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Africa energy briefing

New production sharing agreement for Tanzania

The Government of Tanzania launched its fourth licensing round on 25 October 2013. The licensing round was originally scheduled to take place in 2011, but has been subject to some delay. Seven deep offshore blocks are being offered, as well as a block in Lake Tanganyika North. Bidding will close on 15 May 2014.

For this licensing round, the Government has published a new 2013 Model Production Sharing Agreement (2013 MPSA). The 2013 MPSA replaces the earlier 2008 Model Production Sharing Agreement. In light of the exploration success in the country, the terms are, somewhat unsurprisingly, more onerous on international E&P companies looking to participate, than those seen in the country to date.

The Tanzanian oil and gas regime in a nutshell

The Petroleum (Exploration and Production) Act 1980 vests ownership of petroleum resources and control of them in the State. The Ministry of Energy and Minerals is the government department responsible for implementing the upstream regime. The Act provides for the Minister to grant exploration licences and development licences.

An exploration licence is issued for an initial four-year exploration period, renewable once for four years and again for another three years. In case of a discovery, the Minister may grant a two-year appraisal period, which may be extended for a period not exceeding three years. A development licence may be granted for a period of 25 years, which can be extended by a further 20 years.

As a matter of policy, all of these licences are granted to the Tanzania Petroleum Development Corporation (TPDC). TPDC is a State-owned company through which the Government implements its oil and gas policy. TPDC then enters into production sharing agreements with E&P companies, to conduct operations on its behalf. According to TPDC, it is currently a party to 25 operational production sharing agreements, covering onshore and offshore blocks.

The 2013 MPSA

E&P companies bidding for interests in the fourth licensing round will be bidding for the right to enter into a production sharing agreement with TPDC and the Government, on the terms of the 2013 MPSA.

The role of an E&P company that enters into the 2013 MPSA with TPDC is as a contractor, conducting operations on behalf of TPDC. As would be expected under a production sharing agreement, provision is made for the E&P company to recover its costs and then share "Profit Oil" and "Profit Gas" with TPDC, but the 2013 MPSA seeks to secure greater short and long-term fiscal benefits for the State, compared to earlier licensing rounds. In particular:

- a signature bonus of at least US$2.5m is to be paid, followed by a production bonus of at least US$5m;
- the E&P company must spend annually US$500,000 on skills transfer and training initiatives;
- a royalty is to be paid to the Government at the rate of 12.5 per cent for onshore/shelf areas and 7.5 per cent for offshore, of total crude oil/natural gas production (prior to Cost Oil and/or Cost Gas recovery);
- provision is made for general taxation to apply to the income derived, as well as an "Additional Profits Tax" calculated in accordance with the provisions of the 2013 MPSA;
- provisions dealing with local content obligations refer to compliance with the Government's Local Content Policy. This is no doubt a reflection of the fact that there have recently been calls from within Tanzania and also from bodies such as the European Commission for Tanzania to capture more value from its resources for its local people by developing a formal Local Content Policy; and

- in the same vein, driven by the push towards transparency, a clause has been included to expressly deal with bribery and corruption, and a separate clause dealing with availability of foreign exchange gives the Central Bank of Tanzania and the Minister the right to audit the bank accounts of the contractor.

More information about the fourth licensing round and a copy of the 2013 MPSA can be found here.

Further information

For more information on any of the points raised within this briefing, please do not hesitate to get in touch with your usual Ashurst contact or:

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