Tanzania's Fourth Offshore and North Lake Tanganyika Licensing Round

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The Government of Tanzania, through the Tanzania Petroleum Development Corporation (TPDC), is set to open a fourth licensing round at the 2nd Tanzania Oil and Gas Conference and Exhibition on October 23 – 25, 2013 in Dar es Salaam.

A total of eight blocks will be made available at the upcoming licensing round, seven deep offshore and one onshore in the promising Lake Tanganyika region.

The round comes on the heels of major gas discoveries in Tanzania's offshore. The country now boasts an estimated 1.1 tcm of recoverable gas, much of it discovered by companies such as BG Group, Ophir, Statoil, and ExxonMobil. And although Tanzania has no proven crude oil reserves, large discoveries in neighboring Uganda and Kenya suggest similarly significant oil deposits in the Lake Tanganyika area.

Blocks Offered in the Licensing Round

- A total of eight blocks will be made available at the upcoming licensing round. This includes seven deepsea blocks (Blocks 4/2A, 4/3A, 4/3B, 4/4A, 4/4B, 4/5A, 4/5B) with an average size of 3000 sq. km and a depth of between 2000m to 3000m, and the North Lake Tanganyika block on Tanzania's western border.
- The North Lake Tanganyika block was added to this round after Total - which obtained exploration rights in 2011 - could not reach an agreement with the Government on final terms.
- In addition to the eight blocks up for bidding, Tanzania has demarcated and reserved for the Government two deep sea blocks (4/1B and 4/1C). TPDC will develop these blocks with a competitively sourced strategic partner.
- The licensing round will close on May 15, 2014. More information can be obtained at TPDC's website and the licensing round website.

Legal Framework and Fiscal Terms

- This round was initially announced back in 2010 but then delayed, according to TPDC, to allow the finalization of key gas legislation. Investors continue to keenly await this new legislation which will include amendments to the 1980 Petroleum (Exploration and Production) Act. The legislation is expected to restructure the legal and regulatory framework for natural gas development, both upstream and downstream.
- Currently, oil and gas exploration and development are regulated by the 1980 Petroleum Act. Tanzania also has a Model PSA (2004, revised in 2008), and a PSA addendum for natural gas (2010). Other key legislation includes the

Income Tax Act of 2004 and the Environmental Management Act of 2004.

- TPDC points investors to current legislation on its website devoted to this round. Under this legislation, investors are offered a four-year exploration license, renewable twice (four and three years, respectively). Upon discovery, the development period is 25 years renewable for another 20 years. The Model PSA grants TPDC the right to purchase up to 25% of the participating interest in the block.

- The first piece of new legislation is expected to be the non-binding Natural Gas Policy, which had been due to be formally published for review by the Tanzanian parliament by the end of last June. Once the Natural Gas Policy is finalized, and a corresponding Gas Utilization Master Plan is in place, Tanzania is expected to adopt a Natural Gas Act to establish a binding legal framework. These three acts are expected to focus mainly on midstream and downstream gas sectors and on domestic use of gas.

- In addition, the Government is planning to adopt two other documents for upstream operations - the Petroleum Policy and the Upstream Act.

- Given the continuing delays, however, it is not clear whether the Natural Gas Policy or other legislation will in fact be adopted by the opening of the fourth licensing round on October 15, 2013.

Key Fiscal Terms

- TPDC has stated that the fiscal terms for the offered blocks are under review and will be revised in advance of this licensing round.

- Tanzania's current Model PSA provides for a 12.5% royalty on total oil/gas production and a cost recovery limit of 50%. TPDC however has stated that the royalty is "under review" for the deepsea blocks and that cost recovery limit may go up to 70%.

- Currently, Government takes a share of the profit oil and/or gas pursuant to a sliding scale that ranges between 70-90%; contractors are also subject to a 30% corporate income tax.

- Other important fiscal provisions from Tanzania's 2008 Model PSA and the 2004 Income Tax Act concern surface rents, withholding tax on repatriation of profits, minimum work expenditures, and mandates for spending on local content and capacity building.

Impact of the New Legislation

- The Natural Gas Policy will be non-binding, and its scope is confined to the midstream and downstream sectors. Still, the final Natural Gas Policy will have major consequences for how Tanzania would rearrange its natural gas legal framework.

- Major features of the draft Natural Gas Policy include the creation of a new state-owned entity that will participate in gas infrastructure investment and also serve as a gas aggregator with exclusive rights for in-country purchase, transport, and sale of gas.

- The draft Natural Gas Policy also envisions splitting off TPDC's regulatory authority; investors in Tanzania's petroleum sector are currently regulated by TPDC in their upstream activities.

Comment

- For Tanzania to finalize the Natural Gas Policy prior to opening of the licensing round would provide welcome guidance to investors. Even with the Natural Gas Policy in place, however, investors need to be prepared to enter a complicated and dynamic legal and regulatory framework.

- In light of the latest draft of the Natural Gas Policy and Tanzania's approach to its mining sector in recent years, investors may expect that the finalized Natural Gas Policy and Natural Gas Act will provide, on the one hand, an active role for the Government in the natural gas sector and, on the other hand, a variety of new terms of investment which serve State's economic and social objectives.
- In conclusion, investors should be prepared for a legal framework that may provide for increased competition and transparency, new levels of government take, a broader mandate for local content and capacity training, broader transfer restrictions and a prioritization of the domestic gas market.

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