

**AN EXAMINATION OF THE REGULATORY REGIME
FOR OIL PRICES IN THE DOWN STREAM
SECTOR IN UGANDA**

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DECLARATION

I TYAKAGIRE HANIFA declare that this dissertation thesis is my original work and has not been presented for a degree or any other academic award in any university or institution of learning. I solemnly bear and stand to correct any inconsistency.

Signature of Candidate



TYAKAGIRE HANIFA

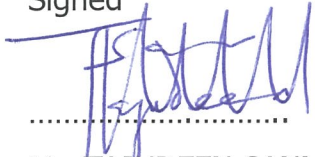
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APPROVAL

This dissertation is from the researcher's effort in the area of An Examination of the Regulatory Regime for Oil Prices in the down Stream Sector in Uganda and was conducted under the supervision. It is now ready for submission to the academic board for the award of master of law (general) of Kampala international university with my approval.

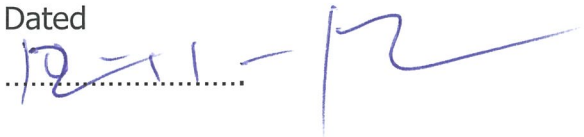
Signed



Mr. TAJUDEEN SANNI

Supervisor

Dated



DEDICATION

This work is affectionately dedicated to my parents (Mr. and Mrs. katuntu), my husband (Mr. Biraro) for the financial and moral support, patience and understanding during this period of study. Without such support from him, this success would not be achieved, not forgetting all those who constantly wished me and encouraged me especially my sisters and brothers.

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And Finally my brothers and sisters (hawa, shubey, osman, swaib, mashood and sulaiman) and my daughter katushabe rashmi munira.

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ACRONYMS

API	American Petroleum Institute
UTODA	Uganda Tax Operators and Drivers Association
CPI	Consumer Price Index
UBOS	Uganda Bureau, Of Statistics
NOC	National Oil Company
IOC	International Oil Company
MEMD	Ministry Energy and Mineral Development
A4C	Activist for Change
GDP	Gross Domestic Product
Co	Company
NATOIL	National Oil Company
NEMA	National Environment Management Authority
NOGP	National Oil and Gas Policy
PAU	Petroleum Authority of Uganda

STATUTES

The Constitution of the Republic of Uganda 1995 as amended 2006
The Petroleum (Exploration, Development and Production) Bill, 2012
The Energy Policy of Uganda, 2002;
The Petroleum Supply Act, 2003;
The Petroleum Supply (General) Regulations, 2009; and
The Petroleum (Marking and Quality Control) Regulations, 2009
The National Environmental Management Act, Cap 153, 1995

ABSTRACT

Uganda liberalized the downstream petroleum sector in 1994. It was believed that by opening up the sector and letting the industry manage and sustain itself the benefits of a regulated industry with open market operations and competition would translate into low prices and benefits the people. Price determination is far from being determined by market forces. This little success has been overshadowed by failure to realize a competitive market that would have resulted into low domestic oil products prices. This collusive pricing structure has resulted into increasingly high domestic retail prices. This structure has been sustained by low price elasticity of market demand, high concentration and lack of an effective and appropriate legal and institutional regulatory framework. However, Uganda still has opportunities to realize the full benefits of deregulation if the necessary infrastructure can be established.

Petroleum products are used across the entire economy in every country. Gasoline and diesel are the primary fuels used in road transport. Oil is used in power generation, accounting for 11 percent of total electricity generated in Africa in 2007. Adequate and reliable supply of transport services and electricity in turn are essential for economic development. Households use a variety of petroleum products: kerosene for lighting, cooking, and heating; liquefied petroleum gas (LPG) for cooking and heating; and gasoline and diesel for private vehicles as well as captive power generation. In addition to the above higher oil prices increase the prices of all other goods that have oil as an intermediate input. The most significant among them for the poor in low-income countries is food, on which the poor spend a disproportionately high share of total household expenditure are food prices increase. This led into a protest of walk to work by A4C(Activist 4 Change) now known as 4GC (For God and my country) in Uganda in september 2010 and march 2011.

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

1.0 Introduction.

This chapter presents the background, problem statement, purpose of the study, specific objectives, research questions, scope and significance of the study and definition of the operational key terms.

1.1 Background of the Study.

Uganda's Petroleum Sub-Sector covers both upstream and downstream. Upstream industry deals with exploration, development and eventual production of petroleum while the downstream covers transportation of both crude and refined products, refining, storage, distribution and marketing of petroleum products.

Petroleum was first discovered in 347 B.C in china. Petroleum was first introduced in the western continent of the islamists by a scientist called Mohammed Zakariya around the 9th century and 10th century.¹

In the modern world petroleum exploration was first started in the 1859 by Edward Drake in Pennsylvania in USA and this is the time when a refinery was started and some years later oil companies were formed to explore and refine petroleum.²

In 1861 in Balkan, the first largest and sophisticated refinery was built and a first concession agreement was made between America and Iran in 1909 where the country that owed the oil was to get 16%.³

The earliest reference to the oil in Uganda was to oil speage near Kibiro on the shores of Lake Albert which was known to the indigenous people who lived in the area. The first contribution to the country's hydro carbon potential was by E.J WAYLANDS, a

¹ Sanni T, The Dynamics Of Oil Price Fluctuation, LLM thesis (2009) at P. 7.

² https://energypedia.info/index.php/Petroleum_Resources_in_Uganda assessed on 11th October 2012.

³ Ibid.

government geologist who documented numerous hydro carbon potential in the Albertan Graben in the 1920s⁴.

Oil exploration continued intermittently through the 1930s but came to halt during the 2nd world war.

Serious exploration work commenced again in the 1980s with acquisition of El- Martic data across the entire Graben and the subsequent follow up of geophysical and geological work in the early 1980 and 1990s. Data was first acquired in the Graben during 1998 and several surveys have been undertaken to date⁵.

Uganda was scheduled to begin producing oil in 2010 after commercial discovery in 2004⁶. This is perceived to mark the beginning of the flow of oil revenue into the national coffers. With the discovery of oil, the Public, and the Government have high expectations from oil revenue.⁷ It is expected that the oil will generate enough revenue to finance the non- oil deficit which is burdensome to the government budget, protection of the environment and maximize social welfare⁸. The oil regions expect to benefit from the proceeds of oil in terms of infrastructure development, social services and direct contributions to their district budgets. These expectations are likely to increase government expenditure, which will worsen the non- oil primary deficit. According to Steven et al,⁹ new oil discoveries increase the government expenditure because of the expectation of obtaining more revenue to repay from oil which may result into lower prices of oil.

⁴ www.oilinuganda assessed on 11th October 2012.

⁵ Ibid.

⁶ Twinamatsiko F.N, Is Uganda's Petroleum Fiscal Regime Sustainable?

⁷ Ibid.

⁸ Carole, Government and State Authorities see themselves as resource owners of petroleum resources and therefore entitled to collect a revenue stream from what they own (2008).

⁹ Ossowski S.B. R, Operational Aspects of Fiscal Policy in oil -Producing Countries, in Fiscal Policy Formulation and Implementation in Oil-Producing Countries, (2003) p.p45-83, (New York, USA, IMF Graphics Section).

Companies have invested a lot in exploration, development and are eager to start recouping their investment. These expectations have to be balanced against the conflicting objectives¹⁰ of the two parties.¹¹

In respect to downstream operations, the average annual growth of petroleum consumption stands at about 5 per cent. Between 2005 and 2007, there was a steep growth in consumption of about 20 per cent as a result of thermal electricity generation using diesel as a temporary intervention in the power sector. Currently, the nation meets all its petroleum needs with imports now standing at 847,603 cubic meters, and¹² estimated at USD 320 million per annum. This constitutes about 8 per cent of total national imports and represents slightly above 20 per cent of total export earnings.¹³

Uganda is highly vulnerable to oil price shocks as it imports almost all of its 7,000 bbl/d (1,100 m³/d) of oil from the Kenyan refinery in Mombasa, which in turn imports crude oil from abroad.¹⁴ In 1995, the governments of Kenya and Uganda agreed to investigate the possibility of extending the Mombasa–Eldoret pipeline a further 320 km to Kampala. According to the Managing Director of the Kenya Pipeline Company, the \$97 million pipeline would provide 1.2 million cubic meters in its first year of operation.¹⁵ A bio-code programme was implemented in 2000, which allows authorities to determine if an end user is using officially imported petroleum products. The government reported a drop in diluted and adulterated samples taken from gas stations from 20% in December 2000 to 1.5% in September 2001.¹⁶

Petroleum product prices in Uganda were deregulated in 1994. From 1997 the sector was opened up for new marketing companies to join. Deregulation has stimulated

¹⁰ Richard, The tension between the petroleum industry and host governments arises from the fact that each party seeks to maximise its share of the net revenue. The timing of revenue receipt is also important. To the investor, whose capital is at risk, a policy of accelerating cost recovery is attractive (2003).

¹¹ *supra*(n2).

¹² *Supra*(n 2).

¹³ *Supra*(n 2).

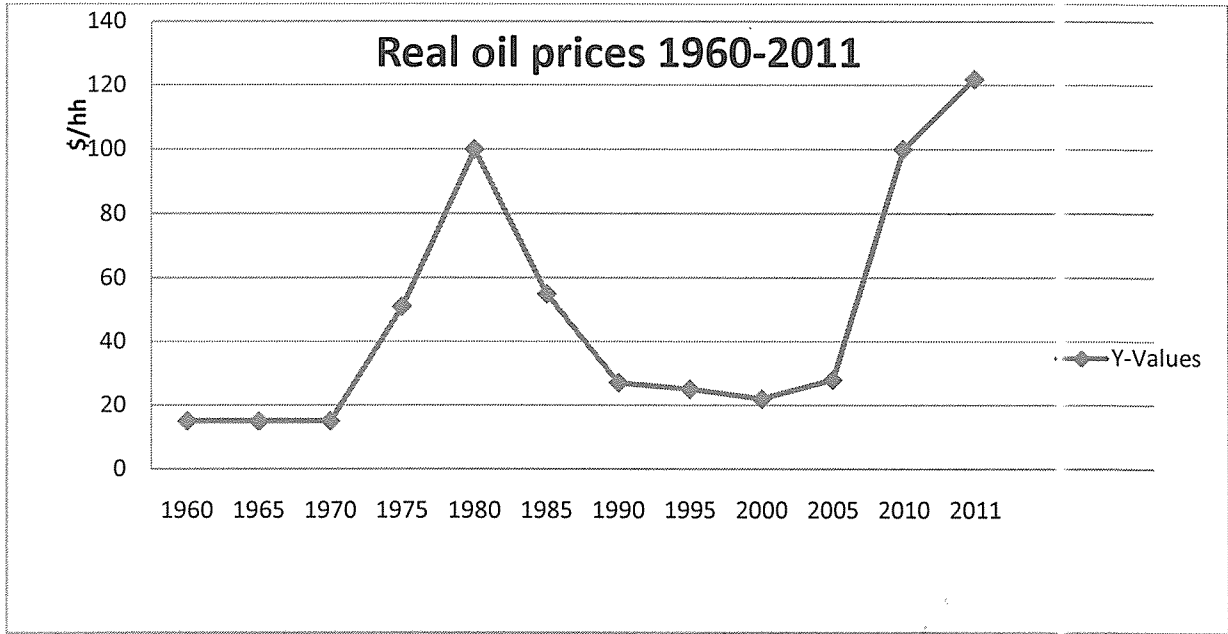
¹⁴ "Great Lakes Region: Burundi, Kenya, Rwanda, Tanzania, and Uganda" by the Energy Information Administration, February 2010.

¹⁵ "Kenya-Uganda oil pipeline to ease petroleum delivery" by Joseph Olanyo, 4 October 2005.

¹⁶ Review of Uganda's oil industry, *gasandoil.com*, April 18, 2002.

investment in the industry. There are 40 licensed oil-marketing companies in Uganda of which 25 are in operation. The country has no national oil company but maintains fuel reserves at Jinja in Eastern Uganda for strategic purposes also offering temporary storage accommodation at its Jinja Storage Tanks as an incentive to the newly licensed oil companies to encourage competition.¹⁷

Uganda has repeatedly suffered from prolonged fuel shortages and price spikes including the last three months of 2008 and the beginning of 2009 even as world oil prices fell sharply due to disruptions in the supply chain from Kenya.¹⁸ Even of recent in September 2011 and early march there was an increase in fuel prices which led to various protests.



Source: British petroleum (BP)

¹⁷ "https://energypedia.info/index.php/Petroleum_Resources_in_Uganda"Categories: Uganda Fossil assessed on 11th October 2012.

¹⁸ Kojima with William Matthews and Fred Sexsmith, Analysis and Assessment of 12 Countries, Petroleum Markets in Sub-Saharan Africa. World Bank | Oil, Gas, and Mining Policy Division Working Paper March 2010.

1.2 Statement of the Problem.

The problem to be addressed is that the existing regulatory framework for the oil prices in the downstream sector is weak. An examination of the regulatory regime for oil prices in the downstream sector is necessary in order to obtain the information needed to manage price fluctuation in the widely scattered locations to the people of Uganda.

1.3 Purpose of the Study.

This study intends to examine the regulatory regime for oil prices in Uganda and it should be noted that price determination is far from being determined by market forces. The research further shows that undertaking good governance without putting in place the necessary legal institutional framework may not deliver the much promised prosperity in reduction of oil prices in Uganda.

1.4 Research Objectives.

1. To investigate the internal and external factors affecting oil prices in Uganda.
2. To examine the legal institutional and policy framework and the existing legal/policy gaps in tackling oil vulnerability of oil price regulation as regards to downstream.
3. To establish the challenges being faced in the downstream sector and required measures in regulation of oil prices.

1.5 Research Questions.

This study endeavors to answer the following questions:

1. What are the internal and external factors affecting oil prices in Uganda?
2. What are the legal institutional and policy framework and the existing legal /policy gaps in tackling oil vulnerability of oil price regulation as regards to downstream in Uganda?
3. What challenges are being faced in the downstream sector and what required measures are to be undertaken in regulation of oil prices?

1.6 Scope

Geographical Scope.

The study was conducted in Uganda. It took on areas like UTODA in Kampala and other places, some petrol stations in different districts like Kampala, Jinja, Mukono, Mpigi among others and some of the motorists stages in various districts.

Content Scope.

The study examined the regulatory regime for oil prices in the downstream sector in Uganda.

Time Scope

This study covered a period from May 2012- November 2012.

1.7 Significance of the Study.

Academicians or students.

It adds on the volume of knowledge on petroleum in particularly for academic purpose.

Community.

The community gets to know in case of any default by the government in the petroleum sector.

The Ministry of energy and mineral development will use the findings as empirical information to ensure low prices in the downstream sector.

The future researchers will utilize the findings of this study to embark on a related study.

The ordinary people whose economic welfare is differed in the prices of oil.

1.8 Operational Definitions of Key Terms.

For the purpose of this study, the following terms are defined as they are used in the study.

API means the American Petroleum Institute, and references to API standards are references to the specifications or standards of API which are relevant to the subject matter in question.¹⁹

Appraisal well means a well being drilled to define the extent of an already discovered oil or gas accumulation.

ASCII means the American Standard Code for Information Interchange.²⁰

Offshore operations drilling means operation carried out on or under a water body.²¹

Onshore exploration drilling means operation carried out on land.

Exploration (or exploratory) well means a well being drilled with the object of discovering a new oil or gas accumulation or for the purposes of obtaining stratigraphical information which may assist in the discovery of a new oil or gas accumulation.²²

Prices of oil - These are prices per barrel of oil in contrast to international petroleum exchange rate of oil on the international market.

Price is a consideration given in exchange for transfer of ownership. In sale of goods the price may be fixed by contract, it may be left to be fixed in a manner agreed in the contract or it may be determined by course of dealing between the parties.

¹⁹ Section 2 (1) the petroleum (exploration and production)(conduct of exploration operations)regulations, 1993.

²⁰ Supra (n 14).

²¹ Section 2 (1) the petroleum (exploration and production)(conduct of exploration operations)regulations, 1993.

²² section (1) the petroleum (exploration and production)Act 1985.

Downstream means the marketing, sale and distribution.²³

Marketing involves transmission and distribution.

Upstream means the survey explorations, development and production of oil.²⁴

Plant means drills, drilling equipment, derricks and masts, power units, pumps, workshops, warehouses, logging and testing units, separators, storage tanks, pipelines, vehicles and all other equipment, materials and tools used in a field operation.²⁵

Viscosity means the resistance to friction of movement. If oil can come out easily then it's less expensive.

Production means the volume of oil, gas or water produced.²⁶

Petroleum is defined to mean.²⁷

- (a) Any naturally occurring hydrocarbons, whether in gaseous, liquid or solid state;
 - (b) Any naturally occurring mixture of hydrocarbons, whether in a gaseous, liquid or solid state; or
 - (c) Any naturally occurring mixture of hydrocarbons, (whether in a gaseous, liquid or solid state) and any other substances; and includes any petroleum as defined by paragraph (a), (b) or this paragraph that has been returned to a natural reservoir, but does not include coal, shale, or any substance that may be extracted from coal or shale
- Petroleum consists of naturally occurring and through geological processes, generated hydrocarbons and associated non hydrocarbons substances. These hydrocarbons are hereafter referred to as "natural" hydrocarbons in contrast to hydrocarbons manufactured by industries.²⁸

²³ Section 2 (1) the petroleum (exploration and production)(conduct of exploration operations)regulations, 1993.

²⁴ section (1) the petroleum (exploration and production)Act 1985.

²⁵ Section 2 (1) the petroleum (exploration and production) (conduct of exploration operations) regulations, 1993.

²⁶ *Petroleum (Exploration, Development and Bill No. 1 Production) Bill* 2012.

²⁷ Article 244(4).

²⁸ Taverne B, "Petroleum, industries and Governments A Study of the movement of industries, and Governments the production and use of petroleum". p.1

Exploration this means for the purpose of discovering petroleum and includes geological, geophysical, and geochemical surveys, exploration drilling and appraisal drilling in land in Uganda.²⁹

Drilling means exploration of the earth's surface whether the hole is vertical, inclined horizontal and includes all operations for preventing the collapse of the walls of the hole from becoming filled by extraneous material including water and filling the wellheads, coring and logging and any other operations incidental to the foregoing.³⁰

Discovery of petroleum means any discovery of petroleum not previously known to have existed, recoverable at a surface in a flow which can be measured by conventional petroleum industry testing methods.³¹

Crude oil means naturally occurring flammable liquid consisting of mixture of carbons and other organic compounds that are found beneath the earth's surface.³²

Prices of oil³³ is the price per barrel of spot crude oil sale of light Brent as traded on intercontinental exchange of which international petroleum exchange is a member to be delivered at seaway or that of west Texas intermediate as traded on New York mercantile exchange to be delivered of Oklahoma.³⁴

In addition price of oil is the price per barrel in contrast to the international petroleum exchange rate of oil on the international market.

Supply chain means operations, activities, installations, equipment, and other facilities directly or indirectly related to petroleum supply.³⁵

²⁹ section (1) the petroleum (exploration and production) Act 1985.

³⁰ section (1) the petroleum (exploration and production) Act 1985.

³¹ section (1) the petroleum (exploration and production) Act 1985.

³² Clause 4(2010) a bill for act entitled the section (1) the petroleum (exploration, development, production and value addition) Act 2010.

³³ Oklahoma (2003), International Exploration Economics, Risk, and Contract Analysis, USA, PennWell Publishing Company, 1994).Tulsa.

Oklahoma, USA, PennWell Publishing Company, (2003).

³⁴ Wikipedia assessed 19 september 2012.

³⁵ Petroleum supply Act 2003.

Distribution means ownership, operations, management, or control distribution of facilities for movement or delivery of petroleum products to consumers.³⁶

Petroleum product means organic compound, pure or blended, which are derived from the refining and processing of petroleum including but not limited to the following;

- a) Asphalt, bitumen, petroleum coke and other residual products.
- b) Bunkers or heavy fuel oils for combustion engines or industrial heat processes such as burners for boilers and heating furnace.
- c) Commercial gases namely ethane, methane, propane, butane and other similar petroleum gases produced in the refining process or a mixtures of those gases.
- d) Gas oil or automotive, industrial or marine diesel.
- e) Gasoline or petrol naphtha products.³⁷ etc

Oil consumption is the total oil consumed in barrels per day.

Speculation refers to buying and selling of items as securities, commodities or land in the hope of sudden increase in their value and often with risk of sudden decline.

Demand refers to how much (quantity) of a product or service is desired by buyers.³⁸

³⁶ Supra (n 36).

³⁷ Supra (n 36).

³⁸ <http://www.investopedia.com/university/economics/economics3.asp#ixzz2Am3JmZWG> assessed on 30th October 2012.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction.

This chapter reveals what other scholars have contributed to the study. It is a deliberate effort to analyze how the literature is in line with the objectives and all issues under study and vice versa. This chapter gives an overview of literature and models that are related to the research problem presented in the previous chapter. The "downstream industry involves refining and marketing, and is closer to the consumer. The upstream sector involves the most investment risk because of the high capital expenditures and great uncertainty that oil will be found. A review of the theoretical and empirical literature is useful in understanding a complexity of regulating oil prices in Uganda.

2.1 Concepts, Opinions, Ideas from Authors/ Experts

According to Prof. Robert. D. Langenkamp³⁹ the Petroleum Bill of 2012 does not mention whether stabilization clauses are allowed in contract negotiations, or whether there are any limitations on the scope of such clauses. Stabilization clauses are used in contracts to protect them from being subject to legislative or administrative changes occurring after the conclusion of a contract. Stabilization clauses can shield contracts from changes not only in the fiscal framework but also in other sensitive areas such as employment and environmental protection. Companies use these clauses to protect their investments from subsequent changes for example oil price change. This is the second time in a span of about three months that fuel prices have risen above the Shs3,500 mark. Fuel prices were last seen above that mark in December 2011 when a litre of petrol sold for between Shs3,900 and Shs3,950, diesel sold between Shs3,650 and Shs3,700 while Kerosene sold between Shs2,900 and 3,350. These prices were adopted in September 2011 when the shilling was performing

³⁹ www.revennewatch.org assessed on 10th October 2012

poorly. The local currency slid, hitting a low value of Shs2950 per dollar in mid September 2011, the worst in 11 years.⁴⁰

According to Henry Kimera fuel is a major production factor, so its increase affects prices of most products. It is absurd that even when the fuel prices lowered, the market prices did not go down and now that fuel is becoming expensive, we will have to pay heavily to attain any commodity off the market.⁴¹

According to Carole⁴² Discount rates and prices of oil should be effectively monitored to ensure use of realistic assumptions in modeling cash flows to attain Uganda's Petroleum Fiscal Regime. In addition there is need for phasing out of signature bonuses and royalty in the medium term to spur growth and development in the resource base is essential. These taxes are non-neutral; affect the investor's cash flow and results in the use of higher discount rates to indirectly recover their costs. With developments in the petroleum sector, Government should consider phasing them out to encourage more companies to participate in further exploration and production activities especially in marginal fields. UK abolished royalty on new fields in 1983 after reduction in oil prices and reduced development activities, combined with industry pressure.

According to Dr Chris Ndatira Mukiza, director macro-economic statistics at UBOS, despite the persistent decline in inflation for six months in a row, consumers will still have to face off the pressure of high commodity prices⁴³.

According to S. Davis⁴⁴, , more recent statistics show that, as of 1995, mass transit accounted for only 0.8 percent of total fuel consumption in the transportation sector.

⁴⁰ This, according to the chairman of Petroleum Marketers Association of Uganda and Shell Country manager, Ivan Kyayonka, is attributed to the rise of the dollar value against the shilling and rise in the international prices of oil.

⁴¹ Kimera Henry a Consumer education trust Chief Executive Officer.

⁴² Carole N., Petroleum Taxation. Sharing the Oil Wealth: A Study of Petroleum Taxation Yesterday, Today and Tomorrow, (New York, USA, Routledge(2008).

⁴³ Dr Ndatira Chris Mukiza, director macro-economic statistics at UBOS.

⁴⁴ Davis S (1997) Transportation Energy Data book, p. 2.

According to American Public Transit Association⁴⁵, available statistics support the contention that the lower levels of vehicle-miles traveled associated with the carbon reduction cases do not necessarily imply increased use of mass transit. According to the American Public Transit Association, all forms of mass transit in terms of passenger-miles decline during periods of high fuel prices. Transit rail passenger-miles, which include light and heavy rail travel, declined by nearly 10 percent from 1973 to 1974 and by 5 percent from 1979 to 1981, even though real gasoline prices concurrently rose by 28 percent during both periods. Similar trends occurred in commuter rail, which experienced declines of almost 8 percent from 1980 to 1982. Between 1979 and 1982, transit bus passenger-miles declined by 7 percent and intercity bus travel by 1 percent, while real gasoline prices increased by 15 percent. A counter example is the period from 1973 to 1974, when transit bus use rose by 11 percent, and intercity bus passenger-miles increased by 5 percent. That period was unique, however, because gasoline was often either unavailable or required waits of up to several hours in gas station lines.⁴⁶

Future contracts allocate the risks of price changes, not to market the commodity. These contracts not only permit but encourage speculation as noted by Ottino P.J.⁴⁷ It also appears that unlike in the 1990s, when OPEC's ability to satisfy excess demand provided a stable anchor for expectations even transitory events now seem to motivate precautionary or profit-seeking buying, resulting in price movements that at times do not appear justified by current market fundamentals. Indeed, a large part of the price increase (both spot and futures) appears to reflect uncertainty regarding future market conditions. In this context, geopolitical developments, fears of potential supply and refinery disruptions, and other factors may place upward pressure on spot prices by feeding into expectations. When undertaking structural reforms the objective is to remove macroeconomic imbalances and stimulate economic growth.

⁴⁵ 1994-1995 *Transit Fact Book* p. 106

⁴⁶ Ibid.

⁴⁷ Ottino P.J. (1988/89), crude oil futures and options in London p.179-181.

Mc Culloch et al⁴⁸ examines the debate over openness, prices and competition and whether actually reduce prices and how this depends on the nature of domestic competition. He asserts that when markets are functioning properly, this result into reduction of domestic prices of oil. This is the case as to why lower tariffs will translate into one or one for one lower price assuming that an individual country trade reforms do not change the world's prices. So if the governments remove imbalances o in domestic market despite the belief, lower prices may not be realized.

There are weaknesses in the proposed petroleum legislation, including gaps in parliamentary oversight, access to information, revenue transparency and wealth sharing.⁴⁹

According to Mr. Hannington Mpima, Kobil's Publicist, the international prices of oil have gone up by 10 per cent and a metric tonne currently goes for \$1000(Shs2500,000)

2.2 Related Studies.

In the petroleum sector most countries have liberalized their downstream petroleum sector although at different times and following different approaches. This literature mainly focuses on control, operating frame work, price regulation and mechanisms and competition within the industry.

Grant⁵⁰ studies the pricing behavior in U.K wholesale market for the period of 1970-80 and finds that the structural features of the industry and marketing were responsible for a wholesale oligopolistic pricing in the market. Grant further contends that low

⁴⁸ Mc Culloch et al, Trade Liberalization and Poverty: A Handbook' Centre for Economic Policy and Research UK;Department for International Development, UK(2001).

⁴⁹ Donor engagement in Uganda's oil and gas sector: An agenda for action :a briefing by global witness | October 2010:http://www.acme-ug.org/media-laws/doc_download/58-donor-engagement-in-ugandas-oil-and-gas-sector-an-agenda-for-action.

⁵⁰ Grant R. M (1982), "Pricing behavior in the UK Wholesale Market for Petrol 1970-80: A "structure-Conduct Analysis" The Journal of Industrial Economics, Vol. 30. No. 3. Mar., 1982), pp. 271-292 (1982) p. 290.

market and high brand price elasticity, high seller concentration produced close parallelism schedule pricing but fall concentration breaks down price parallelism.

Bronstein et al⁵¹ confirms that retail price react more quickly of increase crude oil prices than to decreases reflecting a significant departure form he standard competitive models.

According to Raghavan⁵² , the argument for determination of oil prices are that exposure to increased competition will force domestic firms to be more efficient. But the scale of adjustment to determination of oil prices will depend on how far domestic output, employment and relative prices can change in response to the new competitive pressure.

In Belgium, the petroleum sector as regards to their prices is substantial although pump prices are subject to cap sets by government as per Meerbeeck⁵³ ; he further asserts that there has been a competition at localized level that is to say the retail pump stations. Although stations charge the same prices most of the time, there are price dispersions between stations even the same brand. However their results indicate that price cap is effective in restricting prices on markets with a local monopoly.

In Italy prices were deregulated in 1993 although the government maintained some monitoring, this was however completely removed 1994. The result was that firms resorted to conclusive pricing authorities were able to show that oil companies meet in secret plan and implement agreements on prices.

In Netherlands, a large part of the retail network of the major oil company is under private ownership. In addition the owners of the station are free to set their retail

⁵¹ Bronstein et alS; A, C. Cameron; Richard Gilbert (1997'), "Do Gasoline price respond Asymmetrically to Crude OH Price Changes?" The Quarterly Journal of Economics, Vol. 112, No. 1. (Feb. (1999)), pp. 305-339.

⁵² Raghavan Globalization Agenda Threatens Market System (1999).www.globalpolicy.org last visited 20th April 2012.

⁵³ Meerbeeck W.V "Competition and Local Market Conditions on the Belgian Retail Gasoline Market. De Economist 151, No.4. (2003), P.P. 369-3 88

prices and existence of a secret agreement between the oil companies could not be proven.

According to Nagaoka and Kimura⁵⁴ East Asia and Japan, one of the world's consumers of oil importation led to decline of gasoline prices and the findings are consistent with their competitive cooperative oligopoly. They further argued that this has led to increased welfare moreover welfare gain has been significant with the fall of gasoline prices.

Furtherstill Nyoike P.M asserts that in other countries like Kenya the downstream oil sector previously the government used to fix consumers prices based on the supply and distribution cost related parameters. in addition the firms tended to adopt price leadership a behavior associated by oligopolistic market and the result was excessive high petroleum products.⁵⁵

There are various factors that affect fuel prices that is the dollar rate and international prices of oil among others. If there is a change it these factors, it affects the fuel prices either upwards or down wards" he said. By Tuesday, the shilling had hit its lowest of Shs2600 since the start of the year, a decline by over Shs400. This discussions should prompt Ugandan businesses to think global International crude-oil prices have been on the increase since the start of the year due to disruption of supply in the entire world resulting from tensions in Iran.

According to Flavia Nalubega, Ugandan motorists have to are not about to get any reprieve from rising petrol prices, a situation that is likely to push commodity prices up and slow down government's efforts to curb inflation. By close of business yesterday, a litre of petrol at the pump on average cost Shs3, 800 up from Shs3,690.⁵⁶

⁵⁴ Nagaoka S and Kimura F "The Competitive Impact of International Trade: The Case of import Liberalization of the Japanese Oil Product Market" journal of the Japanese and International Economies, Volume 13, Issue 4, December (1999),, P.P 397 – 423.

⁵⁵ Nyoike P.M. and Okech B.A "Energy Sector Liberalization in Kenya: Critical Policy Issues in Petroleum Retail Market" Energy Policy, Volume 27, Issue 1, January (1999) p. 48.

⁵⁶ Uganda Oil Prices Up as Shilling Hits Record Low Since the year StartedBy Flavia Nalubega: The Monitor Newspaper13-March-2012.

The irony is that, this is happening even as the price of a barrel of crude oil which is usually the cause of the hike at the international market has slipped. An industry player who preferred anonymity, said: "The reason why prices are high is because at the time when the product (petrol) was imported into the country, the international prices were still high, so we have to factor in these costs". The source explained that usually when imports are brought into the country, their prices are determined by the price of a crude oil per barrel at the international market and these stocks are usually purchased and shipped months.

Giving his validation about the high local pump petrol prices, Shell Country Manager, Mr. Ivan Kyayonka said: "It's not only the issue of the international prices but also the reason for the hike is because of the volatility of the dollar against the local currency".

UBOS report said, despite the persistent decline in inflation for six months in a row, consumers will still have to face off the pressure of high commodity prices⁵⁷. Consumers would expect that a fall in inflation correspondingly results in a drop in commodity prices, which is currently not the case, due to what experts attributed to food supply shocks that are brought about by delayed rains and volatilities in global oil prices.

However, Dr Chris Ndatira Mukiza, director macro-economic statistics at UBOS said the current fall in inflation depicts that the pace at which commodity prices are increasing is slowing down but not the actual fall in prices. Prices can only start falling if inflation declines to negative digits⁵⁸.

In addition to the above fuel is a major production factor, so its increase affects prices of most products. It is absurd that even when the fuel prices lowered, the market prices did not go down and now that fuel is becoming expensive, we will have to pay heavily to attain any commodity off the market.⁵⁹

⁵⁷ Dr Chris Ndatira Mukiza, director macro-economic statistics at UBOS.

⁵⁸ *Uganda Pump Oil Prices up, again* by Dorothy Nakaweesi The daily Monitor Newspaper 09-May-2012

⁵⁹ According to Henry Kimera a Consumer education trust Chief Executive Officer fuel is a major player in price determination.

However Kyayonka blames the increase on existing economic circumstances: "We cannot dictate that prices be lowered yet the international fuel prices are high and the dollar is becoming more expensive."

According to Sanni T, the idea of the dynamics of oil price changes can be traced in various factors and conditions that affect the prices of oil on the market. It should be noted that oil price change involves the rise and fall in oil prices on the international market as well as the national market. In that respect prices of oil are expected to increase and fall at different levels over time⁶⁰. These factors are both internal and external and can be discussed as below.

2.3 Internal factors affecting oil price change.

2.3.1 Demand pressure.

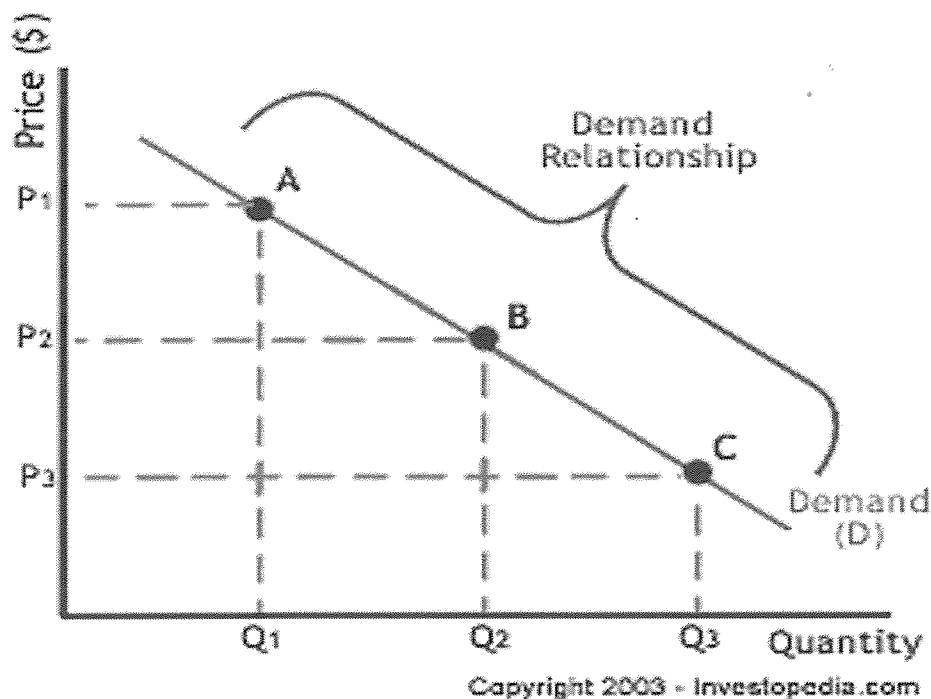
Demand is an economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. Holding all other factors constant, the price of a good or service increases as its demand increases and vice versa. In other words the quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship.

The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more. The chart below shows that the curve is a downward slope.⁶¹

⁶⁰ Supra(n1).

⁶¹ <http://www.investopedia.com/university/economics/economics3.asp#ixzz2Am7aWEwB> assessed on 30th October 2012.

AN ILLUSTRATION OF DEMAND RELATIONSHIP



A, B and C are points on the demand curve. Each point on the curve reflects a direct correlation between quantity demanded (Q) and price (P). So, at point A, the quantity demanded will be Q_1 and the price will be P_1 , and so on. The demand relationship curve illustrates the negative relationship between price and quantity demanded. The higher the price of a good the lower the quantity demanded (A), and the lower the price, the more the good will be in demand (C)

World oil prices have always been volatile-rising and falling, often suddenly, in response to wars and diplomatic crisis, against an overall background of rising global demand interpreted by occasional falls in demand during times of economic turn down.⁶²

⁶² Oil in uganda August 2012 , issue 2 page 12 website, www.oilinuganda.org assessed 20th September 2012.

Petroleum demand due to high prices has been noticed due in developed countries and has further been seen in developing countries. In Uganda this further is likely to cause a net rise in global petroleum demand.

Further growth in demand from Asia and Africa, combined with major political upheavals or supply interruption in the big producing countries of the Middle East, central Asia and Venezuela drive the world price up. However major new discoveries, the rapid advance of shale gas, and advances in renewable energy technologies could combine to drive the oil prices gradually downward.⁶³

The countries of the Organization for Economic Cooperation and Development (OECD), for instance, account for almost 2/3 of worldwide daily oil consumption. In contrast, however, oil demand in the OECD grew by some 11 percent over the 1991-97 period, while demand outside the OECD (excluding the Former Soviet Union) grew by 35 percent. The Former Soviet Union presents a special case. The collapse of the Russian economy that accompanied the collapse of Communism led to a decline in oil consumption of more than 50 percent over the 1991-98 periods.⁶⁴

Regionally, the largest consuming area remains North America (dominated by the United States), followed by Asia (with Japan the largest consumer), Europe (where consumption is more evenly spread among the nations), and then the other regions. The region's economic upheaval is a central reason for the oil price collapse of 1998.⁶⁵

Demand for crude oil is derived from the demand for the finished and intermediate products that can be made from it. In the short-term, however, demand for crude oil may be mismatched with the underlying demand for petroleum products. This misalignment occurs routinely as a result of stock changes and the need to build stocks to meet seasonal demand, for instance, or the desire to reduce stocks of crude oil for economic reasons. In the longer term, blending non-petroleum additives into

⁶³ ibid

⁶⁴ http://www.eia.gov/emu/cab/OPEC_Revenues assed on 5th august 2012

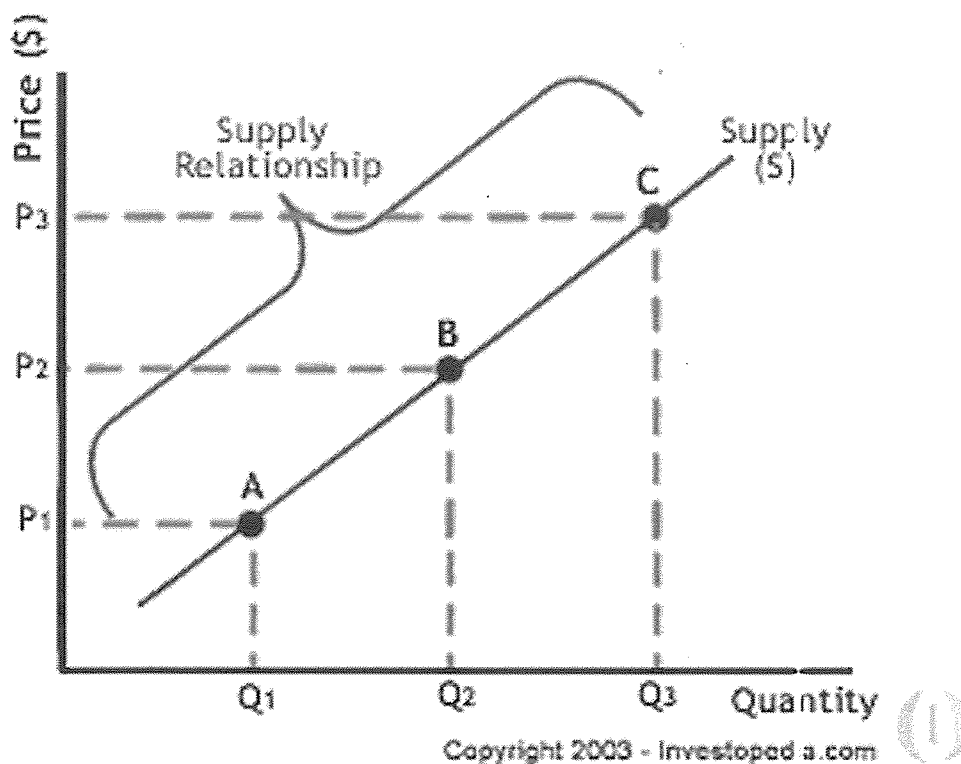
⁶⁵ ibid

petroleum products (such as ethanol or other oxygenating agents into gasoline) can also reduce crude oil demand relative to demand for finished products⁶⁶.

2.3.2 Supply chain.

Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.

A LINE GRAPH SHOWING SUPPLY RELATIONSHIP.



A, B and C are points on the supply curve. Each point on the curve reflects a direct

⁶⁶ Supra 69

correlation between quantity supplied (Q) and price (P). At point B, the quantity supplied will be Q₂ and the price will be P₂, and so on

Uganda does not produce petroleum at the moment and therefore, its entire petroleum product requirements are imported from abroad. Uganda imports refined products, mainly from the Arab Gulf region and to a lesser extent from Singapore and South Africa. Since Uganda is landlocked, imports are landed at Mombasa in Kenya and Dar el Salaam in Tanzania from where they are transported to Uganda. Through Kenya, products are transported by a combination of either pipeline or rail or pipeline and road takers. The pipeline run by the Kenyan pipeline company runs from Mombasa on the Eastern coast through Nairobi and terminates in Eldoret /Kisumu on the western Kenya side some approximately 60km away from the Kenya-Uganda border⁶⁷. The product is then loaded onto road tankers across the border to Kampala and beyond. The alternative is to move the product from Mombasa coast by rail up to Kampala.

Through Tanzania, the products are transported exclusively by rail from Dar el Salaam to Mwanza. The wagons are then loaded onto Lake Ferries at Mwanza and slipped across Lake Victoria to Port Bell about 10km from Kampala city or to Jinja some 60km east of Kampala. Up to this point, this is referred to as primary transportation in the oil industry terminology.⁶⁸

Once in the country, the product is stored in independent oil depots owned by the oil marketing companies and some companies use the government storage facilities on hospitality basis. From the depots the product is then transported by trucks to various destinations in the country to consumer points. This is referred to as a secondary

⁶⁷ ibid.

⁶⁸ ibid.

transportation. The oil companies have developed their retail network throughout the country. The companies make individual and separate supply arrangements, mainly through their overseas principals and or affiliate companies. Although some companies make direct importation from the oil markets overseas, most companies especially the newly licensed companies source their products from Kenya where they are large / bulk importer for the wholesale and export market.⁶⁹

In addition to the above, the slowdown in oil supply is also another factor that affects the prices of oil both in national and international markets. In that respect therefore fall in oil supplies which has continued today is responsible for the oil price fluctuations in national and international markets and certain scholars have argued that the prices of oil will continue to rise indefinitely save for where a market equilibrium is reached at which point supply satisfies the world-wide demand.⁷⁰

Uganda imports refined products mainly from the Arab gulf region. Uganda is landlocked country and the imports are landed at Mombasa in Kenya and Dar el Salam in Tanzania from where they are transported to Uganda. Through Kenya the products are transported by a combination of either pipeline and rails or pipeline and road tankers.

Petroleum supply of different regions

The Mideast remains the largest oil-producing region. Mideast dominance in oil reserves- the estimated amount of oil that can be produced from known reservoirs is even more pronounced: the region holds about two-thirds of the one trillion barrels of global proved oil reserves, so the region's critical role in world oil supply will continue and will grow. (The United States, by contrast, holds only 4 percent of global proved reserves.) Several core developments have shaped the pattern of regional oil production.

⁶⁹ ibid

⁷⁰ Supra(60)

The higher oil prices of the 1970s and early 1980s afforded a strong economic incentive to explore for and produce oil, and production rose in many areas. At the same time, oil demand declined the expected response to the high prices. Saudi Arabia became the "swing supplier," reducing its production as necessary to balance supply and demand. Its rejection of that role in mid-1985 its output had fallen to about 25 percent of its 1980 peak brought the full force of the supply/demand imbalance onto markets and resulted in the price collapse of 1986.⁷¹ Prices did not return to the pre-1986 level until the Persian Gulf conflict of 1990-91, and then only briefly. When, in 1998, Asian demand faltered with the region's economies, and northern hemisphere demand faltered with the warm winter, the high production levels resulted in another price collapse.⁷² The market reaction in 1998, however, was not the same as in 1986 demand did not recover as quickly and supply did not fall as quickly⁷³. Hence, the low price period lasted longer and showed lower prices in 1998 than in 1986. In early 2000, oil prices exceeded the levels of the Persian Gulf conflict in nominal terms. Sharp as the price increases were in early 2000, however, crude oil prices remained less than half of the early 1980s peak in terms of real buying power.

North America is the second largest producing area after the Middle East. The United States, the second largest producing country in the world, accounts for almost 60 percent of the North American region's total. Canada, the United States and Mexico all have long production histories, and production from mature fields has been declining. However, a new surge in technology has benefited both new field development and more complete production from existing fields.⁷⁴

Production in the Soviet Union peaked at about 12 million barrels a day in the early 1980s, when it was the top world oil producer. The region's demand collapse, in combination with its aggressive production targets set to maintain foreign exchange,

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Supra (n 69).

masked its rapid production decline in the late 1980s as the Soviet Union broke up.⁷⁵ The former Soviet Union has recently been the third-ranked producer, after Saudi Arabia and the United States. One of the most visible new production prospects has been the Caspian Sea in Central Asia, in spite of the enormous logistical and political hurdles involved in getting the oil produced to world markets. (EIA has produced several analyses of these issues.

2.3.3 Speculation of oil prices.

This has also been fingered as one of the causes of prices of oil increase⁷⁶. In the event that dealers in oil speculate an increase in oil prices in the future, demand and supply in oil lowers due to expectation of high prices in the future. The oil sellers tend to supply low so as to benefit from future prices. In respect therefore prices oil fluctuate due to future expectation. It should be noted that financial speculation affects the prices as such it results into oil price fluctuations as discussed above.

2.3.4 Natural Disasters or manmade disasters.

Uganda has witnessed a number of natural and human-induced disasters that have culminated into loss of life and property and displacements. The following have been prevalent: displacement as a result of civil strife; famine as a result of drought; transport accidents, earthquakes; epidemics of disease; flooding, landslides, environmental degradation, technological accidents, crop pest infestation, livestock and wildlife disease epidemics.⁷⁷ This has led to an increase in oil prices.

Natural happenings have also had a serious effect on the price of oil.⁷⁸ A case to that effect was Hurricane Katrina that hit the US in August 2005, caused a 1.4 million side of Gulf of Mexico to be short of in affecting US refineries in the process with a serious

⁷⁵ Ibid.

⁷⁶ Supra 1.

⁷⁷ The National Policy For Disaster Preparedness And Management Directorate Of Relief, Disaster Preparedness and Refugees Office Of The Prime Minister October 2010.

⁷⁸ Ibid.

impact on the price of oil.⁷⁹ The Iranian Islamic wars also affected the prices of oil in Iran.

It should be noted that the natural and manmade disasters affect the prices of oil, through their effect on demand and supply. In the areas of war demand and supply of oil is affected.

2.3.5 Investment demand.

This is where investors purchase future contracts to bring a commodity at a set price for future delivery. The issue of investment demand however affects the prices of oil in that the oil agreed upon to be sold in the future can be sold at relatively high prices compared to the purchase prices in the standardized contract. A future contract is a standardized contract between two parties to exchange a specified asset of standardized quantity and quality for a price today. In that regard therefore the expectations of shortages in the long run, also influences the prices of oil, that is conditions in future markets.⁸⁰

2.4 External factors price level.

2.4.1 OPEC (The Organization of the Petroleum Exporting Countries).

Although there have been some hindrances which have affected the oil prices changes, OPEC as an oil organizations has done a great job in stabilizing those prices for example through the quota system. Uganda is not yet a member of OPEC yet OPEC is the oil price basket and it affects it as other countries.

The Organization of the Petroleum Exporting Countries (OPEC), hereinafter referred to as "the Organization", created as a permanent intergovernmental organization in conformity with the Resolutions of the Conference of the Representatives of the

⁷⁹ C, Chidere, 'An Impact of Hurricane Katrina on the International Oil Market.

⁸⁰ s, Des et al, Assessing Factors behind oil price changes: Working paper series No 855/Jan 2008" p.5

Governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, held in Baghdad from September 10 to 14, 1960, shall carry out its functions in accordance with the provisions set forth.⁸¹

A. The principal aim of the Organization shall be the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interests, individually and collectively.

B. The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.

C. Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations.⁸²

Article 4 provides that the Organization, sanctions are employed, directly or indirectly, by any interested company or companies against one or more Member Countries, no other Member shall accept any offer of a beneficial treatment, whether in the form of an increase in oil exports or in an improvement in prices, which may be made to it by such interested company or companies with the intention of discouraging the application of the decision of the Organization⁸³.

OPEC's control over the international oil market was strengthened in the 1970s, when OPEC restraints on production sent the prices of crude oil spiraling upwards. The events in 1970s brought change to the world market. These new supplies of oil coupled with concerns about security of supply spurred new marketing strategies including an activity of spot sales. And by the mid 1980s the oil industry was almost completely transformed.⁸⁴ And oil markets have remained extremely volatile which has helped trigger two significant industry, one being the mega-mergers among major oil

⁸¹ Article 1 of OPEC statute

⁸² Article 2 of the OPEC statute.

⁸³ Article 4 of the OPEC statute.

⁸⁴ Daniel Yergin, *The Prize :The Epic Quest for Oil, Money & Power* ,(1991), p.p 721-722.

companies. In addition from the mid 1980s into the early 2000s, no single entity has appeared to have the ability to drive prices up by restricting production. If OPEC countries had acted in concert to curtail production the prices of oil would have increased, as it did in the early 2000s. As Saudi Arabia demonstrated in 1986, significant excess production sent prices sharply downward. Further still oil is usually priced in US dollar the value of the dollar usually affects the price of oil. And the brake on oil prices is the fall in demand arising from the world-wide economic recession of 2008-2009.⁸⁵

The sudden decline in oil prices in late 1998 and early 1999 were based on a belief that the world was awash in oil at the time when the growth of economies in East Asia were suffering from recession which resulted into softening demand at a time when OPEC's ability to control prices had been hindered by cheating on production limits its self within OPEC and by an increase on oil activity in non-OPEC countries.⁸⁶

On the supply side, the main players in the crude oil market are OPEC—which currently provides about 40 percent of world supply and holds about 70 percent of proven reserves—and non-OPEC producers. OPEC, as the marginal supplier, behaves as a semi-cartel in normal times by aiming to maintain excess extraction capacity in order to influence crude oil prices. In recent years, its policy has been to balance the market while allowing for an 'appropriate' level of crude oil inventories in consuming nations. Non-OPEC producers, on the other hand, have relatively limited reserves and spare capacity, and generally behave as price takers⁸⁷. Under current circumstance when quantity demanded is close to productive capacity, OPEC's ability to lower prices is limited. In an effort to meet strong demand, OPEC has kept production and official quotas at record levels for the most part in the past two years. As a result, crude oil inventories have risen significantly together with limited investment in capacity in the past two decades, has resulted in a significant reduction in OPEC's excess capacity,

⁸⁵ Supra (n66) at p .894.

⁸⁶ Supra 69.

⁸⁷ Ibid.

currently estimated at 1.4 mbd excluding that in Iraq, thus limiting OPEC's monopoly power and its ability to influence global prices. As a result, the current price-output configuration in the crude oil market is essentially a competitive equilibrium in the short run. The crude oil price increases of 2004 can be broadly explained by the unexpectedly rapid growth in consumption. Consumption in 2004 grew by 2.9 mbd, 3.7 percent of which China contributed 0.8-1 mbd relative to 2003 the largest in the past 20 years. It was also higher by around 3.0 mbd (or 4 percent) relative to IEA's projections in mid-2003. With non-OPEC producers unable to increase production relative to original plans, the call on OPEC rose significantly. In view of OPEC's near-to-capacity production, implying a close-to-vertical supply curve, and inelastic short-run demand for oil, the 30 percent price increase in 2004 appears to have been well within the range implied by fundamentals in the physical market. Indeed, given estimated historical non-OPEC short-term supply elasticity, crude oil prices could have increased in excess of 60 percent during 2004 in the absence of increased production by OPEC.⁸⁸

Price increases in 2005, while still supported by current market fundamentals, appear largely to reflect the uncertain environment and expectations about future tightness in the market. Crude oil demand growth for 2005 has so far been broadly in line with IEA projections, while supply with non-OPEC supply shortfalls offset by higher OPEC output appears adequate given the growth in OECD commercial crude oil inventories. However, strong demand continues to put pressure on production capacity, thereby contributing to upward price pressures.⁸⁹

A significant capacity overhang mostly amongst OPEC producers in the 1980s, low oil prices prior to 2004, and environmental considerations in some countries have had an adverse impact on the growth in oil productive and refining capacity. While investment has picked up in the past two years and some oil exporting countries have announced major investment plans, the market does not appear convinced that adequate investment will be forthcoming. Limited openness to foreign investment and

⁸⁸ Supra 69.

⁸⁹ Ibid.

uncertainty about licensing terms in some countries, and caution on the part of both national and international oil companies appear to continue to impede investment.⁹⁰

The higher oil prices of the 1970s and early 1980s afforded a strong economic incentive to explore for and produce oil, and production rose in many areas. At the same time, oil demand declined the expected response to the high prices. Saudi Arabia became the "swing supplier," reducing its production as necessary to balance supply and demand. Its rejection of that role in mid-1985 its output had fallen to about 25 percent of its 1980 peak brought the full force of the supply/demand imbalance onto markets and resulted in the price collapse of 1986. Prices did not return to the pre-1986 level until the Persian Gulf conflict of 1990-91, and then only briefly. When, in 1998, Asian demand faltered with the region's economies, and northern hemisphere demand faltered with the warm winter, the high production levels resulted in another price collapse. The market reaction in 1998, however, was not the same as in 1986 demand did not recover as quickly and supply did not fall as quickly. Hence, the low price period lasted longer and showed lower prices in 1998 than in 1986. In early 2000, oil prices exceeded the levels of the Persian Gulf conflict in nominal terms. Sharp as the price increases were in early 2000, however, crude oil prices remained less than half of the early 1980s peak in terms of real buying power.⁹¹

The 'call on OPEC crude and stock change' for 2011 is largely unchanged at 30.5 mb/d while a further increase in non-OPEC supplies results in a 0.2 mb/d downward adjustment in the 2012 call to 30.4 mb/d. OPEC spare capacity reached a 2011 low of 3.21 mb/d in June compared with 4.74 mb/d prior to the Libyan crisis in January.

OPEC supply rose by 95 kb/d to 30.01 mb/d in October, with higher output from Libya, and to a lesser extent Saudi Arabia and Angola, which offset declines in output from all other members. Libya continued to ramp-up crude production in October, to a monthly average of 350 kb/d and by early November reached the 500 kb/d mark *Libya* oil

⁹⁰ Ibid.

⁹¹ Supra 69.



production recovered at a faster-than-expected pace in October despite the escalation in violence as the end-game neared after eight months of civil war. However, the effect of higher production on absolute prices has been marginal to date, with the larger impact being felt on sweet and sour price spreads.⁹²

The return of Libyan crude to the market has been partially countered by continued supply disruptions in Nigeria and reduced output over the past two months from Saudi Arabia. For most of October a tighter supply situation prevailed in Europe and Asia, leading to strong premiums for physical crude prices. Even the restoration of North Sea supplies following an unplanned shut-in of output from the key Buzzard field over the past six months has failed to knock Brent off its loftier perch. While ICE Brent futures were marginally lower on average in October, prices in early November were still trading above levels seen over the past three months.⁹³

With the crisis in Greece averted for now, market attention has shifted to Italy where a weak financial reform package has triggered a dangerous rise in 10-year government bonds. Oil markets are inextricably linked to the deterioration in the European debt situation given the impact on financial markets, the heightened risk of global recession, and the corresponding potential loss of oil demand. Amid all the economic uncertainty, for now, however, prices are finding something of a floor ahead of the winter demand season, amid a tighter inventory situation and from ongoing political turmoil affecting Libya, Iran, Iraq, Syria and Yemen.⁹⁴

2.4.2 International market.

In surveying petroleum markets and how they work, oil Market Basics starts with crude oil exploration and production and proceeds through each feature of petroleum use, processing, distribution, and pricing.⁹⁵

⁹² Ibid.

⁹³ Supra(n 69).

⁹⁴ Ibid.

⁹⁵ http://www.eia.gov/pub/oil_gas/petroleum/publicationanalysis/oil_market_basics/supply. Assessed on 11th September 2012.

The major controls over world oil market began to gradually erode in and after World War II. It is during the 1950s that major producing states began demanding large shares of oil revenue and in 1960s major producing states, especially members of OPEC (Organization of the Petroleum Exporting Countries) began to demand and receive the right to participate in the production of oil from their own lands. The marketing and refining ventures enabled them to challenge the major controls over world crude oil prices and retail gasoline prices.⁹⁶ It is provide for that the Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.⁹⁷

Right to participate in the production of oil from their own lands. The marketing and refining ventures enabled them to challenge the major controls over world crude oil prices and retail gasoline prices.⁹⁸ It is provide for that the Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.⁹⁹

2.4.3 Monetary inflation (policy) and the value of the US Dollar.

Oil price increase greatly derives from the monetary inflation and its advocates.¹⁰⁰ It is argued that in some quarters that loose monetary policy from the Federal Reserve and other Central Banks is a major contribution to the increase in oil prices on the international and domestic plane. On the domestic market in the event that a dollar loses value the exchange rates affects the prices of oil on the national market.

In that regard the prices of oil are affected by the fall and rise in the dollar because oil is traded in dollars. Therefore the principle earned from oil sales may lose value if the dollar loses value.

⁹⁶ Ibid.

⁹⁷ Article 2(B) of the OPEC Statute.

⁹⁸ Supra (n 69)

⁹⁹ Article 2(B) of the OPEC Statute.

¹⁰⁰ Uganda Oil Prices Up as Shilling Hits Record Low Since the year Started By Flavia Nalubega: The Monitor Newspaper 13-March-2012.

In local pump prices have gone up following a rise in oil prices worldwide and the strengthening of the dollar against the shilling.¹⁰¹ However, Petrol has increased from sh2,900 to between sh2,950 and sh3,000, diesel from sh2,250 to between sh2,300 and sh2,400 and kerosene from 1,900 to 2,100 for instance, at Kobil filling station in Mubende town, the prices for petrol, diesel and kerosene were at sh3,000, sh2,400 and sh2,100 respectively. Fuel prices last rose in March when petrol hit the sh3,000 mark, diesel rose to sh2,300 and kerosene to sh1,950. In the subsequent months, prices fell to sh2,850 for petrol, sh2,220 for diesel and sh1,900 for kerosene¹⁰².

Dealers attributed the recent rise mainly to the rise in international crude oil prices and the high exchange rate of the dollar against the Uganda shilling. Crude oil prices rose from \$73.45 a barrel last month to \$75.17 by 15th June 2010. Meanwhile, the dollar has also been on a rising trend against the shilling. In March, the dollar was trading at sh2,030/2,070 for buying and selling respectively but it has risen up to sh2,243 buying and sh2,253 selling as of 15th June 2012.¹⁰³

According to Ivan Kyayonka chairman Shell Uganda, international prices and exchange rate were most responsible for the rise in fuel prices, and when any of those goes up, the local pump prices have to respond by going up too.¹⁰⁴

In conclusion it should be noted that the rapid oil price increase appears difficult to explain, but with the usual fundamentals of demand, supply, natural and manmade disasters, future speculations, monetary policies and also the role of OPEC can explain the dynamics of oil price increase, in that regard therefore the oil price fluctuations affect other commodities as the cost of goods and services, that is whenever the prices of oil go up the prices of other goods and services also go up, and whenever the prices of oil go down the prices of goods and services considerably go down.

¹⁰¹ Ibid.

¹⁰² Supra(n98).

¹⁰³ New vision 11th September 2010.

¹⁰⁴ Supra (n102).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Having officially reviewed the literature related to the study of "An examination of the regulatory regime of oil prices in the downstream sector in Uganda". This chapter contains the research design that is to say the kind of research design that was used, research population that is the target population (unit of analysis) for example consumers to the measurement of how many people are being affected by determinants of oil prices more especially by the poor legal regime in the petroleum sector. In this chapter, I further evaluated the sample size as to how many people are to be sampled, Sampling Procedure, Research Instrument as regards to appropriateness, Validity and Reliability of the Instrument, among others.

3.1 Research Design

The research design includes an outline of what I did as researcher from formulating the hypothesis to the final analysis of data. The research design was needed for reason that it facilitates the smooth running of the various research operations thus making research as efficient as possible. In addition it is significant in quantitative research process. The researcher gathered data, collected published studies from different local libraries and articles from law and economics journals and made a content analysis of collected documentary and verbal material related to oil price changes in Uganda.

The most appropriate design for this study is descriptive survey and reason as why I have taken up this kind of design is because my study is aimed at describing the characteristics of the examination of the regulatory regime of oil prices in Uganda as a community, provided data about the population and also aims at providing a systematic description that is factual and as accurate as possible. This is consistent with the research objectives and questions in chapter one. This approach involves quantitative data.

3.2 Research Population

During the preliminary investigation, it was discovered that a big percentage of the population are consumers of gasoline oil. The population target are consumers of petroleum oil that is some car drivers and motorists. The views sought were of people in this research.

The following people participated in the above collection of data that were involved in the key involved in the key informants or personalities and users who interact closely with the system and organizations. A system administrator from the ministry energy and mineral development, the Director Tullow oil company Uganda, five owners of petrol stations, twenty five car drivers, seventeen motorists, and ten people from the public in Uganda.

3.3 Sample Size

From a target population, a sample of 100 people was selected. The research feels these were enough representatives because they constitute equal representation of male and female, educated unemployed, educated employed and non-educated of the population.

3.4 Sampling Procedure

The purposive sampling was utilized to select the respondents based on these criteria of Some administrator from the ministry oil and mineral development, drivers both those with private and public vehicles, motorists ,owners of some petrol stations, public viewer.

From the list of qualified respondents chosen based on the inclusion criteria, the systematic random sampling was used to finally select the respondents with consideration to the computed minimum sample size.

3.5 Validity and Reliability of the Instrument

Content validity was ensured by subjecting the researcher devised questionnaires on resource availability and utilization to judgment by the content experts in regulation of oil prices in Uganda. The validity and reliability of the interviews was through pre-

testing of pilot samples selected for this study. This enabled the researcher in the process of repraising some questions that they may not yield accurate and consistent information.

3.6 Data Collection

Data was collected from both primary and secondary techniques of data collection. Primary data involves the use of qualitative technique of data collection such as interviews, observation and focus group discussions. This enhanced the credibility and consistency of the data which will be collected while secondary data involve the use of quantitative techniques of data collection. The researcher made a request of recorded information such as those records from the ministry of mineral and energy, courts of law, tulllow international oil company, research Thesis.

Desk Research

This involves the collection and review of relevant documentation on the study there are rich documentation on the regulation of oil prices in Uganda and other countries. Data exploited include:

- Published and unpublished reports/ records.
- Conference abstracts poster presentations and materials on CD.
- Newspaper articles, media coverage and internet information.
- Any other authentic available sources of information that are documented

3.7 Data analysis

After data collection, the researcher first reviewed the literature which ensured availability of data and also to help the researcher to get a better understanding of the problem Data analyzed thematically Quotation of some key writers will be used to give effect and back some key analysis. This presented in a descriptive form in a final report.

In conclusion to the above, the researcher carefully studied the written documents, or visual information from different libraries reviews literature, related to the study basing on the objectives of the study.

CHAPTER FOUR

THE LEGAL INSTITUTIONAL AND POLICY FRAMEWORK OF OIL PRICES REGULATION IN THE DOWNSTREAM SECTOR IN UGANDA.

4.0 Introduction.

After liberalization in 1994, government divested its 50% interest in three oil companies. From 1997 Government also opened up the sector for new marketing companies to join. The Petroleum (Exploration and Production) Act of 1985 and the Petroleum (Exploration and Production) (Conduct of Exploration Operations) Regulations of 1993 regulate upstream activities¹⁰⁵. The downstream industry is governed by the Petroleum Act of 1964 and several Regulations made there under¹⁰⁶. Petroleum exploration and production activities in the country are guided by the Petroleum(Exploration and Production) Act, Chapter 150 of the Laws of Uganda 2000. Downstream petroleum activities (i.e. distribution, marketing and sale of petroleum products), are guided by the Petroleum Supply Act of 2003.

The Petroleum Act has served adequately the promotion, licensing and exploration for petroleum in the country, but needs to be reviewed after this Oil and Gas Policy is put in place, so as to operationalise the policy, make the Act more suitable to handle the development and production of oil and gas and appropriately capture the recent trends in the industry and provide for oil prices. The new Act will also take cognizance of the Petroleum Supply Act (2003), and adequately relate to the emerging issues of the midstream petroleum sub-sector (i.e. oil and gas transportation, processing and refining).

A review of the legal framework has been undertaken and proposals for a new Petroleum Supply Law and Regulations have been prepared. Under the proposed law, a new licensing and regulatory regime and an advisory committee of experts are to set up and national safety and environmental standards will be prepared. This will be

¹⁰⁵ The Petroleum (Exploration and Production) Act of 1985 and the Petroleum (Exploration and Production) (Conduct of Exploration Operations) Regulations of 1993

¹⁰⁶ Petroleum Act of 1964

harmonized with similar standards within the East African Community Member States¹⁰⁷.

4.1 Legal framework for the downstream petroleum subsector

In Uganda, the downstream petroleum subsector covers matters related to importation, exportation, transportation, processing, supply, storage, distribution and marketing of petroleum products. This subsector was liberalized in 1994 and as such, prices are determined by the market forces of demand and supply without government intervention. The regulatory framework for the downstream petroleum subsector in Uganda is comprised of:¹⁰⁸

1. The Energy Policy of Uganda, 2002;
2. The Petroleum Supply Act, 2003;
3. The Petroleum Supply (General) Regulations, 2009; and
4. The Petroleum (Marking and Quality Control) Regulations, 2009
5. The Constitution of the Republic of Uganda 1995.

The Energy Policy for Uganda 2002 provides a general framework for the development and use of all energy resources including petroleum. The main policy goal is to meet the energy needs of Uganda's population for social and economic development in an environmentally sustainable manner.

The Government of Uganda enacted the Petroleum Supply Act 2003 to govern the operations and development of the downstream petroleum sector. The Act provides for the supervision, monitoring the importation and exportation of petroleum products, licensing and control of activities and installation for the safety and protection of public health and the environment in petroleum supply operations and installations as well as to encourage and protect fair competition in the market. The Act establishes the

¹⁰⁷ https://energypedia.info/index.php/Petroleum_Resources_in_Uganda

Categories: Uganda | Fossil Fuel

¹⁰⁸ Presentation by The Permanent Secretary, Ministry of Energy and Mineral Development

Minister responsible for the petroleum sector as the regulator. Other relevant legislations include National Environment Act 1995, and the Standards Act 1983.

In addition to the above, the Ministry of Energy and Mineral development is responsible for the downstream petroleum sector. The Ministry is charged with the responsibility of policy formulation as well as regulation and monitoring of the sector.

This therefore establishes regulatory authority to licence and control petroleum products supply activities and installations for the safety and protection of public health and the environment. In this respect, fair competition is encouraged and protected. Given the developments in the petroleum value chain, Government will evaluate the need to review the downstream regulatory framework¹⁰⁹.

The Constitution of the Republic of Uganda 1995¹¹⁰, Art. 237 thereof, vested all land in the citizens in accordance with the tenure systems stipulated therein.

Government was to hold in trust for the people all natural lakes, rivers, wetlands, forests, national parks and other ecologically important areas. Minerals and oil were not so reserved to the Government. Art. 244 of the Constitution specifically dealt with minerals. The Article did not envisage minerals as Government property, except that clause (2) required that they be exploited taking into account the interests of individual landowners, local governments with the Central Government.

The Constitution (Amendment) Act, 11 of 2005 was a fundamental departure in as far as the oil regime is concerned¹¹¹.

Article 244:

(i) All minerals and petroleum in, on or under any land or waters in Uganda are vested in the Government on behalf of the Republic of Uganda. In effect, the Government is not just a trustee but an owner of the minerals and petroleum.

¹⁰⁹ Supra 110

¹¹⁰ Art 237)The Constitution of the Republic of Uganda 1995 as amended 2006

¹¹¹ Art 244 (2)The Constitution of the Republic of Uganda 1995 as amended 2006

(ii) The old general provisions enjoining parliament to legislate on the exploitation of minerals, sharing of royalties, payment of indemnities and restoration of derelict lands were retained but made to apply to petroleum as well.

(iii) For the first time, petroleum is constitutionally provided for. The old article 244 had only dealt with "minerals" without defining them, (but see Article 244 (3), meaning that one had to borrow the definition under the Mining Act. The Mining Act, now Cap.148, had specifically defined minerals to exclude petroleum, clearly envisaging a different legal regime for the latter. The Petroleum (Exploration and Production) Act, defined petroleum. The above Constitutional Amendment adopted wholesale the definition under the latter Act. Note that whereas that Act has separate definitions for petroleum and natural gas, the 2005 Constitutional Amendment did not adopt the definition for natural gas, with the result that natural gas is not constitutionally provided for. This is a glaring omission, considering that currently government policy lumps petroleum and natural gas together.

It should be noted that the petroleum (Exploration and Production) Act was enacted at a time when worldwide, natural gas was not looked at as a viable source of energy. Indeed, it was seen as an inconvenient associate of petroleum. Accordingly, while section 31 prohibits wasteful or environmentally damaging oil field practices, subsection (2) and (3) empower the holder of a petroleum exploitation license (the licensee) to flare (i.e. destroy by fire) the natural gas encountered during operation.

He may ordinarily do so with the written consent of the Minister, but in an emergency, he needs not even seek such consent.

National Environment Act, the Local Governments Act, the Land Act and others.

According to the 2008 National oil and gas Policy the specific role of parliament in Uganda's petroleum sector is:

- To enact petroleum legislation;
- To enact the proposed legislation for the management of petroleum revenues; and

- To monitor performance in the petroleum sector through policy statements and annual budgets¹¹².

4.2 Gaps in the existing regulatory regime

Uganda laws and a draft of the Petroleum (Exploration, Development, Production and Value Addition) Bill finds that “not all values espoused in the [National Oil & Gas] policy are, in fact, reflected in the [draft] Bill.” Calls for greater transparency, clearer division of institutional responsibilities and more checks and balances, including parliamentary oversight, on the powers of the Minister of Energy.

On revenue management, finds that the Bill “does not provide for any sort of progressive revenue collection whereby the state’s share of benefits increases as project profitability rises,” calls for clarification of “the formula of 85 percent revenue to central government Fund “should be established via an amendment to the Constitution by legislation that cannot easily be revised by the normal operations of politics.” Also calls for tougher environmental protection methods¹¹³.

There is a natural tension between the desire and need for detailed control over petroleum operations as is set forth in an individual Production Sharing Contract on the one hand, and the dictates of a nation’s constitution and statutes on the other. A country must balance the imperative to enact firm policies that promote the national interest and the need to sign workable contracts that reflect variations among different oil fields. Analysts of international best practice, including the authors of the Natural Resource Charter¹¹⁴, are increasingly recommending that governments try to enshrine as many details of the operational and financial regime governing the petroleum sector into law as is possible, and extractive companies.

¹¹² Chapter seven spells out the roles of various institutions including parliament.

¹¹³ (2011, May) Frank Tumusiime and Jessica Banfield: Oil and Gas Laws in : A Legislators’ Guide (International Alert, London, UK)

¹¹⁴ <http://www.naturalresourcecharter.org/>. www.revenuewatch.org

The Act¹¹⁵ remained a dead letter law up to 2000, in the sense that not only was the Act not brought into force, but in fact there was no petroleum exploration or production going on. The petroleum (Exploration and Production) (Commencement) Instrument, 89/2000, made by the Energy and Mineral Development Minister under section 72 aforesaid, on 16th November 2000, provided that the Act "shall be deemed to have come into force on 27th September 1985." It's as if there is no law to govern the petroleum sector.

The other troubling provision of the Act is the prohibition against disclosure of information contained in section 59. Under the said section, it is provided that no information furnished by a licensee in a report submitted pursuant to the Act shall be disclosed to any person who is not a Government Minister or an officer in the public service save with the consent of the licensee. Sub-section (2) gives some exceptions. Section 59 is the statutory expression of the a long running but largely unjustifiable tendency in Africa of deliberately shrouding the oil industry in mystery – of treating key facts about oil as state secrets. This paper has gone to some length to make the case for transparency and accountability as a necessary prerequisite to ensuring sustainable benefits from the oil boom.¹¹⁶

Section 38 (1) of the Act requires the holder of a license to seek the consent of the lawful occupier of the land, before he can exercise the rights enshrined in the licence. The same provision, however, empowers the Minister to override the occupier and allow the licensee to exercise his rights where the consent is "unreasonably withheld". There are two problems in this. Firstly, the "lawful occupier" is not defined. Where, for example, a licence is granted on registered land being at the same time occupied by customary tenants, it is not clear whose consent is to be sought. Secondly, if a Minister is to authorize the holder of a licence to exploit petroleum on land occupied or held by another person "subject to such conditions as the Minister may deem fit", this makes a mockery of the fundamental right to property which is protected under Article 26 of the

¹¹⁵ The Petroleum (Exploration and Production) Act

¹¹⁶ Section 59 of the petroleum act

Constitution, notwithstanding that Article 244 (1) which vests minerals in the Government states itself to be subject to Article 26.

Essentially, as its name suggests, the Act¹¹⁷ was intended to and actually deals with the upstream aspects of the petroleum industry – that is to say the exploration, and extraction portion of the oil business. It was not intended to deal with downstream activities, not to mention the broader macro-economic and social implications of the oil boom and its aftermath.

Uganda produced a Model Contract in 1999, but the new Bill does not mention it, leaving its legal status for upcoming contracting rounds unclear. To rely on this petroleum bill would leave a great deal for the Ministry to negotiate. While not all of the items discussed here must be fully defined in the law, the more terms that are firmly set, the fewer will be subject to deviation in individual negotiations. A mandatory Model Contract that could be varied only with Cabinet or Parliamentary approval would be another means to achieve the same ends.¹¹⁸

The bill¹¹⁹ does not mention whether stabilization clauses are allowed in contract negotiations, or whether there are any limitations on the scope of such clauses. Stabilization clauses are used in contracts to protect them from being subject to legislative or administrative changes occurring after the conclusion of a contract. Stabilization clauses can shield contracts from changes not only in the fiscal framework but also in other sensitive areas such as employment and environmental protection. Companies use these clauses to protect their investments from subsequent changes.

The bill does not provide the downstream sector. So the legal institutional is weak and needs checks and balances.

¹¹⁷ The Petroleum (Exploration and Production) Act

¹¹⁸ Comments on the Uganda Petroleum Bill Prof. Robert. D. Langenkamp Page 3 <Www.Revenuewatch.Org>

¹¹⁹ libid

4.3 Measures to be taken in filling the gaps the existing regulatory framework.

Upgrading of the existing regulatory framework by putting in place a new law for the administration of oil and gas activities and a law for the management of oil and gas revenues. The former will better provide for the development and production phases of the oil and gas value chain, bring on board international best practice in areas like improved oil recovery together with Health, Safety and Environmental standards. It will also operationalise the Oil and Gas Policy by providing for, among others, competitive licensing and national content in the subsector. The latter will be formulated to regulate the payment, use and management of oil and gas revenues and their use to create lasting value for the entire nation. This will include prescribing the necessary frameworks to manage the revenues used to support the national economy and creation of a sustainable asset in form of a petroleum fund to store revenues not used in the national economy. It shall also provide for the sharing of royalties in accordance with the constitution¹²⁰

The National oil and Gas National Policy, is putting in place legal and institutional infrastructure to ensure that oil revenue is managed prudently. In this regard, tax legislation has been amended and Public Finance and Accountability Act is being reviewed to provide best practices with respect to the assessment, collection and accounting of oil revenue. The relevant tax legislations have been amended to cover all oil taxation aspects and Government will amend the Public Finance and Accountability Act in accordance with international best practices to ensure prudent management of oil revenues¹²¹.

The revenues will be integrated in a prudent macroeconomic fiscal framework and the Medium Term Expenditure Framework that is underpinned by the recently approved National Development Plan. Government will ensure that the management of petroleum

¹²⁰The National Oil and Gas Policy 2010

¹²¹ Supra 68

revenues is handled in a transparent manner that does not undermine the integrity of the budget framework, and macroeconomic stability.

Furthermore there is also need for improvements in the institutional and policy framework for effective production and management of oil revenues with the approval of the National oil and Gas Policy 2008. However, the complementary legislations proposed by the policy such as Petroleum Resource Law and Petroleum Revenue Management Law should be enacted¹²².

The Petroleum (Exploration and Production) Act of 1985 and the Petroleum (Exploration and Production) (Conduct of Exploration Operations) Regulations of 1993 regulate upstream activities. The downstream industry is governed by the Petroleum Act of 1964 and several Regulations made there under. A review of the legal framework has been undertaken and proposals for a new Petroleum Supply Law and Regulations have been prepared. Under the proposed law, a new licensing and regulatory regime and an advisory committee of experts will be set up and national safety and environmental standards will be prepared. The above should be harmonized with similar standards within the East African Community Member States¹²³.

The policy specifically indicates that government will establish a Uganda Petroleum Fund whose role will be 'to ensure effective oil and gas revenue management and to contribute to overall price stabilization.'¹²⁴

While this is a positive proposition, it is important for the policy to set out exactly how the Fund will be managed and controlled to ensure transparency, accountability and good management and, in particular, to ensure that it does not suffer from interference of political officials.¹²⁵ The relationship between policy and law cannot be overemphasized. While policy formulation lays down the ideals, intentions and

¹²² Supra 68

¹²³ The Petroleum (Exploration and Production) Act 1985

¹²⁴ <http://www.acode-u.org/documents/oil>.

¹²⁵ Supra

aspirations, in this case, of the Government, legal provisions actualize those ideals and aspirations by laying down the rules and institutional framework that ought to facilitate the implementation of the policies and realization of the goals and objectives underpinning them. Put differently, legal provisions ought to be developed out of policy positions.

On environmental issues, it should be noted that the Act was enacted before the era of proactive environmental legislation, or at least before it caught on in this country. Fortunately, the drafters of this law were mindful enough of the devastating effect of oil pollution to impose on holders of petroleum production licences the obligation to carry out their activities in a "proper, safe, and workmanlike manner in accordance with good oil field practices and, in particular, to control flow of petroleum, gas or water into the development area and its environs and to prevent other like hazards (section 31)." The licensee is further required to "prevent the pollution of any water, well, spring, stream, river, lake, reservoir, estuary or harbour (as if Uganda has any) by the escape of petroleum, salt water, drilling fluid, chemical additive, gas or any other waste product or effluent." Of course the Act does not provide for such things as environmental impact assessment requirement, but since the provisions of the Uganda Environment Act apply to can always be invoked, this may not be a particularly serious shortcoming.

Consequently, it would perhaps be unfair to criticize the Act for not addressing such concerns as the distorting effect of an oil boom on the economy ("Dutch Disease"), the rights of the communities which happen to be settled in the development area, distribution of benefits, tail-end and post-abandonment problems, political implications of the oil bonanza and like matters. While the Act, by putting in place the basic regime for exploration and production, lays the groundwork, it must be supplemented by other laws dealing with specific questions. As a matter of fact, one has to go beyond the laws and consider such things as cultural mindsets, type and quality of education the populace has been exposed to, history, the geo-political situation, global petroleum

demand, supply and prices cycles and other global trends – matters which may not be directly addressed through legislation.

4.4 Challenges faced in the regulation of oil prices in the downstream sector.

Uganda occasionally experience problems of supply due to inadequacy and logistical challenges within the supply system resulting into the current constrained demand. If the supply system was improved, demand could be greater than the current levels and these can be discussed as below.

Lack of proper regulation.

Inadequate institutional and legal framework to regulate the petroleum supply industry, resulting in lack of competition and transparency.

This encourages companies with big market power to develop monopolistic tendencies and practices and create market imperfections. Firms even incur both strategic and administrative expenses to obtain or keep a monopoly position. There have been cases such as biocoding⁴⁵ where some companies have advocated for heterogeneous coding/marketing. Allegations of industry malpractices such as dumping and adulteration labeled against small/new companies, just like in the Kenyan case (Business opinion, 1999) are aimed at influencing legislation.

Significant smuggling of petroleum products along the borders.

Low storage private capacity compared to national requirements.

In the Uganda, products are stored in independent oil depots which are located in Kampala, Jinja, Mbale and Kasese. The Government maintains storage facilities for strategic reserves located in Jinja. Storage capacity is 59,000 m³ comprising of 30,000 m³ government owned storage and 29,000 m³ private sector owned. The Eldoret-Kampala pipeline project has a proposed storage component of 115,000 tonnes in Kampala.

Lack of quality control of the oil products, posing an increasing hazard to public health and the environment.

Oil spills can contaminate water sources leading to sickness and disease. Gas blowouts result in fires that destroy property and may lead to loss of human lives. Gas flares and dust result in air contamination leading to sickness.

High transport costs and high margins by oil companies

To demonstrate the level of high profits enjoyed in Uganda, we make some regional comparison. In 1999 the company margins in Uganda were about Shs 209/litre as compared to shillings 110 per litre for Kenya Shs 80 per litre for Rwanda and Tanzania. Thus Ugandan companies were reaping twice as much as their Kenyan counterparts and almost thrice as much as their Rwandan counterparts. The profit margins between Uganda and Kenya for March 2004. The Kenyan market is deregulated and it is generally acknowledged that competition is fierce in the Kenyan petroleum distribution and retailing markets. In western Kenya, a region that has experienced emergence of independent play, retail competition is so fierce that several major oil companies, including Shell withdrew from this regional retail market.

Few companies are dealing in Liquefied Petroleum Gas (LPG) hence the market tends to be oligopolistic.

Start up costs from the point of view of consumers and investors are very high thus limiting the number of investors and consumers. The initial requirements include purchase of a cylinder and other accessories

The market for LPG gas has a slow rate of growth in the region market of usage levels less than 1%. This consumption levels is a disincentive for investors.

Technical-know-how is still lacking. There are few LPG technicians and no manufacturer for cylinders, burners, lighters as well as valves. Such services are out-sourced.

Roads, transnational roads and the roads of Mwanza-Bukoba and Mwanza Voi are in poor state occasioning inaccessibility or delayed delivery of products to would be destinations. The bad state of these alternative supply roads increase the turn around period of road tankers and consequently increase the costs of the delivered products.

The two railway systems from Mombasa to Kampala through Kisumu (northern route) and from Dar es Salaam to Mwanza (southern route) are inefficient. This inefficiency has disabled the ability of rail transportation to supplement the pipeline as a means of maintaining supplies of petroleum products to the region. Although both rail systems have been concessioned, their improvement is yet to be realized.

Changes especially those related to revenue collection and protection of dumping are noble. However, their poorly planned introduction in the past has in some occasions resulted in the disruption of the flow of products in the region and should in future be implemented through consultations within the EAC mechanisms.

4.5 Measures to be under taken in tackling the challenges.

With these challenges, the government is faced with creating policies that are conducive to switch from traditional fuels to LPG both in rural and urban areas. In this respect, Government is pursuing the following measures to encourage LPG usage. These can be seen as below.

The policy recognizes that health hazards do not occur in isolation of each other. While pollutants and toxins are directly inhaled by humans causing disease, they also invade the food chain entering fish, animals and vegetables. Thus the quality of water and food needs to be monitored and tested for unacceptable levels of pollutants and toxins such as lead and mercury. This policy shall, in collaboration with other relevant policies, support the review, updating and implementation of waste disposal standards together with the establishment and enforcement of the necessary monitoring, evaluation and

control mechanisms. Considerations shall be made where possible for the use of alternatives to toxic chemicals¹²⁶.

Elaborate environmental controls and safeguards, including imposing obligations on the oil companies to contribute to a fund to cater for redressing oil-related environmental problems and on the Government to use some of the revenues to address oil related environmental problems, such as oil pollution. The oil legislation in this regard needs to be brought into line with the National Environment legislation.

Other matters like fiscal stabilization to absorb global price shocks, benefit sustainability plans aimed at intergenerational equity (to ensure that there is life after oil) and the full range of policies to address the macro-economic implications of the discovery and exploitation of oil may be addressed through other laws.

Provisions dealing with transportation of crude (including law on construction, maintenance and securing of pipelines), refining, marketing(local and export).

The provisions dealing with land ownership and use. These need to be brought into line with the Constitution and the Land Act. In this regard, one can borrow heavily from the Mining Act, even though the latter Act is not without problems, for example on the question of mining in national parks and other gazette areas.

Legal provisions need to be put in place for the regulation of payment of compensation for damage to livelihood caused by oil operations so that those adversely affected are compensated and protected by law.

Removed taxes on importation of gas so as to reduce the costs and encourage consumption. However; this reduction has hitherto not been passed on to the consumers by the marketing companies albeit a liberalized economy.

Development of new standards for LPG cylinders and accessories is ongoing and is spearheaded by the Uganda National Bureau of Standards (UNBS). This will go a long

¹²⁶ National oil and gas policy 2008 page 39

way to solve the use of risky cylinders and safeguard the environment. Consideration will be taken to allow switching of cylinders among companies as is practiced in other countries.

Promoting the development of an inland oil refinery. Among others, the refinery will improve the availability of gas in the country for domestic market and export.

4.6 Impact of petroleum in the downstream sector on the national economy

The petroleum policy is associated with both negative and positive impact. Lets discuss the positive impact.

4.6.1 Positive impact

Expansion of the retail network and extension of the services to rural areas: Whereas some vast areas are yet to be served by the network and although even the current expansion has some vast demerits as discussed in the next section, it is important to acknowledge that considerable expansion has taken place. Since liberalization a number of new service/filling stations have been built. For instance, in 1999, there were about 343 retail stations in the country and by December 2003 this number had grown to 643 (six hundred and forty three) and further still to date there more petrol stations that have been set up. Notable on this expansion it that it has also covered some upcountry areas, long ignored by the majors because of their long distance and low profitability. The new companies, in a bid to avoid competition in the much saturated urban centre, found these rural areas, and areas such as Sironko, Panyimur in Nebbi district, Kaliro town in Kamuli, Budaka in Pallisa district, Ddimu in Masaka dstrict, Mukutula in Rakai district, Ngomain Luwero, Rubindi in Mbarara district, Mpondwe in Kasese district, most parts of rural Kabale and Kisoro districts, among others, had no single service station and oil products would be purchased from as far

as 100km away and transported and sold in jerry cans. Therefore, this expansion has had positive externalities as it has reduced the cost of visiting gasoline stations.

Introduction of non-traditional services: Unlike in the past (prior liberalization) when a service station was just a filling station for dispensing fuel, today's service stations have a variety of non-traditional services. These range from car washing, fast foods, shops, supermarkets or shopping centre to internet cafes. Most of the service stations especially in the urban centre have become one stop shopping centre for a number of customers.

This is because it is convenient for consumers to refuel their vehicles as they do shopping at the service station.

The increased number of agents, stations and activities in the downstream petroleum sector are a match to increase consumption of petroleum products. Sales of petroleum products have increased from, 296.191m³ in 1990 to 629.408m³ in 2003 and increase of 113%. The average annual growth rate is 6.1% with LPG recording the highest growth rate of 14.7% followed by diesel 8.1% and the least being fuel oil with an average annual growth rate of 3.6%. If the current growth rate is sustained, consumption of petroleum products have reached over one billion litres 2010. However, it is probable that the growth of the petroleum sector may not only be due to sectoral growth but also due to other factors such as the general growth of the economy as can be shown by the relationship between oil sales and GDP

In future, research, it may be vital to assess to what extent this sector growth may be due to general growth of the economy. As for now, we generally observe that there has been considerable growth in the sector.

Increased revenue collection from petroleum: Petroleum is one of the major sources of government revenue contributing a big proportion to the county's gross domestic product (GDP). Revenue from petroleum products has increased from Uganda shillings 3 (three) billion in 1988/89 to over Uganda shillings 240 (two hundred and forty) billion in 2002/03 and to date.

Increased industry returns: It is not only government that has benefited from this sector growth, in fact the best beneficiary has been the oil industry players who have observed improved return to capital which has in turn led to increased re-investments in the industry. It is this industry profitability has maintained the current oil marketing companies in the industry and even attracted new companies to join the sector

4.6.2 Negative impact

In principle, the optimal or first best solution would be to remove all market distortions at once, such a strategy is unambiguously welfare improving. In practice, this is almost never realistic option,, the reason is that in second-best environment, the impact of a particular measure in a given sector depends on the circumstances in other sectors of the economy¹²⁷” Whereas the original government objective of removal of price controls was expected to result into various benefits to the people but as Agenor notes, success of such action largely depends on multi-sectoral effects, the sector derives.

¹²⁷ Agenor(2000), pg 622.

Oil and gas activities affects, and the existing land policies, laws, regulations and practices. Petroleum exploration, development, production, processing and transportation has impact land ownership and use.

In conclusion to the above chapter, while legislation may go a long way towards putting in place structures and institutions for the enforcement of accountability and transparency and, by so doing, combat corruption and diversion of revenues, it may not be possible to legislate honesty or to outlaw greed. In other words, there is a limit to what the law can do.

CHAPTER FIVE

SUMMARY OF FINDINGS RECOMMENDATION AND CONCLUSION

5.0 Introduction

This chapter presents the summary and major findings of the study, in light of the objectives and hypotheses. It also presents some legal and policy recommendations for the effective control of oil price changes in Uganda, as well as areas that need further investigations. Oil price fluctuation has been determined by mostly legal factors of lack of a comprehensive efficient legal regime and accelerated by economic factors such as supply and demand.

5.1 Findings of the Research:

The researcher found out that there is no clear / elaborate legal regime regarding oil price fluctuation in Uganda.

The researcher found out that an increase of oil prices affects the price of consumer in manufactured goods like food in an economy. This led to the recent massive strikes in Kampala in the march 2011 due to higher prices of consumer commodities resulting from heavy transportation, production, and power generation costs that is when load shedding was Uganda's biggest problem.

The increase in demand for oil world over does not tally with the ever raising supply of oil which result into oil vacuum hence increase in the world oil prices.

The researcher further found out that oil price changes leads to increased inflation and reduction in the value of both foreign and local currencies depending on which country is exporting or importing. US Dollar in Uganda rose to up to Ugx.2.900/= and beyond in 2011 making the oil price high.

5.2 Recommended areas for legislative action.

There is need for a strong and effective legal institutional framework to regulate and manage the sector. Since liberalization in 1994, the petroleum sector was being regulated by the Petroleum Act 1957, adopted with the independence laws. This Act gave unlimited authority to the Minister to control activities through regulation. It covered only a few aspects of the downstream sector, which were storage, handling and transportation of petroleum products. The SI 97-2 Petroleum Spirit (licensing, testing and possession rules) contained rudimentary system for licensing of storage facilities for petroleum products. It made no distinction between the different products and had no provision to ensure equal treatment of applicants. It further gave the authority to license retail station construction to local authorities. Neither these laws nor the subsequent SI. 97-1, SI 97-3& 4, SI 27-29, Uganda Oil Board Statute 1991. Trade Licensing Act 1969, External Trade Act cap 103, The East African Industrial licensing Act cap 102, Distribution and Price of Goods Act, cap 104, did adequately cover the modern operations in an oil industry. In short, these laws have obsolete, and despite their obsolescence deregulation was undertaken in 1994.

The above laws have now been reviewed and a new legal framework formulated with the enactment of Petroleum Act 2003 in late 2003. The Act vests the government with the mandate to ensure free market and fair competition, it does not specify on the detection mechanism and in a market where price leadership is practiced, this condition does not arise. The Act refers the government department responsible for downstream petroleum sector, to co-operate in the investigation with the competent authorities

responsible for the enforcement of the applicable anti-trust and consumer protection legislation.

There is need for specific laws on industry practice such as the anti-trust and anti-competition laws and relevant institutions to implement and enforce them. A strong and effective regulator is a prerequisite if incentives for companies to engage in oligopolistic behavior are to be removed. An establishment of separate body such as competition commission to handle all matters concerning competition, not only in the energy sector but all sectors, would provide a long-term solution to the competition problem facing Uganda today. As is the case in most well regulated markets such as the U.K market, the commission would establish rules and procedures of operations. And have legal mandate to undertake market inquiries, investigations and punishment of the wrongdoers. For instance if Uganda had a competition regulatory agency, the effect of past mergers/ buyer outs such as the buyer out of Agip (U) Limited by Shell (U) limited, merger of Kobil and Galana among others, on the industry structure and market competition would have been clearly studied and even avoided if deemed so.

In the existing legal regime for the management of the petroleum industry has been overtaken by realities and leaves a lot to be desired. It may not be enough to merely amend the relevant laws without fully revisiting the entire regime to take into account the needs of the day. Now that the existence of oil is a proven fact, there is need for legislation that goes way beyond regulating exploration and upstream production operations, to cover the full range of challenges that arise in an oil economy. A new Petroleum (Exploration and Production) should be put in place¹²⁸.

¹²⁸ Arthur Bainomugisha, Hope Kivengyere, Benson Tusasirwe(2006): Escaping The Oil Curse and Making Poverty History: A Review of the Oil and Gas Policy and Legal Framework for (ACODE, Kampala, Policy Research Series No. 20; 43 pages)¹²⁸.

The Act should address itself to the need for the following:

An elaborate institutional framework for the oil sector. In this regard, we associate ourselves with the proposals in the draft oil and gas policy for the setting up of three separate institutions to manage the sector, namely; an oil and gas policy making and monitoring body (a directorate within the Ministry), a separate and autonomous regulatory body (a National Petroleum Authority or Commission) akin to the National Forestry Authority (NFA), and a business arm (Uganda Oil and Gas Company). The roles of each should be clearly defined to avoid overlapping of roles and institutional bickering.

At this point, it needs to be pointed out that the framework proposed in the draft policy would have the directorate and the Authority/Commission duplicating each other's roles. The relationship between Uganda Revenue Authority and the Finance ministry should provide a workable template.

Provisions dealing with natural gas which, as already pointed out, is not provided for in the present law.

Provisions dealing with transportation of crude (including law on construction, maintenance and securing of pipelines), refining, marketing (local and export).

Section 59 needs to be done away with. Instead, a more relaxed approach should be adopted whereby only information relating to novel technologies is protected from disclosure. The licensing process, PSAs, revenue receipts, payments out (for example to local governments and communities) should be easily available.

An elaborate framework for benefit distribution should be provided for in the Act.

Provisions for an oil fund - the Uganda Petroleum Fund - to be monitored by a wide range of stakeholders, including civil society, which should act both as a stabilisation fund to absorb price shocks and as a source of future funding to sustain the economy after the oil boom. The Fund should preferably be sequestered overseas or in the Bank of Uganda, with strict restrictions on withdrawal. For example it can be provided that

withdrawal may only be done after a proven need to address a substantial price shock in the economy, otherwise the bulk of the deposits, which should be made into the account at regular specified intervals, should remain there, to be applied after the oil bonanza has come to an end or when income from oil will have so reduced as to be insignificant as a percentage of the national income. In this regard, one could look at the ample of Sao Tome which has put in place such a fund, with strict provision for a single annual withdrawal, with a complicated four-signature procedure and with power to the public to monitor activity in the account. The law should restrict the government's freedom to spend the oil earnings and borrow against future income.

5.3 Policy Recommendations.

A creative oil governance mechanism for Uganda should be underlined by the following considerations:

The overall strategic role of oil in the economic development of the country, especially its contribution to economic transformation.

Transparency in the management of oil resources. Seriously examine the merits and demerits of the policy of PWYP (Publish What You Pay) as mechanism to enhance transparency and control of oil revenues. Mandatory audit by the State audit chamber and an international auditing firm. The results of the audits to be made public.

Benefit-sharing mechanism

In order to mitigate conflict, the government should work out strategies to ensure that the people who live in the oil-producing areas actually benefit from the oil.

We, therefore, propose that the government should work out an oil revenue sharing arrangement. There are generally two options for oil revenue sharing:

An arrangement of 'lump-sum' payments to the regions can ensure that the transfer system is relatively immune to oil price fluctuations. This arrangement is justified on the grounds that the regional governments perform essential public services that should not be affected by oil price fluctuation.

In a revenue-sharing arrangement, only a fraction of the oil production would accrue to the producing region (s); the bulk goes to the central government. Additionally, this type of arrangement exposes the producing region to the swings in oil prices; this is likely to affect minimum public service provision, which the region caters for through the shared oil revenues. It, therefore, imposes a considerable degree of uncertainty on the oil-producing region. This is likely to lead to more demands and, possibly, conflict. In Nigeria, the oil producing regions are dissatisfied with their shares of the oil pie, while the poorer, albeit more populous, regions are also dissatisfied with the arrangement.

Example: The 1999 Nigeria Constitution requires that no less than 13% of the oil resources be transferred back to the oil-producing States (the 13% oil derivation policy). This has exacerbated the vulnerability of sub-national governments to oil price variations. For instance, a 10% oil price shock (US\$ 2 per barrel) causes a 20% fluctuation in federal oil revenues. But the impact is not uniform in all states. Lagos, which has a share of non-oil revenue, is protected against the volatility of oil prices, while oil-producing states see their resources decrease sometimes by more than a third.

This problem, however, can be addressed through an Equalization Fund from which funds could be drawn to cater for any shortfalls resulting from oil price fluctuations.

Control and monitoring of oil revenues

Given Africa's experience with mismanagement of oil revenues, it is important from the outset to put in place a joint government-civil society petroleum oversight committee comprising government officials and people from civil society. All oil revenues must fall within the scope of this committee.

Example of Chad: College de Controle et de Surveillance des Ressources Pétrolières. Composed of: a judge, the director of Treasury, two members of parliament, a official from the central bank, four members from civil society.

Example of Sao Tome: A petroleum oversight organisation, independent of the government and parliament, with monitoring and ombudsman functions, with strong

powers to investigate, obtain information and coordinate with the AG and State prosecutor.

Transparency

The government should seriously examine the merits and demerits of the policy of PWYP (Publish What You Pay) as a mechanism to enhance transparency and control of oil revenues. This should be supplemented by the policy of PWYE (Publish What You Earn). Together, these two should help to create confidence in the public that oil revenues are being managed openly and transparently, thus breaking the experience in Africa where oil revenues are treated as a state secret, which leads to mismanagement and embezzlement of oil revenues and leads to conflict. Therefore, the government must desist from non-disclosure clauses in production sharing agreements (PSAs). Only the highest levels of transparency in the oil sector will discourage theft and embezzlement of oil revenues. Additionally, all government officials with a financial interest in the oil sector must declare that interest. Failure to do so must be penalized.

No oil-backed loans from Export Credit Agencies

There must be tight regulations to stop the government from undertaking oil-backed loans, that is using oil reserves as collateral for foreign commercial borrowing. The government must not contract loans from Export Credit Agencies

Capacity building

In order to strengthen the government's capacity to negotiate with oil companies, capacity building of the state institutions concerned with oil must not lag behind oil operations. For instance, institutions tasked with supervising the social and environmental impacts of oil activities must have the capacity to do so from the start of oil operations.

Mitigating Dutch Disease.

Oil revenue utilisation must be directly linked to production in other sectors, such as agriculture and manufacturing. This could be in the following manner:

- Use oil revenues to promote strategic and specific aspects of the Programme for Modernisation of Agriculture.
- Use oil revenues to support strategic and specified aspects of the manufacturing sector.
- Use oil revenues for export diversification (also important for a post-oil boom economy strategy).

Adjustment in the Endogenous Factor Determinants of Price,

The endogenous factors in the price determination parity formula are exchange rate and government duty among others. The international oil price is internationally determined and thus beyond the control of the government. The factors (exchange rate and duty) are however within reach of the government. Therefore policies aimed at achieving fiscal stability in the endogenous factors can be pursued. For instance regarding duty on petroleum products, although no evidence to show that it accounts for the high petroleum prices, the government can still have a friendly tax policy with a low price objective.

An expanded energy policy. An expanded energy policy aimed at promoting alternative sources of energy such as wind energy, solar energy, hydro, gas can reduce pressure on the liquid fuels and help stabilize prices. Today renewable energy accounts for a minor figure in the energy balance. While petroleum products account for 5% of the energy balance¹²⁹. A Promotion of renewable sources can reduce the imbalance and in

¹²⁹ Energy Balance 2001).

a long run help to reduce demand leading to reduced incentives for agents to increase price

Increased and sustainable supply of petroleum products: promotion of alternative transportation routes would reduce the over reliance on the Mombasa Eldoret-Kampala route and ensure continuous supply of products. For instance if all the possible supply routes were operational, the price hikes of December 2002, and the subsequent periods which were due to product shortages as a result of the problems within the Kenya pipeline system could have been avoided. This factor is of great importance given that Uganda is a land locked country and needs to ensure security of its supplies by promoting all possible transportation routes to the Uganda.

Increased product security using sufficient national reserves fuel stocks: forecasts of possible future product shortage always stimulate upward movements in the prices. (References). If the market predicts a future product shortage, this will be an incentive for the industry to hike the prices. Uganda as a landlocked country can therefore hedge against such possible effects sufficient emergency Stocks inland in the event of a macroeconomic external shock such as the oil crisis of the 1970's and the recent instabilities in the Middle East. This also acts as a disincentive to the players who increase prices in the face of increased uncertainties in the international oil market.

Harmonization of Regional Tariffs

Lastly common at the country's borders is the backlog of products from neighboring countries. Because of tariffs and price differentials, oil products in the neighboring

countries are cheaper than the oil products in Uganda. This encourages smuggling which distorts the market mechanism. We have also seen that price disparities between Uganda and her neighbours partly explain absence of retail stations on the Ugandan boarder areas. Therefore reduction of price differentials. Harmonization of tariffs augmented control of smuggling will help in establishing an efficient market. The current move towards harmonization of tariffs in the East African Community expected to take effect in January 2005, is a positive development.¹³⁰

5.4 Conclusion.

Although Uganda undertook liberalization ten years ago , little has been realized in the price setting mechanism. Price determination is far from being determined by market forces. This little success has been overshadowed by failure to realize a competitive market that would have resulted into low domestic oil products' prices. This is evidenced by high market share of over 70% in the retail sales volumes being controlled by four of the twenty-two operators. This collusive pricing structure has resulted into increasingly high domestic prices. This structure has been sustained by a combination of low price elasticity of market demand high concentration and lack of an effective and appropriate legal and institutional regulatory framework. Lack of an appropriate legal framework has meant no established procedures to govern the industry and has been an incentive for agents to engage in competitive behavior. Although a new petroleum law has been enacted, the wide spread market imperfections, which have for a long time undermined the effect the working of the markets, need more specific industry regulations and effective supervision.

¹³⁰ Budget speech 2004/2005

This research is evidence that undertaking a regulatory regime without putting in place the necessary legal and institutional framework, may not deliver the much promised prosperity. Put another way. For liberalization to have meaningful benefits to a country it must be accompanied by appropriate complementary policies to yield strong growth¹³¹ lack of which the liberalization will only bring small gains¹³² (The legal and institutional infrastructure required for the effective working of markets is substantial and in its absence markets will fail. However Uganda still has opportunities to realize the full benefits of deregulation if the necessary infrastructure can be established. Otherwise, liberalization will be one more disappointing elixir on the quest for growth.

¹³¹ McCulloch N N, Winters A. Cirera X. (2001) "Trade Liberalization and Poverty: A Handbook" Centre for Economic Policy and Research UK; Department for International Development, UK

¹³² Krueger 1998, pg 15 19).

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APPENDIX I

**TRANSMITTAL LETTER FROM SPGSR\ OFFICE OF THE
DEPUTY VICE CHANCELLOR (DVC) SCHOOL OF POSTGRADUATE
STUDIES AND RESEARCH (SPGSR)**

Dear Sir/Madam,

RE: INTRODUCTION LETTER FOR Ms. Tyakagire Hanifa

**REG. NO. LLM/36313/113/DU, TO CONDUCT RESEARCH IN YOUR
INSTITUTION**

The above mentioned candidate is a bonafide student of Kampala International University pursuing master degree in Law.

She is currently conducting a field research for her dissertation entitled, **an examination of the regulatory regime of prices of oil in the downstream sector in Uganda.**

Your institution has been identified as a valuable source of information pertaining to her research project. The purpose of this letter then is to request you to avail her with the pertinent information he may need.

Any data shared with her will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Novembrieta R. Sumil, Ph.D.

Deputy Vice Chancellor, SPGSR

