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The politics of gas contract negotiations in Tanzania: a review

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DIIS WORKING PAPER 2015: 03

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www.diis.dk

ISBN 978-87-7605-832-6 (pdf)

DIIS publications can be downloaded free of charge from www.diis.dk

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TABLE OF CONTENTS

ABSTRACT.....	4
INTRODUCTION	5
THE EARLY PHASES IN TANZANIA’S EXPLORATION AND PRODUCTION HISTORY	9
THE GAS-TO-ELECTRICITY PROJECTS IN TANZANIA IN THE 1990S AND EARLY 2000	11
CONTEMPORARY EXPLORATION CONTRACTS AND ACTIVITIES	12
A CHANGING REGULATORY FRAMEWORK.....	14
THE CHANGING ROLE OF DONORS. FROM AID TO THE PROMOTION OF INVESTMENTS.....	16
NEW ACTORS (1): THE PARLIAMENT AND THE STATOIL CONTRACT ADDENDUM DEBATE.....	19
NEW ACTORS (2): TANZANIA’S BURGEONING PRIVATE SECTOR.....	22
NEW ACTORS (3): NGOS	23
NEW ACTORS (4): COMMUNITIES	25
CONCLUSION	28
REFERENCES	30

ABSTRACT

Tanzania started developing its gas resources commercially only a decade ago. Major gas finds have accelerated the development of its petroleum sector and affected the country's whole political economy. This paper provides a review of these processes, focusing on factors influencing the negotiation of contracts. It argues that the Tanzanian government's bargaining strength has improved over the last decade though lower oil prices have put this under some pressure recently. By focusing on the broader framework of contracts – including infrastructure, power production, and industrial use – that are important in developing countries, the paper furthermore argues that the focus on governance failure that has dominated the international policy discourse over the last decade risks skewing our understanding of these inherently political processes. The evidence from Tanzania suggests that negotiation processes involve other important issues, which will affect the price a government can get.

INTRODUCTION

Tanzania is a petroleum economy in the making. Recent deep-water gas finds off the coast bordering Mozambique in the south-east may fundamentally alter the politics and economy of the East African country. Simulations indicate that government revenues from the single biggest potential investment project alone, a USD 20 billion two-train liquefied natural gas (LNG) plant, may reach USD 3 billion annually (Ledesma 2013; Baunsgaard 2014). By comparison, total government revenues in 2011-12 amounted to USD 4.4 billion and official development assistance to USD 1.77 billion. The deep-water finds add to existing projects that have contributed to the development of the country in the last decade.

Recently, a slowdown of investments in the Tanzanian petroleum sector can be observed. The latest offshore bid round attracted only few bids and international oil companies have postponed the final investment decision on the LNG plant until 2018. Officially, they blame a combination of unfinished regulatory reforms and presidential and parliamentary elections in October 2015, each of which may affect the conditions under which investments are carried out. However, the fall in global oil prices are also likely to play a role. The question is if this uncertainty will stall the development of the offshore sector before it has really taken off.

In the year 2011-2012, the petroleum sector contributed approximately only 2% of total government revenues (EITI 2014). This may seem unimpressive, but the derived benefits should also be factored in. Thus, the steady increase in access to electricity in the country over the last decade is hard to imagine without the contributions from gas-to-electricity projects based on onshore/nearshore gas (IEA 2014b, 446)¹. Therefore, even if some projects are postponed or cancelled due to uncertainty, the contribution from the exploration and production of gas to the economic and social development of the country is likely to be significant.

The prospects of increasing revenues and accrued benefits from the extractive sector impacts on the political dynamics of a country. When natural resources are found on a larger scale, the agenda shifts from fighting scarcity towards distributing wealth and resources. The management of expectations becomes an issue as does the development of the non-petroleum economic sectors. The latter are politically interesting because they are more likely to generate jobs on the scale required for countries with young populations than is the oil sector. A complete overhaul of the legal and institutional framework for the petroleum sector in recent years testifies to decision makers' emphasis on promoting Tanzanian business interests. Local content provisions, home market obligations and

¹ Figures for those connected and those with access are sometimes jumbled, leading to considerable ambiguity over such numbers, as illustrated by Ben Taylor in the blog post, *Charged Numbers: access to electricity in Tanzania*, <http://mtega.com/2015/06/charged-numbers-access-to-electricity-in-tanzania/>

government intensions to participate in selected projects through its entities all testify to that. Most recently, a package of laws including a new Petroleum Act, an Oil and Gas Revenue Management Act and an Extractive Industries Act (Transparency and Accountability Act) was pushed through parliament under a Certificate of Urgency to support the sector.

This paper argues that the Tanzanian government's bargaining strength has improved over the last decade in an 'obsolescing bargain', that is, a shift in favour of the government that becomes clearer once the investment has been made (Patey 2014, 17), though lower oil prices have put this under some pressure recently. It remains an open question whether the Tanzanian self-assertiveness in contract negotiations reflects an enduring stronger bargaining position or whether the government will have to climb down in order to hold on to investments. The paper also points to changes in the wider political economy as the Tanzanian contracts are often associated with wider sets of agreements and increasingly involve a number of non-government actors. It suggests that more research on these political economy elements of petroleum exploration in Tanzania is needed.

The paper is the second in a number of papers on the negotiation of petroleum contracts. The first paper, *The Politics of Oil/Gas Contract Negotiations in sub-Saharan Africa*, reviewed the literature on contract negotiations in the continent at large and identified three factors that decisively influence negotiation processes; geological features, political risks and the market context (Pedersen 2014, see also box 1). Contract negotiations are thus processes in which benefits and risks are distributed among stakeholders. In the general literature, the main emphasis tends to be on the upstream contract, but based on the Tanzanian evidence, this paper suggests that one should be mindful of the framework of contracts related to infrastructure and power production, industrial use, and gas processing and export that comes along with gas extraction. Furthermore, negotiation processes also increasingly involve the benefits accruing to local communities from companies. These issues may not have driven the negotiation of the Tanzanian Production Sharing Agreements (PSAs) in the first instance, but nonetheless will affect the price the government can get.

The related contracts are particularly important in developing countries with underdeveloped infrastructure and limited capacity as they put greater demands on investors. Furthermore, renegotiations of contracts are not uncommon following fluctuations in global oil prices (Bridge and Billon 2013). Thus, contract negotiations are processes that regulate relationships between governments and investors, they may encompass more than the upstream extraction and they are dynamic and may change over time. The inclusion of the related contracts into the analysis thus brings nuances to the otherwise often strong focus on the pitfalls of large-scale natural resource extraction in Africa. It is well-rehearsed that the discovery of extractive resources provides a chance to develop, but also a temptation not to reform. *The resource curse* is a diagnosis that has been developed for the resource-rich countries, which have observed slower economic growth,

higher levels of corruption and the undermining of democratic institutions due to natural resources on the continent (Ross 1999; Oliveira 2007). Indeed, as pointed out by some scholars, the assumptions about the resource curse have often been so strong that solid empirical research into these matters has not been deemed necessary (Clarke 2008, 526; Billon 2014). Often less-than-maximum prices are simply depicted as signs of corruption.

However, there is reason to be cautious about this equation between the discovery of resources and governance failures as it risks skewing our understanding of the negotiation processes as inherently political processes, which involves related contracts. The resource curse diagnosis was developed on the experiences of pioneering countries like Nigeria and Angola, which began developing their resources decades ago. It should not uncritically be applied to countries like Tanzania that have entered the game more recently and may have learned from the experiences of others as well as the international best practice guidelines and transparency initiatives developed in the meanwhile. Corruption may indeed be an issue in these countries too, but its extent and the overall political and institutional responses to resource wealth are likely to differ from one country to another. Empirical research into state-company relations is required. A third paper providing an overview of these relations in Tanzania is expected to come out later this year and is expected to shed more light on some of these issues.

This paper is based on a comprehensive review of the existing literature on oil and gas in Tanzania. The literature on the more recent developments in Tanzania has been limited so far. The paper therefore also includes policy and project documents, 'grey' consultancy publications and current news items on Tanzanian petroleum affairs. This allows us to sketch the parameters of contract negotiations from the outside, the details of the negotiations themselves not being yet available. Literature searches were conducted in EBSCOhost, one of the major online reference systems for full text database searches, combined with cross checks in Scopus, which sometimes includes more Africa-relevant material, and with Google Scholar on Tanzanian petroleum affairs. Search phrases systematically combined words like 'gas', 'petroleum', 'oil', 'contract', 'Tanzania', etc. in order to find as much relevant material as possible.

After this introduction, the first two sections describe the history of exploration and extraction in Tanzania. They demonstrate the weak bargaining position of the Tanzanian governments until into the 2000s, when the first projects took off, oil prices were rising and substantial finds had been made. These developments are analysed in section four. The fifth section demonstrates the more assertive government position that is also reflected in recent legal and institutional reforms. It is followed by a section on the diminishing importance of international donors as the government deals more directly with the international oil companies. At the end, prior to the conclusion, four sections identify the emergence of a number of new actors and discuss their ability to influence the development of the sector, these new actors being the parliament, the private business community, the NGOs

and the local communities.

Box 1: Key factors influencing negotiation processes

Negotiation processes are not only about distributing rents, but also about distributing risk. Decisions to invest are made in environments of uncertainty. This implies that actors use judgment and make trade-offs and that no single model result can be achieved (Blitzer et al. 1985; Radon 2007). Inspired by Hurst (Hurst 1988, 161) three factors influencing negotiation processes can be identified: Geological factors, political risks and market context. In reality, contracts are formulated on the basis of actors' relative bargaining strengths, influenced by these three factors.

- *Geological features* include both risks and expenses related to geology. Often, there is limited knowledge about the geology of the area that is the subject of negotiations (Radon 2007). Even if deposits are found, the costs of exploiting them vary and may be higher than what world market prices can justify (Blitzer et al. 1985; IEA 2014a).

- *Political risks* include the fiscal regime, contract stability and access to finance. These may change over time and affect profitability. Developing countries are perceived to be particularly risky because of their lack of experience and volatile political cultures. These risks also affect access to finance (Hurst 1988; Radon 2007).

- *The market context* may cover a range of factors. Though investors are likely to make decisions based on long-term expectations, fluctuations in global oil prices matter. Distance to markets is an issue, since developing countries' domestic markets are relatively small (Asche, Osmondsen, and Tveterås 2000; IEA 2014a). Because of transportation costs, governments compete for investments regionally; a country like Tanzania competes more with neighboring Mozambique than with Norway (Khelil 1995; Blake and Roberts 2006; Radon 2005; see also Mitchell and Mitchell 2014).

(From Pedersen 2014)

THE EARLY PHASES IN TANZANIA'S EXPLORATION AND PRODUCTION HISTORY

Even though Tanzanian gas reserves were discovered in 1974, it was not until thirty years later, in 2004, that production began. This reflects a situation in which the government was eager to develop its petroleum resources, but was unable to do so due to a weak bargaining position. Geologically, Tanzania was largely un-surveyed, politically, after a period of nationalisations in the 1970s, the country was not attractive to the private foreign companies that could provide knowhow and investments, while, in market terms, it was distant from buyers in the more developed markets. From the early 1980s, as world oil prices plummeted, it became more difficult than ever to attract investors.

For long, prospects of oil and gas production in the country were dim. In the 1950s BP and Shell drilled, but found only dry holes. In 1969, Tanzania Petroleum Development Corporation (TPDC) was founded by the government in order to help develop a domestic petroleum industry. TPDC was granted exploration licenses from the government and could enter joint ventures with foreign partners through production sharing agreements (PSAs). Also in 1969, AGIP started exploration operation offshore after having signed a production sharing agreement and in 1974 it found the Songo Songo gas reserves, but did not find exploitation viable. In the 1980s, Shell and a number of other foreign companies did seismic surveys and sunk holes onshore as well as offshore, but with no major finds (Sowden 1993). In 1982, another gas reserve was found in Mnazi Bay, but exploitation was still not deemed viable and rights were relinquished to the Tanzanian authorities (Jourdan 1989; World Bank 1991; Anderson and Browne 2011). Throughout these years, the Tanzanian government initiated and financed several geophysical surveys to assess petroleum potential, something which became ever more urgent as oil prices exploded during the oil crisis of the 1970s (World Bank 1980).

The reason why production for long was not viable had to do with the character of finds. Most exploration companies were looking for oil, which is easier and cheaper to exploit and transport to distant markets, but what they found was gas. Until recently, gas was considered appropriate for domestic consumption only, in particular in developing countries (see box 2). Tanzania with its very small domestic market was not commercially attractive; the Songo Songo field was far from the only real domestic market, Dar es Salaam, and production therefore required large infrastructure investments (Davison, Hurst, and Mabro 1988a, 1988b). In the early 1990s, the Songo Songo field was still characterised as a 'sub-commercial' field where donor finance was required for exploitation to take place (World Bank 1991).

Throughout the 1980s, Tanzanian political leaders were aware of the strategic importance of petroleum for the country's development. For long, the import of

oil took around 40% of the country's foreign exchange; reducing import would free resources for other development purposes. Gas could also serve as a stabilising factor in the electricity production, which was highly reliant on hydropower, a resource which is unreliable in years of drought. Finally, the exploitation of domestic petroleum reserves could become an asset in the energy-intensive industrialisation of the country, which historically has had a high priority among political elites, either through its state-owned companies or by attracting private businesses from abroad (Davison, Hurst, and Mabro 1988b; Sowden 1993). Indeed, the development of a petroleum sector was a priority of shifting governments even if half a century were to pass before production really started.

Box 2: The peculiar character of Liquefied Natural Gas (LNG) markets

For long, Tanzania was not deemed a viable producer of gas for the world market despite confirmed gas reserves. This has to do with the differences between oil and gas. Whereas crude oil is relatively easy to transport, the transportation of gas requires huge infrastructure investments. The high costs of production and transportation to end markets mean that whereas oil prices are set on global markets, natural gas is divided into three major regional markets - North America, Asia and Europe.

The Liquefied Natural Gas (LNG) technology, which makes gas easier to transport, has begun eroding some of the price differences. This process is speeded up by technological innovation that has lowered the costs of production and the recent period with high oil prices that has increased investments in LNG capacity worldwide. Projections from the first half of 2014 by the International Energy Agency show that USD 735 billion will be invested in LNG facilities until 2035, increasing the inter-regional LNG trade, from 330 billion cubic metres (bcm) in 2013 to 560 bcm in 2035 (IEA 2014a, 72).

Still, a Liquefied Natural Gas (LNG) processing plant costs billions of dollars. In developing countries, a number of associated investments into road and harbor infrastructure are typically also required. The high costs of transportation mean that most LNG is produced on long-term contracts where risks are shared between producer and buyer. Only a minor part of the total trade is on short-term markets with more price flexibility. This also means that LNG projects are less vulnerable to global price fluctuations than are oil projects; fluctuations are to some extent factored in in the contracts already. There is still some way to go before LNG prices are set at a more day-to-day global level (Jensen 2004; Deutch 2011; IEA 2014a; Hong 2015).

However, investment decisions by private companies in a country like Tanzania are not only based on contemporary price fluctuations, but also influenced by

energy security concerns among buyers. Bordering the Indian Ocean, the natural market destinations for Tanzanian gas would be in Asia. Major discoveries between 2010 and 2014 were deemed to make an LNG project in Tanzania worthwhile (Anderson and Browne 2011; Ledesma 2013). However, the fall in oil prices over the last year combined with the number of LNG projects either under construction or in planning promise more LNG than markets expect and have created some uncertainty about the viability of new projects (Standard Bank, 2014). A final investment decision for the Tanzanian project has now been postponed to 2018 (Confidential 2015).

THE GAS-TO-ELECTRICITY PROJECTS IN TANZANIA IN THE 1990S AND EARLY 2000

It was not until the early 1990s that a project based on the 1974 Songo Songo gas field finds began materialising. By then, it was combined with wider reforms of the electricity sector. In 1992, Tanzania launched a number of electricity reform initiatives, including a National Energy Policy, which opened up for private sector involvement in the production of electricity (Ghanadan 2009; Gratwick, Ghanadan, and Eberhard 2006). This was part of wider liberalising reforms, later anchored by the National Investment Promotion Policy of 1996, which introduced fiscal and other incentives for investors, set out arbitration procedures and generally set a more investor-friendly framework.

In 1993, a project concept involved both the World Bank, the European Investment Bank and SIDA support and private capital was ready. So, in 1995, a letter of intent between two Canadian firms (TransCanada and Ocelot) was signed for a combined gas exploitation and power generation project (Journal 1995). However, then things stalled due to Independent Power Tanzania Limited (IPTL), another Public-Private Partnership (PPP), which involved Tanzanian and Malaysian investors, also aimed at electricity production for the state electricity TANESCO. The IPTL project has been mired in allegations over (too) high prices, bribery and mismanagement ever since (Ghanadan 2009). Most recently, in 2014-15, it led to the downfall of several ministers including the then Minister of Energy and Minerals, Sospeter M. Muhongo, related to irregular financial transactions (Confidential 2014). Donors, afraid of excess capacity, delayed the Songo Songo project and the final approval only came in 2001 (World Bank 2011).

The initial Songo Songo Gas-to-Electricity Project consisted of five gas wells (two onshore and three off-shore) on Songo Songo Island, a gas processing plant, an approximately 225 km pipeline to Dar es Salaam and a power plant in Dar es Salaam at Ubungu (TPDC undated). The significance of these new types of power projects could be seen in the fact that whereas hydropower by far accounted for the major part of electricity supply until around year 2000, the IPTL diesel plant

and the bigger Songas gas plant combined overtook hydropower already towards the end of 2004 when the latter started operating (Gratwick, Ghanadan, and Eberhard 2006).

The model behind the Songo Songo gas project was highly complex, involving a number of donors, private companies, state-owned companies, the Tanzanian state itself and more than 20 contracts (Gratwick, Ghanadan, and Eberhard 2006). The gas processing plant and pipelines were built and owned by Songas Ltd, a local joint venture of private capital, TANESCO and TPDC. The gas plant and wells are operated on behalf of Songas by PanAfrican Energy, which was a local subsidiary of Orca Exploration Group (Offshore Technology.Com undated; Anderson and Browne 2011). In 2011 the World Bank evaluated the project rather positively in achieving two of its main aims, namely increasing energy security and attracting private investments into the power sector (World Bank 2011). The model was not unproblematic, however: Relations between government entities and the other project partners have, at times, been strained and in August 2014, it was reported that TANESCO owed PanAfrican Energy close to USD 50 million in arrear payments (Simbeye 2014).

Over the years, the Songo Songo project has increased production both in terms of electricity and in terms of supplies to power-intensive industries in Dar es Salaam (Bujulu and Kisamo 2009; Oil and Gas Journal 2007a). Soon, there were calls for an expansion of Tanzania's gas infrastructure. In 2007, a new electricity production project in Mtwara Region in the southernmost part of Tanzania on the border to Mozambique, based on gas finds in Mnazi Bay, got online, involving a production sharing agreement with another Canadian company, Artumas, and a local power generation plant (Oil and Gas Journal 2007b; Kweka 2009). Continued gas finds, both onshore and deep sea, led to approval in 2012-13 of a new USD 1.2 billion, 524 km gas pipeline, funded by concessionary Chinese credit, which will feed new production from Mtwara and, it is hoped, from Songo Songo, as well as a proportion of deep sea production to Dar es Salaam (Oil and Gas Journal 2011; Mgamba 2013).

CONTEMPORARY EXPLORATION CONTRACTS AND ACTIVITIES

Whereas the Songo Songo project only became viable with the support from donors, private investor interest increased around the turn of the millennium. Tanzania was increasingly seen as an attractive investment destination. Three years after the Songo Songo PSA was signed, Canada's Artumas agreed a development license to work the modest Mnazi Bay reserves. This led quickly to the development of a 12MW gas fired power plant serving Mtwara and Lindi (Schulte undated). Artumas sold out to Maurel and Prom in 2009 (Obulutsa 2009). With new wells expected to come on stream in 2015 to feed the Mtwara-to-Dar es Salaam pipeline, Tanzania's short to medium term power generation

expansion plans rest very much on its modest coastal margin reserves so far.

Most licenses granted after the turn of the century were the result of competitive bidding. There was an onshore mini-bid round in 2007 (TPDC 2007), but there were a couple of 'direct award' and 'limited tendering' in 2006-7 (Confidential 2012). Blocks on shallow water and onshore tend to be operated by a number of smaller companies, but the size of discoveries there only make up a minor part of the gas deposits in Tanzania (Maxwell 2001; Citizen 2014b). Before the fourth and latest off-shore bid round in 2014, 25-26 licenses, of which two thirds are onshore or nearshore, had been granted.

The increasing private sector interest is also reflected in offshore exploration activities that increasingly attracted some of the big international players. The first major off-shore licensing round, closed in April 2001, attracted few bids and resulted in only one license (to Petrobras). Since then, another three rounds have been carried out, attracting some of the major oil companies, including Shell, Statoil, British Gas and ExxonMobil, the latter two entered through farm-ins in existing licenses (European Association of Geoscientists and Engineers 2004; Confidential 2007; Kweka 2009; Confidential 2012; Ledesma 2013; Kabukuru 2014). The latest round closed in the second quarter of 2014 and resulted in five bids, including from a number of new large players on the Tanzanian exploration scene; CNOOC, Mubadal, Gazprom and RAK gas, the latter of which, however, already has shares in two blocks, Nyuni and Pande (James and Jones 2014).

The year 2014 was also the busiest year in terms of gas drilling so far, expectedly reaching 13 wells by different companies. TPDC estimates that international oil companies have invested almost USD 5 billion so far (Citizen 2014e). The first major deep sea gas finds were made in 2010. Since then, the number of finds has steadily increased and the total proven gas reserves in the country is currently standing at more than 55 trillion cubic feet and they are expected to rise still further in coming years (Petzet 2012; Daly 2014; URT 2015a). This has spurred expectations of large investments in LNG infrastructure to facilitate export (see box 2).

The Tanzanian government has sought to convince the two major consortiums, BG in collaboration with Ophir and Statoil in collaboration with ExxonMobil, that they should join forces and construct an LNG plant together (Ledesma 2013). A joint LNG plant is a likely outcome, partly because finds are scattered over a large area, which makes extraction more expensive, and partly because each of the consortiums' finds for long were not big enough to sustain individual projects (Baunsgaard 2014). The companies have investigated the viability of a joint plant (Pump Industry Analyst 2012; PWC 2013) and submitted a proposal for a location (Tanzania Daily News 2014; Kabendera 2013), which is yet to be announced to the public. The companies have announced that they will not take any decision until 2018. Local unrest in the region that is projected to host the LNG plant, fear of political instability related to the forthcoming 2015 elections, and fluctuating

world market oil prices make them prefer to wait and see. This will delay the project well into the 2020s (Confidential 2013a).

Box 3: Protracted contract negotiations in Zanzibar

Though oil and gas has been a 'union' issue under the constitution, it increasingly became an area of contention between the mainland and Zanzibar, stalling negotiations over some PSAs and delaying development of the industry in Zanzibar. By 1997, the Canadian explorer Antrim Energy was granted a concession off Pemba and Unguja Islands by TPDC. However, due to a dispute over the approval of operations with the Zanzibari authorities it was blocked from operating and sold its interests in July 2013, seemingly without ever having been able to carry out exploration activities (O'Conneide 2013; Antrim Energy 2002). Similarly, Shell acquired the right to negotiate PSAs for four blocks after its bid in the second major offshore licensing round, which finished in 2002. However, they remained in limbo due to constitutional uncertainty (Confidential 2012).

The stalemate boiled down to a conflict between the Tanzanian government authorities and those in Zanzibar over the distribution of benefits from natural resources found on the islands' territory, where the latter had taken the stance that Zanzibar should receive all revenues (Gilblom 2012). In 2012, an agreement was reached between the two parties, which seems to allow for Zanzibari ownership in the future (Ng'wanakilala 2012). This was confirmed in the new draft Tanzanian Constitution, which removed minerals from Union matters and left them to the parties (Clyde&Co 2014). The referendum on the draft Constitution, which was to take place on 30 April 2015, was postponed indefinitely, but amendments that had been proposed to the new Petroleum Act by the Minister pave the way for Zanzibar to take control over its resources (URT 2015d).

A CHANGING REGULATORY FRAMEWORK

With a long history of exploration and ten years of natural gas production, Tanzania has had laws, companies and public institutions in place for decades. Still, it has been lagging behind in a number of ways. First and foremost, its initial regulatory framework was designed for oil exploration, not the gas that has actually been found. Secondly, with investments worth USD 20 billion, which is the estimated price of a two-train LNG project in Tanzania (in fact enough gas for a four-train USD 40 billion project has been found - see Baunsgaard 2014), companies demand security for their investments. Thirdly, within the last couple

of decades, there has been an increasing emphasis internationally on the importance of local content, that is, the procurement of local goods and services that can contribute to the development of the private sector, and this is also becoming part of Tanzania's regulatory framework (Hansen 2014). Finally, the interests of local communities are also receiving more attention.

The country is currently reforming its entire regulatory framework for oil and gas exploration and production upstream, midstream and downstream to meet these demands. In 2013, a new model production sharing agreement (PSA) was introduced for the Fourth Offshore Licensing Round that better caters for gas extraction than did previous contracts (Davison, Hurst, and Mabro 1988b; Rognerud 2012). The PSA reflects a change in relations between the Tanzanian government and private investors; the 25% potential government interests in any development through TPDC is not new (Ledesma 2013; Rex Attorneys 2013), but the assertiveness with which it is stated that the company will engage in joint ventures is (Masare 2014). TPDC, which until the enactment of the new Petroleum Act was the license-granting authority, has reportedly indicated that it would prefer consortiums or joint ventures and it has held licensing blocks back for itself to develop in collaboration with a partner (James and Jones 2014). Furthermore, signature bonuses are introduced, royalty increased and a general toughening of terms can be observed (Confidential 2013b).

The more assertive bargaining position of the Tanzanian government was also reflected in the Petroleum Act 2015, which, together with the Oil and Gas Revenue Management Act and the Tanzania Extractive Industries (Transparency and Accountability) Bill was rushed through parliament in June 2015. Not least the domestic market obligation is of interest (see part 3, 98 in URT 2015c). Here, the role of gas in expanding electrification and attracting gas-intensive industries, bringing down the cost of doing business, is important (Makoye 2014; Manson 2013). It is also reflected in the quite extensive local content requirements (see part VIII in URT 2015c).

The three acts also provide for a number of reforms of government institutions, most notably of TPDC, which previously has taken care of a number of different roles within the sector (Jourdan 1989). Around year 2000, it ceased its oil marketing operations and in 2001, the Energy and Water Utilities Regularity Authority (EWURA), which is responsible for technical and economic regulation of the electricity, petroleum, natural gas and water sectors in Tanzania, was established (Ghanadan 2009). In 2014, TPDC was split into an upstream and a downstream directorate. The latter is, again, split into two commercial entities, namely the Gas Supply Company (GASCO) and PETROTAN, for the marketing of Tanzanian gas and oil. The Petroleum Act of 2015 again splits the upstream activities into a regulator and advisor to the minister, the Petroleum Up-stream Regulatory Authority (PURA) and TPDC as the National Oil Company (URT 2015c).

The Extractives (Transparency and Accountability) Bill is designed to give Extractive Industry Transparency Initiative (EITI) mechanisms in Tanzania a permanent legal basis through establishing a Tanzania Extractives (Transparency and Accountability) Committee. It proposes that all Mining Development Agreements (MDA) and PSAs be made public through a website, including those entered into during and before the passage of the bill. The Oil and Gas Revenue Management Act proposes an Oil and Gas Fund to manage petroleum revenues. It proposes that the Oil and Gas Fund be housed in the Bank of Tanzania (BOT), which may be a bit worrying, though, given the role the BOT has played in a number of corruption scandals over the last decade. The three acts were predated by a number of policies, including a National Gas Policy, a National Petroleum Policy and a Local Content Policy. Likewise, a new Energy Policy is expected to follow shortly.

Whereas the respect for investors has been upheld in these reforms, they imply a larger involvement of the Tanzanian state and private sector interests in the sector (see also Oxford Analytica 2014; Kasanda, Jones, and Minde, May 2013). Few measures are entirely new, but the emphasis on national interests and national ownership is noteworthy. It reflects a more assertive Tanzanian bargaining position. It is an open question if it also reflects real bargaining strength; the terms in the 2013 model PSA are so strict that it has been suggested that they may explain the few bidders in the fourth offshore bid round (Guardian 2014; Mgaya 2014).

THE CHANGING ROLE OF DONORS. FROM AID TO THE PROMOTION OF INVESTMENTS

In an aid-dependent country like Tanzania, donors have played an important part in the development of the petroleum sector throughout the years. Over the last decade, donors have started moving from providing aid towards facilitating investments. It was hardly a coincidence that the presidents of USA and China both visited Tanzania in 2013 and that both countries are engaged in the Tanzanian power sector through aid as well as through private companies (Confidential 2013a). It reflects changing relations between the Tanzanian government, the donors and private investors. As demonstrated below, the importance of aid is reduced as private sector interests gain prominence.

In the past, donors stepped in with capital several times over when private investors lost interest. For long, Tanzania was considered a 'borderline country' with only gas finds of insufficient commercial value. It was therefore dependent on aid money for investments and domestic development (Davison, Hurst, and Mabro 1988b, 220). In 1979, when private sector interest in developing the Songo Songo gas field was exhausted, the World Bank and other donors stepped in with credits to finance further exploration activities. Donor support to the final Songo Songo gas-to-electricity project was also crucial for attracting foreign investors; in

a highly unorthodox financial construction, equity ranked over debt, probably in order to attract private investors to a country that was not a very attractive investment destination after decades of African Socialism (Hobbs 2001; Gratwick, Ghanadan, and Eberhard 2006). This may be part of the genesis of the continued poor relations between the Tanzanian state on the one hand and Pan African Energy and the Songas consortium that continue to this day. Today, the importance of donor money for exploration and production is reduced. Whereas the policy influence of a player like the World Bank has been waning in recent years, its potential financing role is still significant through the International Finance Corporation (IFC).

Donors have also supported the development of Tanzania's regulatory framework throughout the years. The Petroleum (Exploration and Production) Act of 1980 was formulated with the support of the Commonwealth (Davison, Hurst, and Mabro 1988b). An important aspect of the Act is to provide security for investors. This was no small feat after the previous decade of nationalisations of private companies under Tanzania's version of African Socialism. Thus, the Act can be seen as an early sign that the country is on its way to include capitalistic enterprises in its development model. In the same vein, donors shifted priorities in the early 1990s from support to electricity infrastructure to policy reform of the entire electricity sector as a condition for loans. This resulted in reforms aimed at a re-commercialisation of electricity services (Ghanadan 2009, 407). It is not clear if donors were involved in the formulation of the Financial Laws Act 1997, which provides that no business enterprise should be nationalised and opened for international (ICSID) arbitration in case of a conflict between investors and the Tanzanian government, but it is likely (Kweka 2009. Tanzania ratified the ICSID Convention already in 1992, see Cosmas 2014).

There are also numerous examples that donor support has helped built capacity in the petroleum sector. The early Songo Songo exploration projects in the early 1980s had as their stated goals to provide training of TPDC personnel in exploration activities as well as technical assistance to the Ministry of Water, Energy and Minerals (as it then was) in exploration strategy, gas market assessment and training in project and financial management (World Bank 1991). In 1988, Davison et al. observed that TPDC was 'well supplied' with engineers and geologists, many of whom have been trained by the Norwegian aid agency, Norad, since it entered the energy sector in the mid-1970s (Davison, Hurst, and Mabro 1988b, 210; NORAD 2014). The same authors mention that exploration and training activities have been carried out in Tanzania by Norwegian Statoil and Canadian Petro-Canada, financed by development aid. Norway also financed the establishment of TPDC's Petroleum Data archive from 1985 to 1997 (Skedsmo, Bade, and Lunde 2013).

The early Norwegian support to Tanzania was provided before any major commercial finds had been done. This is no longer the case with the current support to the sector under the Norwegian Oil for Development programme, which coincides with the Norwegian state-owned petroleum entity, Statoil, operating in the country. Though the Norwegians emphasise that Oil for Development focuses on capacity building in the form of policy development and oversight as separate from their private sector interests, this is not always how they are regarded in Tanzania and other recipient countries (Norad 2012). The signing of contracts in 2012-13 on Institutional cooperation in between the government of Norway and that of Tanzania, establishing a three year Oil for Development programme, is indeed conspicuous in its timing, initiated only a couple of years after Statoil, had made major offshore gas finds two years before, in 2010.

Beside Norway, a number of other foreign state actors have remodeled their relations with Tanzania. Both China and the United States have to different extent re-oriented their relationships with Tanzania around the energy sector. China's involvement in the sector is now extensive. The Chinese National Offshore Oil Corporation, CNOOC, already operational in Uganda, has made a bid for one offshore block in the fourth licensing round, Block 4/3A (Mgaya 2014). The Mtwara-Dar es Salaam natural gas pipeline has been financed by a USD 1.2 billion loan from China's Exim Bank agreed in September 2012, and constructed by a Chinese company. Planned expenditure on construction in FY2012-13 was equivalent to 10% of the government's total budgeted expenditure for that year (World Bank 2012). The United States has also been phlegmatic in maintaining relationships in the face of new resource opportunities and governance challenges. Its business interests are not inconsiderable in the energy sector where ExxonMobil is the junior partner with Statoil in Block 2. The US support under the Millennium Challenge Corporation (MCC), an American bilateral aid agency, which, in its Tanzanian operations, has a significant energy component, is almost certain to be renewed later in 2015. Since 2008, MCC has been a significant funder of the electricity sector.

On the other hand, traditional donor support has increasingly been marginalised and some donors complain that the government no longer listens to their advice. The relations started shifting, probably related to the discovery of the External Payments Arrears account scandal at the Bank of Tanzania around 2007², and they were worsened by later corruption scandals and the partial freezing of promised donors funds. The change is reinforced as final investment decisions on the LNG project come nearer; the projected government revenues from a project on this scale will reduce dependence on development assistance substantially. This may, however, be less pronounced currently as low world market oil prices has

² This was a fraud undertaken at the Bank of Tanzania whereby money held under a defunct scheme to provide foreign exchange for payments to overseas suppliers was released to locally registered companies using forged documentation. The fraud was committed in 2005 and amounted to over USD 120 million.

postponed the moment when Tanzania can fully finance its own development needs. Still, many donors have started channeling support into NGO activities as a more indirect way of influencing developments in the country (see section on NGOs below).

NEW ACTORS (1): THE PARLIAMENT AND THE STATOIL CONTRACT ADDENDUM DEBATE

Over the last years, the political discussions about the petroleum regime have intensified with calls from civil society and opposition politicians for transparency and a review and possibly a renegotiation of contracts (Ledesma 2013). The parliament has not been assigned any important role in overseeing the sector. Its role has increased, but it has been *ad hoc* and driven more by individual agendas than by a shared desire among politicians to increase parliament oversight of the sector. This will not change significantly after the passing of the 2015 Petroleum Act, which is stronger on transparency than on accountability.

The row in mid-2014 over a leaked addendum (TPDC 2012) to the production sharing agreement from 2007 between Statoil and TPDC is telling. The opposition soon noticed that the addendum deviates from the then model PSA and results in a significantly lower government profit share than outlined in the model (Bærendtsen 2014). Opposition politician Zitto Kabwe alleged that the country stood to lose up to USD 1 billion on the Statoil contract alone (Kabwe 4 July 2014). This confirmed a widespread fear that government capacity to negotiate contracts was insufficient. Still, the leak was barely mentioned in relevant parliamentary proceedings. It was not addressed by the relevant committee, the Committee on Energy and Minerals, which had had its heydays back in 2010 to 2012 under the chairmanship of January Makamba from the ruling CCM party, and which had recommended a wide range of changes of the petroleum sector (Parliament of Tanzania 2012). The chairman of the Committee on Economic and Financial Affairs, Luhaga Mpina, also CCM, criticised the terms of the addendum, and called for a review of all PSAs, but his critique fell on deaf ears apart from a couple of news reports (Parliament of Tanzania 2014).

However, it soon became clear that the addendum issue was more complicated than anticipated. First, TPDC, which had negotiated the contract, made it clear that the original PSA was made for oil exploration, but it was natural gas that Statoil found in 2012. Extracting gas, TPDC pointed out, is more expensive and the risks are higher, not least in a virgin deep sea territory like Tanzania's (Lamtey 2014). In August, the Natural Resource Governance Institute (NRGI) then published an analysis of the leaked deal based on the available information and concluded that it was 'not out of line with international standards for a country that had no proven offshore reserves of natural gas at the time when the original contract was signed' (Manley and Lassourd 2014, 1). The institute estimated the total government take to be 61% or higher. This assessment is in line with other

analysts, who finds that Tanzania's PSAs are generally favorable to the government (Newcombe 2014, 14; Baunsgaard 2014; Mgaya 2014). In contrast, though, the existence of 'international standards' in such matters was challenged in a response (Bofin 2014).

The aftermath did not contribute to clarity. The Statoil incident has intensified the calls for disclosure of contracts. For long, TPDC's response was to claim that the contracts were available on its website (Athumani 2014). However, the contracts were not to be found. Later, TPDC claimed that contracts were to be kept secret because oil companies demand it. Statoil denied this ('Investors Accuse Govt of Keeping Contracts Secret' 2014). The affair culminated in November 2014 when top TPDC officials were detained on the request of Zitto Kabwe, as chairman of the parliamentary Public Accounts Committee (PAC), for failure to release the existing PSAs to the committee (Makoye 4 November 2014). The officials were soon released and the Minister of Energy subsequently made it clear that the government would not make the PSAs public, thus deepening the conflict with the legislature (Kasumuni 2014; Mirondo 2014). In 2015, however, this position was again reversed when parliamentarians were promised to get access to the contracts (Muganyizi 2015).

The latter provides an illustrative example of the influence that the parliament may exercise on the government if united across parties. However, it is the exception to the rule. When three pieces of petroleum legislation in July 2015 were passed within a week under Certificates of Urgency, only cursory examination by the Committee for Energy and Minerals had been carried out (Parliament of Tanzania 2015a-c). The opposition parties protested over the hurried procedure, but to no avail. Transparency may increase as the Tanzania Extractive Industries (Transparency and Accountability) Act allows for all PSAs and MDAs to be made public, but the role of the parliament in overseeing the sector is still limited.

Government responses to the debates have been equally mixed. In 2012, the newly appointed minister of Energy and Minerals, Sospeter Muhongo, announced that all petroleum contracts were to be revised and the 'shoddy' ones revoked (Obulutsa 2012). This has not happened, however. In September 2014, it was the Tanzania Revenue Authority (TRA), which is the 'sole government revenue collection agent' (Shayo 2014, 315), that called for firms to express their interest in carrying out renegotiation of petroleum contracts, referring to 'long lasting dissatisfaction'. This was not coordinated with the Ministry of Energy and Minerals and the Ministry was quick to assure investors that renegotiation is not on the agenda (TRA 2014). It all adds to the impression of a not very stable policy environment.

Box 4: Regular contract negotiations - and irregular ones...

Beside the fact that they are headed by TPDC, information on the contract negotiation processes is sparse in the literature. The 1980 Petroleum Act states that a production sharing agreement (PSA), an exploration license and, in case of finds, a development license is required (*Petroleum (Exploration and Production) Act 1980*), but it does not reveal much about the negotiations processes prior to agreements and the grants of licenses. Only one of the contracts has been disclosed, that of Pan African Energy, under disclosure requirements for Canadian listed companies. Part of one other, the Statoil addendum discussed more in-depth below, has been disclosed through an anonymous online leak (Manley and Lassourd 2014).

The more general literature on petroleum contract negotiations in Africa tends to focus on the unequal relations between governments and international oil companies due to asymmetry of information and negotiation experience in favor of the companies (Radon 2007). However, the relations are dynamic and shift over the course of a project cycle. Once an oil company has invested heavily in infrastructure for exploration and production, the government has the upper hand, pointing to the reemergence of an 'obsolescing bargain' in recent years (Bridge and Billon 2013, 13; Patey 2014, 17. For more elaborations on the latter, see also Pedersen 2014). This may, however, be shifting with the falling world market prices recently.

One opposition politician, Zitto Kabwe, has alleged that bribery has been involved in the award of licenses between 2004 and 2007 (Confidential 2012). The involvement of a middleman in Ophir Energy's winning of exploration contracts in Tanzania could be indices of irregularities. The person has previously operated in Congo and South Africa, helping out companies operating in politically difficult environments and in the press he is described as a 'fixer' (Guardian on Sunday 2013). He is currently running a court case against Ophir and British Gas (BG) for having forced him to surrender his share of the Tanzanian exploration blocks too cheaply (Citizen 2014c, 2014a). Similarly, the involvement of Harbinder Singh Sethi as a director of Hydrotanz Ltd, which in 2008 acquired the rights to explore Mnazi Bay North, has been noticed in the press; Mr Sethi was part of the allegedly irregular takeover of the IPTL power producer that involved payments to several high-ranking politicians and public officials (Kabendera 2014c).

The non-competitive award of a couple of exploration licenses on a couple of occasions has raised eyebrows outside government circles. In 2007, China Sonangol supposedly acquired exploration rights to a number of blocks in exchange for injecting capital into the crisis hit Air Tanzania Company Limited (ATCL). When the secret deal became public in 2009, the parliament rescinded the exploration rights because they had not been granted following proper procedures (Mailey 2015). The direct award of contracts to three Chinese

companies for the construction of the USD 1.2 billion Chinese-financed Dar es Salaam-to-Mtwara pipeline was also supposedly awarded with no proper tender and in breach with the Tanzanian Public Procurement Act (Guardian 2013). Despite these indices, there is still no substantial evidence of irregularities on a larger scale related to the granting of petroleum contracts.

NEW ACTORS (2): TANZANIA'S BURGEONING PRIVATE SECTOR

There is some resource nationalism at play behind the changes in the regulatory framework. For long, the then Minister of Energy and Minerals, Muhongo, as well as the President, Jakaya Kikwete, were adamant that it was primarily TPDC, who should develop the resources and technical capacity to participate in exploration activities (Citizen 2014d). The government thus seemed to pursue a two-pronged approach to maximise benefits from gas resources. First, to increase Tanzanian stakes through the development of TPDC, and secondly, to maximise state revenues from the petroleum resources. However, a strengthening of Tanzanian private sector actors both in terms of economic muscles economy and in their ways of influencing political decisions in the country can be observed.

Recently, cracks have appeared in the government stance. Intense lobby campaigns by the Private Sector Foundation (TPSF) pushing for Tanzanian stakes and preferential treatment in the upstream oil business seemed to carry fruit (Confidential 2013b; Citizen 2013). In late 2014, the Minister of State in the Prime Minister's Office (Investment and Empowerment), Mary Nagu, In a speech to TPSF urged the private sector to keep pressuring the government for its right to participate in gas exploration and production. This stance was supported by the new minister of energy and minerals, George Simbachawene, in March 2015 (Kisanga 2014; Rweyemamu 2015). TPSF is headed by Reginald Mengi, a media mogul and one of the country's richest men, who furthermore has strong ties to the ruling CCM party. The new signals were not translated into law. The 2015 Petroleum Act has no provisions for preferential treatment of Tanzanian investment in the upstream sector, unlike its Ghananian counterpart (Hicks 2015).

However, far-reaching local content requirements will offer plenty of opportunities for local business interests: *A license holder, contractors and subcontractors shall give preference to goods which are produced or available in Tanzania and services which are rendered by Tanzanian citizens or local companies. Where goods and services required by the contractor or license holder are not available in Tanzania, such goods shall be provided by a company which has entered into a joint venture with a local company* (Part VIII section 220, 1 and 2. URT 2015c). Compared to the more relaxed relations between governments and foreign investors that characterised the decade after structural adjustment (Lofchie 2014; Gray 2015), this may in fact

also turn out to be significant, if not transformative, with the scale of operations that are discussed. Industry analysts expect a local spend of between 8-16% of the cost of the USD 20-40 billion LNG plant. Indeed, private investors are already maneuvering to get a piece of the cake, in particular in Dar es Salaam, but there are reports of significant investments being made in Mtwara and Lindi Regions. These include investments in service companies providing supplies to exploration companies, hotels, infrastructure and energy-intensive industries (Barasa 2014; Kabendera 2014b). The prospect of larger investments has also reportedly led to some more speculative investments in terms of attempts to buy up land in the vicinities of where the LNG plant is expected to be placed and where industrial development is likely to occur.

It is a difficult balancing act for the Tanzanian government between on the one hand securing legitimacy of contracts by demonstrating that Tanzanian benefits are maximised while, on the other hand, keeping international oil companies interested. The toughening of terms for petroleum exploration and production follows in the trail of similar changes in the mining regime in 2010 after critics had pointed out that the country was an attractive investment site for foreign investors, but offered less incentives to locals (Kweka 2009; Magai and Márquez-Velázquez 2013). Mining revenues had also been lower than expected (Lundstøl, Raballand, and Nyirongo 2013; Bukurura and Mmari 2014; Shayo 2014). The revised 2010 Mining Act has higher royalties and signaled the intention of renegotiating existing contracts. There are now speculations among observers of the mining sector that the toughening of terms may be the reason why there has been a slowdown in investments in the gold sector. Similarly, observers in the petroleum sector are discussing whether the toughening of terms is the reason why the last bid round only attracted five bids for the eight blocks on offer (Guardian 2014; see also Kabendera 2014a; Makene 2014). A recent thesis by a TPDC employee, furthermore, reveals that one of the five companies, Gazprom, withdrew its bid and that two others – the ExxonMobil/Statoil consortium and Mubadala – were disqualified because their bids were below the bidding thresholds (Mgaya 2014, 7).

NEW ACTORS (3): NGOS

Internationally, civil society has been at the centre of emerging norms of transparency, public oversight and accountability in mining and oil and gas sectors. The two key transnational initiatives involving the Tanzanian government, the Extractive Industries Transparency Initiative (EITI – the Tanzanian version is TEITI) and the Open Government Partnership (OGP), have seen Tanzania join under President Kikwete. EITI brings together governments, private sector and civil society in a framework that focuses on identifying and reconciling payments from companies to governments, but more broadly promotes transparency in extractive industries. Tanzania first joined in 2009 and has been compliant since 2012 (TEITI, 2013). EITI was established in 2002,

reflecting wider concerns over the impact of natural resources on developing country governance (then a central pillar of development discourse), concerns over the negative impacts of the operations of transnational extractives corporations and an increasing focus on corruption (Alstine 2014). Since its establishment in Tanzania, it has had some significant achievements.

OGP is an initiative of states and civil society that aims to '[s]ecure concrete commitments from governments to their citizenry to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen governance', according to country level priorities (OGP 2014). A Tanzania civil society activist, Rakesh Rajani, was one of its founding members. Tanzania has been a member since 2011 and is in the middle of its section Action Plan, which contains a commitment to make Mining Development Agreements (MDA) and PSAs signed from 2014 onwards publicly available by December 2015 (URT 2014b).

Two high profile, purely non-governmental, initiatives with a notable presence in Tanzania are Publish What You Pay (PWYP), and the Natural Resource Governance Institute (NRGI). PWYP arose from the same set of global concerns that motivated EITI and led to its establishment in the same year, 2002. It focuses on the transparency in payments and publication of contracts to ensure meaningful accountability along the value chain (PWYP 2012). NRGI was established by the merger of the Natural Resource Charter (NRC) and the Revenue Watch Institute (RWI) in 2014. NRGI provides technical advice to governments, civil society, media and legislators with a focus on encouraging emerging transparency and accountability norms while ensuring effective and beneficial management of natural resources.

The impact of such initiatives has been significant. The four EITI reconciliation reports released so far, covering the years 2008 to 2012, have brought a step change in the level of information available about extractive industries payments to governments. The passing of the Tanzania Extractive Industries (Transparency and Accountability) Bill in June 2015 marks another step change in transparency. It goes beyond EITI commitments and makes contract transparency and declaration of beneficial ownership mandatory requirements for companies operating in Tanzania (URTe 2015). Under the current EITI Standard, contract transparency is encouraged – the bill makes it mandatory for them to be published online. It would also go beyond commitments under the OGP, which promises that contracts from 2014 onwards will be made public.

With such demonstrable progress on a key element of the global civil society agenda, one might expect a Tanzanian civil society that is networked, well informed and influential, with the potential to indirectly influence the behaviour of state and commercial interests in negotiations. Still, that does not yet appear to be the case. The lack of strong local civil society networks is notable. PWYP Tanzania, a coalition of concerned NGOs formed in 2009, was eventually

suspended in 2015 on the basis of 'governance and membership challenges' (PWYP 2015). A more recently developed network is the Extractive Industries Working Group, a loose network of national and international NGOs with interests in extractive industries, has been mostly reactive, responding to government policy statements and actions but without developing policies of its own (Policy Forum 2013; Policy Forum 2014a; Policy Forum 2014b).

Overall, civil society has not been pro-active or responsive to opportunities that are not officially endorsed. So we are left with a quandary – civil society is seen as a critical part of the process of advancing the global transparency agenda, yet in Tanzania there is no *prima facie* evidence of civil society having made a significant contribution to this progress. This contrasts with activism on mining, which peaked in 2010 with the passage of the Mining Act and significantly altered fiscal terms and other conditions of subsequent MDAs in Tanzania's favor, and which has been the basis of renegotiation of terms of the MDAs that predated it. This saw high level advocacy by prominent activists (Curtis 2008), sustained technical support from NRG (Olan'g 2010) and analysis of Tanzania's MDA, which were not in the public domain (Policy Forum, undated).

One reason for the apparent weak Tanzanian civil society involvement when it comes to petroleum issues could be the novelty of the petroleum sector in the country. Petroleum investments differ from other extractive sectors and therefore call for other civil society strategies. Another reason could be the self-asserting negotiating position of the state; obviously, state representatives find it hard to accept too much meddling in contract negotiation processes of this importance. Accordingly, one may ask how civil society better finds pathways to influence the sector in the future.

NEW ACTORS (4): COMMUNITIES

Social and environmental concerns are increasingly incorporated into the new legal and administrative frameworks in Tanzania. Overall, there is a move going on away from the do-no-harm approach that is to some extent reflected in the 1980 Petroleum Act towards a more interactionist role for the operator. In terms of relations to local communities, the Petroleum Act of 2015 has a section on Corporate Social Responsibility of the investors, requiring a plan that is agreed by the local government. The Petroleum Policy and the Natural Gas Policy, upon which the Acts build, generally call for more formalised relations between communities, local government authorities and investors. They put great emphasis on the CSR activities of the petroleum companies targeting the communities, preferably through local government authorities and community-based organisations, calling it a 'contractual obligation' (see *the National Natural Gas Policy of Tanzania* 2013, 15-16).

In terms of fiscal transfers to the local level, the Petroleum Act of 2015 is not very detailed. The Oil and Gas Management Revenues Management Act of 2015 is slightly more outspoken in this regard by stating that *Local government authorities to which oil and gas activities are undertaken shall receive revenue from service levy of the oil and gas as shall be approved by the National Assembly* (section 17, 3 in URTc 2015). Again, the policies are clearer. For upstream activities, the Draft Petroleum Policy prescribes that the government should ensure that local communities get *a fair share of benefit from revenues emanating from petroleum operations in the outskirts of their respective localities* (URTa 2014). For mid and downstream activities, it refers to the Local Government Finances Act of 1982, which requires all corporate entities to pay to the relevant district councils 0.3 per cent of the turnover net of the value added tax and the excise duty (URT 1982). However, experiences from the mining sector have shown that local government authorities rarely have the bylaws in place that are required for transfers to take place.

The importance of legitimacy of exploration and production activities carried out by foreign companies can be observed at both the local and the national levels. In 2013, a government decision to construct a pipeline from Mtwara to Dar es Salaam caused riots in Mtwara and Lindi regions in January and May 2013 that targeted government and ruling party offices. The local population started asking what they got out of the resources when the electricity production and the jobs it could have created locally were removed (Mgamba 2013; Confidential 2013a). The explosiveness of the topic was underlined when a leading opposition leader warned Muslims on the coast that they were - again - being bypassed by development to the benefit of the Christians in the rest of country (Confidential 2013b). Local and national interests, in other words, are not always easy to reconcile.

The initial government reactions to the Mtwara riots was bullish. The then deputy minister of Energy and Minerals, George Simbachawene (promoted to Minister of Energy and Minerals January 2015), suggested that they had been instigated by foreign (read: Western) interests dissatisfied with the Chinese capital behind the pipeline (Ledesma 2013). The prime minister, Mizengo Pinda, stated that the rioters 'should be beaten' (Taylor 2013) and they were.

Despite the more prominent role granted to local level communities and authorities in the legislation, the limited capacity at community, village and district levels in Tanzania to facilitate participatory planning and to implement it should be acknowledged (Pedersen 2013). This is also reflected in the limited influence that local authorities have had on the making of the relevant policies guiding the sector. There has been an effort to reach out to some key community leaders, particularly religious leaders, who have been assiduously courted by the Ministry of Energy and Minerals, for example with study tours to Thailand and Norway (Raia Mwema 2014; Nipashe 2014). Still, though both the Petroleum Policy and the Natural Gas Policy stress that the policy formulation has been participatory, this is disputed by many civil society actors who were often

involved at a very late stage of these processes (Skedsmo, Bade, and Lunde 2013, 27).

Box 5: Donors' role in setting social standards

Over the years, donors have been part of setting and maintaining environmental and social standards. The Songo Songo gas development project in the early 2000s based its resettlement and compensation issues on World Bank policies. This made sense in a country where land for long was regarded as a resource for national development and where the protection of individual rights, at least until the enactment of the 1999 Land Acts in 2001, therefore was rather weak (Nnkya 2008; Pedersen 2013). The relevant World Bank policies for the Songo Songo project required that people affected by the pipeline on land should enjoy a quality of life equivalent to or even better than before, once the project had been completed. As a consequence, the Tanzanian government aimed to minimise the need for human resettlement (GOT 1997, 2000). Only 33 households were relocated along the pipeline and 155 in urban areas (primarily Dar es Salaam). The large majority of the 2945 affected households were compensated. The operation appears to have been successful; the World Bank completion reports mentioned some delays to relocation and compensation, but no irregularities (World Bank 2011).

Recently, as government increasingly has its policies in place, there have been efforts by donors to encourage greater public participation in the sector. This includes support to capacity building at the local level, support to civil society, scholarship programmes, etc. The support of the Norwegians are mentioned very explicitly in the draft petroleum policy and a number of bi- and multilateral donors are mentioned in the Tanzania Gas Sector Scoping Mission, which put the importance of better communication strategies on the agenda. German GTZ has offered support to a communication strategy for the gas sector. IMF has announced support to a framework for the management of natural resources (Kamndaya 2014). The World Bank's 2013 loan to support the energy sector had as a prior action 'a nation-wide public consultation process for adopting its Natural Gas Policy' (World Bank 2013, 25). However, though donors may have played a role towards increased public influence, there also seems to have been movements in government circles already prior to the riots. Thus, the gas scoping mission began 'at the request of the government of Tanzania' already in 2012, that is before the riots (Mission. 2013).

CONCLUSION

Tanzania started developing its gas resources commercially a decade ago. The prospects of large revenue streams from the newly found offshore gas fields are promising, though recent fluctuations in global oil prices have caused some uncertainty as to when they will be developed. Rents from the single biggest investment alone, a proposed Liquefied Natural Gas (LNG) plant, will dwarf most other sources of government revenues. But even without this project, the potential derived benefits in form of electrification and industrial development are exhilarating. If managed properly, petroleum resources can provide a decisive boost to Tanzania's development.

The finds also affect the negotiation of petroleum contracts. This paper has focused on changes in the three factors that most decisively influence these negotiations, namely geological features, political risks and the market context. Each has changed significantly over the last decade. Today we know that there are substantial offshore gas resources in Tanzania. The country has proved to be relatively stable and that the days of nationalisation are over. Finally, high oil prices have made the extraction of resources commercially viable. These factors have all influenced the involved actors' relative bargaining strength.

Even with the current drop in global oil prices, the Tanzanian government's bargaining position has improved substantially over the last decade. For long, it could not develop its gas resources because the finds were not deemed commercially viable; the private foreign oil companies that had the capacity were simply not interested in investing. The first major project, the Songo Songo gas-to-electricity project, only came into being with donor support. Today, a number of oil and gas companies are operating in Tanzania, including some of the oil majors. The country therefore relies less on development assistance for the development of the petroleum sector. The reform of the entire legal and administrative framework that governs petroleum resources, which is underway, testifies to a return to a more active role for the state and state institutions.

By focusing on the negotiation processes prior to the signing of petroleum contracts, this paper argues that the intense focus on transparency that has dominated the international policy discourse on extractive resources over the last decade may be relevant, but also that it risks skewing our understanding of the political nature of oil and gas exploitation. In environments where uncertainties prevail, negotiation processes are about distributing the benefits and risks. The parties' relative bargaining strength is dynamic and changes over the course of a project cycle. Additional demands for investments in infrastructure and local content inputs add to operating costs and should be factored in when evaluating contracts. In Tanzania, this not only implies investments in production facilities, ports and roads, but also in direct stakes in operations. Until recently, this implied stakes for TPDC, the state oil company. Recently, however, stakes for private

sector actors have been debated and this will also influence negotiations. As the outcome of these processes is still in the making, our knowledge about the political economy of oil and gas contract negotiations is still limited. More research into how revenues are shared among actors and across the local, national and international levels is vital.

In a competitive environment like the East African, where the Tanzanian government is competing with neighboring countries for the investments of the large international oil companies that can help develop petroleum resources, and where private companies are vying for attractive investment rights, some degree of confidentiality is probably unavoidable. Rather than calling for total transparency, a debate about how to get the balance right between what can be disclosed and what should not is needed. More accountability is important. Above all, a more systematic involvement of the Tanzanian parliament to keep track of deals and check what cannot be disclosed to the public could contribute to demystifying contracts and increasing the stability of the Tanzanian petroleum policy environment. Tanzania could draw inspiration from other emerging oil economies in this. Article 268 of Ghana's constitution obliges parliament to ratify any concession for the exploitation of the country's natural resources. Article 71 of Kenya's new constitution is similar, though it has yet to be codified in legislation. In Uganda, the informal Parliamentary Forum on Oil and Gas has been established (Hicks 2015). At the same time, communities and local authorities tend to be left out of the negotiation processes where decisions that may affect them are made. As demonstrated by the riots in Mtwara in 2013, this may affect the stability of operations. Donors, whose role is otherwise waning as gas revenues increase, may still have a role to play in facilitating intensified dialogues on the management of resources.

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