POTENTIAL AND INVESTMENT OPPORTUNITIES IN THE PETROLEUM INDUSTRY IN KENYA:

A PRESENTATION DURING THE 3RD INDIA - AFRICA HYDROCARBONS CONFERENCE

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1. INTRODUCTION

- **Kenya imports all its petroleum requirements, both as crude oil and refined fuel products. These imports account for about 33% of the total import bill.**
- **Due to the technological obsolescence of the only Kenyan oil refinery, the annual throughput is capped at around 1.6 million metric tonnes of crude oil relative to its design capacity of four(4) million tonnes.**
- **Demand is constrained due to inadequate import and storage handling facilities for all products and in particular Liquefied Petroleum Gas(LPG).**

INTRODUCTION - CONT`D

- Consumption of petroleum fuels for the last five (5) years is as shown below.

Year	Consumption (million tonnes)
2006	3.13
2007	3.22
2008	3.28
2009	3.78
2010	3.95

INTRODUCTION – CONT`D

- **The total consumption of petroleum products in 2011 is expected to rise to more than four (4) million tonnes and the projected imports of refined fuels in 2012 is as follows in metric tonnes by product:**

Product		***Quantity***
Liquefied petroleum products	**-**	**108,000**
Super Petrol (Gasoline)	**-**	**462,000**
Dual Purpose Kerosene	**-**	**560,000**
Automotive Gas oil	**-**	**1,179,000**
Total Refined products	***-***	***2,309,000***

- **In addition to this quantity of refined fuels, another 1,600,000 tonnes of crude oil is to be imported for refining in Kenya. Out of this quantity, at least 1,400,000 tonnes is Murban crude oil imports from Abu Dhabi.**

2. PETROLEUM EXPLORATION IN KENYA

- **To date, a total of 32 wells have been drilled in the country's four sedimentary basins and the results of the wells indicate a mature hydro carbon regime where the subsurface rocks show reservoirs, traps and source rocks in appropriate combination.**

PETROLEUM EXPLORATION - CONT'D

- A summary of the drilled wells is as shown below

Basin	No. of Wells Drilled	Situation of the Hydrocarbon Shows in Wells				
		Oil & Gas	Oil Only	Gas Only	No Shows	Oil Seeps
Lamu	17	2	2	7	6	6
Anza	11	5	0	3	3	0
Mandera	2	0	0	0	2	1
Tertiary Rift	2	0	1	0	1	1
Total	32	7	3	10	12	8

PETROLEUM EXPLORATION - CONT'D

- **The current lease status of the blocks and the companies licensed is as follows:**

No .	Exploration Company	Blocks Licensed	Total No. of Blocks
1.	Tullow Oil	10 A, 10BB, 10BA. 13T, 12A	5
2.	Anadarko/Total	L-5, L-7, L-12, L-11A, L-11B	5
3.	BG Group	L-10A, L-10B	2
4.	Dominion	L-9, L-15	2
5.	Apache/Origin	L-8	1
6.	Vanoil Resources	3A, 3B	2
7.	Africa Oil Corporation	9	1

PETROLEUM EXPLORATION - CONT'D

No.	Exploration Company	Blocks Licensed	Total No. of Blocks
8.	Zarara	L-4, L-13	2
9.	Flow Energy	L-6	1
10.	Lion Petroleum	2B	1
11.	NOCK	14T	1
12.	Simba Energy	2A	1
13.	Afren/EAX	1, L-17/ L-18	2

PETROLEUM EXPLORATION - CONT'D

- **The available blocks are:**
  a) Onshore Lamu Basin - 4 blocks (L1B, L14, L19, L20)
  b) Tertiary Rift Basin - 2 blocks (11A, 11B)

3. PRESENT DOWNSTREAM OUTLOOK

- **Oil pipeline network of about 900 km for refined petroleum products being operated by Kenya Pipeline Company**
- **Over 1,000,000 cubic metres storage capacity**
- **Countrywide petroleum fuel retail outlets – about 1, 400 stations**

4. CHALLENGES

- **Prices of petroleum fuels in Kenya are relatively high due to small sizes of imported cargoes;**
- **Upgrade of the Mombasa port to receive super tankers and of storage facilities;**
- **Natural gas not being consumed in Kenya due to lack of import facilities;**

CHALLENGES - CONT'D

- **Attraction of risk capital;**
- **High cost of acquisition of seismic data and drilling; and,**
- **Limited primary technical data in some petroleum exploration blocks.**

Because of the above challenges, demand for various fuels is constrained. Plans are underway to upgrade the Mombasa port, construct more storage facilities and attract capital investments.

5. UPSTREAM POLICY ON OIL AND GAS

- **Principal oil and gas exploration and development policies are anchored in Petroleum Exploration and Production Act, Chapter 308 of the Laws of Kenya.**
- **Salient policy issues currently in force include:-**

  a) Promotion of oil and gas exploration acreage is done through local, regional and international conferences.

  b) Licensing of oil and gas prospecting companies through Production Sharing Contracts (PSC) is based on evaluation of applications received.

  c) Period granted in PSCs' over the last two years for exploration is limited to 6 years, covering three phases of two years each.

UPSTREAM POLICY - CONT'D

d) Surrendered exploration areas are re-gazetted and promoted for licensing as new blocks.

e) Capping cost recovery to a maximum of 60% of oil and 75% of gas production in the event of discovery.

- Kenya is committed to harmonization of Policy, Legal and Fiscal regimes of the East African Community member countries on oil and gas exploration and production currently under preparation.
- In the event of commercial discovery, Kenya will subscribe to Extractive Industries Transparency Initiative (EITI).

UPSTREAM POLICY - CONT'D

- **Farm In / Farm Out is approved on the following terms:**
  - **Farm Out party has done a substantial amount of work,**
  - **Farm In party has sufficient financial, technical and professional capabilities.**
- **Extensions (maximum 1 year except under very special circumstances) of specific exploration periods are granted where the operator has shown serious work programme commitments.**

UPSTREAM POLICY - CONT'D

- **Windfall profits sharing formula**

  R=CSPOx26%x(V-Threshold Price)

  Where R = Government share of the windfall profit, CSPO = contractor share of profit oil, V=international price of crude oil and Threshold Price = a negotiated government-contractor selling price, free on board (FOB).
- **This law provides flexible arrangements for private sector participation including:**
  - **Negotiation for Production Sharing Contracts;**
  - **Exemptions of indirect taxes and duties on all materials and equipment for exploration.**

6. PETROLEUM SUPPLY AND DISTRIBUTION POLICIES

To address supply and distribution constraints, the following policies continue to be pursued:

- **Development of import handling and storage facilities by the private sector through long term concessions;**
- **Promotion of private sector development of upcountry storage and distribution facilities;**
- **Promotion of power alcohol and bio-diesel production;**
- **Ensuring that Oil Marketing Companies maintain at least 21 days minimum operational stocks;**
- **Establishment of 90 days of strategic stocks through Public Private Partnership (PPP);**

7. FUTURE OUTLOOK

7.1 Upstream Sector

- In the event of a commercial discovery, all open blocks will be offered through an open competitive bidding process in order to enhance value.
- A new law to vest authority in Parliament for granting concessions (licensing) to oil and gas including for exploitation of any other natural resources in Kenya to prospecting companies is under preparation.
- In the event of a commercial discovery, revenues accruing to the government will be used to develop economic and social infrastructure.
- Data from open exploration blocks will be re-processed and posted on the Ministry of Energy Website in order to fast track granting of concessions.

FUTURE OUTLOOK - CONT'D

7.2 Downstream Sector

- **Development of natural gas distribution grid initially starting with Mombasa and Nairobi.**
- **Crude Refining, Product Transportation and Storage facilities will be expanded in tandem with economic growth and diversity.**
- **Crude oil pipeline expected to be developed to serve local and neighboring countries as need arises.**
- **Development of petro-chemical industry based on comparative costs considerations including technology transfer.**

8. INVESTIMENT OPPORTUNITIES

Development of the following under public – private - partner ship:

a) A Liquefied Natural Gas import handling, storage and re-gasification facility at Dongo Kundu, Mombasa. Tender advertisement by February 2012 .

INVESTIMENT OPPORTUNITIES - CONT'D

b) Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor petroleum projects components:

- **Port facilities**
- **Juba (South Sudan)-Lamu (Kenya) crude oil pipeline**
- **Refinery**
- **Petroleum product pipeline from Lamu-Isiolo- Ethiopia**
- **Power plant.**

INVESTIMENT OPPORTUNITIES - CONT'D

c) a new jetty at Kilindini Harbour.

d) An SBM facility for both crude and refined petroleum products – feasibility study in progress.

INVESTIMENT OPPORTUNITIES - CONT'D

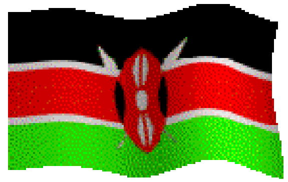
e) Storage facilities for 90 days stocks and procurement of stocks.

9. CONCLUSIONS

- **Kenya has several areas in the petroleum industry for long-term tie-ups in the form of equity investments, joint ventures, supply of equipment, consultancy services and so forth.**
- **Kenya's upstream and downstream petroleum Policies provide a conducive environment for investments.**
- **Indian National and Private companies, are therefore, invited to:**

a) Apply for open blocks and / or seek partnerships with existing licensed oil and gas prospecting companies in Kenya; and,

b) invest in downstream opportunities.



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THANK YOU FOR YOUR ATTENTION !!!