

Update

Revised draft natural gas policy for Tanzania

A revised draft of Tanzania's Natural Gas Policy (**Policy**) has been tabled before Members of Parliament by the Ministry of Energy and Minerals (**MEM**). In this update, we summarise the key provisions of this latest draft and consider any changes made to the document first published by the MEM in November last year.

Fundamental policy issues and statements

The document makes clear that the Policy only covers mid and downstream segments of the industry and that upstream activities would be governed by a separate policy. Upstream issues raised in the first draft of the Policy have therefore been removed.

1. Development of natural gas infrastructure

As previously, the Policy contemplates that the government will participate "strategically" through its national companies to develop and operate major natural gas infrastructure with all gas processing facilities to be undertaken in common facilities onshore.

Elsewhere, the Policy specifically refers to the National Oil and Gas Company (defined as an oil and gas company established under the laws on Tanzania in which the government or its agent owns fifty one percent or more of the shares) participating in the development of and owning strategic natural gas projects and businesses.

2. Natural gas for the domestic market

The Policy refers to the promotion of a competitive and efficient domestic market for natural gas and to the establishment of a "natural gas aggregator to facilitate efficiency and reliable supply of natural gas". The previous draft of the Policy specifically referred to the Tanzania Petroleum Development Corporation (**TPDC**) performing the aggregator role but the latest draft is less clear.

'Aggregator' is defined as "A fully State owned enterprise (a subsidiary of the National Oil and Gas Company) which will have exclusive rights to purchase, collect, transport and sell natural gas produced in the country onshore, shallow-shore and offshore". However, there may yet be scope for private sector participation. The National Oil Company itself may be less than one hundred percent state owned and elsewhere, the Policy states that central gathering stations could be developed, owned and managed jointly with producers.

Obtaining clarity on the proposed structure and role of the aggregator will be a key priority for investors.

3. Natural gas for the export market

The Policy makes reference to the need for international oil companies to develop reserves for the export market while Tanzania aims to have a “reasonable share of the resource for domestic applications as a necessary measure to ensure diversification of the gas economy before export market”. According to the Policy, utilization of gas will be based on the Natural Gas Utilization Master Plan (**Utilization Master Plan**) and economic and technical analysis should guide the selection of the best project for implementation that will address the “mutual interest of investors and the nation”. The government, through its entities, also intends to participate in selected investment projects including as part of the GTL and LNG value chain and to ensure profit maximization and efficient trading of gas for the regional and international market.

The statement that the domestic market should be given first priority over the export market in gas supply (taken from the first draft of the Policy) is reiterated and there is a further reference to all LNG and other processing facilities being located onshore through common facilities.

4. Management of natural gas revenue

As previously, the government intends to establish a Natural Gas Revenue Fund for the development and growth of the natural gas industry and for national strategic projects. Another policy statement concerns ensuring that local communities benefit from revenue emanating from the natural gas activities in their respective localities (a particularly sensitive issue in view of recent protests in the Mtwara Region).

5. Natural gas pricing

The government envisages establishing an appropriate pricing mechanism based on key principles including “cost reflectivity, prudently incurred costs, reliability and quality of service, fair return on invested capital and capacity allocation to the most valued use”. Policy statements include ensuring that the pricing structure provides incentives for promoting investment while sustaining supply and demand for natural gas and ensuring that prices to strategic industries and households are affordable and predictable.

6. Security of natural gas infrastructure and supply

The need to ensure sufficient supply to the domestic market is restated and there are further policy statements concerning ensuring optimal investment for infrastructure to ensure reliability of energy supply to the country and the “safety and security” of natural gas infrastructure.

7. Linkages with other strategic sectors

The Policy envisages using gas sector growth to support investments in other sectors of the economy including supporting private sector participation for rapid development of strategic industries such

as petrochemicals, steel and other energy intensive industries.

8. Local content and capacity building

Previous statements on local content including ensuring that opportunities for the supply of goods and services, employment and investments are made available to Tanzanians and ensuring skills development and technology transfer are repeated and there is a new policy statement to “ensure companies participating in natural gas value chain are listed on the Dar es Salaam Stock Exchange”.

9. Corporate Social Responsibility

As previously, there are statements to ensure that there is a “contractual obligation” on all investors and contractors in natural gas activities to undertake community development programmes.

Cross-cutting policy issues and statements

Issues identified by the report include transparency and accountability (including a statement that “except for national companies specifically given such mandates, there shall be a separation (unbundling of operations) of value chain activities”; enforcing sound practices in environmental, health and safety management; cooperating regionally and internationally (including supporting specific projects and investments within EAC, SADC and AU partner states); Public Private Partnerships (PPP) and managing public expectations from the natural gas industry.

Legal and regulatory framework

The Policy acknowledges the need for specific legislation to address governance of the natural gas industry. The government will establish an appropriate legal and regulatory framework to govern processing, transportation, liquefaction, distribution, supply and trading of natural gas.

Institutional framework

A number of roles are prescribed here for government, the National Oil and Gas Company and the regulatory authority.

The government will participate in “investment and ownership” of strategic infrastructure and its role will include administering acts and regulations, attracting foreign direct investment in projects and participating strategically in natural gas investments.

The designated National Oil and Gas Company will take on new roles and it is specifically stated in the Policy that commercial and regulatory roles shall be carried out by separate entities. The National Oil and Gas Company shall participate in upstream activities; advise the Government on policy issues; participate in the development of and own strategic natural gas projects and businesses; carry out specialized operations in the industry using subsidiary companies and “establish and enable an aggregator who will develop, own and manage major mid and down-stream

infrastructure including but not limited to the pipeline network from central gathering stations to wholesale distribution and end users; the gas processing facilities and gas products; and the central gathering stations – either jointly with the producers or on its own.”

The current regulatory authority (EWURA) has the mandate to regulate downstream activities while the government regulates upstream activities through MEM. The Policy considers the need for a robust regulatory authority to cover the natural gas industry as a whole (apparently in relation to up, mid and downstream segments) and its proposed role should include granting, renewing, suspending and cancelling licences; establishing industry standards; regulating rates and charges; monitoring performance and performing other functions conferred on it by relevant legislation.

The private sector is also identified as being important in providing investment and technology required by the industry and the government will continue to promote and facilitate private sector participation through PPP or other arrangements.

Monitoring and evaluation

This draft of the Policy provides a more detailed framework for monitoring and evaluation which sets out a list of deliverables including:

- Natural Gas Act and Regulations
- Utilization Master Plan
- National Gas Company and its subsidiary companies
- Natural Gas Revenue Fund
- Communication strategy to facilitate feedback from stakeholders

Summary

The latest draft Policy is largely consistent with the previous version though amendments have been made and more detail provided in certain areas. In particular, there are clearer references to the role of a National Oil and Gas Company though it is unclear how this will interact with the incumbent TPDC.

International investors will need to seek further clarity on the likely structure of the National Oil and Gas Company, the aggregator and the government's proposals for investment in and ownership of natural gas infrastructure. Further details on pricing structures and domestic market supply obligations will also be anticipated and should become clearer once drafts of the Natural Gas Bill (which will become the Natural Gas Act) and Utilization Master Plan are available.

MEM is working towards a June publication date for the Policy and TPDC has recently announced a fresh offshore licensing round to be launched in Tanzania in October this year.

Further information

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