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FRAMEWORK FOR OWNERSHIP OF PETROLEUM RESOURCES IN UGANDA: A CRITIQUE

ANGELLA CHARLES *

Abstract

This article analyses in depth the legal framework for ownership of Petroleum Resources in Uganda: A critique. It examines the ownership theories that are recognized in the petroleum industry. It also examines laws governing ownership of petroleum in Uganda, especially Article 244(1) of the Constitution of Republic of Uganda 1995(as amended) and section 4 of the Petroleum (Exploration, Development and Production) Act No 3 of 2013 Further it discusses the ownership theory as applicable to petroleum resources in Uganda. It also examines the distribution formula of revenue from royalties between the central government and local governments this is provided in section 75 of Public Finance Management Act 2015. Furthermore, it discusses the arguments against state ownership model of petroleum resources. The research study concludes that absolute Ownership theory of petroleum resources is good for Uganda because it benefits the land owners not the state. It also calls for amendment of Article 244(1) of the Constitution of Republic of Uganda 1995(as amended) and section 4 of the Petroleum (Exploration, Development and Production) Act No 3 of 2013 from government ownership of petroleum resources to private ownership of petroleum resources. Section 75 of Public Finance Management Act 2015 sharing of benefits for example royalties between central government and local governments should be equal, The people of the area should be compensated according to the value of petroleum, the landowners should have access to environmental information and public participation in environmental decision making.

Introduction

Uganda discovered oil in commercial quantity in 2006 and ever since, there has been increased activity in the exploration of oil and gas. The exploration activities are being undertaken in the Albertine region in mostly the districts of Hoima, Buliisa, and Nwoya by international oil companies contracted by the Government. Currently, there are three licensed companies namely, Tullow Uganda operations Ltd, Total E &P Ltd and CNOOC Uganda Ltd Operating in districts of Hoima, Buliisa and Nwoyawithin the Albertine Grabben. This study was underpinned by the principal agency theory. Agency theory, was exposited by Alchian and Demsetz and further developedby Jensen and Meckling. It is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers." In this case, oil in Uganda is managed on behalf of the Ugandans. In this theory, government who is the principal hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents Rowe and

^{*} L.L.M, Advocate and Independent Research Fellow, Kampala, Uganda

Frewer. Indeed. Rowe and Frewer argued that two factors can influence the prominence of agency theory. First, the theory is conceptually simple, reducing the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

According to agency theory, shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interest of the principals Rowe and Frewer. Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross, Barry, Mittinick and the first detailed description of agency theory was presented by Jensen and Meckling. Indeed, the notion of problems arising from separation of ownership and control in agency theory has been confirmed by Ross, Barry, Mittinick. This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which may be challenging the governance structure. Oil as a resource in Uganda is to be managed on behalf of the people by the Ministry of Energy and Mineral Development. The ministry enters into concessions and agreements and has to account to the general public about the resource and how it is being managed. In petroleum industry, there are various ownership theories in the world, they are; the Absolute ownership theory, which is also referred to as "Texas theory; the qualified interest theory also known as Pennsylvanian theory, the Non ownership theory and the national ownership theory. Uganda as a country has adopted National ownership theory. National ownership theory is also known as the Eminent Domain theory which means that the government or the monarch of a country can compulsorily take private lands for public use with or without compensation. The implication of this theory is that, the government can enact coercive legislation to back its desire to seize any land from private persons for any purpose it may classify as public good.

According to Salmond, ownership constitutes of a bundle of rights. Salmond's definition points out two characteristics of ownership. Ownership is a relation between a person and a right that is vested in him and ownership is in incorporeal body or form immaterial, having no material body or form. While according to Austin, "ownership means a right which avails against everyone who is subject to the law conferring the right to put thing to user of infinite nature." He also defined full ownership as "aright indefinite in point of user, unrestricted in point of disposition and unlimited in point of duration." The ownership regime of natural resources can also be ascertained from international conventions and customary international law, common law and National constitutions." This situation has given rise to the emergence of different theories of ownership and control of natural resources.

The constitution entails for the public trust doctrine, whereby natural resources are held by the government in trust for its people, or in other words envisaging people as the principals appointing the government to manage resources on their behalf by the ministry of energy and mineral development. This relationship obliges the government to account to its people as principals/ owners, ensuring they participate in the management of their affairs either by themselves or through elected representatives. The ownership theory that Uganda adopted is national theory which means that the government of a country can compulsory take private lands for public use with or without compensation. It is against the national ownership theory of petroleum resources adopted in Uganda that the host people of districts of Hoima, Buliisa, Nwoya are not happy with because the occupants of that area were not compensated according to the value of petroleum. And when it comes to decision making the community is left behind and more powers is given to the minister of minerals and energy to the exclusion of the host community, this is evidence in the signing of production sharing agreement with international oil companies. There is a problem in the sharing of royalties. The government takes the big percentage while the local governments are given small percentage.

The Constitution also stipulates that every citizen has the right to own property eitherin person or in association with others. This is in line with the law doctrine *quic quid plantatur solo*, *solo cedit*. Meaning: Whatever is attached to the land as a permanent fixture becomes part of the land and the property of the owner of the land. Chattels fixed to the land so that they become part of it are also treated in law as land. This doctrine supports that petroleum resource is considered as land. Basing on the above, the research will examine whether the national ownership theory is the best for Uganda.

Ownership Theories of Petroleum Resources

Natural resources worldwide are a gift of nature and an endowment comfort that makes the existence of mankind complete. As natures priceless gift to man and because nature's endowment of these resources is without reference to people or nation, the subject of ownership and control is one that has generated a great deal of passion and controversy amongst people or nations. Unfortunately, these resources have been identified as playing key roles in triggering conflicts, and, all through history, the struggle for possession and control of natural resources has been the remote, if not the immediate, cause of great wars and human tragedies. The scramble for partition of Africa at the Berlin Conference of 1884, the Boer Wars of South Africa, the institution and sustenance of the obnoxious apartheid system of South Africa, even Hitler's Second World War, apart from its much-Vaunted desire to create a master Aryan race, had as its sole motivation the economic domination of Europe by Germany as exemplified by its annexation and conquest of most of Europe. In Contemporary times, the desire of the industrialized North in continuing to do business with developing countries, apart from finding sales outlets (markets), is to exploit and take the minerals and natural resources of these countries to their maximum benefit. The possession of mineral resources is therefore crucial to a

nation's wealth and wellbeing. Thus, the ownership and control of such resources are issues that cannot be taken for granted. Although there are varying structures of the theories of ownership and control of natural resources, most of the classifications share similar characteristics. Some of the common theories are "ownership in place theory," "non ownership theory," "qualified ownership theory," and national ownership theory.

Absolute Ownership Theory (Ownership in Place Theory).

This theory originates from Texas, which is the largest oil producing state in the USA. This theory is based on the common law principle of the fee simple absolute and is sometimes referred to as the "fee ownership theory." Under this theory, the owner of a parcel of land has a right to all minerals below the surface of his land which he may retain or lease to another. This theory is based on the ownership of land in fee simple absolute which at common law meant ownership of land to an indefinite extent, upwards as well as downwards. The Latin maxim "cujus est solum ejus est usque ad coelumn ad inferos" which literally mean: "to whomever the soil belongs he owns also the sky and to the depth," colourfully describes the indefinite extent of ownership in fee simple absolute. Absolute ownership theory is practice in most countries of United States of America. This theory vests ownership of petroleum resources on the landowners. The landowners have a duty to pay royalties to the government for the benefit of the general public.

Qualified Interest Theory.

This theory had its roots in Pennsylvanian history. This theory is based on the conceptof petroleum as a kin to "animal farea natural" which implies that until an animal farea natural (wild animal) is captured and kept in the exclusive custody of the captor. The captor can lay no exclusive claim to it. This is called the rule of capture in the USA. The qualified interest theory is based on that one who is well off in terms of ability. Those who are able to extract, drill the oil even though they are not the ownersof the land where oil is found can be the owners of the oil. However, this theory as a negative impact to those who are unable to drill and extract the oil or those who are unable to tame animal ferae naturae (wild animal) or it's based on the principle of those who can afford can get it and those who cannot afford cannot get it or lose it.

Non-Qualified Ownership Theory.

This theory originated from Oklahoma. The theory contends that petroleum isincapable of ownership either absolutely or in a qualified manner. The non-qualified ownership theory emphasizes that no person owns the crude oil until produced, extracted or captured and controlled. However, the right to produce or extract crude oil is limited to those persons who own or have the right to drill on the land where the straddle of the crude is embedded. The Non-qualified ownership theory states that oil is migratory in nature meaning it can move from one place to another and therefore

the landowner cannot claim ownership of the crude oil which is straddle beneath his or her land until produced, extracted, or captured and controlled.

National Ownership Theory (The Eminent Domain Theory).

This theory is found in most countries today. It advocates the vesting of complete and total ownership of petroleum resources in the government of the state. It is an effective theory in terms of attracting foreign direct investment for countries. Countries such as Nigeria, South Africa, Bolivia, Venezuela, and China utilize the national ownership theory. The national ownership theory vests ownership of petroleum resources in the state. The landowners are not the owners of the oil even though they are owners of the land. This theory has effect on the landowners because when oil is discovered in their land they will be displaced or relocated with or withoutcompensation.

Laws Governing Ownership of Petroleum in Uganda

Article 244(1) of the Constitution of the Republic of Uganda 1995 (as amended), Section 4(1) of Petroleum (Exploration, Development and Production) Act No. 3 of 2013, Preamble of the Petroleum (Refining Conversion, Transmission and Midstream Storage) Act 2013, National Oil and Gas Policy for Uganda 2008, Chapter 3:8 pp 14-15 of the Uganda Land Policy 2013 vests ownership and control of petroleum in the government while Section 75(1) Part 8 of Public Finance Management Act 2015 provides for the distribution formula of revenue from royalties that government shall retain 94% of the revenue from royalties arising from petroleum production and the remaining six percent shall be shared among the local governments located within the petroleum exploration and production areas of Uganda.

Nature of Ownership Theory of Petroleum in Uganda

The ownership theory that Uganda adopted is national ownership theory which means that the government of a country can compulsorily take private lands for public use with or without compensation. The foundation for effective resource management and administration of Uganda's oil and gas is the Constitution, which provides for the protection of natural resources including water, wetlands, minerals, oil, fauna and flora, on behalf of the people of Uganda. The Constitution of Uganda vests the ownership and control of minerals and petroleum in the government on behalf of the people. The Government therefore holds all resources in trust for the people of Uganda. The Constitution also empowers the parliament to make laws regulating the exploration and exploitation of minerals and petroleum. In this regard, section 4 of the Petroleum (Exploration, Development and Production Act 2013 vests petroleum resources in the Government. Article 77 (1) of the 1995 Constitution of Uganda the Constitution establishes the parliament with powers to make laws on any matter for the peace, order, development and good governance of Uganda. Article 79 goes on to specify the following duties: (a) protect the Constitution and promote the democratic

governance of Uganda; (b) Give legislative sanction to taxation and acquisition of loans, in order to finance the work of government; and (c) Scrutinize government policy and administration and approve presidential nominations for ministers, judges, ambassadors and other positions specified in the Constitution.

Legislators are further tasked to represent Constituent interests under Article 38 (1) of the Constitution which provides that 'every Ugandan citizen has the right to participate in the affairs of government, individually or through his or her representative in accordance with the law.' According to the 2008 National Oil and Gas Policy the specific role of Parliament in Uganda's Petroleum sector is: To enact petroleum legislation, to enact the proposed legislation for management of petroleumrevenues and to monitor performance in the petroleum sector through policy statements and annual budgets.

Article 237(1) (b) of the 1995 Constitution of Uganda, vests natural lakes, rivers, wetlands, forest reserves, game reserves, national parks and any land to be reserved for ecological and touristic purposes for the common good of all citizens. Section 44 of the Land Act Cap 227, prohibits the leasing or alienation of natural resources, but allows the grant of concessions or licenses or permits. As a trustee, the state holds thelegal title or "corpus" to the trust property, while exercising an ethical relationship of confidence or "fiduciary duties" as entrusted by the citizens who are the beneficiaries of the trust. In the absence of regulations or guidelines to govern the management and use of such resources by the state as a trustee, including accountability and transparency principles, the "trustee" has carried on as if it is the "owner" thus breaching the public trust doctrine. Safeguards in legislation have not deterred extensive degeneration, occasioned by administrative abuse. The rules that delineaterights, roles, obligations of citizens, and the mandate of government and governmentinstitutions are incoherent and need to be systematized.

In *Acode v Attorney General* though the matter is on the management of the forest reserve the court in alluding to the national ownership of the natural resources in Uganda made reference to Article 237 (2) (b) of the Constitution which states:-

"The government or a local government as determined by parliament by law, shall hold in trust for the people and protect, natural lakes, rivers, wetlands, forest reserves, game reserves, national parks, and any land to be reserved for ecological and touristic purposes for the common good of all citizens."

The above provisions were operationalized by section 44 of the Land Act¹ in the following terms; "Control of environmentally sensitive areas (1) the government or local government shall hold trust for the people and protect, natural lakes, rivers,

¹ Cap 227 as ammended

wetlands, forest reserves, game reserves, national parks and any land to be reserved for ecological and touristic purposes for the common good of all citizens." Similarly, section 4 of the Uganda Upstream Act provides that in accordance with article 244 of the constitution, the entire property in, on or under any land or waters in Uganda is vested in the government on the behalf of the Republic of Uganda. The constitution gives parliament a mandate to pass laws for regulating the exploitation of minerals and petroleum, the sharing of royalties arising from oil exploitation, the conditions for payment of indemnities arising from oil exploitation of petroleum and minerals, and the restoration of derelict lands.

Distribution Formula of Revenue

This is provided in Public Finance Management Act 2015. An Act to provide for fiscal and macroeconomic management to provide for the charter for Fiscal Responsibility; to provide for the Budget Framework paper; to provide for the roles of the Minister and the Secretary to the Treasury in the Budgeting process; to provide for requirements, multiyear expenditures, supplementary budgets and excess expenditures; to provide for the contingencies fund; to provide for the consolidated fund; and commitments against the consolidated fund; to provide for bank account management, management of expenditure commitments, raising of loans by the minister, management of the government debt, authority to receive monetary grants and assets management, to provide for the roles of accounting officers, to establish accounting standards and audit committees, to provide for in year reporting, to provide for the preparation of annual accounts and for the accounting for classified expenditures, to establish the petroleum fund and the collection and deposit of revenue into and the withdrawal of revenue from the petroleum fund and for the management of the petroleum revenue investment reserve, to provide for the role of bank of Uganda in the operational management of the petroleum revenue investment reserve, to provide the establishment of the investment advisory committee, to provide for the financial reports, annual reports and annual plans for the petroleum fund and the petroleum revenue investment reserve, to provide for sharing of royalties, to provide for offences, to repeal the public finance and accountability act,2003 and to provide for connected matters

Government shall retain 94% of the revenue from royalties arising from petroleum production and the remaining 6% shall be shared among the local governments located within the petroleum exploration and production areas of Uganda.

The minister responsible for petroleum shall publish the local governments eligible to receive royalties under subsection (1) Fifty percent (50%) of the revenue from royalties due to the local governments shall be shared among the local governments involved in petroleum production based on the level of production of each local government or impact. The balance of 50% of the revenue from royalties due to the

local governments shall be shared among all the local governments based on the population size, geographical area and terrain. The government shall grant one percentage point of royalty due to the central government to a gazetted cultural or traditional institution. The revenue from royalties shall be appropriated to a local government in the annual budget for development purposes. The revenue from royalties shall be considered as part of the revenue of the local government and shallbe integrated in the budget of the District to be spent on priorities determined by the Local Government Council, taking in to consideration national priority program areas.

Where is Oil Located in Uganda?

Oil and Gas Exploration in Uganda is currently taking place in the Albertine Graben. The Graben is part of the East African Rift system and runs along Uganda's western border with the Democratic Republic of Congo (DRC). The Graben is approximately 500km long, averaging 45km in width and 23000 Square kilometers in Uganda. Theoil fields found so far are estimated to contain deposits of around 2.5 billion barrels of oil it is unlikely that all of this will be extracted because as an oil well empties it becomes harder-and therefore uneconomic-to pump out the remainder. The government has recently said that 1 billion barrels can be extracted from what has been discovered to date, but it is possible that more discoveries will be made in future. The oil found so far lies in the Albertine Graben-an area about 500 kilometres long and up to 45kilometres wide forming Uganda's western border with the DRC and stretching from lake Edward in the south to the border with South Sudan in it the north. The 'Graben'-meaning a depressed crust of the earth's surface lying between two geological fault lines-has been the most intensively surveyed and prospected of Uganda's sedimentary basins. Other basins that may have oil deposits are the Hoimabasin to the east of Lake Albert, the lake Kyoga basin (further east, in the centre of the country), and the Kadam-Moroto basin, still further east, in the Karamoja sub- region. According to the government Petroleum Exploration and Production Department. The area presently tested represents less than 30% of the total area with the potential for petroleum production in the country, hence the potential for additional reserves in the country. The Albertine Graben has long been thought to have the best oil potential but the Graben itself has not yet been thoroughly explored. This, and the existence of other, even less explored basins, has prompted speculation that Uganda's eventual reserves may amount to 6 billion barrels. To put Uganda's oilreserve figures in a wider context, the world's most oil-rich state. Saudi Arabia, stillhas 263 billion barrels of 'proven' reserves. Libya has 46 billion, Nigeria 37 billion, Angola 9.5 billion. One or two billion barrels represent a big find for Uganda-enough, certainly, to supply domestic needs for at least 20 years while selling a significant surplus overseas-but it is not such a big find for the world beyond. (The world as a whole consumes one billion barrels of oil every fortnight).

The Quality of Uganda's Crude Oil

Different types of crude oil are produced around the world. Two of the most important quality characteristics of oil are its density and sulphur content. Density ranges from light to heavy, while sulphur content is characterized as sweet or sour. Crude oils thatare light (with degrees of AP1 gravity above 36°) and sweet (low sulphur content) are usually priced higher than heavy, sour crude oils. Uganda's crude oil has; AP1 range of 17° - 33° , with low sulphur content but is waxy with an average pour point of 40° C and hence solidifies at room temperature. Uganda's crude oil is therefore described as sweet and medium to heavy.

The Petroleum Value Chain

The petroleum value chain is the series of activities staring from exploring for oil to consumption of petroleum products. The petroleum value chain has three major phases, namely; upstream, midstream, and downstream. Upstream covers exploration, development and production of petroleum together with decommissioning. Exploration refers to the search for petroleum accumulations and includes appraisal of the same to establish the extent (distribution) of the petroleum accumulation below the earth's surface and the ease of flow of the petroleum from this accumulation. Development involves preparing for production by putting in place facilities and infrastructure for collection, transportation and processing of crude oil and gas. Production is the removal of petroleum from the accumulations below the earth's surface to the surface, and preparing the petroleum for transportation and refining. Midstream includes bulk transportation of petroleum commodities (crude oil and natural gas) and products (gasoline, diesel, jet fuel, etc), refining of oil and conversion of gas. It also includes converting oil and gas in to marketable products and chemicals. Downstream deals with distribution, marketing and sale of petroleumproducts. In some countries, downstream and midstream operations are considered together as downstream operations.

Arguments against State Ownership Model of Petroleum Resources

The government has failed to complete and put in place new environmental law, EIA regulations and SEA regulations for the governance of the oil sector. So, as the oil activities in game parks, across lakes and rivers, wetlands and community land continues, there is no clear law to guarantee equity and social justice in the processes for the common good. This clearly means that the government is not committed to good governance of oil. In a system highly corrupt like Uganda, good oil governance remains an unattainable dream and perhaps one could urge a curse. Besides the government efforts to build local capacity to be meaningfully employed in the oil and gas sector are questionable. The oil and gas sector remains highly centralized closing out local stakeholders. Land governance is also one of the issues the sector is grappling with, characterized by displacement of families from their customary landwithout timely fair and adequate compensation. The oil agreements were kept a

secret from the public. Majority of the citizens are not aware what they entail. The level of corruption in the oil exploration is beyond measure. There's also need to build capacity of local communities in terms of empowering them with information about their land rights, property rights, human rights and laws in Uganda.

Uganda is witnessing violation of communities' land rights in the Albertine oil region. This negation of constitutional and natural rights results, in great measure, from government backed compulsory land acquisitions and private speculation-bothof which are intended to facilitate investment in extractives, public infrastructure, agriculture, among others. While compulsory acquisition of land by the government in the public interest is provided for under Uganda's laws, provision is made for fair, adequate and timely compensation for affected parties. However, violation of this Constitutional and legal provisions continues to take place as witnessed in many irregular land transactions triggered by the discovery of oil and gas in the Albertine Graben. Irregularities in land acquisition schemes-in adequacies in valuation of property, delayed compensations among others-are leaving projects-affected persons worse off than they were previously. Land grabbing by powerful speculators is oftentimes said to be state-linked, and has become a common phenomenon. Customary land owners are most afflicted due to lack of documentary evidence of ownership of their land. Although most of their land in Uganda is held under customary tenure, land titleshowever fraudulently acquired seems to supersede customary claims in majority of land transactions. Persistent land conflicts-which have now been recognized by government, have resulted from this complexity. At the same time population pressure and the uncontrolled influx of migrant communities have triggered tensions with ethnic undertones over land for animal grazing and cropcultivation.

State ownership of petroleum resources is important because it is a source of revenue to the government. The revenue is used for developing other sectors like agriculture, which is the backbone of the country, health, education and infrastructure like roads. It also reduces the problem of income inequalities this is whereby those who have petroleum in their land can be rich than others. However, state ownership of petroleum resources has a negative impact to the land owners for example people of the place where petroleum is found were not compensated according to the value of petroleum, there is also a problem in the sharing of benefits the government takes high percentage while the people of the place take small percentage, the right to access to information is violated, the minister is given more powers to make decisions without involving the community, the oil and gas sector remains centralized closing out local stakeholders, and there is violation of communities land rights.

Conclusion

There are four ownership theories of petroleum resources that are recognized in the world. They include the absolute ownership theory, the qualified ownership theory,

the non- qualified ownership theory and national ownership theory. The absolute ownership theory originates from Texas, which is the largest oil producing state in the U.S.A. This theory is based on the common law principle of fee simple absolute and is sometimes referred to as the fee ownership theory. Under this theory the owner of a parcel of land has a right to all minerals below the surface of his land which he may retain or lease to another. The qualified ownership theory, this theory had its genesis in Pennsylvanian. This theory is based on the concept of petroleum as akin to "animal farae naturae" which implies that until an animal farae naturae (wild animal) is captured and kept in to exclusive custody of the captor, the captor can lay no exclusive claim to it. This is called the rule of capture in the USA. The non-qualified ownership theory. This theory originated from Oklahoma. The theory contends that petroleum is incapable of ownership either absolutely or in a qualified manner. The national ownership theory. This theory vest ownership of petroleum resources in the state. This theory is practice in most countries in the world like United Kingdom, Norway, Nigeria, South Africa, Ghana, Tanzania, Kenya, China and many others. Uganda is one of the countries in Africa that practices national ownership theory. This theory vest ownership of petroleum resources on the government. This theory has an effect to the people of the place where petroleum is found because people were not compensated according to the value of petroleum. However, Uganda as a country should adopt absolute ownership theory because this theory vests ownership of petroleum resources on the landowners.

The Laws of the Republic of Uganda, Article 244 (1) of the Constitution of the Republic of Uganda 1995 (as amended), Section 4 (1) of the Petroleum (Exploration, Development and Production) Act No 3 of 2013 which provides that the entire property in, and the control of petroleum in its natural condition in, on or under any land or waters in Uganda is vested in the government on behalf of the Republic of Uganda Should be amended. Section 75(1) of Public Finance Management Act 2015 which provides for the sharing of benefits of revenue from royalties between Central government and local governments should be amended.

State ownership of petroleum resources is a source of revenue to the government. However, the landowners were not compensated according to the value of petroleum, there is a problem in the distribution formula of revenue from royalties the central government retains high percentage while, local governments small percentage, the right to access to information is denied. The people of the place should be compensated according to the value of petroleum, the distribution formula of revenue from royalties should be equal, and the community should participate in decision making not only the minister and also information on natural resource matters should be avail to the general public.