EXTRATIVE INDUSTRY "Many people regard local content as a simple issue. It is complicated unlike what many people think. Many African countries such as Nigeria, Angola and Ghana have such policies but their citizens have remained poor," says an expert

Researchers criticise Tanzania's local content policy for gas, oil

The warning has come at a time when many Tanzanians have been waiting to start enjoying benefits of the oil and gas subsector apart from getting jobs, increased power production and a rise in the national revenue

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Dar es Salaam. Experts doubt whether the natural gas Local Content Policy (LCP) will be beneficial to common Tanzanians.

They told *The Citizen* that the policy will not safeguard interests of local people and guarantee their participating in oil and gas subsector.

They cited a number of areas such as the one that allows oil and gas companies to source products abroad if local producers cannot meet the demand or quality.'

Economists, businesspeople and ordinary people insist that the section will deny local producers equal participation in the business.

"The possibility is that local producers will continue to sell their products to businesspeople who will act as middlemen, and who, in turn, supply the same to the oil and gas companies," said Tanzania Private Sector Foundation (TPSF) executive director Godfrey Simbeye.

The policy was drawn up to guarantee local producers of benefits from gas and oil companies following experience on what happened in the mining sector.

Many Tanzanian producers were unable to sell their goods and services to mining companies.

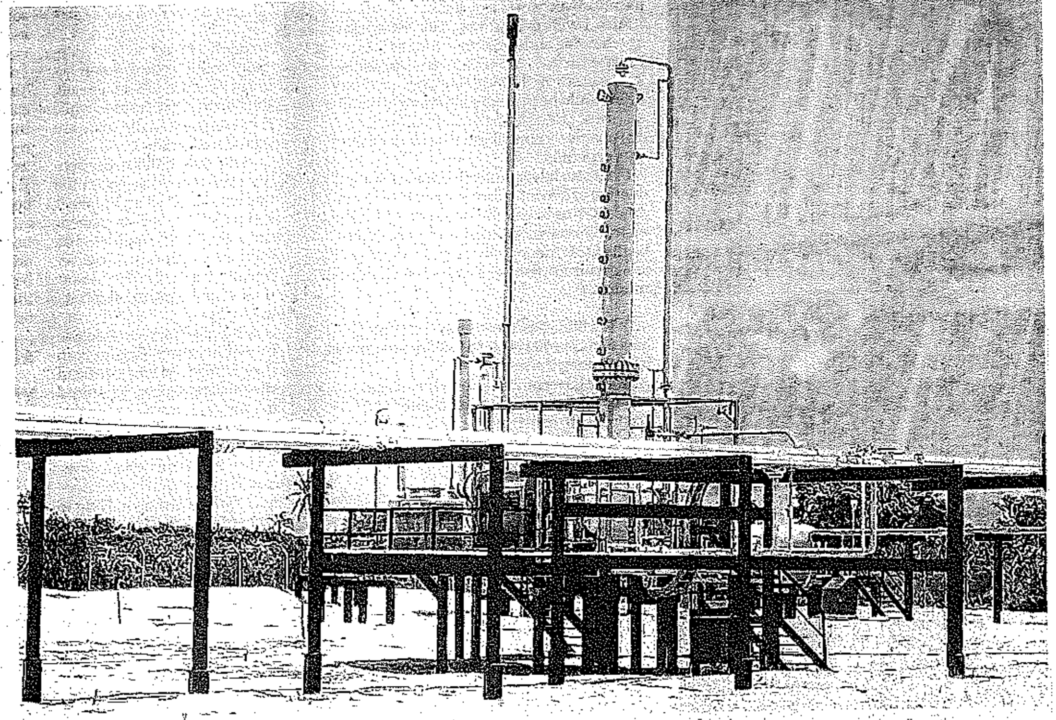
LCP in oil and gas was supposed to address such challenges and guarantee local producers of the benefits.

The warning has come at a time when many Tanzanians have been waiting to start enjoying benefits of the oil and gas subsector apart from getting jobs, increased power production and a rise in the national revenue. LCP was approved in 2014.

The government and the private sector clashed about how locals would tap benefits of oil and gas, prompting authorities to draft the policy on it.

In addressing the involvement of locals, LCP states in part: "Where Tanzanian-owned businesses can meet the quality, quantity and time required but higher on price then Tanzanian-owned businesses shall receive a margin of price preference as prescribed by legislation.

"Where bids are being evaluated, and where bids are otherwise equal, the bid containing the highest level of Tanzanian content shall be selected. Where a foreign entity is to provide goods and services for the licensee, the foreign entity shall operate from Tanzania and partner with a Tanzanian owned and registered company.



A gas well at Mnazi Bay in Mtwara
PHOTOS | FILE

However, an expert says: "Despite this policy assurance, if no effort is made to assist Tanzanians to produce quality goods or services, and on amount which will satisfy the market, the policy is going to be of little assistance."

A sources hints that some foreign companies register companies in Tanzania to do business as a local outfit. If that is done it will be difficult for local producers to directly benefit from the lucrative business in the oil and gas.

But the source notes also that a section in the policy, which clearly states that in case a local company does not meet standards, a foreign company will be given a tender to supply goods and services to oil and gas companies, does not resonate well with the mission to empower Tanzanians.

"Countries like Nigeria, Angola and Ghana also have LCPs but expectations have not been met. Despite such policies, locals have continued to be poor and foreigners continue to reap a lot of money," he notes.

A senior Repoa researcher, Dr Abel Kinyondo, says there is great danger that locals will not benefit despite the LCP and a lot of promises from leaders.

Repoa is undertaking a study on the management of oil and gas subsector. The research started in 2014 and ends in 2019 and is financed by the Norwegian Embassy.

He notes that generally, the research has been prompted by experience in the mining sector.

"We don't want what happened in mining sector to also happen in the oil and gas subsector. We will use the experience as a lesson to mitigate any possible negative impact on the oil and gassub sector."

He says the first area which the research focuses is collection of data on oil and gas. It will also involve training locals so as to empower them to take part in the management of the subsector.

The involvement of locals in the subsector will also be considered.

The research will as well look into financial management to see how the money obtained from oil and gas is used and if people's expectations are met.

"Many people regard local content as a simple issue. It is not. It is complicated unlike what many people think. Many African countries such as Nigeria, Angola and Ghana have such policies but their citizens have remained poor while foreign investors have been profiting."

He notes that Tanzania might have messed up in its local content policy from the beginning.

"Preparation of a local content policy requires the involvement of all people. Sadly that was not done during the preparation of our policy. Only few people were involved. In African LCP, investors are directed to employ a certain number of foreigners. They are told how much to buy locally and such things but there is no guarantee that locals will benefits from such conditions."

He says even the condition that foreign companies should enter into joint ventures with locals if they want to work with oil and gas companies is not a guarantee for locals to benefit.

"What is happening is that few rich people in the country enter into joint ventures with foreign companies and they meet conditions outlined in the policy. But in fact, it is the rich who benefit."

On promoting local producers to meet the demand, the LCP states that in case locals fail to meet the demand, oil and gas companies will be free to source goods and services abroad.

"How many farmers in the country can meet quantity and quality demanded? Experience from the mining sector shows that only few local firms supplies goods and services. A large amount of goods and services were sources outside the country. This was supposed to be a lesson when drafting the LCP in oil and gas by looking at strategies through which locals would have been empowered to be able to satisfy the needs," he elaborates. Dr Kinyondo says in his report launched in November last year titled 'Alternatives to local content' proposes a number of things including increasing taxes and lessening the conditions for the participation of locals. The target of this proposal is to have the tax which will be collected to be used to empower locals to produce enough quality goods for the industry.

"Through the increased income from the taxes, the government could roll out a number of programmes to empower farmers, for instance, to produce enough quality food which will be sold to oil and gas processing plants and allied factories."

He points out that in countries such as Botswana, the government has specifically set conditions under which the investors and the government equally share profits from mining activities after removing the operation costs while Tanzania laws give the country only 30 per cent in form of corporate tax and a percentage of royalty depending on the type of the minerals involved.

He notes that if the government does not empower small-scale farmers, the rich people will always continue to shortchange them.

"Rich people will continue to act as middlemen by collecting crops from poor small-scale farmers and sell them to gas and oil companies. And the way middlemen operate, there is no way the small-scale farmer is going to benefit under this arrangement," he cautions.

MORE INFO: TANZANIA GAS RESERVES

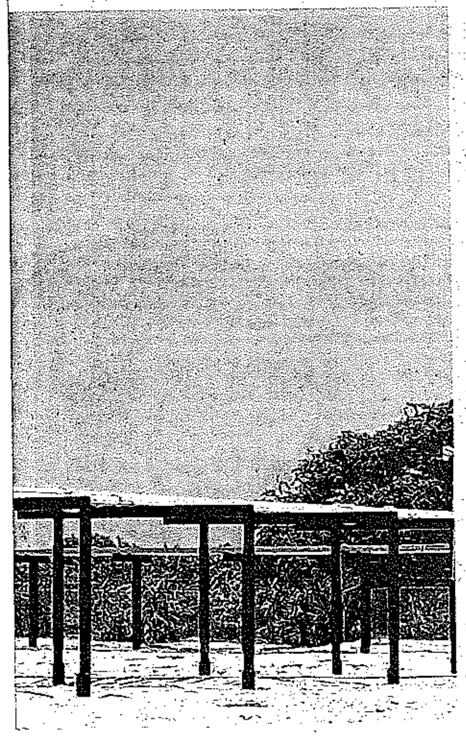
On February 25, 2016, it was announced that Tanzania had discovered an additional 2.17 trillion cubic feet (tcf) of possible natural gas deposits, raising the east African nation's total estimated recoverable natural gas reserves to more than 57 tcf.

The onshore reserves were found at a field licensed to the United Arab Emirates' Dodsal Group located at Ruvu basin in Coast region, near Dar es Salaam.

Most of the gas discoveries in Tanzania were made in deep-sea offshore blocks south of the country near the site of a planned liquefied natural gas plant.

BG Group, acquired by Royal Dutch Shell, along with Statoil, Exxon Mobil and Ophir Energy plan to build the onshore LNG export terminal in the southern Tanzanian town of Lindi in partnership with state-run Tanzania Petroleum Development Corporation.

"Once, poultry keepers complained to me about the market. I talked to one company and it agreed to start buying chickens from them. But after two weeks the poultry keepers had nothing to supply to the company"
PROF SOSPETER MUHONGO



Government assurance

But the government is on the defensive, saying locals will benefit iummensely from the policy.

The minister for Energy and Minerals, Prof Sospeter Muhongo, admits that local producers have small capacity to satisfy the market to be created by the oil and gas industry players.

He notes that farmers and pastoralists have no capacity to meet the quality and quantity benchmarks but that will change if they also change their mindset.

He says his ministry is geared towards creating awareness among local producers on what they are supposed to do to meet the demand of the market.

"Once, poultry keepers complained to me about the market. I talked to one company and it agreed to start buying chickens from them. But after two weeks the poultry keepers had nothing to supply to the company. They had finished all their chickens," he told TBC recently.

He says people should take note that the local content policy has widened the base through which locals can benefit from oil and gas subsector. He says people should not only look at supply of agricultural produce. There are other opportunities such as catering services, transport and direct employment to name but a few.

Though local producers have low capacity, Prof Muhongo told this paper that LCP had widened the scope of opportunities by allowing Tanzanians to participate in accordance with their capacity.

He notes that LCP recognises small, medium and large companies which can supply goods or services in the oil and gas industry.

"Therefore, Tanzanians should not sit back and complain that they don't have capacity. There is room for them to form small companies which the LCP guarantees them of markets for their produce and services."

Empowerment

To do away with the possibility of middlemen giving small producers a raw deal, Mr Simbeye calls on the government to intervene.

"It is true that some cunning people might take advantage of the situation to exploit the poor, this challenge can be addressed though regulations accompanying the legislation," he says.

He says TPSF has established a Business Development Centre to assist small producers in improving their capacity.

But he says there is a need for the government, local producers and the big companies in the subsector to have dialogue to set arrangements on how the companies are supposed to put preferences on the use of local products.

"The companies themselves should buy what is produced locallly before looking abroad."

Tanzania Minerals Audit Agency spokesman Yisambi Shiwa, says embracing local content is one of major challenges in the mining sector.

"The challenge stems from the failure by locals to mee the demands of the sector. For instance, at one time Geita Gold Mine demanded eggs with yellow yolk. We have chickens but they don't produce that kind of eggs. The mine also wanted pigs aged six months. But local producers could not meet the quality demands and the mine had to import them."

He says the company preferred to buy the products locally because it was cost effective as it does not involve import duties.

"In 2013, Mantra Resources Tanzania Limited which mines uranium in southern regions gave farmers capital to raise quality chickens and grow vegetables for its use. The farmers could not produce quality chickens and vegetables."

But, Mr Shiwa notes that few Tanzanians have managed to meet qualities of the mining companies.

He gives the example of a company managed by Kibaha Urban MP Silvestry Koka that has been providing catering services in a number of mines.

High expectations

Research conducted in 2014 by Twaweza shows that 31 per cent of respondents believe that profits from oil and gas activities will be equally shared by all Tanzanians.

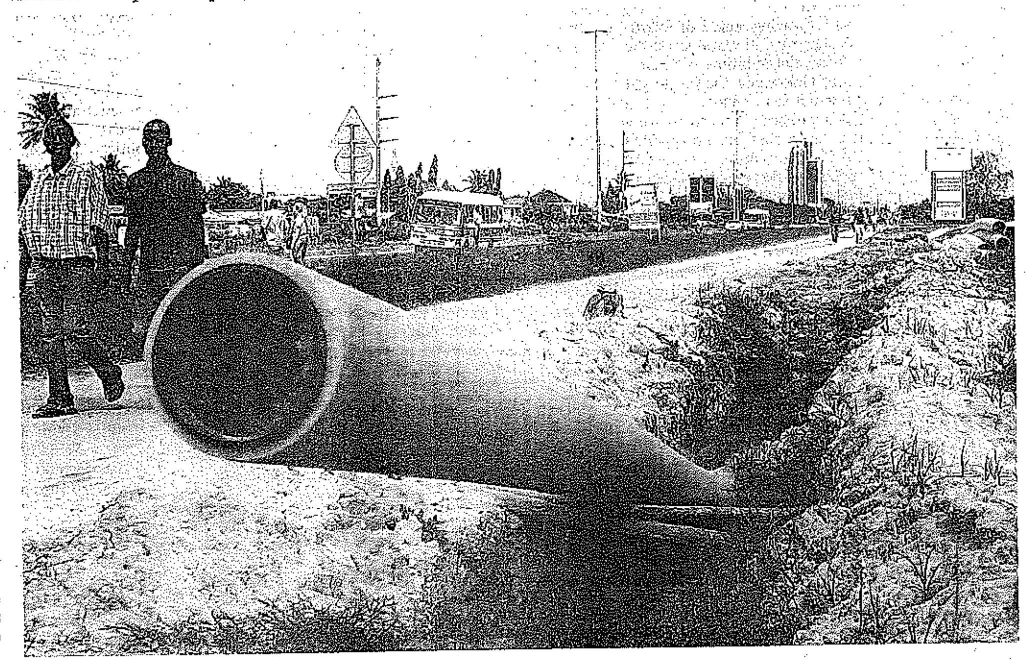
Thirty-seven per cent believe that it is government officials and rich people who will benefit from oil and gas. Nineteen per cent of the respondents feared that given the country's inexperience in oil and gas might be an opportunity for big companies to cheat and take large share of the profits. Eleven per cent of the respondents feared resource curse which would lead to conflicts.

According to the Model Profit Sharing Agreement (MPSA), Tanzania will benefit from oil and gas through taxes and royalties. The Tanzania Petroleum Development Corporation (TPDC) will sign the deals on behalf of the government.

According to TPDC, under MPSA, when production reaches its peak (1,500 millions of standard cubic feet or MMscf and more) Tanzania share of the profit will be 85 per cent while the investor will walk away with the remaining 15 percent after removing the operation costs.

But the Natural Resource Governance Institute manager in East and Southern Africa, Mr Silas Olan'g, says MPSA notwithstanding, there is a danger that the country would lose to the big investors, who might cheat on the operation costs to reduce the amount of profits.

"There are many avenues which big companies might use to inflate the operation costs unnecessarily. If the government is not careful, audited accounts will always show a very small profits," he says.



People walk past a gas pipeline.