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Original article

The governance of the petroleum sector in Tanzania: Institutional arrangements and the role of the National Oil Company☆

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ABSTRACT

This paper provides evidence of how Tanzania, a developing country, is attempting to develop institutions for the governance of the petroleum sector. The paper focuses on the role of the National Oil Company (NOC) and places it in the broader governance reforms of the country's petroleum sector. It contributes to the current debates on the roles of NOCs. It examines the developing institutional context and the evolution of Tanzania's national oil company, highlighting the critical moments for this institution. The paper is based on data collected through the use of interviews and documentary analysis. The findings show that the role of the corporation has evolved overtime from license monitoring, importation of oil and general promotion of petroleum sector in line with the operational country context. The recently enacted legislations attempt to steer the corporation toward implementing two roles: the commercial and socio-economic development. Effective execution of both roles is faced with challenges. The ongoing transformation of the national oil company has yet to result in a clear focus for the corporation within the broader commercial role and execution of the socio-economic development role runs the risk of being sidelined due to existing limitations.

1. Introduction

The shift in the balance of control over petroleum resources from the International Oil Companies (IOCs) to National Oil Companies (NOCs) has ignited the debate among policy-makers and researchers on the role of the latter institutions (Victor et al., 2012). As IOCs continue to experience declining control of the petroleum resources, the situation is different for NOCs: they now wield significant influence over oil and gas resources as custodians and developers of such resources (Al-Fattah, 2014; Stevens, 2008a). Petroleum Intelligence Weekly points out that 18 of the world's top 25 gas producing firms are NOCs, controlling 75% of the oil production and holding more than 90% of the world's oil reserves (World Bank, 2011; Leis et al., 2012). Moreover, nearly 60% of the world's undiscovered reserves are reportedly located in countries where NOCs have privileged access. In the 1970s, IOCs controlled 90% of the resources but controlled only 10% of such resources by 2012 (Al-Fattah, 2014), hence the shift in the balance of control over petroleum resources. This shift has generated concerns among policy-makers for fear that the supply of gas/petroleum may become uncertain (Stevens, 2008b). This is in turn linked to institutional arrangements of NOCs, including the ownership structures usually dominated by governments, access to capital, and the incentive structures, which are prone to political manipulation, all of which may constrain the effectiveness and efficiency of NOCs to develop petroleum resources to ensure a steady supply (Victor et al., 2012).

Although NOCs have been around since 1908 (Stevens, 2008) and Tanzania has had her own, the Tanzania Petroleum Development Corporation (TPDC) since 1969 (URT, 1969), the recent discoveries of commercial quantities of natural gas in the country and the role that TPDC could play in the development of these resources (URT, 2013) have led to renewed interest in the TPDC. The gas discoveries had reached 57.25 trillion cubic feet by May 2016 (URT, 2016) with more exploration still in progress. In consequence, Tanzania is on the international radar as a potential significant producer and supplier of natural gas (KPMG, 2014). This development has wetted the appetite of the Tanzanian government to engage in major reforms of the institutions responsible for the governance and development of its petroleum resources.

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The enactment of three pieces of legislations—the Petroleum Act, the Tanzania Extractive Industry (Transparency and Accountability) Act and the Oil and Gas Revenue Management Fund Act in 2015—spell out how petroleum resources are envisaged to be managed and accounted for as well as how the resultant proceeds are to be utilised in the country. The purpose of this paper, therefore, is to address the following question: What are the emerging institutional arrangements in the country's petroleum sector and what is the role of the national oil company? The remainder of the paper is organised as follows: the origin and roles of NOCs in the world, the governance of the petroleum sector in Tanzania, the role of the TPDC, discussions and conclusions.

2. Data and methods

This paper uses qualitative data, originally collected for developing background reports to inform the natural resources governance benchmarking process in Tanzania. The benchmarking exercise, which took place in 2014, was undertaken by the Tanzania government through the Uongozi Institute[1] to assess the whole chain of policy decisions and institutions in Tanzania. The international Natural Resource Charter developed by the Natural Governance Institute was adapted to the Tanzanian context and applied as a framework for guiding the assessment. The adaptation of the charter entailed asking specific questions related to TPDC. In this regard, the benchmarking process consisted of two teams: a research team, which conducted research in line with the adapted framework and an expert panel consisting of twenty members. The expert panel validated the research findings turned up by the research team.

Data were collected through interviews with ten TPDC senior officials including the chairman of the board of directors. Other interviewees were five officials from government and three representatives of civil society organisations and a member of the donor community. These respondents were selected for the interview because of their experience and profound knowledge of TPDC and petroleum sector in Tanzania generally. A semi-structured interview tool was used for the interviews. Data were also obtained from reports and other publicly available materials such as laws, annual reports and data from organisational online platforms. Following the enactment of the Petroleum Act in 2015, the study carried out additional interviews in 2016 with five officials from the government and TPDC to discern the influence of the Petroleum Act on the TPDC. Data analysis and reporting have been achieved through description and reflection. This is a normal approach to qualitative research (Eisenhardt, 1989).

3. Origin and roles of NOCs

NOCs have traditionally been defined as institutions that operate in the petroleum sector in form of companies and are owned and controlled by governments with a stake of more than 50% of both economic interest and voting power whereas IOCs are privately-owned firms, which operate on the international scale (Linde, 2000; Stevens, 2004 cited by World Bank, 2011). This distinction is increasingly seen as inadequate because some NOCs are operate across national boundaries and have the same features as IOCs except for ownership, which tends to be fully private. For the purpose of this paper, we shall refer to oil companies that operate on international scale as International Oil Companies (IOCs) regardless of ownership. In other words, NOCs may also be treated as IOCs when they extend their operations beyond the borders of the nation-states that own them.

Generally, the literature on NOCs is vast and reveals an interesting pattern in the establishment of NOCs. The literature shows that the NOC wave occurred in the early, mid- and late twentieth century through the twenty-first century. These periods were characterised by the oil boom demand stemming from growth of the automotive industry (1900s–1940s), the rise in resource nationalism which motivated the establishment of NOCs through nationalisation (1950s–1970s) and more recently (2000s and beyond) a wave of new major discoveries of petroleum resources (World Bank, 2011; Stevens, 2008a).

Three roles of NOCs have been discussed in the literature. The first role is to correct market failure (Stevens, 2008b; Victor et al., 2012). Market failure has been related to the existence of monopoly power and asymmetric information between IOCs and governments in countries that own petroleum resources. NOCs were established to serve as mechanisms for addressing this problem and strengthening the bargaining position of national governments over the IOCs to enable effective control over the petroleum sector and achieve national sovereignty (Nore, 1980; Stevens, 2012). As Marcel (2006) observes:

> 'The historical reasons for establishing national oil companies derived from states' intention to assert national control over hydrocarbon resources which meant control over decisions on production rates, over development and sales, thus over revenue for the state. National oil companies would enable governments to maximise their take, that is, share of hydrocarbon revenues that the companies transferred to the state' (p.38).

Along similar lines, the divergence of interest between the state and IOCs imply that the state had more interests in developing the sector beyond profit-making as opposed to private companies whose main motivation is to optimise profit in a bid to achieve shareholder value (Noreng, 1997). The argument here is that the state has more effective incentives and wherewithal to deal with domestic security of supply, health and safety, conservation of oil resources, training and employment of local people and generation of adequate returns (Bentham, 1988 cited in Stevens, 2008b) than private companies. The case of Sonangol, the Angolan NOC, is usually cited as an example of NOCs that have performed well in maximising the share of petroleum revenues accruing to the Angolan state (Heller, 2012).

The second role of NOCs is to act as a catalyst for broader economic development of the rest of the economy. This orientation stems from the desires of the government to use the petroleum sector to foster economic development through technology transfer and local content polices. In this regard, Pirog (2007) contends:

> 'National oil companies are also used by their governments as tools in the overall process of economic development. . . . . the industry may serve as a conduit for technology transfers to the larger economy. Local content rules may be imposed to ensure the development of ancillary service businesses to spread development dollars' (p. 7)

The promotion of local content requires increasing linkages between the oil sector and other sectors in the economy (Auty, 1990; Fee, 1988 in Stevens, 2008b) Since the private sector tends to play a limited role, the NOC see to offer appropriate means to support the development of these linkages. The maximisation of social welfare by promoting non-petroleum economic growth and reduction of poverty involves pursuing and maximising financial and productive linkages to and from the hydrocarbon sector (Victor et al., 2012). ARAMCO of Saudi Arabia exemplifies NOC that have

[1] I acknowledge the permission of Uongozi Institute to use part of this data in the development of this paper.