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Kenya:

An African oil upstart in transition

Executive Summary

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In late March 2012, Kenya entered the East African oil scene with a surprising splash. After decades of unsuccessful on-and-off exploration by international oil companies, Tullow Oil, a UK-based firm, discovered oil in Kenya's north-west Turkana County. This paper analyses the opportunities and risks facing Kenya's oil industry and its role as a regional oil transport hub. It provides a snapshot of Kenya's economic, political, and security environment, offers a comprehensive overview of the development of Kenya's oil industry and possibilities for regional oil infrastructure cooperation with neighbouring countries in East Africa, and considers the potential political, social, and security risks facing the oil industry and regional infrastructure plans.

Kenya Overview

In the aftermath of the large-scale violence that followed its December 2007 general elections, Kenya has turned a corner. In June 2008 its government launched Vision 2030, an ambitious development blueprint, to modernize and make Kenya a middle-income economy; in 2010 it passed a new constitution; and in 2013 contested, yet largely peaceful, general elections were held. The discovery of oil in 2012 immediately provided an extra boost to Kenya's already growing and diverse economy and its position as East Africa's strategic transport and communications hub.

But over the past two years, political and security tensions have risen dramatically to threaten Kenya's bright future. In the political arena, the 2010 constitution stipulated the devolution of powers from the central government to newly constituted counties, but its full realization must overcome enormous systematic, structural, and political implementation hurdles. At the same time, devolution will hardly be a success if it only leads to the decentralization of Kenya's political troubles (which include ethno-politics and corruption) to the local level, where more political officials are now in competition with one another. Oil and other resources will influence disputes between central authorities and counties and communities seeking to assert new-found powers.

On the security front, terrorist attacks, highlighted by the September 2013 killings by the Somalia-based militant group al-Shabaab at Nairobi's upscale Westgate Shopping Mall, have grown in Kenya's coastal and north-eastern regions. These attacks threaten to enflame and intermingle with long-standing animosities between communities in these regions and the central government in Nairobi, undermining the popular development aspirations introduced by the new constitution. Possible insecurity from political and social tensions sits ominously alongside the oil industry's plans to move from the exploration to development phase and to construct key export infrastructure on the coast.

Kenya’s oil sector and regional infrastructure cooperation

Kenya’s role as a regional hub for East African crude oil and petroleum products may be more significant than its potential position as an oil and gas producer. To date, Kenya’s oil resources are estimated to be 600 million barrels and new discoveries may still only make the country a small African producer. Oil exploration in Kenya began in the 1950s with Shell and BP carrying out the first survey work, mapping out major geological basins, and drilling the first oil well in 1960. Over 40 wells have since been drilled on and offshore, but it was not until 2012 that potential commercially viable oil resources were discovered through Tullow Oil’s Ngamia 1, together with subsequent findings in Turkana County in Kenya’s north-west.

Recent interest grew out of Uganda’s 2006 onshore oil discoveries, and offshore gas findings in Mozambique and Tanzania. The regional proximity of proven oil and gas reserves, coupled with sustained high international oil prices, attracted a wide variety of oil companies to Kenya; these included Africa Oil, Tullow Oil, BG Group, and Total. Tullow is seeking to finalize appraisal and testing of an estimated 600 million barrels of oil resources held in Turkana by the end of 2015. At that point, if the discoveries prove to be commercially viable, the company aims to also settle plans with the Kenya government for an export pipeline to the coast at either Lamu or Mombasa.

However, the huge and diverse infrastructure development goals of Kenya’s $25 billion Lamu Port, South Sudan, Ethiopia, Transport (LAPSSET) Corridor will be significantly delayed and likely need to be downsized. A piecemeal approach – beginning with a basic export pipeline and port terminal at Lamu – may well be adopted. Rather than Kenya joining Ethiopia and South Sudan in plans for export and product pipelines to Lamu, it is more likely that, in the short term, Uganda and Kenya will establish the first pipeline links while other neighbours join through oil, road, and rail links in the medium and long term.

Kenya could go it alone and develop an 850 kilometre export pipeline from Turkana to the coast for its oil resources, but since its findings still remain relatively small, a regional agreement with Uganda to share an oil pipeline would be more viable. But there remain hurdles to achieving such cooperation. It will take two to four years to ascertain final commerciality of Kenya’s oil discoveries and in the meantime Uganda remains eager to push forward with generating revenues from its long idle but proven oil reserves.

Political, social, and security risks

As the oil industry shifts from exploration to development and production in Kenya, required investments will grow from hundreds of millions to billions of dollars for new oil infrastructure. Tullow Oil, and in particular its smaller and more exploration-orientated partner Africa Oil, will likely sell a share of their interests in the Turkana concessions to larger industry players, such as oil majors and Asian national oil companies, to provide the required capital investments to develop the oil fields. It is at this juncture that risk incentives among the involved oil companies will decline profoundly. During the exploration phase, in the initial drive to discover oil, oil industry operations have been left relatively free from regulatory constraints and political interference. In the upcoming development and production phase this will likely not be the case. The nascent oil industry will not be completely insulated from increased risks in a shifting political and security landscape.

First, the regulatory environment for the oil industry in Kenya is in flux. The establishment and implementation of a new National Energy Bill and Petroleum Exploration and Development Production Act will have important consequences for the oil industry. New laws will encourage investment on one hand, particularly in natural gas where there is a lack of regulation, but on the other hand such laws can increase the costs of doing business. And since the political and regulatory environment in Kenya is intertwined, the government may exploit new rules and regulations to advance political and economic goals. Once production does begin, and petrodollars flow into government coffers, oil revenue sharing will become a fixture of Kenya's often-divisive politics.

Second, the successful advancement of the 2010 constitution offers potential economic and social development benefits and help in reversing high levels of inequality in Kenya. Such a process, however, offers challenges to the oil industry as communities in oil regions, and their political representatives, grapple with the convergence of new economic resources and increased political power through devolution. But a failure by the Kenyan government to implement devolution could be even more damaging to the timely development of the oil industry. Such an outcome could see aggrieved counties contest oil resources with the national government and international oil companies. If the objectives of devolution in the new constitution are fulfilled and political power and economic resources shift from the centre to county level (particularly in restless peripheral regions such as Turkana) then conflicts over scarce resources can be mitigated.

Third, political instability and insecurity is threatening not only the commencement of Kenya's oil production, but also its exit to international markets on the coast. Kenya's coastal and north-eastern communities have longstanding social and political grievances with the central government in Nairobi. Internal politics alone has the capacity to create insecurity for the oil industry if planned pipeline and other downstream infrastructure are targeted. But there is also the possibility that these disputes could become a toxic mix with the incursion of the Somalia-based militant group al-Shabaab, delaying and hampering large-scale investments.

Al-Shabaab may be positioning itself to exploit social and political tensions to win support from local populations on Kenya's coast. But if the Kenyan government is able to advance political devolution to coastal counties, while working to contain al-Shabaab in an apolitical manner, then there is a strong likelihood that, with regional and international support, Nairobi can curb the militant group's activities, providing the oil industry with a relatively secure environment. If Kenya is to become the transit hub for East Africa's oil boom then relative stability and security on the coast must be achieved.

About the Author

Luke Patey is senior researcher at the Danish Institute for International Studies. He is author of The New Kings of Crude: China, India, and the Global Struggle for Oil in Sudan and South Sudan (Hurst Publishers, 2014) and co-editor of Sudan Looks East: China, India, and the Politics of Asian Alternatives (James Currey, 2011). His articles have appeared in African Affairs, Middle East Policy, Third World Quarterly, and the Journal of Modern African Studies. He has also written for the Financial Times, The Guardian, The Hindu, and VICE News. He has been a Visiting Scholar at Peking University (Beijing), the Social Science Research Council (New York), and the Centre d'études et de recherches internationales (Paris).