute was settled internationally in favour of the DRC and Uganda thus owes DRC reparations worth of millions of Dollar.

As for the question of access to oil in the Albertine Graben that is shared both by the DRC and Uganda, the strife over that oil started in 2008, just two years after the discovery of oil in Uganda (Joseph Yav Katshung, 2007). DRC cautioned Uganda not to go beyond its territorial boundary and drill Congolese oil that is under the lake. There have been a

number of security incidences on Lake Albert most of which will always call for diplomatic Interventions with the recent being the killing of Ugandan policemen by Congolese soldiers. Uganda therefore ought to pay due regard to the interest of the democratic Republic of Congo and other ICGLR members. In fact, as a way of mitigating illicit dealing in minerals; the ICGLR member states established a mineral tracking and certification mechanism (ICGLR, 2016). This was done through the ICGLR protocol against illegal exploitation of Natural resources that was signed in 2006 November. This was in recognition of the illegal exploitation of natural resource in the Great Lakes Region and protracted armed conflicts. Uganda being located in this geographically sensitive region with numerous cases of illegal exploitation of minerals and cross-border armed conflict means that attention should be paid towards averting any conflict either internally or internationally as it arises. The possibility of an international conflict being triggered by Uganda's exploitation of oil from under Lake Albert can also not be ruled out.

4.4 .0 Environmental Issue and Climate Change

4.4.1 National Environmental Concerns for Uganda

Given the inevitable increase in Uganda's oil sector activity in the years coming forth, and the environmental risks that will be associated with the process, further regulatory and legislative detail is required on the industry's practices beyond what the general laws provide for.

Issues such as gas flaring; pipeline construction and pipeline leaks; drilling technologies that prevent water and soil contamination; control of adverse effects of oil spills to the atmosphere, surrounding lands and nearby water bodies are going to be prevalent, as the case has always been in other countries e.g. Nigeria.

Noise and light that may scare away wild animals from their natural habitats; emergence of human domestic waste and disease due to population increase in the areas; destruction of forests and grass cover; disposal of oil waste are some of the inevitable end results that Uganda has to prepare for.

Environmental restoration after the oil production stops; strategic assessments of environmental impacts; comprehensive biodiversity management strategy for the Albertine Rift; air quality management and monitoring; compliance with the national EIA system and procedures; appropriate penalties; and enhancing capacity and modalities for

multi-stakeholder engagement in monitoring the impact of the oil industry on the environment need to be adequately prepared for ahead of commencing production.

National Environmental Management Authority (NEMA)'s role in ensuring compliance and protection of the environment is clearly critical. Currently NEMA is faced with the challenge of limited funding, an issue that ought to be addressed ahead of oil production so as to cope with the increase in demand and technical personnel related to oil and gas. NEMA ought to be among the first government institutions to be empowered through accelerated training of more human resources by using some of the funds obtained from exploration.

4.4.2 International Environmental Concerns

Uganda's oil and gas that has so far been discovered is located in the ecologically sensitive Albertine Graben which has many rivers, national parks and lakes. The Environmental footprint of Uganda's exploitation has thus continued to cause alarm among Non-Governmental organizations and other players. The latest campaign mounted took place at the beginning of 2016 when Uganda sought to issue an exploration license for oil in the Queen Elizabeth National Park. Much as the national park is in Uganda it is part of the Eco system of Virunga National park that is on the DRC side of the border.

Due to the fact that Virunga National park is recognized as a UNESCO heritage site, the campaign against licensing of oil exploration in the area yielded greatly because ultimately,

no oil company applied to operate in that oil block. This to the government of Uganda seemed like sabotage because they argued that the Virunga, UNESCO heritage site is located in the Democratic Republic of Congo.

However, given the need for oil companies not to get bad reputation internationally, no company expressed interest in that oil block. It is therefore imperative on Uganda to respect both national and international environmental concerns in the exploitation of its oil.

The other environmental threat is the River Nile, the largest river in the World (livescience.com). Uganda happens to be the host of the source of River Nile. This river is the life line of three countries such as; South Sudan, Sudan and Egypt, all of which use the water of the Nile for sustainability, given the arid climate in those countries. Unfortunately, oil activities in the Albertine Graben are taking place along the Nile River.

For that matter therefore, Uganda in exploiting its oil is enjoined to avoid any possibilities of oil spills on the river. As a matter of fact, any such thing would trigger retaliation from the countries North of Uganda whose water supply is solely the Nile River.

As for climate change, the world today is faced with global warming. This has been referred to as the biggest threat mankind has ever faced in recorded history. This has prompted the

call for a shift to the use of clean energy. In fact, 2070 has been set as the year by when the use of fossil fuel should have totally been put to an end (Wolff Bachner, 2014).

This has implications on countries that are making new discoveries of oil. However, some continue to argue that the world has a long way to do away with hydro carbons given the search for new frontiers by the world's super powers.

4.5. Conclusion

The influence of international and other foreign players in Uganda's access to oil is one thing that the country cannot undermine. Starting with the oil companies that take the risk of investing in exploration and production through to neighboring states which have shared interest in the oil infrastructure, their state in the oil is worth according attention.

There are also the shared natural resources which have a bearing on how best the country benefits from its oil. If it is to optimize benefits from oil production, Uganda should exploit its oil and gas resources exceptionally bearing in mind the foreign interests at hand.

CHAPTER FIVE

5.0. CONCLUSION AND RECOMMENDATIONS

5.1.1 National Realities of Uganda's access to her oil

In his journal “Oil and governance in Uganda” Terrell G. Manyak notes that “ the excitement by the potential riches flowing from oil and gas production was tempered by the fall of oil prices from \$120 per barrel to less than \$50 in the early 2015 along with the continuing decline in worldwide oil consumption...”

In Uganda’s oil prospective oil market, investors have expressed that they are not likely to build a pricy heated pipeline to Kenya her neighbor if the returns on investment don’t not reflect good profits. The Minerals and Energy Development Minister in Uganda in an interview on the investment situation in Uganda, he expressed that strong legal frameworks must be adopted to manage the oil resources of the country before exposing them on the market. In addition to that, this will avoid the global price from recoiling. The minister also expressed that the country ought to focus on scaling down the offshore dependency syndrome.

5.1.2 Foreign policy perspective

The great diplomat and philosopher, Niccolo Machiavelli once noted that;

“It is impossible for a republic to remain long in her quiet enjoyment of freedom within her limited confines; for even if she does not molest others, others will molest her, and from being this molested will spring the desire and necessity of conquest, and even if she has no foreign foes, she will find domestic enemies amongst her own citizens.”

(Noccolo Machiavelli, 1531)

In pursuit of access to oil, Uganda can not attempt to devise a “quiet enjoyment “approach because, inevitably she is bound to indulge other states for passage, market ,investment and financing as well as expertise.

Given the fact that Uganda is still and most likely will remain land locked, maintaining a trade route to the Indian Ocean has always been among Uganda’s primary foreign policy objectives since the colonial times. It is for this reason therefore that the construction of the 660 miles long Uganda railway between 1896 and 1901 was a first project that the British imperial East African Company embarked on. This has historically made relations with Kenya of major significance to Uganda as a foreign concern.

With oil discoveries in Kenya and presence of gas resources in Tanzania, and South Sudan's joining of the East African community, while giving particular importance to the latter's active oil production, Uganda continues to face the task of prioritizing and having high regard to its foreign policy in exploiting its oil resources. This has been evidenced in respect to East African Community member states expressing the need to have joint infrastructural development projects such as oil pipelines, refineries, among others.

There is the ideological and diplomatic divide between the west (especially the US and the UK), and the East (especially China and Russia) in terms of their interests in access to oil and gas. Uganda therefore ought to systematically exercise prudence while choosing which of the major foreign powers it should align with in the promising oil industry because this will have a bearing on the success of Uganda's oil sector.

5.1.3 Summary of the objective of the study

This study was set out to explore the foreign policy considerations that Uganda has to make in exploiting her recently discovered oil reserves, identifying other state and non-state actors that have an impact on or are impacted by the oil exploration, development and the production activities Uganda. The study also sought to devise foreign policy considerations that Uganda ought to make in order to achieve optimal benefit from its oil production without compromising foreign relations with other state actors. This study is an effort to answer two questions:

1. Why is it particularly important for developing countries like Uganda to pay attention to foreign policy and diplomacy in exploiting their oil and gas resources?
2. What measures can states with new oil discoveries take to ensure that they retain sovereignty over their oil without compromising international relations?

5.2.0 FINDINGS AND RECOMMENDATIONS OF THE STUDY

5.2.1. The Geographical Location of Uganda

Uganda's Geo-strategic location being at the heart of the East African Community and as a Member state with all the other East African countries most of which have in the recent years had new oil discoveries, positions her to play an important coordinating role in so far

as Infrastructure development is concerned. Uganda's oil and gas infrastructure such as the planned Oil refinery and the pipelines reflect that they will cause a regional impact. In fact, the East African Community Council of Ministers has named the Hoima – Tanga Oil pipeline as the "East African Community Crude Oil Pipeline", a name that shows the regional nature of the infrastructure being a positive contributor for the growth of its oil.

5.2.2. The Small Quantity of Oil the Reserves

Over the years, Uganda has registered a high drilling success rate where by 85 per cent of all drilled wells are found to have oil in them. However, the amount of oil reserves so far confirmed stands at 6.5 billion barrels of Oil, of which 1.4 – 1.7 billion barrels which recoverable.

Compared to Nigeria, or Angola, or the OPEC member states that have influence in setting the oil price, Uganda's oil is little in quantity to influence oil the sector at International Level. The country therefore has to unfortunately be set to follow the prices that are set by oil majors and other countries that have more reserves to influence the forces of oil demand and supply. This therefore calls for Uganda to start managing expectations especially from the nations in to avoid conflict as a result of unrealized expectations from citizens.

5.2.3. The Regional Influence

Uganda's role in keeping peace and security on the African continent is unmatched. This is true considering it has troops in more than four countries across Africa and also a hub to refugees from all across the great lakes region. Its worthy noting that the EAC and the Great Lakes Region of Africa are very prone to civil war and conflict some these conflicts of have been strongly connected to the quest for natural resources. A case in point is presence of gold in DRC and the conflict attached to it, oil in South Sudan and Somalia among other examples.

The Somali's Al Shabab Terrorist group is one of the security threats that influenced Uganda's decision not to take the oil pipeline through Kenya. Just as politics and economics are important exploitation of oil, it is recommended that Uganda puts emphasis on regional peace and security in the exploitation of Oil.

5.2.4. Trans-boundary natural resources and environmental concerns.

The other finding is that environmental concerns about shared natural resources and physical features in Uganda an issue that ought to be paid attention due to the its impact on relations with other countries with which Uganda shares the resource. There has already been tension between Uganda and the DRC over oil exploration in the Lake Albert Basin.

The River Nile is another natural resource that many countries downstream would be affected if Ugandan oil polluted the river. These concerns coupled with the global campaign for clean energy and sustainable development, its recommended that Uganda considers environmentally friendly exploitation not just for domestic but also on foreign relations grounds.

6. Uganda's Oil and Gas Policy

The Uganda National Oil and Gas Policy that was made in 2008 emphasize the importance of having regard to the impact oil on relations with neighboring countries. For the Democratic Republic of Congo with which Uganda has shared oil reserves, there have always been efforts for cross-border Corporation. The two countries thus have an agreement of corporation for the exploration of hydrocarbons and exploitation of common

fields and intend to use unitization method to share the oil fields that fall along the borders.

7. Corruption and Political Instability

Uganda has had a history of civil and political instability to the extent that in the over 50 years of independence, the country has never had a peaceful transition of power from one president to another.

It is been found that countries which depend on revenues from natural resources are always predisposed to being less democratic. Uganda's political instability coupled with the fact that the country is internationally ranked as one of the most corrupt countries in the world threatens good governance of the country and natural resources as well. The absence of good governance and democratic principles have had far reaching foreign policy implications on some oil producing countries which in turn attract sanctions for some countries.

It is therefore recommended that Uganda addresses political stability, transparency and accountability for the beneficial and sustainable exploitation of its oil.

8. Influence of the Western and Eastern super powers

The world today is propelled by oil, and this makes oil production of great importance to the world super powers (The US and China) if they are to maintain the economic dominance across the world. Africa has since become the new frontier for this war, and Uganda has aligned more with China which also has developments in many African Countries. This was proved by the issuance of an oil production License for CNOOC in 2013 whereas three years down the road, Total E & P, and Tullow both French and British oil companies continue to plead with government of Oil.

In terms of contracting firms for infrastructure development, Uganda contracted a Russian Company RT Global Resources for the Oil refinery; a deal that went soar with the withdrawal of the company from project, a year down the road. It has also been noted that no American Company has set foot in Uganda's oil industry yet.

And finally, it is recommended therefore that Uganda plays a balancing act of dealing with China, Russia or South Korea, without compromising its ties with western powers especially the US who is the major development partner to Uganda.

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