



UNITED REPUBLIC OF TANZANIA

THE NATIONAL NATURAL GAS POLICY OF TANZANIA - 2013

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ABBREVIATIONS AND ACRONOMS

2D Seismic Data	Two dimensional Seismic Data
3D Seismic Data	Three dimensional Seismic Data
AIDS	Acquired Immune Deficiency Syndrome
BCF	Billion Cubic Feet
BoE	Barrel of Oil Equivalent
CBOs	Community Based Organizations
CNG	Compressed Natural Gas
CSOs	Civil Society Organizations
CSR	Corporate Social Responsibility
DPs	Development Partners
EAC	East African Community
EITI	Extractive Industries Transparency Initiative
EWURA	Energy and Water Utilities Regulatory Authority
FBOs	Faith Based Organizations
FDI	Foreign Direct Investment
GTL	Gas To Liquid
HIV	Human Immune deficiency Virus
LGAs	Local Government's Authorities
LNG	Liquefied Natural Gas

LPG	Liquefied Petroleum Gas
MDAs	Ministries, Departments and Independent Agencies
MEM	Ministry of Energy and Minerals
M&E	Monitoring and Evaluation
NGL	Natural Gas Liquids
NGOs	Non Governmental Organizations
NSGRP/MKUKUTA	National Strategy for Growth and Reduction of Poverty
PMO-RALG	Prime Minister's Office – Regional Administration and Local Government
PO-PC	President's Office-Planning Commission
PPP	Public Private Partnership
SADC	Southern African Development Community
TCF	Trillion Cubic Feet
TPDC	Tanzania Petroleum Development Corporation

DEFINITIONS OF TERMS

Aggregator	A fully owned State enterprise (a subsidiary of the National Oil and Gas Company), which will have exclusive rights to purchase, collect, transport and sell natural gas produced in the country-onshore, shallow-shore and offshore.
Delivery Point	The point at the wellhead or at an inlet flange of a processing plant for the case of deep-water well.
Downstream Activities	The marketing and distribution of natural gas and products derived from natural gas. Such products include LPG, diesel, plastics, fertilizers, pesticides and pharmaceuticals.
Industrial Park	An area of land developed as a site for factories and other industrial business.
Liquefaction	The act or process of turning a gas into a liquid. Liquefaction is usually achieved by compression of vapours (provided the temperature of the gas is below critical temperature), by refrigeration or by adiabatic expansion.
Liquefied Natural Gas (LNG)	A liquid form of natural gas, which has been cooled to about minus 162°C (minus 260°F) at normal pressure. The liquefaction converts the gaseous phase into an easily transportable liquid whose volume is approximately 600 times less than the original volume of natural gas.

Liquefied Petroleum Gas (LPG)	Light hydrocarbon material, gaseous at atmospheric temperature and pressure, held in the liquid state by pressure to facilitate storage, transport and handling. Commercial liquefied gas consists essentially of either propane, butane or a mixture of both.
Local Content	The added value brought to the United Republic of Tanzania through the participation and development of nation labour, technology, goods, services, capital and research capabilities in the hydrocarbon resources.
Mid-stream Activities	Refer to the gathering, compression and processing functions required between the wellhead and the transmission system. Mid-stream facilities and activities are found at any location where natural gas is produced, transported or sold.
National Oil and Gas Company	An oil and gas company established under the laws of Tanzania in which the Government or its agent owns fifty one percent or more of the shares.
Natural Gas	A fossil fuel naturally occurring as a gaseous mixture of light hydrocarbons in sedimentary rocks. Main constituents of natural gas are methane, ethane, propane, butane and pentane with other non-hydrocarbons compounds including carbon dioxide, hydrogen, sulphide, nitrogen and rare gases found in small quantities.
Natural Gas Infrastructure	Facilities used for processing, liquefaction, regasification, transportation, storage and distribution of natural gas.

Natural Gas Liquids (NGL)	Liquid hydrocarbons found in association with natural gas. The components of natural gas that are liquid at surface in field facilities or in gas-processing plants include propane (C ₃ H ₈), butane (C ₄ H ₁₀), pentane (C ₅ H ₁₂) and hexane (C ₆ H ₁₄).
Offshore	An area away from the shore located in water depth equal to or greater than 200 metres.
Onshore	Located on land
Regasification	A process by which LNG is converted to gaseous state.
Upstream Activities	Include exploration, appraisal, development and production stages of oil and gas operations of wells that recover and bring the crude oil and/or raw natural gas to the delivery point.
Value Chain	All activities involved in ensuring that the natural gas and its products are produced and ready for use by final consumers. These activities include exploration, production, processing, transportation and marketing.

MEASUREMENTS AND CONVERSION FACTORS

Symbol	Unit	Conversion
Bbl	Barrel	= 0.15899 cubic metres
Boe	Barrel of oil equivalent	= 5,800 cubic feet
BTU	British Thermal Unit	= 1.06 kJ 1kJ = 0.948 BTU
CF	cubic feet	= 0.02822 cubic metres
kWh	kilowatt hour	= 1,000 Watt hours
M ³	cubic metre	= 6.289 barrels
mmBTU	million British Thermal Unit	= 293 kWh
mmscfd	million standard cubic feet per day	= 28,316.85 cubic metres per day
TOE/toe	Tonnes of oil equivalent	= 39.68 million BTU = 10 million kilocalories
Tonne	Metric tonne	= 1,000 kilogramme (kg) = 2,204.6 Pounds (lb)

FOREWORD

Natural gas resource found in Tanzania belongs to the people of the United Republic of Tanzania, and must be managed in a way that benefits the entire Tanzanian society.

Tanzania has been exploring for oil and gas for more than half a century. The first natural gas discovery was made on the Songo Songo Island in 1974 followed by another one in the Mnazi Bay in 1982. In 2004 and 2006 commercial production of natural gas on the Songo Songo Island and in the Mnazi Bay commenced, respectively. From 2010, Tanzania has witnessed further exploration and discoveries of significant quantities of natural gas both on- and off-shore.

These developments have created more challenges to the Government on how to manage the fast growing natural gas industry. The challenges include Policy, legal and institutional frameworks to manage the industry more effectively; human resources with the requisite skills and knowledge in the industry; development of natural gas infrastructure; development of domestic market and managing export market; revenue management; high public expectations; and health, safety and environment protection.

In pursuit of realizing significant natural gas industry developments and addressing its challenges, the Government has formulated natural gas Policy to provide a comprehensive framework for guiding the development and growth of the industry and that ensures optimal benefits to the Nation and its citizens.

The Policy preparation process was basically participatory. Several zonal workshops were held in the years 2012 and 2013 to discuss the status of the sector and lay down strategies for boosting the development of natural gas sub-sector. Based on the inputs received, a draft Policy document was prepared and discussed by stakeholders in regional workshops held at Arusha, Dar es Salaam, Dodoma, Kigoma, Lindi, Mbeya, Morogoro, Mtwara, Mwanza, Pwani, Rukwa, and Tanga. Oil exploration companies, Community-Based Organizations and Development partners participated in the formulation of this Policy.

Let me take this opportunity to extend my sincere appreciation to all stakeholders who participated in the preparation of this Policy. May I also take this opportunity to reiterate the Government's commitment towards

continued improvement of the enabling environment for natural gas business. The success of this Policy framework relies to a great extent on the cooperation of all stakeholders. Let me therefore take this opportunity to invite all stakeholders to play their part in the development and growth of natural gas sub-sector for sound shared benefits.

In order to maximize the benefits accrued from the natural gas resource, the implementation of this Policy will be aligned with the Tanzania Five Year Development Plan (2011/12-15/16), National Strategy for Growth and Reduction of Poverty 2010-15 and other sectoral and cross-sectoral policies aiming at eradicating poverty in Tanzania.

It is my expectation that this Natural Gas Policy will contribute significantly towards the acceleration of growth and socio-economic transformation of our country in accordance with our National Development Vision 2025 - Tanzania to become a middle income country by 2025.

Prof. Sospeter M. Muhongo (MP.)

MINISTER FOR ENERGY AND MINERALS

1. CHAPTER ONE

1.1. INTRODUCTION

Tanzania has been exploring for oil and gas for the past 60 years since 1952. The first natural gas discovery was made in 1974 on the Songo Songo Island (Lindi Region) followed by a second discovery at the Mnazi Bay (Mtwara Region) in 1982. The Songo Songo natural gas was commercialized in 2004 and that of the Mnazi Bay in 2006. The commercialization of the two discoveries propelled further exploration both on- and off-shore.

In 1999 petroleum exploration in the deep sea commenced with the shooting of speculative seismic survey along the entire East African coastal area after which the deep-sea Tanzania was divided into blocks. In 2005 the first exploration license in the deep-sea was awarded. In 2010, these exploration endeavors culminated in large quantities of natural gas discoveries. Exploration continues and more gas discoveries are anticipated. Over all these years, petroleum exploration and production has been guided by the Petroleum (Exploration and Production) Act of 1980 using the National Energy Policy of 2003 which cater for upstream activities. This Natural Gas Policy has been formulated to rectify the shortcomings in the above mentioned documents and provide guidance to the increasing mid- and down-stream activities in the natural gas industry in Tanzania.

1.2. STATUS OF THE NATURAL GAS INDUSTRY IN TANZANIA

Status of Exploration

Activities are currently taking place onshore and shallow waters, deep offshore and inland rift basins. Up to December 2012, there were 26 Production Sharing Agreements signed with 18 oil exploration companies. Over 110,000 km of 2D seismic data have been acquired onshore, shelf, offshore as well as from inland rift basins. As of February, 2013 total of 21,632 square kilometres of 3D seismic data have been acquired from the deep sea. A total of 67 wells for both exploration and development have been drilled between 1952 and 2013, of which 53 wells are in onshore basins and 14 in the offshore basins.

Natural Gas Discoveries

Natural gas discoveries of totalling about 8 trillion cubic feet (TCF) have been made from the onshore gas fields at Songo Songo, Mnazi Bay, Mkuranga, Kiliwani North and Ntorya. As of June, 2013 natural gas discoveries of about 42.7 TCF (7.5 billion barrels of oil equivalent – BoE) have been made from both on- and off-shore basins. The deep sea discoveries have brought about new exploration targets for hydrocarbons in Tanzania and the whole of Western Indian Ocean Region. Despite these registered developments, the infant gas industry in Tanzania is facing a number of challenges that call for:

- (i) Building of an effective institutional and legal frameworks to administer the industry;
- (ii) Availability of human resource with the requisite skills, attitude, discipline and knowledge of the natural gas industry;
- (iii) Creation of an environment to attract local and foreign investment in the natural gas industry;
- (iv) Development of natural gas infrastructure and ensure security and safety;
- (v) Development of a competitive and efficient domestic market for natural gas;
- (vi) Availability of a trusted and a transparent mechanism (and its facility) for the sound management of the natural gas revenues;
- (vii) Compliance with health, safety and environmental standards; and
- (viii) Management of high public expectations and conflicting views of stakeholders.

2. CHAPTER TWO

2.1. JUSTIFICATION FOR NATURAL GAS POLICY

This Natural Gas Policy document provides a comprehensive framework for addressing challenges that have been indicated in Chapter One. It also focuses on mid- and down-stream segments to address challenges in the natural gas industry.

The Policy provides guidelines for the development of the natural gas industry to ensure optimal benefits to Tanzanians and the national economy in the short, medium and long term. Maximization of the benefits will be attained through the optimization of the value chain which consists of mid-and down-stream activities. The formulation of this Policy was aligned with the National Development Vision 2025, the National Energy Policy of 2003, the Five Year Development Plan (2011/12 - 2015/16) and the Second National Strategy for Growth and Reduction of Poverty 2010/11 - 2014/15 (NSGRP/MKUKUTA II), and other sectoral and cross-sectoral policies.

In addressing the challenges facing the natural gas industry, the Policy encompasses five (5) pillars which form basis for the Policy objectives. These pillars clarify requirements to ensure natural gas activities would benefit the entire Nation.

2.2. PILLARS OF THE NATURAL GAS POLICY

Recognizing that Natural Gas is a National resources for the benefit of the present and future generation of Tanzania, therefore the following are the five pillars which underpin Tanzania's Natural Gas Policy:-

- a) Optimization of benefits to the Government and the people of Tanzania through strategic participation, interventions and equitable benefit sharing;
- b) Development and strengthening of institutional framework and human capacity to ensure an efficient and sustainable natural gas industry;
- c) Ensuring a transparent and accountable system is in place towards natural gas revenue management and development of the natural gas industry;

- d) Ensure adequate disaster management systems to prevent adverse impact and protect people's health, safety and environment; and
- e) Promotion and facilitation of the integration of natural gas industry and other economic sectors in the country in order to accelerate broad based growth and socio-economic transformation.

2.3. VISION AND MISSION

Vision

A vibrant and competitive natural gas industry contributing significantly to broad based growth and socio-economic transformation of Tanzania.

Mission

To create enabling conditions for the supply and effective utilization of natural gas to all market segments across the entire value chain in a reliable, transparent, effective, safe, sustainable and environmentally friendly manner.

2.4. OBJECTIVES OF THE NATURAL GAS POLICY

This Policy recognizes that natural gas is National resource that belongs to the people of the United Republic of Tanzania, and must be managed in a way that benefits the entire Tanzanian society, for present and future generations.

2.4.1. Main Objective

The main objective of the Policy is to provide guidance for the sustainable development and utilization of the natural gas resource and maximization of the benefits therefrom and contribute to the transformation and diversification of the Tanzanian economy. For that reason, Natural Gas will be exported when domestic market has been satisfied.

The natural gas resource should also contribute to improving the quality of life in Tanzania for many decades to come. This demands striking a balance between domestic and export oriented natural gas

industry; between foreign and domestic investment; between foreign contribution of capital and technology on the one hand, and national and local participation on the other hand; and between direct fiscal benefits and broader long-term development linkages.

This grand objective is supported by 15 specific objectives mentioned under 2.4.2 below and further elaborated under Chapter Three. The specific objectives arising from the five pillars address issues emanating from the present and future challenges and forecasts in the natural gas sub-sector.

2.4.2. Specific Objectives

- a) To develop facilities for natural gas processing, liquefaction, transportation, storage and distribution;
- b) To develop a competitive and efficient domestic and export market for natural gas, and ensure that the Government and Tanzanians participate effectively in the natural gas business;
- c) To ensure that Natural gas revenue is managed transparently, effectively and efficiently;
- d) To institute appropriate pricing structure to sustain supply and demand sides;
- e) To ensure the reliability of natural gas supply;
- f) To promote linkages between the natural gas industry with other strategic sectors of the economy;
- g) To ensure that Government and Tanzanians have sufficient capacity to participate effectively in the natural gas value chain;
- h) To substantially improve Corporate Social Responsibility in communities neighboring natural gas facilities and operations;
- i) To promote rational use of natural gas in all sectors of the economy;
- j) To promote, monitor and evaluate transparency and accountability in the natural gas industry;

- k) To ensure compliance with Health, Safety and Environment standards in the natural gas value chain;
- l) To ensure that development of natural gas industry regionally and internationally benefits Tanzania;
- m) To support activities in the natural gas industry based on gender issues and addressing HIV/AIDS and other infectious diseases;
- n) To sufficiently and effectively manage public expectations on benefits emanating from the natural gas industry; and
- o) To ensure maximization of benefits from the natural gas industry through PPP projects.

3. CHAPTER THREE

3.1. FUNDAMENTAL POLICY ISSUES AND STATEMENTS

The natural gas industry involves up-, mid- and downstream segments. Upstream activities include exploration, appraisal, development and production stages of oil and gas. The mid- and down-stream activities of the industry involve gas processing, liquefaction, transportation, storage, regasification, distribution and other auxiliary services. This Policy document only covers mid- and down-stream segments. While upstream activities will be guided by separate Policy document, this Policy recognizes the important linkages between activities in the entire gas value chain. Thus the Government will promote efficient and effective exploration and development of hydrocarbons and will continue to participate and manage data on hydrocarbons and establish mechanisms for natural gas exploration programs and targets for managing license holders.

In addition, the Government will retain unrestricted right of ownership of all geological data and use of such data to promote investment in oil and natural gas resources in keeping with standard industry practice. It will also strive to maximize the country and physical and non-physical benefits from natural gas exploration and production operations.

3.1.1. Development of Natural Gas Infrastructure

Issue: *Optimizing investment for natural gas infrastructure to serve the domestic, regional and international markets.*

Natural gas infrastructure covers processing, liquefaction, transportation, storage and distribution facilities, which form the natural gas supply chain. The Government considers such facilities to be of strategic significance to the industry and the national economy. There is therefore a need to ensure that adequate investment into such facilities is achieved, so that gas utilisation is not constrained by inadequate supply of relevant infrastructure.

The provision of service by monopoly entities raises challenges of access to common facilities and services by third parties. Ensuring non-discriminatory access is a critical issue which requires owners

and operators of facilities such as processing plants, offloading platforms and pipelines to provide services to all customers in a transparent manner. Moreover, facility sharing requires investment coordination as regards capacity, location, and cost recovery.

The Government aims to promote investment in the mid- and downstream gas infrastructure to ensure onshore gas processing and sharing of gas facilities to achieve economies of scale and sustainability. Towards this objective, it is envisaged that the Government will participate strategically through its National Companies to develop and operate major infrastructure for natural gas.

Objective: To develop facilities for natural gas processing, liquefaction, transportation, storage and distribution.

Policy Statements:

The Government shall:

- (i) Participate strategically through its National companies (i.e. through PPP) to develop and operate major infrastructure for natural gas;
- (ii) Ensure all natural gas processing activities are undertaken in common facilities onshore in the most cost effective manner;
- (iii) Establish a licensing regime for gas suppliers, distributors and marketers; and
- (iv) Ensure that transparent and non-discriminatory terms and conditions are developed and enforced to promote access to gas infrastructure service by third parties.

3.1.2. Natural Gas for the Domestic and Export Market

Issue 1: *Supply of natural gas for local consumption.*

Natural gas is a country's natural resource with various uses including thermal applications in industries, transportation, institutions, and households; electric power generation and gas to liquids (GTL) conversions; and as a raw material for other products

(like fertilizer, methanol and ethanol). In this regard, the Government considers facilitating wide domestic utilization of this indigenous resource as an important element of the country's strategies for achieving rapid broad based growth and socio-economic transformation. Such facilitation includes promoting production of natural gas based Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG), Gas to Liquid (GTL) and Natural Gas Liquids (NGL) for the domestic market; and promoting the establishment of industrial parks for natural gas industries. In order to ensure efficiency and reliable supply of natural gas, the Policy envisages establishing an Aggregator.

Issue 2: *Maximizing gains from natural gas export business (Gas To Liquids – GTL, LNG and other products).*

Whereas the main incentive for international oil and gas companies to develop natural gas reserves is for export market, Tanzania aims to have a reasonable share of the resource for domestic applications as a necessary measure to ensure diversification of the gas economy before export market. The Government envisages coordinated utilization of gas on the basis of a National Gas Utilization Master Plan, and that to the extent possible, detailed technical and economic analysis should guide selection of the best project for implementation that will address mutual interest of investors and the Nation. The Government, through its entities, intends to participate in the selected investment projects including GTL and LNG value chain.

Objective: To develop a competitive and efficient domestic and export market for natural gas, and ensure that the Government and Tanzanians participate effectively in the natural gas business.

Policy Statements:

The Government shall:

- (i) Ensure that domestic market is given first priority over the export market in gas supply;
- (ii) Establish a natural gas Aggregator to facilitate efficiency and reliable supply of natural gas;
- (iii) Facilitate efficient utilization and value addition to the country's

natural gas resource;

- (iv) Promote and facilitate the establishment and growth of industrial parks utilizing natural gas;
- (v) Strategically invest in the GTL and LNG value chain, efficient cross border trading of the natural gas products and other natural gas projects; and
- (vi) Ensure that all LNG and other processing facilities are located onshore through common facilities.

3.1.3. Management of Natural Gas Revenue

Issue: *Managing revenue arising from natural gas with a view to benefit the present and future generations of Tanzanians.*

Natural gas resource is a potential source of revenue to the Government. However, if not properly managed such resource is likely to be a curse instead of a blessing. Since natural gas is a finite resource, it is crucial that the revenue is managed in a manner that will bring about lasting benefits and welfare to the Tanzanian society. In addition to maximization of the retained share, revenues from exploitation of the natural gas resource must be invested strategically in order to generate sustainable returns beyond exhaustion of the natural gas reserves.

Successful management of this resource will require putting in place mechanisms of governance to mitigate spending pressure and preclude rent seeking opportunities; fiscal management to minimize effects of revenue volatility due to changes in production levels or fluctuation of global oil and gas prices; and economic diversification and linkages with other sectors.

A Natural Gas Revenue Fund will be established and managed to ensure transparency and accountability over collection, allocation, expenditure and management of all natural gas revenues. Clear guidelines shall be developed transparently or through national dialogue on the optimum short-term and long-term use of the fund. In addition, transparent and sound fiscal management of the natural gas revenue spending shall be in accordance with national development plans and strategies.

Objective: Natural gas revenue managed transparently, effectively and efficiently.

Policy Statements:

The Government shall:

- (i) Establish Natural Gas Revenue Fund for development and growth of natural gas industry as well as for national strategic projects to unlock economy and investment for future generation;
- (ii) Ensure that natural gas revenue is used appropriately for the benefits of the present and the future generations;
- (iii) Ensure that the local communities benefit from the natural gas activities in their respective localities; and
- (iv) Ensure that institutional arrangement, legal framework and guidelines to manage the fund are in place.

3.1.4. Natural Gas Pricing

Issue: *Instituting appropriate pricing structure to sustain supply and demand sides.*

Pricing of natural gas is a critical element for sustainable natural gas industry. The Government envisages to establish an appropriate pricing mechanism to be based on a set of key principles, including cost reflectivity, prudently incurred costs, reliability and quality of service; fair return on invested capital, and capacity allocation to the most valued use.

Objective: To institute appropriate pricing structure to sustain supply and demand sides.

Policy Statements:

The Government shall:

- (i) Ensure an appropriate pricing structure is in place which encourages economic use of the system capacities in the natural

gas value chain;

- (ii) Ensure the pricing structure provides incentives for promoting investments while sustaining supply and demand for natural gas; and
- (iii) Ensure that natural gas prices to strategic industries and households are affordable and predictable.

3.1.5. Security of Natural Gas Infrastructure and Supply

Issue: *Security of natural gas infrastructure and supply in the domestic market.*

Natural gas is an important source of energy for power generation, manufacturing industries, transportation, commercial and households for thermal applications. With the increasing dependence on natural gas supply, it is critical to ensure reliability of supply is maintained. To achieve this, necessary measures must be taken including natural gas infrastructure development, defining terms of infrastructure access, managing contractual commitments, prioritizing allocation of natural gas in the event of insufficiency as well as monitoring of production and storage facilities. These measures require the establishment of framework for security of supply including protocols for natural gas allocation that are transparent, non-discriminatory and consistent with the requirements of developing domestic natural gas markets.

Objective: To ensure the reliability of natural gas supply.

Policy Statements:

The Government shall:

- (i) Ensure sufficient production and rational utilization of natural gas to sustain supply to the domestic market;
- (ii) Ensure optimal investment for the national natural gas infrastructure to ensure reliability of energy supply to the country; and
- (iii) Ensure safety and security of natural gas infrastructure; and

- (iv) Enhance capacity of National security institutions to manage security of natural gas reserves and infrastructures.

3.1.6. Linkages with Other Strategic Sectors

Issue: *Mainstreaming natural gas resource utilization in other strategic socio-economic sectors.*

Natural gas can be used to stimulate development and growth of other sectors and sub-sectors of the economy such as agriculture, transport, education, health, mining, commerce, manufacturing, household and electricity. In addition, activities in the natural gas industry, such as exploration, construction and system operations will further create demand for labour, goods and services. The use of natural gas also as an alternative to woodfuel for cooking will contribute to the reduction of deforestation rate.

Objective: To promote linkages between the natural gas industry with other strategic sectors of the economy.

Policy Statements:

The Government shall:

- (i) Ensure growth of the natural gas industry supports strategic investments in other sectors of the economy; and
- (ii) Support private sector participation for rapid development of strategic and energy intensive industries.

3.1.7. Local Content and Capacity Building

Issue: *Empowering Tanzanians to benefit from the natural gas industry.*

Local content in the Tanzanian context refers to added value brought to Tanzanians through activities of the natural gas industry. These may be measured and undertaken through employment and training of local workforce; investments in developing supplies and services locally; and procuring supplies of services locally. Currently, most of goods and services are supplied by foreign companies due to

inadequate capital and requisite skills to Tanzanians. Participation of Tanzanians in areas where natural gas activities are intensive is important for the industry's stability, integration into local economies and poverty reduction.

The country may maximize these benefits through strategic participation in the natural gas value chain. Successful maximization of local content benefits require implementation of sound policies, strategies, action plans, continuous consultation amongst key stakeholders and strengthening capacity of various institutions such as Local Government Authorities (LGAs) and Community Based Organizations (CBOs).

Developing local capacity to service the industry, starting from the very low initial condition, requires strategic interventions by various players, including the Government and its agencies, international oil and gas companies, the local private sector, education and research institutions, and the community based organizations. Among others, the strategies should ensure that opportunities to provide services to the industry are eventually made available to Tanzanian entities to commensurate to their growing capacity to deliver, promote joint ventures between Tanzanian and international investors, encouraging wide ownership of oil and gas companies through ownership of the issued stock of relevant companies. The design and implementation of such strategies must be participatory, inclusive, monitorable, and backed by appropriate regulation-based incentives.

Objective: To develop the capacity of Tanzanians to participate strategically in the natural gas value chain.

Policy Statements:

The Government shall:

- (i) Work with International Oil and Gas Companies to ensure opportunities for supply of goods and services, employment and investments are made available to Tanzanians;
- (ii) Work with International Oil and Gas Companies to ensure that the capacity of Tanzanians is developed in the natural gas value chain through skills development, transfer of technology and applied research;
- (iii) Strengthen the capacity of national oil company to participate strategically in the natural gas industry;
- (iv) Work with International Oil and Gas Companies to explore possibilities that companies participating in natural gas value chain are listed on the Dar es Salaam Stock Exchange; and
- (v) Establish oil and natural gas centre of excellence and strengthen capacity of the training institutions to impart requisite knowledge skills and innovations to Tanzanians.

3.1.8. Corporate Social Responsibility

Issue: *Addressing needs of local communities*

Corporate Social Responsibility (CRS) refers to the commitment by the business to share benefits arising from the business with the community in which it operates. Beyond the 'feel good' outcome of such practice, CSR is instrumental in developing and maintaining sound and trustworth relations between business and the community. To achieve harmony, both parties must demonstrate respect for each other, and cooperate in addressing the needs of each other. It is in the interest of both parties to address or mitigate the negative perceptions and maximize the positive effects. The economically stronger companies implementing projects and activities in the natural gas industry are therefore expected to contribute positively to the development process of the local communities (preferably through respective Local Government Authorities and Community Based

Organisations), focusing their CSR activities to address the most pressing needs of the neighboring communities.

The Government will encourage all parties to jointly prepare and implement CSR programmes for their mutual benefit, and ensure maintenance of harmony and good relations between them.

Objective: To substantially improve Corporate Social Responsibility in communities neighboring natural gas facilities and operations.

Policy Statements:

The Government shall:

- (i) Ensure there is a contractual obligation to all investors and contractors in the natural gas activities to undertake locally prioritized community development programmes; and
- (ii) Ensure companies in the natural gas industry submit credible Corporate Social Responsibility action plans to the appropriate authority.

3.1.9. Efficiency and Conservation

Issue: *Sustaining present and future demand for natural gas.*

Natural gas is a finite resource, and therefore should be used prudently. In order to ensure sustainable supply of natural gas and its future availability, there is a need to utilize it efficiently in many applications for instance, in households, transport, manufacturing industries, commerce and power generation. In the medium and long terms, other sources of energy such as coal, hydro and renewables (e.g. solar, wind, geothermal and bio-energies) will be utilized to supplement power generation using natural gas.

Objective: To promote rational use of natural gas in all sectors of the economy.

Policy Statements:

The Government shall:

- (i) Establish Gas Utilization Master Plan; and
- (ii) Ensure reliable and efficient natural gas supply from wellheads to the end-use systems, consistent with the Gas Utilisation Master Plan.

3.1.10. Regional and International Cooperation

Issue: *Seizing opportunities from regional and international cooperation.*

Cooperation with regional and international economic partners is important for development of the natural gas industry. The gas industry in Tanzania stands to particularly benefit from the country's membership in regional economic blocks such as EAC and SADC. There is also a need to strengthen cooperation with international partners to share best practice and experiences in the management of natural gas industry, and take advantage of the facilities, resources, experience and information they provide.

Objective: To ensure that development of natural gas industry regionally and internationally benefits Tanzania.

Policy Statements:

The Government shall:

- (i) Support cross border projects and investments within EAC, SADC and AU Partner States to maximize benefits accruing from natural gas exploitation; and
- (ii) Facilitate international collaboration in education, research, exchange of data and information in natural gas industry.

3.1.11. Public Awareness and Expectations from the Natural Gas Industry

Issue: *Improving public awareness on matters pertaining to the natural gas industry*

Public awareness is important for supporting implementation of projects and activities in the natural gas industry. Following

significant discoveries of natural gas in the country, public expectations have increased based on the perception that discoveries are likely to yield immediate benefits. Key stakeholders include company employees, NGOs, community groups, activists, media and the general public. The expectations have to be moderated within realism and feasibility, lest they become a source of public discontent and disagreements. The expectations have to be managed since such benefits may take time to be realized.

This situation calls for the need to increase awareness on natural gas operations to the general public and stakeholders, particularly local communities where natural gas projects and activities are undertaken. It is in everyone's interest that communication and flow of information about the natural gas industry to the public is maintained in a satisfactory condition at all times.

Objective: To sufficiently and effectively manage public expectations on benefits emanating from the natural gas industry.

Policy statements:

The Government shall:

- (i) Develop an effective communication strategy that provides an accurate and timely information to the public on activities implemented throughout the natural gas industry as well as manage public expectation and stewardship of natural gas resources; and
- (ii) Inform the public on natural gas development activities at different stages in order to inculcate a sense of ownership of the country's natural gas.

3.2. CROSS CUTTING POLICY ISSUES AND STATEMENTS

3.2.1. Transparency and Accountability

Issue: *Increasing transparency and accountability to the public on natural gas activities.*

Access to information is a fundamental right in activities that may positively benefit or negatively impact individuals, communities and society as a whole. Dissemination of information makes the public aware of the developments in the industry. The Government and stakeholders have important roles to play in order to achieve transparency and accountability to the public as well as eliminating possible elements of corruption in the natural gas industry.

Related to this, the Government has joined the Extractive Industry Transparency Initiative (EITI) to improve transparency and accountability as well as accessing information in relation to revenue accrued from extractive industries. Except for national companies specifically given such mandates, there shall be separation (unbundling of operations) of value chain activities in order to promote accountability and efficiency.

Objective: To promote, monitor and evaluate transparency and accountability in the natural gas industry.

Policy statements:

The Government shall:

- (i) Develop transparency and accountability guidelines in natural gas industry; and
- (ii) Enforce transparency and accountability to all stakeholders involved in the natural gas industry.

3.2.2. Management of the Environment, Health and Safety

Issue: *Enforcing sound practices in environmental, health and safety management.*

Natural gas operations may have adverse effects on the environment, health and safety of people. For instance, construction of marine

pipeline can negatively impact marine ecology including disturbance of fish habitat. Gas flaring in the natural gas processing plants emits carbon dioxide to the atmosphere.

Adherence to good industry standards and practices will contribute significantly to preventing or mitigating such effects. It is important to plan for remedial measures prior to any natural gas operation. Regulations of these operations are necessary to ensure that natural gas activities are conducted taking environment, health and safety issues into serious consideration.

Objective: To ensure compliance with Health, Safety and Environment standards in the natural gas value chain.

Policy Statements:

The Government shall:

- (i) Ensure that health, safety, environmental and biodiversity issues are mainstreamed into all operations of the natural gas value chain;
- (ii) Ensure compliance to health, safety and environmental protection and best practice in the industry; and
- (iii) Ensure disaster management systems to prevent and mitigate adverse impact in the natural gas operations are in place.

3.2.3. Gender Mainstreaming and HIV & AIDS

Issue 1: *Mainstreaming gender issues in the natural gas industry.*

The Government provides equal opportunities to all citizens of the country. However, most of such opportunities are usually dominated by men. Active participation of female in the natural gas industry is thus encouraged. Natural gas industry development is likely to have different impacts on women, men, children and vulnerable groups. The use of natural gas for cooking in households relieves female from wasting time searching for firewood and indirectly improves health due to better kitchen environment that is free from smoke and soot.

Issue 2: *Addressing HIV & AIDS and other infectious diseases in the natural gas industry.*

HIV and AIDS are associated with other infectious diseases which have greatly affected socio-economic development and livelihoods. Like many other large scale projects, natural gas projects will attract the concentration of people looking for employment and other related activities. In the process, this may escalate the HIV and AIDS infections. Awareness and education on HIV and AIDS to all stakeholders is important to reduce its impacts on communities surrounding such projects.

Objective: To support activities in the natural gas industry based on gender issues and addressing HIV & AIDS and other infectious diseases.

Policy statements:

The Government shall:

- (i) Ensure that all programmes related to natural gas value chain including education and training opportunities are based on gender equality and equity; and
- (ii) Work with International Oil and Gas Companies to facilitate provision of preventive, curative and promotional education on HIV & AIDS and other infectious diseases to stakeholders in the natural gas industry.

3.2.4. Public Private Partnership (PPP)

Issue: *Enhancing private sector participation.*

The Government recognizes the role of private sector in bringing about socio-economic development through capital investment, managerial skills and technology as stipulated in the PPP Policy of 2009 and the PPP Act of 2010. Like other sectors of the economy, projects under PPP arrangements have been implemented in the petroleum and natural gas-sub sectors. However, the Government has experienced problems in such projects including risks sharing mechanisms and insignificant benefits. In order to address these problems, proper

mechanism for risk sharing in natural gas PPPs investments needs to be put in place to ensure mutual benefits for both parties involved.

Objective: To ensure maximization of benefits from the natural gas industry through PPP projects.

Policy statements:

The Government shall:

- (i) Promote and facilitate PPPs arrangements to enhance investments in the natural gas industry.

4. CHAPTER FOUR

4.1. FISCAL, LEGAL AND REGULATORY FRAMEWORK

Following significant discoveries of natural gas in Tanzania, natural gas industry is set to grow rapidly. As a result, there will be tremendous increase of upstream activities, mid- and down-stream activities. This requires strengthening of fiscal, legal and regulatory framework to comprehensively address the governance of the natural gas industry. Therefore, enactment and amendment of specific legislations to address the situation is inevitable including Natural Gas Act, Natural Gas Revenue Management Act, Income Tax Act (Cap. 332) and EWURA Act (Cap. 414).

4.2. FISCAL REGIME

The Gas Policy underscores the need for clear segregation of the upstream activities, mid-stream and down-stream activities with different ownership structures. Fiscal regime for mid stream and downstream operations will be treated as general business entities or industrial project and will be subject to standard income taxation as well as indirect taxation such as VAT, Excise taxes and Import duties. On the other hand, upstream production activities will be treated as separate commercial entities with fiscal terms including royalties, production sharing, indirect taxes, windfall profit taxes as well as corporate and other income taxes. These upstream fiscal regime provisions will be covered in the Petroleum policy. In general terms, tax treatment of any natural gas project shall be according to prevailing tax laws. Bundled activities are not encouraged in this arrangement. The Policy shall support the priorities of reducing the fiscal deficit and promoting productivity and the competitiveness of other sectors in the economy. It also recognises the need to enhance fiscal discipline in managing the revenues generated from natural gas activities and directing them to the areas that support a broad-based economy. The natural gas fiscal regime for mid-stream and down-stream shall, therefore, consist the following:

- (i) Income taxes, such as employment taxes, withholding taxes and corporate income tax typically with some restrictions on consolidation with income and tax deductions across different activities such as processing, liquefaction, transportation,

storage, re-gasification, distribution, and other auxiliary services. It also includes application of transfer pricing rules and taxation of sale of shares overseas. All these shall be treated in accordance with the prevailing Income Tax Act, Cap 332.

- (ii) Indirect taxes such as Excise Duty as per the Excise (Management and Tariff) Act, Cap 147; VAT as per the VAT Act, Cap 148; import/Export duties as per EAC Customs Management Act, 2004 and other indirect taxes such as stamp duties, fees and other imposts as per the applicable Laws in Tanzania.
- (iii) Local Government Taxes according to Local Government Finance Act, 1982 as amended.

4.3.LEGAL AND REGULATORY FRAMEWORK FOR MID- AND DOWN-STREAM

Legal and Regulatory Framework for mid- and down-stream industry will, among others, comprise of licensing, tariff structure, rates and charges, quality and standards, health and safety issues, third part access to common infrastructure and services, revenue management and related aspects of natural gas industry administration and regulation. Therefore, the role of the Government shall be to:

- (i) Establish legal and regulatory framework to govern the processing, transportation, liquefaction, distribution, supply and trading of natural gas to ensure efficient management, expedite development of mid- and down-stream activities to maximize benefits accrued from natural gas resource;
- (ii) Establish proper mechanisms to provide for reliable and affordable supply to domestic market;
- (iii) Ensure that the regulatory authority for natural gas industry is strengthened;
- (iv) Ensure compliance with generally accepted international standards for natural gas industry; and

- (v) Ensure stable, robust and sound legal framework for natural gas industry.

5. CHAPTER FIVE

5.1. INSTITUTIONAL FRAMEWORK

The successful implementation of Natural Gas Policy and other national development policies depends crucially on the institutional framework that is in place to develop tools for operationalizing, enforcing, monitoring and evaluation to ensure desired outcomes. The institutional framework articulates major roles of key institutions direction towards a transformed economy and sustainable growth and development. The key institutions include Central Government, Local Government Authorities, National Oil and Gas Company, Regulatory Authority, Central Bank of Tanzania (BoT), Private Sector, Academic and Research Institutions, Media, Civil Societies and Communities.

5.1.1. The Role of the Government

The rapid growth in the natural gas industry in Tanzania requires the involvement of the Government in directing resources and leading other players towards a desired development direction. Therefore, in addition to traditional roles of facilitation and regulation, the Government shall also participates in investment and ownership of strategic infrastructure. The role of the Government shall therefore be:

- (i) To prepare and periodically review Policies, Strategies, Acts and Regulation as well as to administer their implementation;
- (ii) To attract foreign direct investment in capital intensive and technologically demanding natural gas projects;
- (iii) To participate strategically in natural gas investments;
- (iv) To support national enterprises and Tanzanians to participate actively in the natural gas industry;
- (v) To strengthen the capacity of Government's institutions responsible for the natural gas industry;
- (vi) To strengthen legal and regulatory framework for natural gas industry; and

- (vii) To set targets and monitor results of natural gas projects and programmes.

5.1.2. The Role of Local Government Authorities

Local Government Authorities are important link between Central Government and Communities. The role of Local Government Authorities in natural gas activities shall be:

- (i) To administer and enforce Acts and Regulations;
- (ii) To prepare guidelines for Corporate Social Responsibility within their localities;
- (iii) To oversee the implementation of the Corporate Social Responsibility Action Plan submitted by Oil and Gas Companies; and
- (iv) To provide awareness to the public on natural gas projects in their areas.

5.1.3. National Oil and Gas Company

The designated National Oil and Gas Company will have to take new roles and responsibilities in the light of natural gas discoveries and the need for development of the industry. Oil and gas activities including commercial and regulatory roles shall be carried out separately by relevant entities.

In addition to participating in upstream activities, the role of National Oil and Gas Company in the mid - and down-stream natural gas activities shall be:

- (i) To promote and safeguard the National interest in the natural gas industry;
- (ii) To advise the Government on Policy issues pertaining to mid - and down-stream natural gas activities;
- (iii) To participate in development and own strategic natural gas projects and businesses on behalf of the Government;
- (iv) To acquire, analyse and disseminate information on issues regarding the natural gas industry;

- (v) To carry out specialized operations in the natural gas value chain using subsidiary Companies;
- (vi) To acquire and own land for key natural gas projects; and
- (vii) To establish and enable an Aggregator who will develop, own and manage the major infrastructures for mid- and downstream natural gas sector, including but not limited to the following:
 - The pipeline network from central gathering stations to wholesale distribution and end users;
 - The gas processing facilities and gas products; and
 - The central gathering stations – either jointly with the producers or on its own.

5.1.4. Regulatory Authority

The potential size of the natural gas resources in Tanzania and its expected multiple uses require a robust regulatory authority. The role of regulator for natural gas shall be:

- (i) To perform the functions conferred to it by the gas legislation;
- (ii) To enforce Acts and Regulations;
- (iii) To grant, renew, suspend and cancel licenses;
- (iv) To establish standards for goods and services in the natural gas industry;
- (v) To regulate rates and charges in the natural gas industry;
- (vi) To monitor and evaluate performance of natural gas activities including levels of investment, cost of services and availability of gas supply; and
- (viii) To facilitate the resolution of complaints and disputes.

5.1.5. Central Bank of Tanzania

The primary responsibility of the Central Bank is to establish monetary conditions conducive to price stability over time. It is expected that the natural gas industry may fuel inflation in the country if conducive conditions are not put in place timely. In this case, the roles of BoT shall include:

- (i) To ensure that natural gas activities do not cause negative impact on monetary policy and macro-economic stability;
- (ii) To provide advice to the Government on the impact of the natural gas sub-sector, as it evolves, on the national economy; and
- (iii) To manage and administer the Natural Gas Revenue Fund.

5.1.6. Private Sector

Private sector players are important in providing substantial capital investment and technologies needed for exploration and development of the natural gas resource. The Private Sector will continue to work with the Government to promote, build capacity and facilitate PPP projects or other arrangements in the natural gas value chain. The sector is also expected to implement credible Corporate Social Responsibility programmes.

5.1.7. Academic and Research Institutions

Academic and Research Institutions are important for development of the natural gas industry. Development of the industry has increased demand for knowledge and skills in Tanzania. In order to meet the demand, the Government has taken measures to introduce and expand training in relevant fields in the oil and gas industry. These institutions will work with Government to promote education, training and research in the natural gas industry, recruitment and retention of the human resources required in the industry.

5.1.8. NGOs and Civil Societies

This Policy recognizes the role of NGOs and other civil society organisations in enhancing advocacy, mobilization and dialogue with communities, investors and the Government. These entities will contribute to natural gas activities and collaborate with Government in designing, monitoring and implementation of socio-economic programmes related to the natural gas industry.

5.1.9. Media

The role of the media in providing accurate and balanced information on the natural gas industry issues to the public is important. In this regard, the Media need to strengthen their capacity in understanding natural gas industry in order to deliver information accurately and timely. This will increase public awareness, transparency and accountability on matters pertaining to the natural gas industry.

5.1.10. The Community

Local communities have a big role to safeguard the integrity of natural gas infrastructure since are meant to benefit them. Hence, the communities have the responsibility to maintain security and safety of the project facilities to ensure their sustainability. There must be formal communication mechanism between investors/operators and the local communities in subsequent phases of the natural gas project development.

5.2. MONITORING AND EVALUATION FRAMEWORK

The impending incipience of a large natural gas industry presents a multitude of opportunities and challenges for Tanzania. This Policy addresses some of the multifaceted issues arising from this development, and recognises that adjustments will be needed in many sectors to accommodate the demands and impacts of a growing natural gas industry in the country. To the extent that separate programmes, projects, or institutions take on board issues resulting from the natural gas industry, such issues will be integrated in the relevant programme, project, or institution's Monitoring and Evaluation (M&E) framework. It is also noteworthy that the different

stakeholders to the gas industry may develop separate M&E frameworks to suit their specific expectations and interests.

The Natural Gas Policy M & E Plan shall be developed through a consultative process as part of the Policy Implementation Strategy, and outline milestones and key performance indicators under each of the five pillars of the Policy. Specifically, the Plan shall be a tool to manage the process of monitoring, evaluating and reporting progress towards the objectives, and serve the following main functions:

- (i) Explain in detail **how** and **what** the Ministry and other Government institution will (a) monitor to determine whether implementation is on track to achieve the intended Policy objectives, and (b) evaluate / assess the adequacy of implementation strategies, provide lessons learned, determine cost effectiveness and estimate the impact of individual interventions;
- (ii) Develop and provide all indicators that must be reported to the stakeholders on regular basis;
- (iii) Provide early warning signals about the required development and subsequent change and/or review; and
- (iv) Serve as a communication tool, so that all stakeholders clearly understand the objectives being sought through this Policy and Government's actions emanating thereunder.

5.2.1. Institutional Arrangement for Monitoring and Evaluation System

The institutional framework for monitoring and evaluation consists of the institutional organizational set-up and its environment of operation. It covers the framework for reporting, supporting and coordination systems for monitoring and evaluation.

This Policy has been developed with a primary focus on one main objective: providing guidance for the development and utilization of the natural gas resources to maximize the benefits ensuing therefrom and contribute to growth and the transformation of the Tanzania's economy and the standard of living of her people. Its implementation

is therefore expected to generate impacts over and beyond those emanating from existing programmes and projects. It is this understanding that underpins the need for a distinct Monitoring and Evaluation (M & E) Framework to be applied in conjunction with this Policy. The framework shall seek to answer the question, “has implementation of the Natural Gas Policy met the objectives and benchmarks as outlined in this Policy document?”

The multi-dimensional challenges and opportunities from the emerging natural gas industry require systematic monitoring and evaluation framework for Policy implementation and performance assessment. The monitoring process will generate and supply data and information on the progress made in the implementation processes while evaluation will determine the relevance, effectiveness, efficiency, sustainability and impact of the Policy.

While the main responsibility for monitoring and evaluation framework will be vested in the Ministry responsible for natural gas, a coordination mechanism will be established to allow for multi-stakeholder consultations involving key stakeholders including MDAs (including Ministries responsible for finance, law, security, safety and environment), LGAs, Members of Parliament, the Private Sector, NGOs, FBOs, CSOs, CBOs, Media and DPs.

5.2.2. Monitoring and Evaluation Indicators

A list of smart indicators will be developed to meet information needs of different stakeholders at all levels. They will be reviewed from time to time to meet additional information requirements necessitated by the new developments. More specifically, baseline data will be collected as benchmark of the Policy implementation tracking.

At each particular implementation period, monitoring and evaluation will be undertaken to review the implementation of the strategy. The general objective of evaluation is to determine the relevance, effectiveness and impact of Policy on the social, political and economic development of the country. Both qualitative and quantitative indicators will be analyzed.

5.2.3. Monitoring and Evaluation Tools and Deliverables

The output and deliverables of the Natural Gas Policy 2013 will be:

- (i) Natural Gas Act and Regulations;
- (ii) Natural Gas Implementation Strategy;
- (iii) Natural Gas Utilization Master Plan;
- (iv) National Gas Company and its subsidiary companies;
- (v) Natural Gas Revenue Fund;
- (vi) Communication Strategy with an interactive element to facilitate ongoing feedback from stakeholders;
- (vii) Progress Report, using Monitoring and Evaluation System output to both indicate progress and update on implementation of the Natural Gas Policy; and
- (viii) Analytical report of different studies (including feasibility and researches) undertaken.

6. WAY FORWARD

This Policy document provides guidance for ensuring that the benefits to Tanzania and Tanzanians from the natural gas value chain are maximized and contribute to the accelerated growth and socio-economic transformation of the country and its citizens. It also forms a comprehensive framework for guiding development of the natural gas industry.

The Government is determined to ensure timely implementation of the Policy with an ultimate goal of improving the quality of life of Tanzanians for many decades to come. This would be achieved through engagement mechanisms which address both domestic and export markets of natural gas. In the course of implementing the Policy, an integration of the natural gas industry with other socio-economic sectors is considered to be of paramount importance.

This Policy document will be implemented through the following undertakings:

- Implementation Strategy document, which is detailed to reflect underlying objectives and corresponding strategies as well as roles of key actors to ensure effective implementation;
- Enactment of laws and regulations;
- Amendment of existing laws and regulations; and
- Restructuring of existing institutions and public companies, establishment of new ones to implement the Policy.

The successful implementation of this Policy calls for participation of all stakeholders including, the Government and its public institutions, companies; the private sector (including oil and gas companies), local communities and the public as a whole. The country's natural gas resource must contribute significantly to the realization of the objectives of our National Development Vision 2025 whose ultimate goal is to ensure that Tanzania becomes a middle-income country by 2025.

This Policy will be reviewed when need arises.