INTRODUCTION

The draft Petroleum (Exploration, Development, Production, and Value Addition) Bill 2010 makes several critical changes to the legal regime, with potentially far-reaching impacts on the Ugandan petroleum sector. The Bill represents an attempt to set the governance conditions for the sector as the country enters a new phase in its petroleum history, with high expectations for the potential impact of oil on the national economy.

As is frequently true in countries that have not made significant petroleum discoveries, the larger International Oil Companies (IOCs) were unwilling to spend time and money in Uganda during the last 20 years. That role was played by smaller entrepreneurial companies willing to take the risks for what was considered a long shot at more modest amounts of oil. The result has been favorable. Uganda has a substantial—if not huge—amount of crude and its reserves may expand over the coming years. As a result, the Government has announced its intention to put in place a new framework that more adequately promotes the effective development of the Ugandan oil sector, and the economy more generally, in the context of the increasing national and international attention to the sector.

An analysis of the Bill’s provisions must take into account not only the promise of the Ugandan oil sector, but also the challenges it presents. Uganda’s is not offshore oil that can be picked up directly from the well and shipped to market. This is onshore oil far from the coast behind a network of poor transport infrastructure. The oil must cross an unstable neighbor with inadequate pipeline capacity. Some of the oil may be heavier than normal resulting in increased problems in pipelining and handling. The development also poses environmental risks, as the oil fields are located in environmentally sensitive areas.

Uganda is also competing for IOC dollars with all the other petroleum areas of the world, on and offshore. The IOCs understandably focus on their likely overall rate of return and consider how the legal and physical contexts will affect their investments. For instance, they will tend to be more accommodating when negotiating access to a prolific and easily accessible field rather than a smaller one in a hard-to-reach location. In this context, the host government must find the right balance between setting up a legal framework that maximizes

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the benefits of oil for the country and mitigates its risks and creating sufficient incentives that will attract prospective IOCs’ interest and allow existing investors to thrive.

Uganda’s Government, Parliament, civil society and media must also endeavor to keep citizens’ expectations for the sector in check and ensure that the positive impact of oil is maximized. Although hopes are high, the level of oil production during the next decade will relatively modest. The IOCs have indicated that production may reach 250,000 barrels per day, with scope for greater production levels, but that assumes well completions and field extensions as well as large infrastructure work i.e. highways, railroads or pipelines. The Ugandan Government has estimated that the oil industry could generate $2 billion in revenue for the state a year when the fields reach full production capacity. This estimate is subject to high degrees of variation depending on oil price, production level, production costs, and the effectiveness of the Government’s monitoring mechanisms. Using the $2 billion figure for illustrative purposes, the oil would generate approximately $70 per capita. These illustrations suggest that Uganda’s oil will have significant positive effects on the Ugandan economy only as long as revenues are invested into economic diversification and sustainable strategic investments.

ANALYSIS OF THE DRAFT BILL

With the opportunities and challenges presented by Uganda’s oil sector in mind, the Revenue Watch Institute (RWI) has conducted a review of the draft Bill (as well Uganda’s National Oil and Gas Policy, the 1999 Model Production Sharing Agreement and the 1997 Income Tax), and offers the following comments for the Ugandan Government, Parliament, civil society groups, and other stakeholders to consider as they address the bill. This analysis is based on a draft petroleum bill that the Permanent Secretary of the Ministry of Energy and Mineral Development disseminated for comments to stakeholders on May 19, 2010.

The analysis is organized around broad topics covered in the bill. For each topic, we present and discuss first each provision, making reference to sections in the bill. We then list a number of questions that stakeholders might want to ask as they address the bill

A. Gaps in the Framework Subject Key Elements to Negotiation

While the Bill is generally well drafted, it presents important gaps and leaves many issues open for the Government to negotiate during the contracting phase.

There is a natural tension between the desire and need for detailed control over petroleum operations as is set forth in an individual Production Sharing Contract on the one hand, and the dictates of a nation’s constitution and statutes on the other. A country must balance the imperative to enact firm policies that promote the national interest and the need to sign workable contracts that reflect variations among different oil fields. Analysts of international best practice, including the authors of the Natural Resource Charter, are increasingly

2 http://www.naturalresourcecharter.org/.
recommending that governments try to enshrine as many details of the operational and financial regime governing the petroleum sector into law as is possible, and to leave relatively little open to individual negotiations between the government and extractive companies.

There are two principal reasons for this recommendation. First, IOCs have the greatest advantage over national governments precisely during the contract drafting phase. Companies bring experienced negotiators to the contracting process, and if the nation does not have clear rules in place across the board, there is a risk that the company, and not the government, will be driving the project-development agenda. Second, enforcement of agreements is substantially easier if there is standardization of key terms. Enforceability is a key concern for countries like Uganda that are in the early stages of developing administrative capacity in the petroleum sector. It is for these reasons that many countries have elected to put as many key fiscal and operational provisions into law as possible, and others have instituted Model Contracts.

In some countries (such as Timor Leste) these models are drafted and approved at the same time as the statute on oil development. In other cases the statute requires the use of the Model and prohibits deviation without special approval (as in Iraq).

Uganda produced a Model Contract in 1999, but the new Bill does not mention it, leaving its legal status for upcoming contracting rounds unclear. To rely on this petroleum bill would leave a great deal for the Ministry to negotiate. While not all of the items discussed here must be fully defined in the law, the more terms that are firmly set, the fewer will be subject to deviation in individual negotiations. A mandatory Model Contract that could be varied only with Cabinet or Parliamentary approval would be another means to achieve the same ends.

In general, the Petroleum Bill is less extensive and complete than it appears on the surface. It leaves a host of important issues unresolved and left to the negotiators. These will be discussed in detail in the following sections.

Questions to ask:
- What is the Government’s rationale for leaving many issues in the law unclear and therefore open to negotiation?
- Does the Ministry intend to use a Model Contract? Will the Government revise the 1999 Model Contract? Should the use of the Model Contract be mandated by the law?
- What are the gaps in the current bill that the Government plans to address in subsequent regulations?
- What role, if any, will Parliament play in revising the Model Contract or approving petroleum regulations?

B. Interaction with the Forthcoming Revenue Management Bill

Much of the risk that oil-producing countries face comes in the form of mismanagement of the revenues generated by production. The days of outrageous concessions have largely
passed. Host country agreements around the world have fallen into a rather consistent pattern based on the size and attractiveness of the reserves. Sophisticated consultants are available for a modest amount to assist host countries in the negotiations of contracts. But once the payments are made to the government, there is little that citizens or the Parliament can do to see that the funds are not taken or wasted in the absence of strong legal provisions that would ensure that revenues are employed to advance the public good.

These issues are not addressed in the Petroleum Bill, presumably because they will be covered in a yet-to-be-released proposal for revenue management legislation. Among the critical issues that need be considered in forthcoming revenue management legislation are:

- The creation of a centralized Fund to account for petroleum receipts;
- A mandatory audit of Fund accounts by a credible and independent accounting firm, if a Fund is established;
- A policy balancing the use of petroleum revenues between current domestic investment and receipts retained for future use;
- Whether Uganda will establish a special fund for the saving or stabilization of oil revenues. If such a fund is created, the government will need to set out the terms for its management, including the rules for deposits into the fund, investment strategies, withdrawal provisions, and systems for oversight;
- The need for all funds to be subject to regular disclosure requirements for amounts received and on hand. A “publish what we receive” provision would be beneficial. Sections 39-41 of the Petroleum Bill spell out a system of audit and reporting for the Petroleum Authority, which will provide some value in terms of public awareness of how the Authority is operating, but since petroleum revenues will not be housed in the Authority, this provision does not, on its own, provide strong oversight of the funds to be generated by the oil sector.

Questions to ask:
- What are the gaps in the current bill that will be addressed in the Revenue Management bill?

C. Sector Governance and Oversight

Section 9 of the Bill establishes the “Petroleum Authority of Uganda”. The jurisdiction and duties of the Ministry and the Authority are not thoroughly spelled out. Section 24 of the Bill describes the mandate of the Authority only in general terms, and does not detail how it is to function in practice. The Bill also provides little indication of what role the Ministry is to play under the new system. In the absence of a clear mandate for the two bodies, there is a risk that the system could create unnecessary duplication or bureaucratic delays, and multiply the potential points for corruption or mismanagement. The lack of clarity in the relationship is not helped by Section 13, which states that the Authority “shall comply” with the Ministry’s directions on policy but that the Ministry should not “adversely affect or interfere with the independence of the Authority.”
Further confusion may be engendered by the “Commissioners” (Para. 44 and 45), who are appointed by the President and seem to function independently from both the Ministry and the Authority.

Questions to ask:
- How does the Government plan to minimize or avoid altogether conflicts of attribution between the Commissioners, the Minister, and the Authority in general and specifically on contracts?
- How will the Government protect the independence of the Authority?

D. Licensing and Contracting

The Bill does not provide a solid foundation for Uganda to form relationships with the best possible international partners for oil resource development, or to ensure that those partners do efficient and safe work developing these resources.

Most importantly, no provision exists in the Bill for competitive bidding. Sections 57 and 64 establish that exploration and production licenses, respectively, can be awarded via direct applications to the Minister. The award of blocks via competitive auctions gives the government a better opportunity to assess the pros and cons of various applicants for a license, and thus can result in a better overall deal for the country. If a bidding process is conducted transparently, it can also create stronger public awareness of the rationale behind a selection, which can decrease the risks of corruption while increasing accountability and public trust in government.

The Bill also gives little guidance on numerous issues related to the work program that a company is required to perform as a condition of its license. Particularly important are requirements laying out the terms of an exploration period and the time periods after which license holder is required to relinquish part or all of the areas under its control. In the absence of firm provisions on relinquishment, there is a risk that companies will simply sit on valuable oil acreage for years, doing little to actively explore the prospects.

At present, the Bill does not specify whether the Ugandan Parliament has access and ratification powers over contracts. Since contracts are key determinants of Government revenue, some countries like Sierra Leone and Ghana have opted to include provisions in their laws for parliamentary ratification of contracts.

Questions to ask:
- Why does the Bill not provide for competitive bidding?
- Who makes the final decision on the issuance of a license? According to the National Oil and Gas Policy document the Cabinet must approve all licenses (7.2.2(d)). Why isn’t this provision addressed in the Bill?
- What are the rules on relinquishment of a license?
- Can Parliament and its relevant committees examine the contracts already entered by the Ministry? Will these contracts be subject to parliamentary ratification?
E. Fiscal Provisions

The Bill leaves many of the key fiscal terms governing future petroleum contracts subject to negotiation. No suggested or minimum levels are set for the production share, bonus bids, royalties, tax payments, training budgets, or land rents, and Sections 106 and 159 suggest that many of these key elements are to be determined on a license-by-license basis.

At the very least, the bill could provide guidance on minimum royalty payments. A royalty is a payment to the holder of the resource for the right to use their property. It is paid at the time of extraction by companies based on the amount and sale price of resource sold, regardless of the project’s profitability. As such, a royalty is not a tax and it is unlikely that provisions on the payment of a minimum royalty will be outlined in revised tax laws.

Section 159(2) of the Bill indicates that the discharge of a contractor’s income tax obligations is to be “discharge[d]…in accordance with the license.” This language makes it unclear whether the provisions of Uganda’s Income Tax Act of 1997 will be respected or altered via negotiation. Alteration of income tax provisions on a license-by-license basis would create serious risks in terms of tax enforcement and revenue generation. If the Government does intend for the Income Tax Act to apply, it would be useful for the Bill to clarify whether an oil company qualifies as a “mining company” for purposes of the Third Schedule, which establishes a special progressive tax rate for such companies that is not applicable to other businesses.

The Bill also remains silent on the treatment of costs. The greatest problem for host countries has been the monitoring and control of costs by the IOCs, whose accounting capabilities dwarf those of the host country. Detailed cost parameters (as are found in the 1999 Model Contract) could be included in the law. Regular independent audits of IOC costs should be required.

The bill does not mention whether stabilization clauses are allowed in contract negotiations, or whether there are any limitations on the scope of such clauses. Stabilization clauses are used in contracts to protect them from being subject to legislative or administrative changes occurring after the conclusion of a contract. Stabilization clauses can shield contracts from changes not only in the fiscal framework but also in other sensitive areas such as employment and environmental protection. Companies use these clauses to protect their investments from subsequent changes.

Such clauses may be justified when they aim to protect the financial terms of an investment, but less so when they extend to the entirety of an agreement and include employment and environmental protection provisions. The bill would benefit from language clarifying that such clauses will be limited to certain narrowly-defined financial terms, and creating room for periodic revisitation of terms.
Finally, the fiscal provisions in the Bill do not provide for any sort of progressive revenue collection whereby the state’s share of benefits increases as project profitability rises. Progressive systems allow a nation to capture a larger share of rents from oil in times of commodity price booms without regularly renegotiating the contract.\(^3\) The record prices seen in the commodities boom of 2003-2008 resulted in increased revenues to both the state and the private sector, but the gains to companies in general far outstripped those to states.

Progressive systems also tend to be more stable, as they are adaptable to changing market conditions and thereby are less prone to promote public or company dissatisfaction when conditions change. Progressivity could be achieved via a provision which mandates use of an “R” factor or price-based scale for dividing production share, sliding-scale profit sharing or royalties, or a resource rent tax for super-profitable projects.

Questions to ask:

- The production sharing split between company and government is frequently left to be negotiated in contracts, but some basic parameters for the production sharing arrangements can be spelled out in the legislation. Does the Government want to provide any parameters for the production share in the legislation?
- How will royalties be calculated? Is there a minimum royalty?
- What are there rules on other revenue streams such as bonus bids, tax payments, area fees, or land rents? Will the Government review tax laws to clarify rules on some or all of these fiscal tools?
- Does the Government intend for the Income Tax Act to apply to oil contractors? If not, why not, and what, if any, standardized rules will be applied to licenses? Which cost items can a company recover? Are there any rules on losses that can be carried forward? What are the rules on depreciation? Will there be “ring-fencing” regarding costs incurred in different projects owned by the same company? How will the Government avoid the deduction of improper costs by the licensee? Will the Government conduct regular audits on IOC costs?
- If the Government does intend for the Income Tax Act to apply to oil contractors, is an oil company to be considered a “mining company” subject to the progressive tax established in the Third Schedule? Should the government consider implementing a “ring fencing” system to tax petroleum income on a project-by-project basis (which is not included in the Income Tax Act)?
- Are “stabilization clauses” to be permitted? If so, which items are to be stabilized, and what are the limitations?
- Does the Government intend to create a sliding scale of Government take, taxes or royalties based on overall profitability and oil prices? If so, what are the primary mechanisms for accomplishing this goal?

\(^3\) In Precept 4 of the Natural Resource Charter, experts insist that “fiscal terms must be robust to changing circumstances and ensure that the country gets full value from its resources.” See www.naturalresourcecharter.org.
F. State Participation

Other than the brief reference to “participating interests” in the paragraph setting up the National Oil Company (NOC - Para. 42,127) there is no provision at all for Government participation (although the 1999 Model Contract provided for a 20% carried interest).

Virtually all countries want a working interest. Often-cited reasons for state participation include: 1) it can help develop their petroleum management capability and assist in technology and expertise transfer; 2) it can bring additional revenues in the form of dividend payments, and 3) it gives the country a “seat at the table” and therefore enhances oversight on operations.

State participation comes at a cost, however. A carried interest is a form of participation that sees the Government acquire shares in the project. The problem with a “carried interest” is therefore that it is only “carried” or free until production begins, then the NOC must bear its share of costs. Also, carried interest is likely to imply concessions to the private operator on other revenue streams, for instance through more favorable tax and royalty terms.

In addition, carried interest is not easy to manage and any government opting for participation will need to hire skilled accountants that are able to review and approve the bills received monthly from the partner company. If the focus of the Government is on income generation, it would certainly be easier to administer a royalty (a before-cost interest) than a working interest (a post-expense interest).

Finally, a carried interest creates a conflict between the state as the royalty and tax recipient and the state as a shareholder, since dividend payments are inversely proportional to royalties and taxes paid by the project.

Spelling out the rules for participating interests would make the Bill clearer and would give all stakeholders in the industry a clear sense of the rules and the basis for Government decisions (for example, the provisions in the law might require a carried interest but leave the level to be negotiated within certain parameters, and spell out the process and criteria by which the state would make the determination in individual cases)

Questions to ask:
- What objectives is the Government trying to achieve through state participation?
- What is the level of the Government’s “carried interest”? Does the 20% “carried interest” of the 1999 Model Contract still apply?
- Did the Government run projections of the costs associated with “carried interest”?
- Can the licensee buy the Government’s share of oil under certain conditions? At what price?
G. Transparency and Access to Information

As mentioned above, the ability to audit the “Authority” and receive statements as to its accounts provides a beneficial means for public monitoring, but only of the key regulatory body; the law does not provide for the audit of the oil revenues themselves.

The provisions regarding “Information and documentation” that licensees are required to furnish to the Government are generally adequate, but the press and the public have little or no access to information regarding oil development. For instance, production amounts seem to be carefully guarded. IOC’s must maintain data of the “gross petroleum extracted,” but the Government is not required to disclose the quantity of production on any basis.

The Bill also does not provide for any disclosure to the public of the revenue that is being generated by the industry. Such an omission would place Uganda out of step with the emerging international norm on public disclosure of revenue data, and would deprive citizens of a key tool for public oversight of the industry and the economy.

Other data such as the licenses themselves, the field development plans and assignments can be revealed to the public only if disclosure doesn’t violate “confidentiality of the data and commercial interests” (Para. 156). This Section does not delineate the scope of confidentiality, leaving it subject to broad interpretation that would prevent disclosure in many cases. Emerging international practice calls for a much narrower and more-precisely-defined provision on confidentiality, which favors public disclosure and places the burden on the party seeking to block disclosure to demonstrate why disclosure would damage its legitimate proprietary business interests. Paragraph 158 goes on to say that all information submitted by a licensee not mentioned in Paragraph 156 or other sections of the Bill “shall be kept confidential” except in certain narrow circumstances. These provisions appear to be more restrictive than those in the Access to Information Act 2005 that provides room for accessing information when this is deemed in the public interest.

Questions to ask:

- What is the rationale for the Bill’s restrictive provisions on access and disclosure of information?
- Will access to information about petroleum operations and revenues be possible if it is demonstrated that it is in the public interest?

H. Environmental Protection

The Bill provides for some strong protections against environmental risk, but stakeholders may want to consider tightening provisions and protections in certain areas.

The right to approve the “Field Development Plan” provides a basic opportunity to ensure against needless environmental loss (Para. 99). Paragraph 100 requires “approved methods” of storage and prohibits the use of earthen storage. Also “good oil field practices” are required in Paragraph 102(5) (though “best oilfield practices” would be stronger).
Flaring is prohibited unless necessary for safe operations (Para. 104). Decommissioning is provided for via the creation of a Decommissioning Fund that will begin to accrue either when petroleum production has reached fifty percent of aggregate estimated recoverable reserves or five years before the expiry of the license (Para. 119 to 121). Creating such a Fund provides a protection against a company leaving Uganda without having made any money available for decommissioning, but the structure envisioned remains subject to manipulation. Estimates of recoverable petroleum sometimes fail to capture reality, and if a company’s interest in extraction dissipates more than five years before the end of the license, it could simply leave without having begun to deposit money into the Fund.

The most significant provision is Part X (Para. 132 to 138). In it, the Minister issues rules relating to penalties for “pollution damage,” which is defined without regard to fault. The operator is held primarily responsible. The Bill permits reduction in the damages if they are the result of event of nature or war or another force majeure occurrence. Legal action for damages will be brought in a local court.

Additional provisions which might be helpful (many of which were addressed in the 1999 Model Contract⁴) include:

- Power of the Minister to suspend a licensee’s production until remedial measures are taken;
- Regular consultation with the Government to discuss environmental impacts where National Parks are involved or nearby;
- Meetings between the Ministry and the licensee when a responsible third party complains about impact on a national park, sensitive area or critical infrastructure.
- Requirement that the licensee employ “the most advanced techniques” for prevention of environmental damage;
- Requirement that the licensee ensures adequate compensation for all those damaged;
- Requirement that the licensee retain a consultant to prepare an Environmental Impact Statement on the license area. These studies should contain proposed environmental guidelines;
- Submission of an oil spill and fire plan.

Questions to ask:

- What actions will the government take to avoid flaring?
- What is the rationale for starting payments into the Decommissioning Fund so late in the lifecycle of a project?
- What plans does the Government have to protect the National Parks and wildlife?

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⁴ The Model Contract of 1999 contains 16 detailed paragraphs pertaining to the above
I. Community Development and Social Impact

Paragraph 143 requires payment for damage or the taking of property according to the value of the property before and after the taking or damage. No consideration is given to the costs of relocation. There appears to be no provision for dislocation and disturbance of traditional lifestyle patterns or loss of employment except for Para.143, which provides for “fair and reasonable compensation payment for any disturbance” of the rights of the landowner.

The Act does not specify the procedure one should follow to obtain compensation and it might be helpful to specify the venue and access to the local courts, if a special court is not established.

Questions to ask:

- What is “fair and reasonable” compensation? Will the Government provide more detailed guidance on compensation in the regulations or will this be left to the negotiations between the companies and landowners?
- What is the legal procedure to be followed to seek compensation for damages or taking of property?

J. Construction of a Refinery

The proposed law allows Uganda to insist on a stream of oil sufficient to operate a refinery of some size but there are no provisions regarding pricing and other important items.

Uganda naturally desires to have a local source of motor fuels, but this ambition presents several challenges: 1) IOCs want to sell the oil on the world market and not use it to refine gasoline; 2) refineries are expensive to build and very difficult to keep running-- there are numerous small inefficient refineries in Africa which have been shut down; 3) small refineries generally can only make a limited number of products and high quality gasoline is not one of them.

If Uganda proceeds to build, or calls on the IOCs to build, a refinery, it should be aware of the problems and costs that could be associated with the project. The reality is that funds expended by the IOCs to build and maintain a refinery represent money that will not be available for payment to Uganda. Stakeholders should carefully consider the potential costs and benefits of the construction of a domestic refinery, and weigh them against other potential projects associated with the oil industry, including the construction of a pipeline to Mombasa or the refurbishment of the railroad for oil exports.

Questions to ask:

- What is the rationale for building a refinery? What products will the refinery provide?
- Have the costs of building a refinery been weighed against other options for the export of crude? Will the Government disclose the cost projections and the bases for its decision to build a refinery?
K. Creation of a National Oil Company

Section 42 of the Bill mandates the establishment of a National Oil Company (NOC), but does not detail its mandate or organizational structure, except to say that it is to be governed in accordance with Uganda’s Companies Act. As Parliament and other stakeholders consider the Bill, they should reflect upon the pros and cons of establishing a company at this time. Many oil-producing countries throughout the world have established National Oil Companies. There are several rationales often cited to justify the establishment of a company: 1) having a company that is part of an ownership group can reduce information asymmetries and help improve strategic management of the sector; 2) it facilitates domestic skill-building and technology transfer; and 3) it is sometimes used for political purposes, as a means to show the people that the Government is in full control of its resources. In some cases, NOCs have become highly effective bodies that gradually play a stronger and stronger role in oil operations. In such cases, the NOC often clashes with the oil ministry over policy issues.

But in many other cases, including in several African countries, NOCs have not developed operational skills and have become sources of conflicts of interest and inefficiency. In cases where institutional capacity is low, empowering and developing several institutions simultaneously (i.e., a Ministry, regulatory authority, and oil company) can be difficult, and attempts to do so can serve as a drain on scarce resources. And in countries where oil production is not likely to be on the large scale seen in countries like Brazil or Angola, it may be difficult to generate the economies of scale necessary for the NOC to develop into a truly operational enterprise. Thus, as they consider the Bill, Ugandan stakeholders should think carefully about the specific goals ascribed to the creation of the Company, and whether the tripartite structure envisioned in the Bill (i.e., a Ministry, regulatory authority, and oil company) is the best way to achieve these goals.

If the Company is created, the most critical factor will be establishing rules to reduce its potential as a source of corruption, by putting in place (either in the Petroleum Bill or subsequent Company legislation) firm rules regarding institutional checks and balances and reporting requirements.

Questions to ask:

- What is the strategy underpinning the establishment of a National Oil Company?
- How will the Government ensure adequate staffing and financial resources to maintain an NOC alongside other regulatory institutions such as the Authority, the Commissioners and the Ministry?
- What checks and balances and reporting requirements will the NOC be subject to?
L. Royalty Sharing

The Bill leaves open several issues regarding the sharing of royalties. Schedule IV prescribes a share of 85% for the Central Government and 15% for the Regional and Local Governments but no additional information on the sharing of royalties is provided.

Questions to ask:
- On what grounds has this ratio been decided? Since there is no requirement in the Bill for any specific royalty amount, how has the Government estimated what amount the 15% might represent?
- Do all regional and local governments participate or only those in oil producing areas?
- How is the 15% to be divided between regional and local governments? Who will divide it?

M. Arbitration

Arbitration is the process for settling a dispute between contracting parties through an impartial referee. The Bill does not specify whether arbitration is permitted, whether it will be binding on contracting parties or who will be the referee, i.e., a Ugandan, foreign or international arbitration court.

While arbitration clauses are usually present in contracts, Uganda would benefit from standardizing arbitration rules and processes in its legislation or Model Contract.

Questions to ask:
- Is arbitration permitted? Is it binding? How and where is it to be conducted?

CONCLUSION

The new Petroleum Bill, despite several positive attributes, leaves many questions unanswered and many problems unaddressed. Careful attention to these issues by the Government, Parliament and other stakeholders will be required to enable Uganda to fully realize the benefits of its petroleum reserves.