East African Crude Oil Pipeline Bill, 2021

14 December 2021

Program

Content	Responsibility	Time
Welcome remarks	PwC - Pamela Natamba	10:00 – 10:05am
Background to the Bill	UNOC – Ms Barbara Nabuweke	10:05 – 10:15am
National Content regime for the pipeline project	PwC - Dorothy Uzamukunda	10.15-10:30 am
Insurance and Reinsurance regime for the pipeline project	UIA - Mr. Ronald Musoke	10:30 - 10:40am
Fiscal regime for the pipeline project	PwC - Veronica Magembe	10:40 - 10:55am
Remarks from the UCMP	UCMP – Mr. Aggrey Ashaba	10.55 – 11.05am
Q&A Session	UNOC - Ms Barbara Nabuweke PwC, UIA Moderator, Pamela Natamba	11.05 – 11.30 am

Presenters

Barbara Nabuweke
Head of Contracts &
Negotiations- UNOC

Dorothy Uzamukunda
Head of Legal
PwC

Ronald Musoke
Executive Committee,
Uganda Insurers
Association

Veronica Magembe
Manager Tax
PwC

Aggrey Ashaba
General Secretary
Uganda Chamber of
Mines and Petroleum

UNOC

UGANDA NATIONAL OIL COMPANY

Background to the EACOP Bill

16th December 2021

OUTLINE

1. Introduction

2. Why the bill

3. Key terms in the Bill

4. Next Steps

Introduction

Introduction

1. Crude oil commercialization plan agreed in 2014 & provided for a refinery and crude oil pipeline.
2. The upstream development heavily linked to the crude oil pipeline construction to access international markets
3. The crude oil pipeline route confirmed in 2016
4. The Inter-Governmental Agreement(IGA) concluded in 2017 with an agreed tax and other incentives to the project
5. The negotiation of the Host Government Agreements(HGAs), TTA and SHA for EACOP concluded April 11th, 2021.
6. EACOP shareholding(UNOC-15%, TPDC-15%, Total-62% and CNOOC-08%)
7. Project to be financed 60:40 debt to equity
8. FID target for end of December 2021

Why the bill?

Why the bill?

1. Unique cross-border nature of the project requiring a special law.
2. Aligning Uganda and Tanzania legal and regulatory framework
3. Enabling IGA,HGA and TTA
4. Managing taxation issues between Tanzania and Uganda over the project
5. Making provision for provisions that were not aligned with laws in both Countries.
6. Taking care of unique matters applicable to the project(tariff, third party access, anti-trust etc)

Key terms in the bill

Key provisions

1. transportation tariff
2. payment in kind
3. anti- trust
4. land rights
5. national content
6. insurance
7. third party access
8. decommissioning
9. fiscal matters.

Next steps

Next steps

1. The passing of the bill and conclusion of all enabling law is a key step towards finalizing all FID requirements for EACOP, Tilenga and Kingfisher.
2. Finalization of the PFMA and Income Tax amendments crucial
3. Presidential assent; Uganda and Tanzania
4. Tier 1 contracts awarded, moving from CLOAs.
5. Mobilization by contractors will start and Tier 1 contractors will start sub-contracting.
6. Huge boost to the refinery project development-Upstream FID
7. Count-down to first oil starts.

THANK YOU.

WWW.UNOC.CO.UG

National Content regime for the EACOP project

EACOP Bill, 2021

Presentation by Dorothy Uzamukunda
Manager

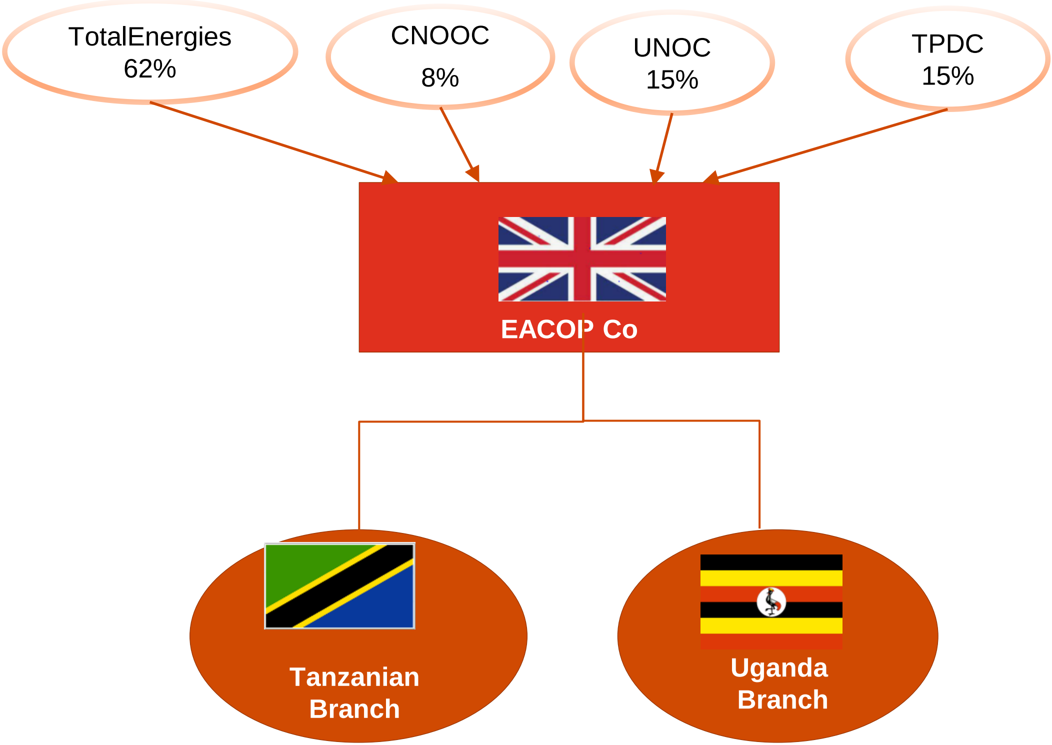
PwC Uganda

Background to the national content framework

Current national content legal regime for the EACOP project is the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 and the National Content egulations of 2016.

- Proposed EACOP law is aimed at giving effect to the Intergovernmental Agreement (IGA) with Tanzania and the Host Government Agreement (HGA).
- EACOP law will have supremacy over all other laws.
- Ugandan citizens and enterprises positioned to benefit from the project through prioritisation, ring fencing and joint ventures among others.
- Emphasis however remains on the required quality, health, safety, environmental, technical and other standards, supplier development, training within Ugandan and Tanzanian training institutions as well as research, development and technology and knowledge transfer.

Shareholding structure of EACOP company



The EACOP company is a Joint venture company.

The shareholders are: the Uganda National Oil Company (UNOC) with 15%; the Joint Venture Partners (Total Holdings International B.V. with 62% and CNOOC Uganda Limited with 8%) and the Tanzania Petroleum Development Corporation (TPDC). TPDC will take shareholding of up to 15%.

The shareholders are bound by a shareholders' agreement (SHA). This will guide matters related to funding of shareholding, finance structure and general governance of the company.

East African Crude Oil Pipeline (EACOP) Bill, 2021

What is the EACOP project about?

4 major agreements provide the framework for the EACOP project.

These are:

- the Intergovernmental Agreement
- the Host Government Agreement (HGA),
- the Tariff and Transportation Agreement (TTA) and
- Shareholders Agreement (SHA). The agreements signed on 11th April 2021.

The EACOP bill is centred around the Uganda Host Government Agreement (HGA) between the Government of Uganda and the East African Crude Oil Pipeline (EACOP) Company.

The HGA concluded the legal framework and contractual obligations between Uganda as the host country, and EACOP Co. as the project company Co.

East African Crude Oil Pipeline (EACOP) Bill, 2021

How will contracts be selected and awarded?

Rules for international players

1 PAU's consent required to reserve only what Ugandans can deliver
2 Balance to be provided by reputable international suppliers.
3 Will be required to form JV with Ugandan party.
4 International supplier may be engaged alone or as JV depending on commercial terms, quality, delivery timelines, required labour standards,technical standards and EHSS standards.
5 Sub-contract to Ugandan parties, employment and training Ugandans and transfer technology will be mandatory

Reserved contracts will follow the same ring fencing process under existing laws.

Waste management, security and land surveying, food and beverages, HR management, IT and communication, civil works etc

Ugandan and Tanzanian providers of goods and services will be given priority for procurements.

Involvement of International companies

International suppliers will be required to form Joint ventures with a Ugandan entity.

Special provisions

Ugandans will still be able to participate in non-reserved contracts they qualify for.

Selection and award of tenders cont’d

- Level 1 construction phase contracts that were notified to PAU prior to the HGA are not to be unbundled.

- Level 1 construction phase contracts refer to those contracts for rendering goods, services and works in Uganda which will be entered into with the project company directly during the construction phase of the EACOP project.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Does every Ugandan business qualify to enter into a JV?

… Evaluation criteria

- Foreign suppliers can provide supplies of goods, works or services required by the project company, its contractors and their subcontractors which are not available in Uganda.

- Foreign supplier can enter into a JV with Ugandan parties who are approved by the Authority and registered on the National Supplier Database.

- Ugandan parties must however demonstrate active participation in the JV. i.e. prior experience, have technical & financial competence to deliver the supplies in a timely manner, transfer of knowledge and technology to Ugandan parties.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Are emergency procurements bound by the same rules?

- EACOP company and its contractors can also contract non-registered suppliers of services to handle emergencies (urgent and unforeseeable) which may: -

1. *compromise life, the environment, condition or quality of goods, equipment or buildings.*
2. *cause a serious delay to the EACOP project unless a procurement is undertaken within the required time frame.*
3. *cause the EACOP project feasibility to be seriously compromised unless a procurement is immediately undertaken; or*
4. *cause operation shutdown unless action is urgently taken.*

East African Crude Oil Pipeline (EACOP) Bill, 2021

Recruitment and training of Ugandans

- The HGA contains the following commitments which bind the project company, contractors and sub-contractors both during the construction and operation phase.

  - A percentage of management, and technical staff drawn from both Uganda and Tanzanian citizens that should be recruited and trained during under the national content place during the operations phase.
  - Simplified process of EACOP company and project participants to employ expatriates.
  - Non-management positions will have to meet the requirements of the National Content Regulations of 2016.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Special provisions for the project & participants

Intragroup expertise

Procurement of critical intragroup expertise for services will not be required to meet the national content obligations provided for under the HGA or the midstream law.

Financing

EACOP Co may procure project finance from international project financiers during the construction phase in accordance with National Content Appendix of the HGA.

Exceptions

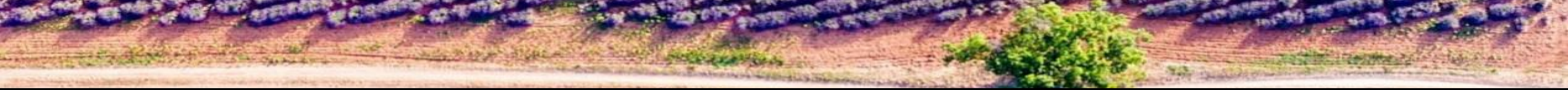
Exemption from advertising and issuing tenders to purchases of goods and services for everyday business.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Ongoing monitoring of compliance with national content

- PAU's process of measuring compliance with the national content requirements for the EACOP will take the following into account:
  - ❑ supplies of goods and services provided by Ugandans to the EACOP project in Tanzania,
  - ❑ recruitment of Ugandan in relation to the EACOP project in Tanzania, and
  - ❑ any transfer of technology to Ugandans in relation to the EACOP project.
  - ❑ Each national content plan will need to be harmonised and coordinated with similar requirements in Tanzania.

East African Crude Oil Pipeline (EACOP) Bill, 2021



PAU will monitor compliance through the reporting process

1

EACOP Co. required to submit quarterly reports to PAU on the implementation of the construction phase national content plan as required under the HGA.

Special exemption for the EACOP Co. applies. No submission of procurement forecasts in construction phase.

2

In accordance wihth current Midstream law and National content regulations, all licenses, contractors and subcontractors to submit to PAU a list of all its anticipated contracts and sub-contracts which will be bidded for within the thirty days of each quarter and submission of quarterly procurement report to PAU.

3

Contractors & sub-contractors required to follow a transparent and competitive selection process and award contracts for goods, works or services whose national content has not yet been identified.
National content related to any sub-contracting will have to be included in the quarterly reports which are submitted to PAU.

4

Evaluation will have to take into account the following:
All those suppliers should be registered on the NSD
Adverts are run in at least 2 newspapers of national circulation giving at least a month to respond
Unsuccessful bidders must be notified providing reasons why they were not successful.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Conclusion: what is in it for you & me?

More that 150,000 jobs with 57% reserved for Ugandans.

28% of the USD 15 billion investment during the development and construction will go to Ugandan Companies through provision of various goods, services and works.

Several expected Joint Ventures and sub-contracting opportunities.

EACOP BILL – INSURANCE & REINSURANCE CLAUSE PRESENTATION

Presentation at the PWC EACOP Bill Webinar

Tuesday, 14th December 2021

RONALD MUSOKE

INSURANCE CONSORTIUM FOR OIL AND GAS UGANDA

Uganda Insurers Association

Promoting Insurance. Protecting Your Future

CONTENTS

- ✓Understanding/Interpretation of the Bill (Section 29 & Section 1)
- ✓Insurance Industry engagements – Oil & Gas
- ✓Insurance Consortium
- ✓Reinsurance arrangements (IOC Captives, local Reinsurers & International Reinsurers)
- ✓Major Risks to be insured

ICOUG
INSURANCE CONSORTIUM FOR OIL AND GAS UGANDA

Uganda Insurers Association
Promoting Insurance. Protecting Your Future.

CONTENTS Cont.

✓Other classes to be considered

- Motor
- Office Assets (Fire/Theft/Damage)
- Workers' Compensation/Group Personal Accident
- Money
- Theft by employees

✓ Nature of EACOP Project (Running through two countries) and proposed insurance/reinsurance

✓ Health & Safety considerations from insurance perspective

✓ Impact of EACOP Project

ICOUG
INSURANCE CONSORTIUM FOR OIL AND GAS UGANDA

Uganda Insurers Association
Promoting Insurance. Protecting Your Future.

THANK YOU!

INSURANCE CONSORTIUM FOR OIL AND GAS UGANDA

Uganda Insurers Association

Promoting Insurance. Protecting Your Future

Fiscal Regime of the pipeline project

Presentation by
Veronica Magembe, Tax Manager
PwC Uganda

Content

EACOP Co

Taxation of the pipeline company

Project Participants

Tax incentives for contractors, investors, operators, shippers, finance parties and off takers

Key terms used for the pipeline project

Project Company

EACOP Co

Project Participants

- Contractors
- Investors
- Operators
- Shippers
- Finance parties
- Off takers

East African Crude Oil Pipeline (EACOP) Bill, 2021

Unique taxation regime for the EACOP Co.

Tariff income

There is a 10 year income tax exemption from owning and operating the pipeline

Tariff income is allocated between Uganda and Tanzania. 40% for Uganda and 60% for Tanzania

Non-tariff income

No income tax exemption for any other income.

Tariff and non tariff income is ring fenced

Deductible expenses

Generous allowable expenses for the EACOP Co compared to other licensees in the petroleum industry

Branch profits tax

Exemption from branch profits tax applies

East African Crude Oil Pipeline (EACOP) Bill, 2021

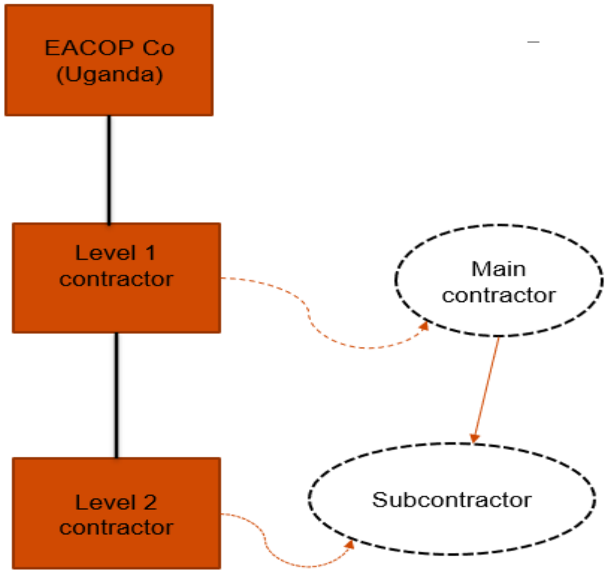
Content

Project Participants

Tax incentives for contractors, investors, operators, shippers, finance parties and off takers

VAT incentive for level 1 and 2 contractors

Deemed VAT



East African Crude Oil Pipeline (EACOP) Bill, 2021

- Taxable supplies of goods and services in respect of the pipeline project is deemed to be paid if made by the following:
  - level 1 contractor to the EACOP Co; and
  - Level 2 contractor to level 1 contractor.
- The level 1 and 2 contractors will not receive payment of the VAT component of the invoices issued out and the same VAT will not be paid to URA.
- Level 2 contractors will be in a consistent net input VAT credit position, and can claim a cash refund for excess input tax paid.

Lots of VAT exemptions for level 1 and 2 contractors

Importation of goods	• No VAT on import of goods by level 1 and level 2 contractor and EACOP Co
Importation of services	• No VAT on import of services used exclusively for the project by level 1 & 2 contractor

East African Crude Oil Pipeline (EACOP) Bill, 2021

More exemptions for level 1 and 2 contractors

Import, customs and excise duties

- Import duty exemption on equipment and inputs, engineering plant, capital goods and temporary importation of motor vehicles for direct and exclusive use on the project imported by level 1 & 2 contractors.

- Exemption applies to excise duties and levies such as infrastructure levy

East African Crude Oil Pipeline (EACOP) Bill, 2021

More VAT incentives for the pipeline project

Transportation of petroleum and incidental services is subject to VAT at 0%

Export of petroleum is exempt from VAT

East African Crude Oil Pipeline (EACOP) Bill, 2021

Withholding tax exemptions for contractors

WHT

- Importation of goods – 0%
- Payment for services from foreign entities – 5%
- Payment for purchase of asset from foreign entities – 0%

East African Crude Oil Pipeline (EACOP) Bill, 2021

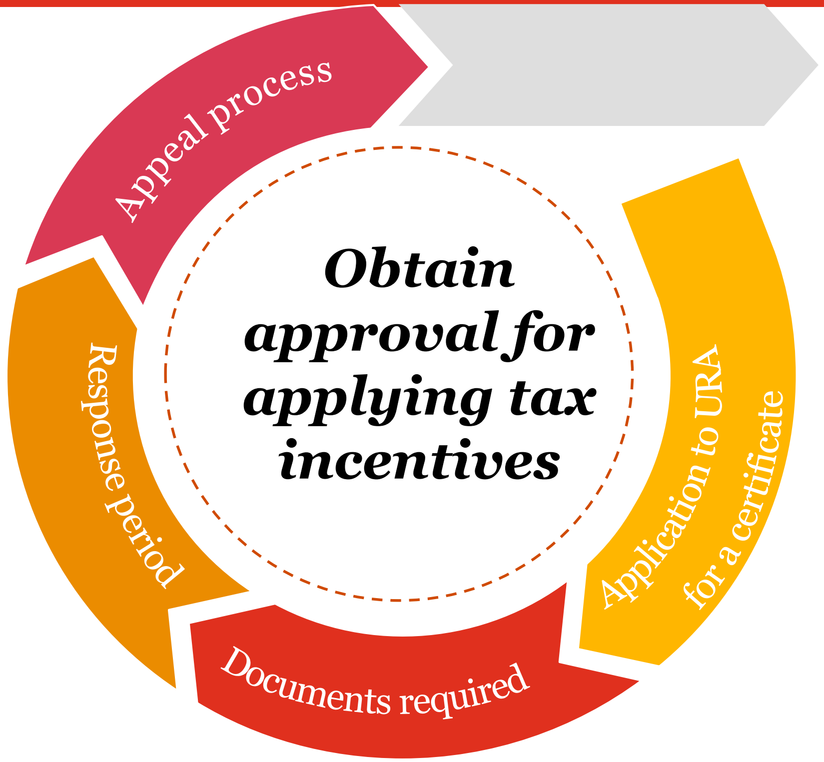
More exemptions for contractors

Social Security Contribution

Exemption of non-resident employees of the EACOP Co and level 1 contractor from making social security contributions

Control Mechanism

Tax incentives are not automatic and require obtaining approval from URA….



- A project participants (i.e investors, operators, contractors, shipper, finance party and offtaker) are required to obtain approval from URA prior to applying the tax incentives for WHT, VAT, import and customs duty and excise duty.

- A Information to be submitted when requesting for a certificate:
  - Copy of the agreement;
  - Confirmation by EACOP Co that the transaction is covered by provisions of the bill;
  - Draft form of the requested certificate to be issued by URA;

East African Crude Oil Pipeline (EACOP) Bill, 2021

Control Mechanism

Tax incentives are not automatic and require obtaining approval from URA….

Response period

URA to issue a certificate or render a decision refusing the issuance of certificate within 15 days after application.

Appeal process

Upon refusal by URA – project participant can appeal to an Independent Expert.

Tanzanian Certificates

Certificates granted in Tanzania will be valid in Tanzania.

East African Crude Oil Pipeline (EACOP) Bill, 2021

Contact Us:

ug_general@pwc.com

“ *Thank you*