OIL AND GAS EXPLORATION AND PRODUCTION IN TANZANIA

The government of the United Republic of Tanzania is entrusted with control over all natural resources including oil and gas in the country. All exploration and development licenses in Tanzania are administered and issued to the Tanzania Petroleum Development Corporation (TPDC) which grants exclusive rights to the oil and gas company under a production sharing agreement.

Requirements and licenses for engaging in the oil and gas production industry in Tanzania

TPDC may, subject to the Minister's consent and on advice by PURA, enter into a partnership with a Tanzanian or a foreign entity through an open tendering process or a direct award of a block upon fulfillment of the following requirements.

- Incorporate a subsidiary or register a branch in Tanzania,
- Establish and maintain an office in Tanzania within 30 days of the effective date of a PSA,
- Designate a representative residing in Tanzania who shall have full authority to represent the Contractor on all PSA related matters
- Technical knowledge and financial capability.
- A minimum local shareholding requirement of 25% ownership of a business involving oil and gas.

Duration of the license

A license shall be granted for an initial term of 4 years which can be extended for a further two terms to up to 4 years and 3years respectively. Also, a development license may only be granted for a period of 25 years and can be extended for a further 20 years.

Procedure for application for an interest in an oil and gas license.

By way of bidding, the Government through TPDC announces, a bidding round for several offshore or onshore blocks. A data package about the bidding blocks is available to interested parties at a cost. All applications are accompanied by a non-refundable fee which will be valid for 2 months. The bids will be considered by TPDC taking into consideration the technical and financial capabilities of the applicants and they will make recommendations for successful bids to the Ministry of Energy and Minerals, who will award the license to

TPDC, on the execution of the Production Sharing Agreement.

Fiscal liabilities

An investor seeking to invest in the exploration of oil and gas should importantly know that there are various taxes, fees, and royalties in the sector as expounded below;

- License charge is charged annually upon issuance of exploration and development licenses. The charge subsists until the license is terminated. The annual charge for an exploration license is; 50$ per square km for the initial exploration period; 100$ per square km for the first extension period; and 200$ per square km for the second extension period. The annual charge for a development license is 500$ per square km.
- Corporation tax on all income derived from oil and gas operations which are at a rate of 30%.
- Payment of royalties on oil and gas that is recovered from a development area.
- Signing bonus of $2.5 million and a production bonus of $5 million which is payable by the investor/contractor/licensee on the signing of the PSA and commencement of production respectively.
- Any subsequent development licenses in the contract area will be subject to additional production bonuses of not less than $5 million.

Assignment and transfer of PSA interests

Any direct or indirect assignment and transfer of rights in oil and gas interests under a PSA to a 3rd party will require written approval from the Minister of Energy and Minerals before its conduction and will be subjected to an assignment fee and all other relevant taxes. An application for consent is to be made 90 days before the transfer is to take place.

How to trade in Oil and Gas is conducted:

Oil companies importing petroleum products in Tanzania use the Bulk Procurement System (BPS). The system allows only one supplier to import gas and oil and supply to other traders in the country on retail. The sole supplier for the particular period is chosen through a competitive tender bidding process where any member of the Petroleum Importation Coordinator (PIC) is permitted to bid for the tender. The trader needs to:

- Obtain a certificate from The Energy and Water Utilities Regulatory Authority (EWURA).
- Process TIN for tax compliance purposes.
- Register with the PIC to be part of the BPS.

- A minimum local shareholding requirement of 25% ownership of a business involving oil and gas.

Oil prices are determined by EWURA via an automatic formula that includes government taxes and tariffs, worldwide oil prices, and other expenses. Such assessment is done monthly by EWURA concerning the market value, supply and demand, and fair competition laws.

EWURA has powers to impose fines and penalties for non-compliance. If a party is aggrieved by EWURA's decision or penalty or action, they can appeal to the Fair Competition Commission. Grounds for appeal may be based on the following reasons;

- There was an error in law.
- The statutory procedures and requirements were not complied with and the non-compliance materially affected the award.
- The authority did not have the power to make the award.

A party dissatisfied with the decision of the Fair Competition Commission can further appeal to the Fair Competition Tribunal.

In a nutshell, the government acknowledges the significance of foreign investment in natural gas, which contributes capital and technology and maximizes benefits realized by the country from natural gas exploitation. Further, it asserts its commitment to providing lucrative fiscal incentives for foreign investors in the oil and gas industry.