Kenya ill-prepared for Uganda oil boom

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When Uganda's President Yoweri Museveni announced in October 2006 that his landlocked country had discovered oil in the western parts of the country, hopes were high that the findings would help lower fuel prices in Kenya.

It was also hoped that it would generate more revenue for Kenya, as Uganda was expected to export through Mombasa port. As much as it is expected to help uplift the local economy, experts now say that Uganda's new find could also open nightmarish economic realities for Kenya. Uganda has already commenced the development of a small refinery, commonly known as a topping plant, which would have a processing capacity of 4,000 barrels a day.

This translates into 156,000 tonnes of fuel oil and 32,000 tonnes of white products (like diesel) a year. The heavy fuel oil will mostly be used in power production. Experts say Uganda's ability to generate cheap oil would translate into cheaper power, which would make it the most competitive destination for manufacturers within the East African Community (EAC).

"Power is a significant in put in the manufacturing process and Uganda's ability to offer cheaper power will be a great disadvantage to Kenyan manufacturers.

"This is especially so, if you consider the fact that it is the heaviest consumer of Kenya's exports," says Patrick Obath, Vice-Chairman Kenya Private Sector Association (Kepsa). On average, Uganda consumes a combined volume of 840,000 tonnes of refined diesel and petrol annually, meaning the country has been paying a higher price for fuel than either Kenya or Tanzania, who import crude oil and refine it locally.

This partly explains why Uganda, courtesy of its power bill, has comparatively been an expensive destination for manufacturers compared to Kenya and Tanzania.

KPC big casualty

"If our neighbours successfully develop other means of meeting their energy needs, their reliance on Kenya Pipeline Company (KPC) and other transport services will decline.

"This will have consequences for Government revenues," says Mwendia Nyaga, Managing Director National Oil Corporation of Kenya (Nock).

About 85 per cent (714,000 tonnes) of Uganda's annual petrol and diesel needs pass through Kenya. Out of this, 600,000 tonnes are transported KPC's infrastructure.

This means that KPC will also be another big casualty once Uganda becomes self-sufficient in terms of oil production. Uganda pays the KPC $40 for every tonne of oil that passes through its facilities.

This translates to $24 million (about Sh1.9 billion) in annual revenue to KPC. The money is later transferred to the Government.

"The construction of the topping plant and the possible later development of a larger refinery will most likely result in Uganda reducing its petroleum imports and thus dependence on Kenya's infrastructure," says Nyaga.

About 114,000 tonnes of fuel are transported through road and rail to Uganda with the landlocked country paying an additional $20 dollars per 1000 litres to ferry the fuel from the coast compared to using the pipeline up to Eldoret and trucking it to Kampala.

Generally, Uganda's fortune will also translate into loss of revenue for the Rift Valley Railways (RVR) and myriad road transporters.

This could also translate to massive job losses in that sector.

On the flipside, less transportation of oil products through the road will help reduce the strain and consequently improve Kenya's infrastructure life span.

Huge job losses

Although Obath says the impact will not be immediate, the effects could start manifesting as early as two or three years after Uganda starts to fully exploit its oil revenues.

According to Obath, the topping plant will not satisfy Uganda's entire demand for transport fuels or so-called white petroleum products like diesel.

But it will reduce Uganda's dependence on foreign oil and generate value-added investment locally.

"Kenya may lose revenues derived from exports initially, but in the long-term, the benefits are likely to be significant because Kenya could buy cheaper oil from Uganda," says Obath.

According to Nyaga, the topping plant's capacity of 32,000 tonnes of diesel a year is hardly enough to scratch the surface of Uganda's total annual consumption. Uganda, he says, will still need to import diesel and other white products through Kenya.

"In the long-term, should Uganda have reserves enough to export, it is likely to use the existing Kenya Pipeline infrastructure including the proposed pipeline from Eldoret to Kampala.

The Government would thus earn revenue from the transport costs incurred," says Nyaga. Currently, 85 per cent of Uganda's petroleum requirements are imported through Kenya, primarily via the pipeline to Nakuru and Eldoret and then via road transport across the Ugandan border.

Kenya collects tax revenue from profits made by KPC, road transport companies, import/export firms, intermediaries and other services and businesses associated with petroleum product transport.

Experts have been working to ascertain the amount of reserves Uganda actually has, as the first estimates of the discovery's size indicate it is exhaustible.

Estimates of up to 300 million barrels pale in comparison to the reserves of Nigeria (36 billion barrels) or Angola (more than five billion barrels).

The three fields in western Uganda, where the oil has been discovered, have reserves of between 100 million and 300 million barrels, with 30 million barrels ready for extraction at just more than 12,000 barrels a day.

Australian oil exploration company Hardman Resources Ltd, which had been commissioned by the Ugandan Government to prospect for oil in the country discovered the oil in June 2006 in three western fields called Weraga 1, Weraga 2 and Mputa. Before that, oil exploration companies had spent at least $70 million on the search.

Output deadline

The oil find brought Uganda into the continent's oil producing club alongside countries like Nigeria, Equatorial Guinea, Sudan and Chad, although with a lesser production potential.

During the announcement, Ugandan media quoted Museveni saying that he expected production to begin this year, with an initial production of 6,000-10,000 barrels a day. By comparison, Nigeria, which is Africa's biggest producer of crude, can produce around 2.5 million barrels per day, but has seen a drop-off of around 20 per cent in the past few months because of militant attacks on pipelines and kidnappings of oil workers.

Although Ugandans are happy at the prospect of the country's new resource generating faster growth and creating more jobs, initial reactions from the locals of the region where the oil was discovered is pointing to a direction similar to problems that have been witnessed in oil producing areas in Nigeria.

According to various reports from the Uganda media, tribesmen of the Banyoro, whose kingdom area covers where the oil was discovered, started to claim their share of the oil immediately after Museveni's announcement.

The leaders sent a statement to the news media, saying that 51 per cent of the oil royalties should go to the tribe.

"Mubende Banyoro Committee has established a Citizen's Oil Committee charged with charting a policy for the equitable distribution of oil benefits to avoid the oil curse that usually accompanies communities where oil is struck.

Misery, torture, executions

"We want a 51 per-cent share of the benefits," reads in part one of the statements.

The Banyoro leaders also said that they were "keenly aware of the misery, torture and even executions that befell indigenous people in oil-producing areas like in Nigeria and Chad" and would not take any chances.

Although it is still too soon to know whether the Ugandan oil will live up to its potential or the real magnitude of its impact on Kenyan revenues Nyaga says that Kenyans should support Uganda's plans to develop its petroleum resources and the necessary refining capacity. "By working together, we can help secure East Africa's energy future and reduce our reliance on expensive foreign oil," he says.

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