Losses loom in Kenya's stalled crude export plan

By Edwin Okoth

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Taxpayers are at a risk of losing billions of shillings in breach of contract payments after energy and petroleum secretary Charles Keter announced that the government had suspended the early oil export plan that was to start this month.

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The payments will be made to private companies that were hired early this year to execute the plan.

The sudden application of brakes on the plan, which was meant to test the appetite for Kenya's crude oil in the international market, comes barely a month after three firms signed a Sh1.5bn contract to move the oil to Mombasa for shipping overseas.

Delays

Oilfield Movers, Prime Fuels Kenya and Multiple Hauliers were hired to move the crude from Turkana oil fields to the Kenya Petroleum and Refineries Limited grounds in Mombasa meaning any delays may have financial consequences.

Keter said the government had decided to stop the plan awaiting the conclusion of the Petroleum (Exploration, Development and Production) Bill 2015, which got stuck in the senate after President Uhuru Kenyatta sought to reduce the revenue share meant for the local community from 10 to five per cent.

"After consultation with the local leaders and the community, we have decided that instead of having the project commence this month, we will defer it until the Bill, which is pending before the senate and as you are aware that can only pass after we have the next parliament."

Heavy price

The uncertainty surrounding the exact timelines for the crude export plan has left wide open the possibility of the government and the explorer paying a heavy financial price for suspension of the contracts signed with private companies.

The early oil export scheme was to run from mid-2017 to mid-2019.

A delayed start of the scheme also means that Tullow, the explorer, will spend more on storage and security of the oil - money it is entitled to recover from the revenues earned.

Tullow, which discovered oil deposits in Kenya in 2012, has signed a production sharing contract with the government, the details of which have not been made public.

Lessons learned

Kenya is yet to audit the British explorer after it claimed to have spent over $1.5bn in oil exploration activities since 2010.

Tullow Oil Kenya country managing director, Martin Mbogo, however, dismissed the possibility of his company suffering any commercial consequences from the change in timelines only terming it, a "lesson to learn".

"The contracts were designed in a manner that that they can be turned on and off easily. Flexibility was built into this and we do not see any adverse effects from the changes," Mbogo said adding that the contracts can be switched on and off within five to seven days.

"Our base business is not impacted with the position we are in today so we are confident that we have picked up the lesson and we should take this as a plus," Mbogo said.

Source: *Daily Nation*