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**AGLI- Report from Kenya - April 3, 2010**  
***How Corruption Works***

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Dear All,

I have a fine example of how corruption works in Africa and how international business is in cahoots with the corruption. My example concerns a recent Production Sharing Agreement (PSA) between the Government of Uganda and two oil exploration companies, Tullow Oil and Heritage, two large oil exploration companies.

Considerable amounts of oil have been discovered in the Lake Albert basin of western Uganda. A secret agreement was negotiated between the Ugandan Government and the oil exploration companies. Fortunately, for the anti-corruption community, the agreement was leaked and put on the internet. There is no doubt why it, like almost all agreements of this kind of, was kept secret. It is remarkably disadvantageous to the country of Uganda.

The biggest concern was that it was signed when the price of oil was \$30 to \$40 per barrel. The PSA has no provision if the price of oil climbs above this price. A windfall profit tax is routine contracts like these and there is no possibility that those who negotiated the agreement could not have been aware of this possibility. Right now oil is at around \$80 per barrel and if the concession would reach 100,000 barrels per day, then the oil exploration companies would reap the amount of the increase which would equal almost 1.5 billion dollars per a year! If oil goes higher than \$80 per barrel, then Uganda will lose even more. These types of contracts normally have a windfall tax to cover this eventuality.

Moreover, the contract includes the provision that Uganda can set up a National Oil Company – which would own 20% of the venture – without putting in any capital. This was an unknown provision before the agreement was made public and to date no one in the Ugandan Government has begun to set up such a national oil company. I do not know what would happen if the National Oil Company is not formed, but I would presume its shares would remain in the hands of the two international oil exploration companies.

How was this lopsided Production Sharing Agreement made? How could the Ugandan negotiators give away so much to the oil exploration companies? The agreement included a signing bonus of about \$1 million. Where has this \$1 million dollars gone? No one knows. It definitely did not go into the accounts of the Ugandan Government. Clearly these are bribes paid to the Ugandan negotiators for giving away potentially billions of dollars due to price increases.

Since \$1 million is insignificant regarding the billions of dollars involved in the contract, it was of little significance to the bottom line of the oil exploration companies. It is amazing how little money was needed to bribe the Ugandans to negotiate this terrible agreement.

When production begins, there is another \$5 million bonus. Will this again go unaccounted for? The loss of the first \$1 million suggests that Uganda will go the way of most oil producing countries in Africa. Most of the funds it will be embezzled and little will benefit local Ugandans. Nigeria and Angola are only two prime examples of this.

The reaction of the Ugandan Government is to denounce those who leaked the documents: "Stealing government documents is espionage and criminal...These documents contain commercial confidentiality details that the concerned companies have invested in." What an excuse for the corruption involved in a very detrimental agreement with Uganda!

Clearly the medicine for this disease is transparency. No government contracts or agreements, including those in the United States, should be secret. All must be made public before any agreement is signed by a government. Surely, though, this would be a brave, new world.

Peace,  
Dave

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New webpage: [www.aglifpt.org](http://www.aglifpt.org)

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