David versus Goliath: Tanzania’s Efforts to Stand Up to Foreign Gas Corporations

Andrzej Polus and Wojciech Tycholiz

Abstract
This article presents and analyses how Tanzania, a country on the global “periphery” with a natural resource sector dominated by capital from the Global North, has thus far failed to transform its mineral wealth into sustained economic development. Using Immanuel Wallerstein’s “world systems theory” as the theoretical framework, we exemplify how the “core” exploited gold reserves in the 1990s and into the new century – and what techniques and mechanisms (e.g. asymmetry of information, imposition of inadequate management structures) it now currently uses to develop the nascent gas sector to its advantage. Scrutinising actions undertaken by the Tanzanian president to concentrate power, root out corruption, and to stand up to profit-maximising foreign corporations – or what we call the “Magufuli effect” – as way of illustration, we also demonstrate how Tanzania is trying to change its role within the international division of labour and how the core attempts to maintain the status quo meanwhile.

Keywords
Tanzania, Magufuli, natural gas, gas corporations, core, peripheries

Manuscript received 21 September 2018; accepted: 20 February 2019

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**Introduction**

Although eight years have passed since vast offshore natural gas deposits were first discovered in Tanzania, the discourse on gas production is still dominated by adjectives, such as “potential” (Deloitte, 2016: 1) and “excited” (Roe, 2016: 2), and presented within the narrative of “opportunities” (Tanzania Oil and Gas Congress, 2018). Such language implies that the wealth lying beneath the seabed is yet to be explored, so as to eventually transform the Tanzanian economy. The major objective of this analysis is, then, to present the recent dynamics in the Tanzanian gas sector, particularly factors affecting the negotiating power of the government and of corporations. We integrate the critical political economy and the “world systems” paradigm as advanced by Immanuel Wallerstein (2006) to develop an analytical framework that can adequately capture this phenomenon. We also refer to Ian Taylor’s (2016) claim that sub-Saharan states have not thus far changed their positions as regards the international division of labour. Finally, this article adds a voice to the discussion on the sub-Saharan states’ advances in taking countermeasures against the resource curse.

The argumentation provided in the article is based on field research carried out in Tanzania, where the authors conducted over thirty semi-structured, in-depth interviews with politicians, civil servants, academics, and with representatives of civil society and of the oil industry. During the interviews, every respondent was asked general questions about his/her perception of natural gas being the game changer for Tanzania’s development and the government’s potential ability (in terms of skills, legal expertise, and industry know-how) to avoid the onset of the resource curse. Every interviewee was also asked targeted questions related to his/her field of expertise. In addition, an analysis of primary and secondary documentation helped to corroborate findings from the interviews.

Despite the existence of a rich academic literature devoted to the resource curse phenomenon in sub-Saharan Africa, the issues of (1) the readiness and potential consequences of large-scale gas production in Tanzania and (2) the potential of natural gas to transform the country’s economy have hardly been covered to date. The *Tanzania Oil and Gas Almanac* published by the Friedrich Ebert Foundation (Katunzi and Siebert, 2015) is a collection of press articles rather than an academic piece per se. The political economy of gas-related contract negotiations between the Tanzanian government and gas-producing corporations has been discussed by both Pedersen and Bofin (2015) and Henstridge and Rweyemamu (2017: 49–85), but neither paper refers directly to the Tanzanian government’s bargaining power in relation to these corporations. Finally, in a number of reports dedicated to investment opportunities in Africa, Tanzania has been presented as a “growth star” or a “stable grower,” while its hydrocarbon potential has been perceived rather as an opportunity for and not a threat to development (e.g. Leke and Dominic, 2016). This analysis, on the other hand, attempts to go beyond the revenues collection fetish and wishful thinking about gas potential. Instead, it focuses on structural factors that affect the negotiating power of the Tanzanian government and of the gas-producing corporations. The analysis is grounded within the political landscape of Tanzania (especially the evolving role of the presidential office, under John Pombe
Magufuli) and its agenda to industrialise the country (in which gas resources are to play a major role).

**Natural Resources in Tanzania and the Country’s Development Paths**

The presence of offshore natural gas reserves in Tanzania was confirmed by AGIP in 1974. However, due to the high costs of extraction and the low interest of the international oil corporations in natural gas (crude oil was much higher up on their agenda at the time), small-scale gas production only started in 2004. Currently, gas production in Tanzania is estimated by the US Energy Information Administration at 39 billion cubic feet per year – making the country only the sixty-fourth largest gas producer worldwide. The vast majority of the gas reserves are located deep offshore, which significantly increases production costs. In 2017, Tanzania’s confirmed gas deposits skyrocketed to almost 60 trillion cubic feet and likely will further increase since East Africa is among the least geologically penetrated regions around the globe.

In Tanzania, natural gas is often presented as a game changer since it is deemed to have great potential to lift around 11 million people there out of extreme poverty (World Bank, 2015: 12) and to transform the entire economy of the country via, among other means, gas-based industrialisation. However, from the world systems perspective, Tanzania occupies a “peripheral” position in the international division of labour due to externally enforced deindustrialisation (Taylor, 2016) and a structurally imposed inability to accumulate and multiply capital. According to world systems theory, the “core” of the capitalist world economy influences political processes in peripheral countries in order to allow the accumulation of capital at the core through the exploitation of natural resources on the peripheries (Wallerstein, 2006). After gaining independence from Great Britain and establishing a union with Zanzibar, the United Republic of Tanzania started to implement the plan to accumulate capital based on an internally oriented, self-reliant development path of *ujamaa*. However, despite the efforts of the inaugural president, Julius Nyerere, the country was unable to accumulate enough resources to sustain its growth model. Once the *ujamaa* experiment abruptly ended in the 1980s, a new development paradigm originated externally (i.e. from the core) in the form of structural adjustment programmes (Edwards, 2014: 137).

Through the world system theory lens, the primary objective of the International Monetary Fund-sponsored liberalisation agenda was to enable further capital accumulation at the core while putting to a stop to any change in Tanzania’s peripheral status within the world economy. In the 1990s, Tanzania was a textbook example of a peripheral country exploited by foreign gold mining companies. As a result, almost all of Tanzania’s gold revenues accrued to the core, while the needs of local people were neglected. This was possible through careful legal framework design and a gold sector management approach in which transfer pricing and profit-hiding techniques thrived (Sachs, 1987). Over-declaration of net losses, thin capitalisation ratios, and intra-company transactions led to a situation where the collection of taxes and royalties from mining companies was negligible (Readhead, 2016: 7). According to one of the
government’s investigators, only 25 of 1,700 mining companies operating in the country have ever paid taxes (The Guardian, 6 May 2018). The total amount of royalties and taxes paid by foreign mining companies in Tanzania accounted for just 2.3 per cent of total domestic revenues between 1998 and 2011 (Lundstøl et al., 2013: 18).

In the eyes of ordinary Tanzanians, the gold rush was supposed to be the game changer that would lift the country out of poverty (Lange, 2011: 239), but in the capitalist world economy there could be only one true beneficiary of the mining sector there. At the University of Dar es Salaam today, the dominant narrative among academics is that since Tanzania has not been able to gain anything from gold mining there is no reason to think that it will be any different with gas (interview, Semboja, 2016). As the core continues to subordinate the peripheries and semi-peripheries, the challenge of accumulating capital internally and utilising it for industrialisation (as planned by the current Tanzanian government) appears impossible to successfully meet. This is especially so given that the core (gas corporations included) is using any means at its disposal to maintain the status quo (interview, Ruhindika, 2016). Some of the recent decisions taken by the Tanzanian government (elaborated on in the last section of this article) do not help either.

David versus Goliath, or Why This Time It Will (Not) Be Different

The three major oil and gas corporations involved in gas exploration activities in Tanzania are ExxonMobil, Shell,1 and Equinor (formerly, Statoil). Their combined net profits for 2017 (USD 37.2 billion) were five times larger than the revenues of the Tanzanian government in the 2017/2018 fiscal year (USD 7.3 billion), while the combined value of the corporations’ total assets in 2017 were more than sixteen times larger than Tanzania’s gross domestic product for the same year (ExxonMobil, 2018, Shell, 2018, Statoil, 2018). This huge power disproportion is notable not only in statistical fiscal numbers but also – and more importantly – in experience, know-how, and skills, which all influence the Tanzanian government’s negotiating power with gas corporations. Suffice to say, the gas companies have over 10 decades of combined experience in exploring natural resources around the world, while Tanzania’s previous exposure to the gas sector has been only limited. This manifests itself in a large asymmetry of information that is most prominently visible in financial flows and technical knowledge vis-à-vis gas sector development.

One element of the government’s catch-up strategy is pursuance of the Norwegian model of hydrocarbon sector management, which lies behind that country’s own successful socio-economic transformation. The Tanzanian government wishes to build “a second Norway” in Africa (interview, high-ranking manager at Equinor, 2016). However, the Norwegian model of oil/gas extraction and revenue management consists of certain governance structures and revenue-sharing guidelines determining the proportion of revenues consumed in the current year and ring-fenced for future generations. The aspiration of having an upstream regulator, a national gas corporation, and a dedicated ministry responsible for overseeing the entire process of oil and gas production (“the
triad”) is definitely applicable to Tanzania (interview, Tax, 2016). However, due to its complexity and the fact that it was gradually developed in a different (i.e. Norwegian) socio-political environment, its simple copy-and-pasting to Tanzania will be potentially both costly and risky.

Despite billions of dollars having already been invested in the Tanzanian gas sector (Equinor alone has invested over USD 2 billion therein so far), the final investment decision by gas majors has not been taken yet. This means that gas corporations can limit, or even abandon, their Tanzanian investment at any point without incurring significant additional costs. The first step towards this worst-case scenario has already materialised: ExxonMobil is currently seeking buyers for its stake in Block 2 (Bousso and Vukmanovic, 2018), and, as soon as it finds one, will exit the country to focus on an even larger gas project in neighbouring Mozambique.

There are also potential loopholes in the current sector design, which stem from the lack of certain skills and experts in Tanzania. For example, the national oil- and gas-producing corporation, the Tanzania Petroleum Development Corporation (TPDC), is subordinated to the Ministry of Energy and Minerals. Concurrently, the most competent people responsible for the gas sector were moved from the ministry to TPDC. This created a paradoxical situation of the most experienced people (in terms of gas production in Tanzania) being subordinate to those who have less such acquired acumen. Moreover, TPDC members pointed out that the corporation is heavily understaffed (interview, Mary S. Ngusaru, 2016).

Another important aspect of the Norwegian model is the role of the national sovereign wealth fund. Taking into consideration the core purpose of this (i.e. saving for future generations), one must ask would it not be reasonable to instead inject gas-related revenues into an underdeveloped Tanzanian economy today rather than deferring them to the future? It is noticeable – at least from a social point of view – that the rate of return from investing gas revenues into Tanzania’s infrastructure, healthcare system, or education today would bring greater benefits for future generations than allocating financial resources to an investment fund. None of this would, however, help the core in its continued exploitation. Therefore, the adoption of externally imposed solutions (i.e. the Norwegian model in this case) for managing the hydrocarbon sector in Tanzania can be seen as a yet another manifestation of the capitalist economy system striving to control the internal distribution of wealth in a gas-producing country on the periphery. In this regard, one of the fundamental flaws in the architecture of Tanzania’s hydrocarbon sector management system is the fact that Equinor is, simultaneously, both a vital player in the gas industry and a conduit of related knowledge for the Tanzanian government (whose own role is to regulate and supervise this sector). In 2016 and 2017, for example, Equinor’s representatives regularly provided training to the Tanzanian administration on how to prevent and detect financial misconduct by gas corporations.

The Tanzanian Revenue Authority (TRA), meanwhile, has to deal with knowledge and skill shortages (Elbra, 2017: 96). The 12 people employed by the TRA transfer pricing units are too few to supervise companies who transfer billions of dollars annually among their divisions, subsidiaries, and related entities, especially as they lack the necessary experience and skills for this. There is no doubt that specialist training for the
TRA to be able to detect anomalies in transfer pricing or other forms of financial misconduct is required. However, it seems problematic that Equinor and the Norwegian government serve as the main sources of information for the Tanzanian administration while the former is one of the major commercial players in the Tanzanian gas industry. Naturally, from the world systems theory point of view, such behaviour by the core is both entirely rational and in keeping with its self-preservation ethos.

To achieve its objectives, the core is not hesitant to resort to blackmail. In the eponymous case, gas corporations have been using the “Mozambique card” to influence the outcome of the negotiation process. In that country, as noted, large natural gas deposits were also recently discovered. Similar to Tanzania, Mozambique invited foreign investors to develop its gas sector. During the negotiation process, the gas corporations openly admitted to the Tanzanian government that “it is doubtful that there is room for two LNG [liquefied natural gas] plants in East Africa” (anonymous source at Shell). In other words, if the terms and conditions of the deal with Tanzania are not “investor-friendly” enough, the entire project might be cancelled and moved to Mozambique instead. This reveals another important feature of the negotiation process: ultimately, it is up to the gas corporation – not the Tanzanian government – to make the final investment decision.

The “Magufuli Effect”: Internal Approach to External Pressure

The challenge that Tanzania faces today in turning natural gas reserves into national wealth is not determined solely by external forces related to the capitalist core. There are also internal features of Tanzanian politics, society, and economy that themselves affect the extent to which the country can withstand external pressure. Generally speaking, mainland Tanzania has been presented as a politically stable state with free and fair elections and notable respect for a two-term limit within the presidential office. Since independence, the country has been ruled just by one political party, Chama Cha Mapinduzi (Party of the Revolution, CCM), which is the longest ruling party in sub-Saharan Africa. The legacy of Julius Nyerere and the existence of Kiswahili as a lingua franca are usually cited as the two prerequisites for Tanzania’s political stability (Green, 2011).

Similar to many other peripheral countries in Africa, Tanzania has relatively weak institutions – especially those designed to curtail corruption and neo-patrimonialism. In fact, despite the visible heterogeneity of the political elite in terms of ethnicity and geographical origins – which is unique by African standards (interview, Hailman, 2017) – holding public office is the shortest path to becoming rich in Tanzania (interview, Kimesera, 2017). Political corruption was a “recurring feature of Tanzania’s political landscape at the start of the twenty-first century” (Gray, 2015: 382–403) and has continued unabated ever since. Over the last decade, the energy sector in particular has served as the scene for numerous corruption scandals providing a plethora of ways for self-enrichment by politicians and rent-seeking civil servants (Gray, 2015: 389–392). In a corruption-prone environment, it is much easier for the core to
take advantage of a weak Tanzanian state and thus to secure very favourable access to local natural resource reserves.

Since assuming the presidency in 2015, incumbent John Pombe Magufuli has made the fight against corruption his top priority. His decisive actions to break the established order as well as to introduce prudence and accountability as principal values in his administration have brought him the nickname “the bulldozer.” President Magufuli recognises that, due to years of subordination to and ill treatment by the core, Tanzania has been suffering from “structural disarticulation” – meaning divergence between the structure of production and that of consumption. “What is produced is not consumed, and what is consumed is not produced” (Shivji, 2009: 59). Using state-led macroeconomic planning and management, alongside consolidating power in the presidential office, he has set the country on the road towards becoming a developmental state. According to his vision, only resolute actions targeted at the extractive sector (among others) can bring material change and enable internal capital accumulation without deepening the dependence on foreign assistance.

The Magufuli effect – as we term his new approach to the presidency – manifests itself through a combination of fear, unpredictability, and decisiveness in the president’s actions. For example, during our stay in Dar es Salaam civil servants complained that they never know when the president might next show up to perform an inspection – with high-ranking officials losing their jobs on a daily basis as a result of these presidential visits (according to unofficial estimates, Magufuli has fired 10,000 civil servants to date). The “mining revolution” in Tanzania is yet another example of the president’s unpredictability, decisiveness, and his clash with the core. Magufuli started a revolution in the extractive sector in 2017 when he accused foreign mining companies of theft and exploitation, fast-tracking three bills through parliament that included provisions that all mining contracts were going to be reviewed and annulled if they had been based on “unconscionable terms” (The Parliament of Tanzania, 2017: Section 12). Acacia Mining – the largest stakeholder in the Tanzanian gold sector – announced in 2017 that it was even considering the full closure of its operations in the country so as to “protect our cash pile” (Hume, 2017). Shock waves were sent not only through the gold but also the gas sector, as the host government agreement for the gas terminal was still under negotiation at that time.

Under Magufuli, Tanzania’s administration claims – at least rhetorically – that it has gained experience in handling large-scale natural resource wealth and is determined not to repeat past mistakes (Maganga, 2016). Magufuli announced that the reawakened expectations of many are indeed going to materialise, as he plans to embrace gas-based industrialisation. Yet, progress towards an industrialised Tanzania has been of mixed success so far: The first natural gas field in Tanzania, situated at Songo Songo, was commercialised in 2004. The resource is then transported via pipeline to Dar es Salaam and serves as the major source of energy for just forty-two companies. The latest industry to switch to natural gas as its main energy source is the Dangote Cement Factory in Mtwara (the largest such factory in East Africa).

In future, the government plans to emulate these regional, small-scale successes in countrywide, gas-led industrialisation. However, judging by the problems faced so
far – for example, with the aforementioned Dangote Cement Factory – implementation of a gas-based strategy for industrialisation is going to be challenging indeed. Suffice to say that, due to political sniping and mud-slinging, it has taken over three years to construct a 132-m-long pipeline from a gas valve located just outside of the cement factory’s premises (Zacharia, 2018). If the Dangote incident serves as an indicator for the country’s future gas-based development, then the road to an industrialised Tanzania will be a long and bumpy one. The external core is not solely responsible for the economic inefficiencies currently witnessed in Tanzania.

Conclusion

Contrary to the authors’ previous experiences during field research in sub-Saharan Africa that in Tanzania differed in two main regards. First, it was possible to approach all major international gas-producing corporations operating in the country without any difficulties. In countries like Ghana, Uganda, and Zambia, international mining corporations are usually reluctant to talk to academics. In the case of Tanzania, however, gas-producing corporations presented the attitude of “having nothing to hide.” Second, almost all conversations with Tanzanian civil servants were kept confidential, as there was an overwhelming “culture of secrecy” among public administration employees. Additionally, we came across a phenomenon among government officials that could be described as a “resource curse taboo.” For example, senior civil servants at the Bank of Tanzania refused to be interviewed, and furthermore barred us from receiving access to any data if we were going to use the words “Tanzania” and “resource curse” in the same sentence.

The field research in Tanzania revealed several important features of the relations between the Tanzanian government and gas corporations. First, there is a strong asymmetry of information between the two parties. Gas corporations have a pronounced competitive advantage over the Tanzania government on how to organise the sector to make the most (profit) from it. Additional problems stem, second, from the fact that the government seems not to recognise a notable conflict of interest: Tanzania decided to implement the Norwegian model of hydrocarbon sector management and to seek assistance from the inventors of the model, namely the Norwegian government and Equinor (which in most cases would be a sensible approach). The problem with this, however, is that Equinor remains the key commercial player in the Tanzanian gas sector. The establishment of a sovereign wealth fund can also be questioned, given the pressing needs of Tanzanian society and its economy in the here and now. Third and finally, the entire negotiation agenda and its timing is controlled by foreign companies – as it is ultimately entirely up to them to take the decision to invest or not.

Before President Magufuli’s era, decision-making processes within the Tanzanian government were highly decentralised and dependent on vested interests among various cliques within the ruling party (Gray, 2015: 393–397). During the first half of his presidency, Magufuli has managed to take control of the party and concentrate power in the presidential office so as to impose his developmental state vision and be in a stronger position when negotiating contracts with gas corporations. Without doubt, freedom of
speech and political activity have been significantly curtailed in Tanzania during the last two years; but, simultaneously, the combination of the provision of some basic social services and prudence in terms of public spending – together with a harsh attack on gold-producing corporations – has taken place. Rhetorically, the government is determined to have the best possible production-sharing agreements with gas corporations. On the other hand, the latter – being a part of the core of the capitalist world economy – are determined to maximise profit at the expense of capital accumulation in peripheral Tanzania itself.

Declaration of conflicting interests
The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding
The author(s) disclosed receipt of the following financial support for the research, authorship, and/or publication of this article: This research was funded by the National Science Centre, Poland, under grant number UMO-2015/17/B/HS5/00473.

Notes
1. Through its wholly owned subsidiary, BG Group. This subsidiary was operating in Tanzania independently up until 2015, when it was taken over by Shell.
2. On the other hand, elections in Zanzibar are usually associated with outbreaks of violence.
3. President Magufuli cancelled celebrations of Independence Day, banned public officials from flying first class, and even stopped them from sending Christmas cards at the taxpayer’s expense too. He is also not very active outside Tanzania (contrary to his predecessor, Jakaya Kikwete), declaring foreign trips too costly. His cabinet has only nineteen ministers (with it taking him six months to select them), half of the size of the one under Kikwete. Furthermore, almost every taxi driver and restaurateur with whom the authors talked complained that, in Dar es Salaam, there is currently no money in circulation because civil servants and politicians are afraid to spend public funds.

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**David gegen Goliath: Tansanias Bemühungen sich gegen ausländische Gaskonzerne zu behaupten**

**Zusammenfassung**


**Schlagwörter**

Tansania, Magufuli, Erdgas, Gasunternehmen, Kern, Peripherie