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INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

THE EFFECTS OF BUSINESS ENVIRONMENT ON FOREIGN DIRECT INVESTMENT; CASE STUDY OF KENYA'S PETROLEUM INDUSTRY

by

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This dissertation is submitted in Partial Fulfillment of a Course Leading to a Masters Degree in International Studies.

UNIVERSITY OF NAIROBI
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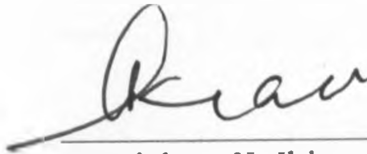
DECLARATION

This dissertation is my original work and has not been presented for another degree in any other University.

Mary Kiriga

Candidate

This dissertation has been submitted with our approval as University Supervisors.



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DEDICATION

To my parents, Grace and Joseph Kiriga.

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ABBREIVIATIONS

AGO	Automotive Diesel
BP	British Petroleum
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FO	Fuel Oil
FOB	Free on Board
GDP	Gross Domestic Product
GOK	Government of Kenya
IDO	Industrial Diesel Oil
IK	Illuminating Kerosene
JET A-1	Aviation Kerosene
KPC	Kenya Pipeline Company
KPRL	Kenya Petroleum Refinery
KSHS.	Kenya Shillings
LPG	Liquefied Petroleum Gas
MOE	Ministry of Energy
NOCK	National Oil Corporation of Kenya
NOSRC	National Oil Response

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	Council
PDL	Petroleum Development Levy
PIEA	Petroleum Institute of East Africa
PMS	Super Petrol
PRC	Refining and Petroleum Cost
RML	Road Maintenance Levy
TOE	Tonnes of Oil Equivalent
US$	United States of America Dollar
VAT	Value Added Tax

ABSRTACT

This study investigated the effects of business environment on FDI's focusing on Kenya's petroleum industry. Chapter one begins with a general overview of the business environment and its effects on FDI`s globally. It found that countries with conducive business environment attract more FDI`s. Some of the parameters for a conducive business environment is a reliable infrastructure, stable Marco economic climate and political stability.

Chapter two gives an in-depth overview of Kenya's petroleum industry from 1973 today. It found out that the industry has experienced different forms of liberalization at different periods of time. It also found that due to the two-oil crisis of 1973-1974 and 1979- 1980 the Ministry of energy was established in 1979.

Chapter three discusses the policies in the oil sub-sector. Of all the policies, taxation has been the one given prominence due to the fact that it is a source of government revenue. The environment policy however has not been implemented despite its hazardous effect on the environment and health.

Chapter four discusses the empirical findings from the field study. It found that the law requires that all oil-marketing companies' process

30% of their crude oil at the refinery in Mombasa. In addition to this only those who meet this requirement are allowed to import refined oil products. The number of new operating entrants have an impact on the market in Uganda than Kenya because Uganda's economy is more vibrant unlike Kenya's which is currently in recession.

The responsibility of spearheading development worldwide is viewed as the governments' prerogative. The study assesses the effects of business environment on foreign direct investments with Kenya's petroleum industry as a case study. To this end, the study observes that attracting foreign investors to the country was difficult mainly due to the economic recession, high taxation of petroleum products and the oligopolistic nature of the petroleum market.

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One of the objectives of the study was to investigate whether a more conducive business environment would attract more investment in the petroleum industry. The study indicates that, political stability, liberalization and a stable macro-economic environment are the hallmarks of a competitive business surrounding.

The study concludes that for foreign direct investment to thrive, the government has to play a greater role in formulation and implementation of energy policies.

CHAPTER ONE

INTRODUCTION

1.0 Preamble

Business environment refers to the external surrounding in which a commercial or industrial establishment such as a firm or a factory operates on. Parameters such as a stable macro-economic environment, liberalized foreign exchange, rationalized tax and tariff structures, political stability, reliable infrastructure, liberalized price and licensing and liberalized investment laws among others constitute a good external surrounding. Buchenoiz (1991) observes that business environments may be non-economic in nature. These keep on changing and vary from country to country and investors have no choice, but to respond to these changes. Through knowledge of the prevailing business environment investors are able to respond more effectively (Buchenoiz, 1991:10).

A conducive business environment is a key factor in the inflow of foreign direct investment in an economy. In cognizance of this, governments endeavor to create a conducive business environment. The country whose business environment is more attractive will attract more Foreign Direct Investment (FDIs). The enormous responsibility placed upon Government world wide to spearhead development cause them to strive

to enhance the development status of their people. This task has led most Governments to realize the need to incorporate the private sector and foreign investors as partners in order to facilitate economic growth and development. Therefore, it is not enough to crate a conducive business environment, its sustenance is crucial in maintaining the in flow of FDI and to sustain these investments. The importance of sustaining a conducive business environment was emphasized by Fontaine who observed that, Cote d'Ivoire was struggling after more than a year of turmoil, and foreign residents who are a critical part of the economy, feared the country might sink deeper into chaos (Daily nation, February 7, 2001). Brazil's attractiveness to foreign investors had faded considerably since 1982. From 1969 to 1982, the average annual increase in registered Foreign Investment growth had slowed appreciably, averaging only 6.43 percent annually from 1983 to 1988 (Rosenn, 1999:2)

In the 1960s and 1970s, Kenya attracted many British settlers who invested in the country due to its agreeable climate and good communications. Today Kenya is one of the top ten African countries that have a high FDI outflow. The quantum of investment that left the country's border doubled between 1988 and 1999, the most probable cause of the outflow being investors search for better returns elsewhere (Daily Nation, October 3, 2000). The Development Plan for 1994

indicated that the cause of decline in the real rate of private investment were high inflation rates which caused investments to become more costly. Since 1980, the annual rate of decline in the private investment fell to less than 7.0 percent. This was partly attributed to the collapse of the East African Community in 1977, the political uncertainties of 1982 and the drought of 1984 and the uncertainties associated with the transformation to pluralism from 1990 among others. Currently, a total of 120 firms have closed while about 100 have been put under receivership in the past five years as high taxation, poor infrastructure and insecurity force multinational companies to shift their key operations from Kenya to other COMESA countries (The East African, July 23-29, 2001).

Petroleum is the second largest of Kenya's primary energy sources with a 21 percent contribution. Kenya's Petroleum will, for the foreseeable future, have to be imported, as the domestic prospecting has not revealed oil deposits worth of commercial exploitation (Institute of Economic Affairs, 2000:4). The industry operates under an environment of high taxation, the total government revenue accounted for by petroleum based taxes has remained at over 10 per cent in both pre and liberalized periods (Institute of Economic Affairs 2001: 17). Sessional paper No. 4 of 1975: 16 argued that taxation was to be used as a means of discouraging the domestic use of oil. The full cost of imports was to be passed on to

domestic users, while for less essential users of oil, prices were to be raised even higher as was the case with petrol whose tax was raised by 20 percent per litre. The price increase would go to the Government instead of increasing the profit of the suppliers. The inefficiency of the refinery due to its age, for example being unable to meet the acceptable standards of finished products at the world market, i.e. the acceptable standards for automotive gas oil (diesel) in respect of Sulphur contamination is 0.5. The refinery produces a Sulphur level that is double the quality standard. This inefficiency has hindered the importation of crude oil that would yield higher quantities of consumer products. Another handicap for the industry is high interest rates that apply to loans, which tends to discourage investors, as petroleum is a capital-intensive industry.

1.1 Statement of the Problem

One of the reasons why investment flows to the African continent has been so low is that, among the developing regions, Africa has the largest concentration of least developed countries. Most of these countries suffer from accumulation of factors that discourage investment in flows, ranging from high level of external indebtedness through small domestic markets, too poorly developed physical infrastructure and a generally unskilled labor force (UNCTAD/DTCI/19, 1995:27). Ikiara and Odhiambo

established that, a predictable environment would not only provide pleasant working conditions for the investors but also boost the investors' confidence (2000:11). Among the major factors determining the flow of FDI to Africa include growth of local markets. On the other hand, some of the main constrains to companies doing business in Africa are extortion and bribery, access to global markets, political and economic outlook and access to finance. Sessional paper No 1 of 1986 stated its underlying aim as the establishment of an incentive environment under which private participants of all size in all sectors could make profits while simultaneously contributing to widely shared development in Kenya.

One problem that arises is the fact that business environment is complex and heterogeneous and for this reason, many countries have initiated different approaches to different parameters that constitute business environment. What affects one parameter may not necessarily affect another parameter hence each calls for its specific set of strategies. Many countries world wide, Kenya included have privatized various sectors of their economies in a bid to enhance their business environments.

The study seeks to investigate Kenya's business environment and its effects on the petroleum industry since 1973.

1.2 Objective of the Study

In Kenya, many sectors of the economy among them the petroleum sub-sector have been liberalized in a bid to improve the business environment. The business environment has diverse components and because of its heterogeneous nature, countries have taken measures to address individual components.

The first objective of the study is to access whether the existing business environment has been attractive to foreign direct investment. The Second objective is to assess the impact of the existing business environment on the petroleum sub-sector. Thirdly, to investigate whether a more conducive business environment would attract more investment in the petroleum industry.

1.3 Justification of the Study

Firstly, the study can be justified in terms of policy. The Ministry of Energy is charged with the responsibility of formulating and implementing strategies and policies for ensuring the country's energy requirements are met (Sessional Paper No. 4 of 1975: 28). The Government's policies in the petroleum sub-sector have remained

consistent in the area of revenue maximization and to have a redistribute effect through pricing (Institute of Economic Affairs, 2000:17). Kenya's petroleum industry has undergone considerable changes since the liberalization process began. This sub-sector is important for the over all economic growth because it accounts for about ten percent of the revenue collection from taxation while the petroleum import bill constitutes four percent of the country's Gross Domestic Product. Policy decisions on this sector must therefore encompass wide considerations because petroleum is an international product and Kenya has no proven commercially exploitable oil reserves (Institute of Economic Affairs, 2000: 3).

The high cost of petroleum has been cited as one of the major cause of Kenya's serious economic problems. Sessional Paper No 4 of 1980: 28 suggested appropriate policies that in the long run will reduce dependence on imported petroleum which included expansion on non-petroleum energy sources; particularly hydro and geo-thermal; rationalized use of oil through increased reliance on railroads for long hull deliveries; plus the co-ordination of rail-road pipeline facilities for petroleum transportation among others. Sessional Paper No 4 of 1975 proposed to discourage the domestic use of oil by means of price by passing on the full cost of imports to domestic users; raise the price for non-essential uses of oil and search for oil substitutes as sources of

energy. Sessional Paper No. 1 of 1986 recommended as shift to electricity and wood fuels which would lead to a reduction in dependence on imported petroleum. Not much research has been done in the field of business environment and its effects on Kenya's petroleum industry. The study will therefore contribute to the existing knowledge by adding to the current literature on the effects of business environment on Kenya's foreign direct investments.

1.4 Hypothesis

The study will revolve around the following hypotheses:

a) Kenya's business environment has contributed to fluctuations in foreign direct investment.

(b) To investigate whether the existing business environment has led to more investments in the petroleum sub-sector.

1.5 Operationalization of the Concepts

Business environment in this study will refer to parameters such as taxation, political stability and infrastructure among others that investors in pursuit of investment opportunities will assess or consider before investing in an economy.

Policy is a plan of action, statement of ideas, etc proposed or adopted by a Government, Political party, business etc (Oxford Advanced Learner's dictionary).

Liberalization refers to the whole process of freeing the economy. From state controls as evidenced in the abolition of the foreign exchange control, elimination of price controls, adoption of imports and export policies that favour cross-border commerce and the creation of a free market economy to accommodate domestic and foreign entrepreneurs.

1.6 Methodology

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The study uses secondary data from books, periodicals, journals, reports, newspapers, magazines, seminar and workshop papers, public records or documents such as budget speeches, economic survey development plans, annual reports and other publications.

The primary data was gathered through, survey data via observation and formal interviews using both structured and unstructured questionnaire. Personnel from Ministry of Energy oil marketing companies and Petroleum Institute of East Africa were interviewed. The data was collected from eight out of the twelve licensed oil companies in Kenya.

1.7 Literature Review

1.7.0 Business Environment and Foreign Direct Investments

An investor confronts two basic questions when searching for a suitable economy to invest in. These are what to analyze in the environment and how to assess its relevance to the firm's strategy. A broad view must be taken of the forces shaping the environment systematically recognizing the connections and interdependencies (Austin: 1990: 29).

The review will look at the environmental factors that affect foreign direct investment using economic, political and social-cultural factors. A country's political stability is paramount in the creation of a conducive business environment. Stability here refers to the strength of the political system. The country's ability to absorb conflict without serious disruption to the political system is vital in attracting and retaining Foreign Direct Investment (FDI).

After the end of the cold war, conflict and military coup d' e tats, marked many developing countries' political history. There was lower propensity to invest in presumably unstable political arenas due to increased risks to the operating autonomy and financial returns to investors (Akinsanya: 1984). On the other hand, Rosenn (1991) asserted that political uncertainty could cause anxiety among investors. He found that the

political uncertainty in Brazil during the five-year transition from two decades of military rule caused foreign investors to get cautious.

A review of the basic factors that determine the investment climate in Africa for both domestic and foreign investors, making it less attractive than other developing regions, lists continuing conflicts as one of the major deterrents. Four African countries that have been in conflict since the 1980's are Liberia, Rwanda, Somalia and Sudan. These countries have been afflicted by war as well as social and political turmoil making them unattractive for FDIs (UNCTAD: 1995: 38). Countries such as Botswana and Mauritius build effective national governance institutions on the foundations of genuinely competitive democracy and rule of the law. On the other hand, poor governance has also been responsible for disintegration of states, protracted civil wars and lawlessness in Africa. For instance in Angola (since 1975), Burundi (since 1993), Democratic Republic of Congo (DRC) (since 1977) and Sierra Leone (between 1992-1999) (WB: 2000:54). Other corollary effects of conflicts are outpouring of refugees to neighboring countries, causing increased costs and risk to their FDI chances.

The ideology held by the government is an important component in the sphere of political stability. Ideology is a set of briefs and assumptions about values that a nation holds to justify and make legitimate the

actions and purpose of its institutions. The success of Korea and Taiwan are attributed to the coherence of their ideologies. Investors will be attracted where there is a fair playing ground and where market force is allowed to largely determine prices.

The economic factor entails components such as a country's trend in economic growth, investments, inflation and the quality of the infrastructure among others. They are all vital in the determination of the inflow of FDI into a country. African countries economic growth is one of the factors that make the continent less attractive than other regions. Growth in this continent is lower than that of other continents and is sometimes negative. For instance, the GDP per capital growth was –0.4 per cent and –1.5 per cent respectively in 1990, 1991 and 1992 (UNCTAD: 1995:38).

The attractiveness of the Latin American region to the foreign investors diminished notably due to the debt crisis, galloping inflation lack of foreign exchange and the decline in economic growth among other factors (Rosenn: 1991). Ball (1993) is of the view that high inflation rates make expenditure planning more difficult. He contends that inflation distorts the working of the price system and creates arbitrary redistribution from debtors to creditors. It also creates incentives for

speculations as opposed to productive investment activity and is usually costly to eliminate (Lipsey and Chrystal: 1995: 786).

The inability to buy firm's products is caused by of a quick inflationary surge, and would lead to either bankruptcy or severe financial damage. The consideration of the peoples` ability to buy a firm's commodity is reflected both in the country's economic trend, investment and also inflation.

The economic crisis in Sub-Saharan Africa (SSA) has been caused by many factors. These are; the burden of debt servicing which grew from 15 per cent of export earning in 1980's to 32 per cent in 1988; the drop in per capita incomes; the rapid increases in population. The loss of export revenues; the curtailment of foreign investments; and the inability of many countries to even feed their people and provide basic human needs (Todaro: 1992:470).

The status of a country's infrastructure is highly significant in attracting FDI. Depleted roads, unreliable railway and air transport inadequacy or lack of and high cost of faxes, e-mail and telephone services among others, reduces the opportunities of a country to attract foreign investors. The "hard" infrastructure includes services such as telecommunications, power, transport, water and sanitation. "Soft"

infrastructure includes the financial sector among others. It is important to ensure that development is broadly based, and that as many people as possible has access to these services (WB: 2000:132).

A poor infrastructure may be the most visible characteristic of developing countries. Modern facilities are often lacking in transportation, postal, electrical, water, waste disposal and other utilities. Port capacity is often inadequate services inefficient and charges high. Railroads are generally government run and often inefficient and unreliable (Austin: 1990:53). This is caused by corruption and lack of maintenance.

Africa faces a number of specific hurdles that impede growth in the private sector. Failures of the essential services aforementioned have not only failed to keep pace with economic growth but have deteriorated rapidly in the past two decades. After years of being mismanaged by state owned monopolies, the infrastructure in most African countries is close to breaking down. Access and service levels are far below those in most other developing regions (IFC: 1999:8).

One of the reasons why investment flows to the African continent have been weak is that Africa has the largest concentration of least developed countries (32 out of 48). Most of these countries suffer from accumulation of factors that discourage investment flows ranging high

levels of external indebtedness through small domestic markets to poorly developed physical infrastructure and a general unskilled labor force (UNCTAD: 1995:25).

FDI can be a genuine spur to development in the recipient countries Akinsanya (1984), highlighted the role played by multinational corporations in the developing countries and observed that in general these business enterprises are regarded not only as the vehicles through which capital and technology are transferred from major economic powers to the developing countries. They are also the vehicles through which the natural resources of a developing country are developed (Akinsanya: 1984: 96). The flow of capital triggers a number of effects. Capital inflow is especially important for countries with limited domestic savings and weak domestic capital markets.

Table 1.1 Geographical Distribution of USA Foreign Investment (%)

	1950	1960	1970	1980
Foreign Direct Investment	11,788(a)	31,865	75,680	21,3468
Western Hemisphere Excluding Canada	4,576	8365	12,462	38,275
Canada	3,579	11,179	21,015	44,640
Europe	1,733	6,691	25,255	95,689
United Kingdom	847	3,234	8,016	28,099
Japan	-	254	1,492	6,274
Australia, New Zealand	-	-	-	-
South Africa	705	1,195	4,067	10,484
Other Asian and Pacific	-	984	2,260	3,730
Other African	147	639	2,427	3,730
Middle East	692	1,139	1,545	2,281

Source: Korth, International Business Environment and Management

Table 1.1 shows direct investment of American companies overseas. It is indicative, of geographical, cultural and historical bias. The argument advanced is that there is much investment where business environment is conducive. Factors such as economic growth, state of the country infrastructure guides the investors on where to invest.

1.7.1 Business Environment and Foreign Direct Investment in Kenya

The Kenyan government like any other government worldwide is expected to spearhead development and hence strives to enhance development status of her country by improving the living standards of her people. To achieve this, the Kenyan government needs private and foreign investors. The important role played by FDI in Kenya was pointed out in the development plan of 1984-1988:53. Much of domestic resources were to be generated from earning derived from private foreign investors.

Fresh inflows usually met tests of productivity and profitability and hence were an important supplement to domestic savings. Since independence, the government has welcomed and encouraged private foreign investments. The plan mentioned the government's intention to limit its participation in new commercial ventures and instead encouraged wholly private initiatives. The government's role being that of

provision of appropriate incentives, information on opportunities and suitable regulations to protect consumers, supplies and competitors against unfair practices. The Investment Advisory Center (IAC) was an important vehicle for the promotion of private foreign investment particularly in partnership with domestic investors.

The government has taken measures such as liberalization of various sectors of the economy, and the introduction of Export Processing Zones (EPZ), among others in an effort to attract FDI. Nevertheless, the efforts of the government do not appear to be yielding much result. Ngwiri (DN, 12/99) highlighted why investors could not trust Kenya with their money. He cited the reasons for investors flight as, unreliable infrastructure, heavy taxation and failure to offer any incentive to investors, failure to offer adequate security against violent crime, failure to control corruption and in short, failure to show why they should invest in Kenya.

World Bank statistics for 1996 and 1997 revealed that Kenya received the least investment in the East African region. Uganda received US$ 120 m, and US$ 180, respectively. Tanzania received US$ 150m, and US$158m, while Kenya received US$ 13 m and US$ 20 m respectively. The Kenya technical working group on regional integration reported that foreign investment had fallen drastically in the past 20 years. It had

dropped from US$ 3.2 billion (KSH 249.6 billion) in 1978 to less than US$ 3m (KSH 23.4 billion) in 1998. This was a drop of about 10 times (DN 30/8/2001:17) The decline was attributed to both international and internal factors.

The external factors include the fall in coffee prices in the late 1970's, the collapse of the East African Community in 1977, and the oil crisis of 1979. The internal factors comprise of, the political uncertainty occasioned by the 1982 attempted coup, the tribal clashes in the early 1990's, and corruption. Other factors were, the 1985-1986 collapse of several financial institutions due to financial crisis worsened by the Foreign aid embargo, the el nino rains and the drought that followed the year after.

CHAPTER TWO

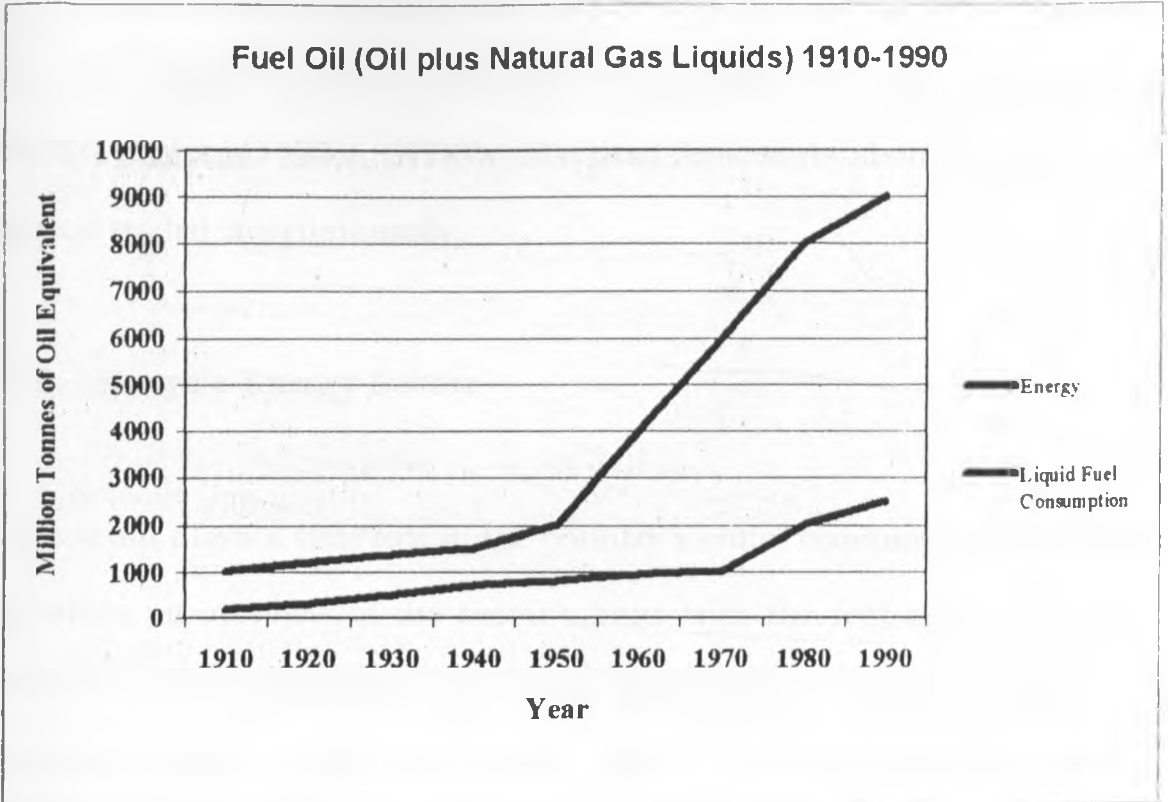
AN OVERVIEW OF KENYA'S PETROLEUM INDUSTRY: 1973 – TO DATE

2.0 Introduction

Kenya has yet to find commercially exploitable oil despite numerous attempts in the North Eastern part of the country. The country's oil requirements are met by imports, mainly from the Middle East. A study of the Kenya's Petroleum industry cannot be undertaken without bringing the international oil industry into focus. Hence it is important to shed some light on trends of world oil production.

During the last quarter of the twentieth century, international oil ceased to be a growth industry. After more than hundred years of expansion far faster than both energy in general and the rest of the world economy, it slowed down abruptly in the 1970s (Hartshon 1993:1). By 1979 oil production was only 12 percent higher than the 1973 level while oil trade was 3 percent higher than in 1976. By 1985, world oil production was 12 percent lower than in 1979 and 17 percent lower in the non-communist world. International trade in oil fell by nearly a third (ibid.).

Figure 2.a World Consumption of Primary Energy and Liquid Fuel (Oil Plus Natural Gas Liquids) 1910-1990



Source: United Nations, BP

Growth rates of the world's total energy consumption and of the gross world product over the first half of the century were both of the order of 3 – 3.5 percent annual. In the post war years those rates rose to about 5 percent annually. In the seventies, the world economy rose by 3.7 percent annually while energy consumption rose by 3 percent. The world economy growth in the eighties grew by 3.5 percent whereas energy consumption rose by 1.5 percent.

Two thirds of the world's reserves are in the Middle East and one quarter of the world total is in Saudi Arabia (Streifeil 1995: 23). The Organization of the Petroleum Exporting Countries (OPEC) produces about 40 percent of the world's crude oil and 14 percent of its natural gas (OPEC.org/org/1193). OPEC's oil export represents about 60 percent of the oil traded internationally.

2.2 Kenya's Energy Sector

Petroleum plays a vital role in the country's entire economy. This section provides an overview of the sector's links with the rest of the economy. Kenya's post-independence economic history can be traced through six distinct periods. The first period, 1964 – 1973, recorded an annual average real GDP growth of approximately 7 percent. During this period, the manufacturing sector recorded a growth rate of 8.2 percent and it's share of total GDP increased from 9 to 10 percent.

The second period, 1973-1978 was marked by the first oil crisis. This was occasioned by a reduction in the production of oil in the international market causing the price of the commodity to rise. The crisis brought about a sharp drop of annual GDP growth rate from an average of 6.7 percent in 1964-1973 to only 3.1 percent in 1975 (Bhagavan 1996:11).

The third period witnessed a dramatic increase in the GDP growth of 8 percent in 1978 arising mainly from the high export prices realized by coffee and tea. The fourth period, 1978 - 1984 on the other hand witnessed a steady fall of GDP growth rates from 8 percent realized in the previous period to 0.8 percent in 1984. The decline was largely due to the 1980 and 1984 droughts, the second oil crisis, the collapse of the East African Community, weak macro economic policies, unstable export prices for coffee and tea, low growth rates in gross investments and rising budgetary deficits (ibid: 12).

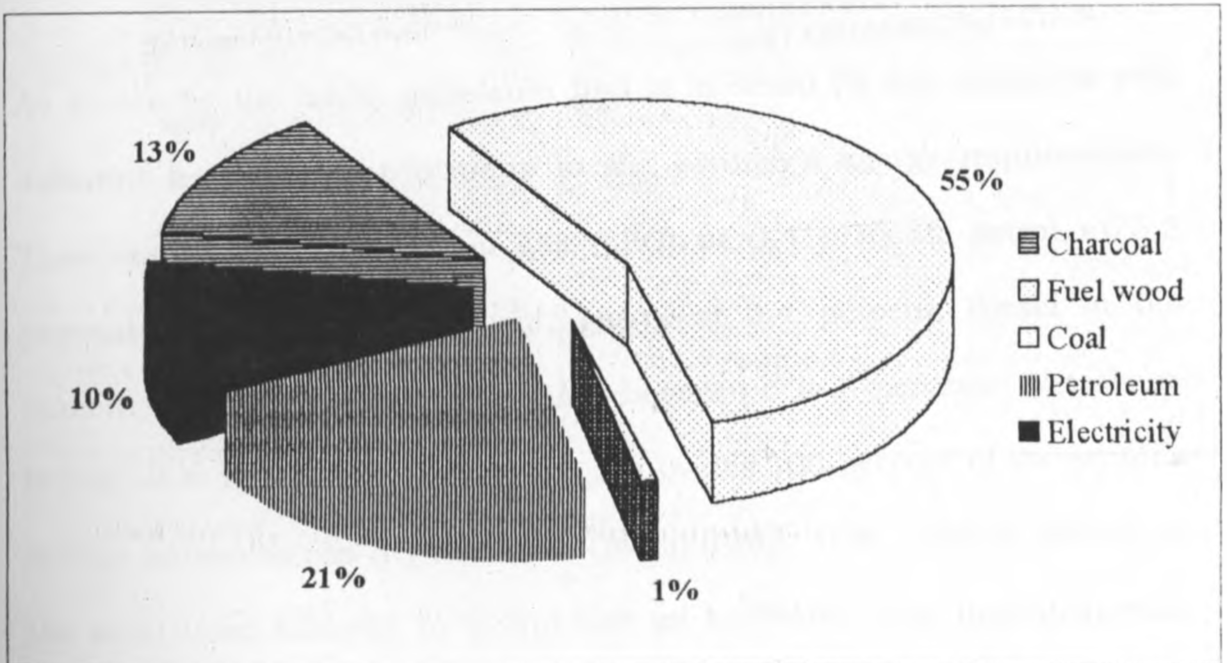
The fifth period, 1984 - 1989 witnessed considerable economic recovery due to favourable weather conditions, government budgetary discipline and improved economic management policies, the decline of world prices and increase in coffee prices. The economy recorded a GPD growth rate of 5.5 percent in 1986. The later years of the period saw a moderate but a decline performance with GDP growth rate reaching 5.0 percent by 1989. The last period, 1990 to 1993 produced the worst economic performance in Kenya's history. The economic growth rate recorded a decline from 4.3 percent in 1990 to 0.4 percent in 1992 and 0.1 in 1993. A number of factors caused the decline among them being; suspension of donor aid in November 1991-1992 political and economic problems

related to political transition and ethnic clashes (Ikiara and Odhiambo 2000: 18).

2.3 Sources of Energy in Kenya

Petroleum is the second largest of primary energy source contributing 21 percent of energy consumption. The dominant source of primary energy source is wood fuel accounting for 55 percent of the national energy consumption. Hydropower and geothermal sources of energy account for 10 percent while coal accounts for 1 percent only.

Figure 2.b: Energy Consumption by Primary Source



Source: Institute of Economic Affairs 2000

Table 2.1: Energy Supply Structure, 1984-1994 in Percentage

Energy	1984	1990	1994	Average
	%	%	%	%
Petroleum	29.0	28.4	28.0	28.5
LPG (Liquefied Petroleum Gas)	0.4	0.4	0.4	
Petrol (auto)	6.0	5.4	5.0	
Kerosene (DPK)	6.0	5.9	6.2	
Gas oil (auto)	8.0	9.0	7.9	
Diesel (IDD)	0.4	0.4	0.3	
Petrol (Aviation)	0.1	0.1	0.1	
Wood Fuel	67.0	67.4	67.9	67.8
Charcoal	10.0	11.2	-	
Wood	57.6	56.2	-	
Coal	1.4	1.2	1.2	1.3
Ethanol	0.1	0.1	0.1	0.1
Electricity	2.6	2.9	2.8	2.8
Total	100.0	100.0	100.0	100.0

Source: Nyoike and Oketch 1996, Government of Kenya 1995

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As shown by the table, petroleum fuel is in seven (7) fuel products with different levels of contributions to the country's energy requirements. They are liquefied petroleum gas (LPG) at 0.4 percent; petrol at 5.5 percent; kerosene at 6 percent; gasoil at 0.4 percent; diesel at 0.4 percent; aviation fuel; and fuel oil at between 6 to 8 percent. Petroleum is crucial to the transport sector as it provides 100 percent of the sector's energy requirements (Ng'ethe and Owino 1998: 158). Gasoil (diesel) is the most used followed by petrol and jet kerosene. The manufacturing sector uses residual fuel oil whose supply accounted for 8.1 percent in 1994. Kerosene accounts for 4 percent of Kenya's household energy

source in the rural areas and its supply was 6.2 percent in 1994. The dependence of these sectors on petroleum indicates it's input to both the production and service systems.

2.4 Kenya's Petroleum Industry Since 1973

Kenya has no exploitable reserves hence it is a net importer of petroleum. The sub-sector has experienced different forms of liberalization at different periods. Between 1963-1971, the oil companies were free to determine the prices of petroleum and it's products on the basis of production costs and profit margins. They, however, were not allowed to import refined petroleum products. This was to ensure supply of liquefied petroleum gas (LPG) and also to protect commercial interests of the oil refinery. The period ended in 1971 when the Government introduced price controls on petroleum products. The government then purchased 50 percent of the refinery's share holding from the original owners – Shell, BP, ESSO and Caltex. This led to the formation of a new company, Kenya Petroleum Refineries Ltd. (KPRL) (Institute of Economic Affairs: 2000).

During this period, the bulk of petroleum fuel was imported into the country in the form of crude oil from the Middle East and refined at the Mombasa refinery. The refinery's has a capacity of 4 million tones per

annum of heavy oil. It was intended to serve Tanzania, Uganda, Eastern Zaire and Southern Sudan. The introduction of price controls in 1971 was due to the government view that oil companies were spending massively on advertising while competing among themselves. It was felt that their reduced spending on advertisement could be passed to the consumer in the form of lower petroleum prices. The shift in policy was also in line with the then prevailing economic strategy of increased Government involvement in all sectors of the economy (Economic Survey 1994).

Table 2.2: Crude Oil Intake at the Refinery by Type, 1996-200 in '000 tonnes

Crude Intake	API Gravity	1996	1997	1998	1999	2000
Arabian Heavy	27.9	-	27.6	25.0	54.2	-
Arabian	31.0	-	-	-	-	73.1
Medium	33.9	1.0	-	-	-	-
Iranian Light	30.4	56.3	76.8	84.2	30.7	64.6
Iranian Heavy	32.0	68.8	-	-	49.9	-
Kuwait	40.1	657.6	582.8	562.0	309.5	115.2
Zakum	39.6	834.1	960.2	1050	1252.7	1759.9
Marban	-	144.2	-	-	-	-
Marib Light	-	-	-	-	1.1	-
Slops		1761.2	1647.4	1721.6	1698.1	2012.8
Total						

Source: Economic Survey 2001

Total intake at the refinery rose by 18.5 percent to 2,012.8 thousand tones in 2000 up from 1698.1 thousand tonnes the previous year. This was the highest crude oil intake since liberalization of the petroleum

sector in 1994. The rise was attributed to the increase of crude oil intake, particularly of Murban and Iranian heavy which recorded rises of 40.5 percent and 110.4 percent respectively between 1999 and 2000. Murban crude remained the most important crude oil intake at the refinery owing to its high yield of white oils, accounting for 87.4 per cent of total crude intake, with the other 12.6 percent share among Zakum, Iranian heavy and Arabian medium. Although no Arabian medium has been imported in the course of the previous five years, 73.1 tonnes were imported in 2000. No imports of Arabian heavy and Kuwait were recorded in 2000 (Economic Survey 2001:139)

The Ministry of Finance was charged with the responsibility of approval of price adjustments but the responsibility was shifted to the Ministry of Energy later on when it was established in 1979 (Bhagavan 1996:21). Considerations for setting petroleum prices included: - international crude oil prices; prevailing inflation rates, freight charges, prevailing exchange rates, inland transport costs, profit margins. During this era, oil companies constantly accused the Government of creating inefficiency in the market by distorting petroleum prices and reducing their profit margins by increasing taxes without corresponding increase in prices of petroleum products.

The period witnessed frequent crude oil prices fluctuations in the world market due to unstable supply. On the other hand, Kenya's economy was performing poorly and exchange rates varied on daily basis while inflation was high and continued to rise. The ministry charged with petroleum price adjustment could therefore not effectively keep up with these unforeseen eventualities.

The two oil crises, 1973 – 1974 and 1979 – 1980 led to the establishment of the Ministry of Energy (MOE) in 1979. The Government realized that the energy sector continued to present a challenge to the country's economic development. Bhagavan 1996: 12 argues that dramatic increases in world oil prices forced Kenya to increase both the amount and share of foreign exchange earnings dedicated to the purchasing its petroleum oil supply. Prior to the formation of the MOE, the mandate relating to energy policy and management were scattered over several ministries. Electricity issues were handled by the Ministry of Power and Communications.

The Ministry of Finance dealt with petroleum prices adjustments while the Ministry of Environment and Natural Resources had responsibility over wood fuel development. According to Sessional Paper No 4 of 1980:20, the Ministry is charged with the responsibility for devising the

strategies and policies for ensuring that the country's energy requirements will be met.

The petroleum sub-sector underwent full liberalization after price and supply deregulation in October 1994. Some of the factors that led to the liberalization of the sub-sector were, the collapse of the marketing caused by the pressures of the controlled supply on the one side and prices on the other, in the industry causing a build up. The importance of the industry in the national development goals is also another factor. Freeing of supply and prices was important in ensuring supply to facilitate efficient operation of the market. Given the sub-sectors connection with the rest of the economy and the fact that prices in other sectors were left to be market determined the government was obligated to free its prices as well.

Before liberalization, oil-marketing companies were required to import sufficient crude oil quantities for processing at the KPRL. Importation of refined products was only sanctioned when it was ascertained that it was not economically prudent to import additional shipment of crude oil for processing to meet small supply shortfalls of various refined products. This has changed since liberalization, oil companies are allowed to import refined products from the cheapest sources. The volume of crude oil imported into the country dropped by about 23 percent from about

2.2 million tones in 1994 to 1.7 million tones in 1995 (Republic of Kenya, 1996). The crude oil processing at KPRL also dropped by about 11 percent during the same period from about 2.1 million tones to 1.8 tonnes. On the other hand, imports of refined petroleum fuel rose by about 129 percent from 314,300 in 1994 to 719,700 tonnes in 1995 (Bhagavan 1999:31).

The deregulation was meant to cease all Government controls that hindered the operation of a free market in order to enhance economic growth. Government participation remained largely in the form of policy formulation and investments in supply and marketing infrastructure especially in ownership of the Kenya Pipeline Company (KPC), the Kenya Petroleum Refineries (KPRL) and the National Oil Corporation (NOC). Thus the government remains an important factor in influencing the business environment for the sub-sector, restricting state investment and control to those infrastructures where private sector investment may not be viable, unattractive or constrains competition (Ibid: 25).

With liberalization, it was expected that competition in the market for the petroleum products would be enhanced by market for the petroleum products would be enhanced by making supply more efficient. However, the importation of refined products led to sporadic shortage of cooking gas. This problem was nevertheless solved in 1998 when major players

in the industry installed LPG storage and handling facilities and are now able to import gas from various sources and store it. Thus, supply of petroleum products has been assured with passage of time since liberalization began.

Table 2.3 Type of Petroleum Products and their Respective Percentage Shares of the Total Energy Demand in Kenya in 1999

Fuel Products	Share in %
Liquefied Petroleum Gas (LPG)	0.3
Petrol	4.3
Illuminating Kerosene (IK)	2.6
Automotive Gas Oil (AGO)	6.6
Industrial Diesel Oil (IDO)	0.3
Aviation Kerosene (JETA-1)	4.6
Fuel Oil (FO)	5.2
Total	**23.9**

Source: Computed from Kenya Government's Ministry of Energy and Central Bureau of Statistics

The table shows that the petroleum sub-sector contributed 23.9 percent of the energy supply requirements in the country in 1999. 0.3 percent was in form of liquefied petroleum gas basically cooking gas; 4.3 percent petrol for use by the transport sector; industrial diesel oil and fuel oil were at 0.3 and 5.2 percent respectively and are used in the manufacturing sector; illuminating kerosene at 2.6 percent and is used mostly in the rural area as a source of energy for household. This shows the linkage of petroleum sub-sector to the other sectors of the economy.

Negative impact on the environment under which it operates would definitely impact on the other sectors.

2.5 Petroleum Marketing Companies in Kenya

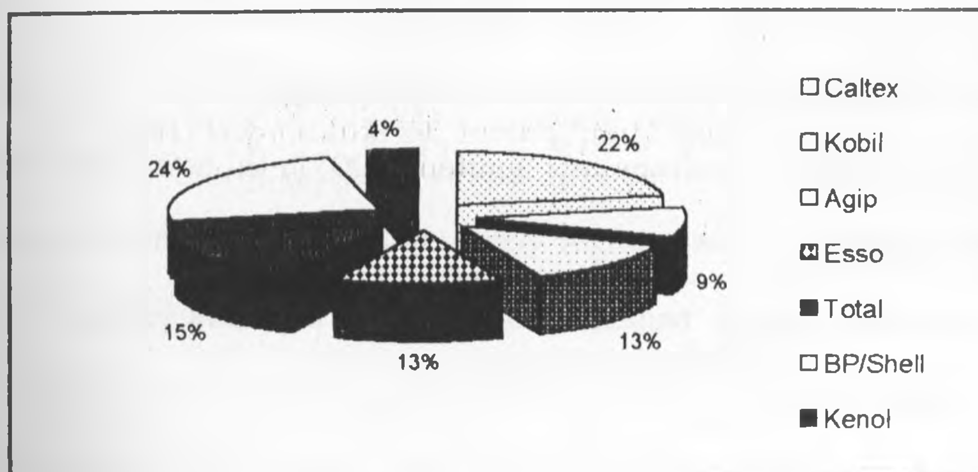
There are seven multinational oil companies operating in Kenya. They are responsible for the marketing and distribution of virtually all petroleum products. These are British Petroleum BP/Shell, Total, Mobil, Kobil and Kenol, Caltex and Engen. Mobil had divested from Kenya and sold off to Kobil in 1984 but re-entered the market in 1997 through acquisition of ESSO. Engen, Elf and National Oil Corporation of Kenya (NOCK) have entered the retail market recently. However, Engen from South Africa has been in the Kenyan market selling chemicals and bitumen but has now developed its fuel retail network. Elf is a French company and has been selling lubricants in Kenya through a relationship with Keno/Kobil. It has also started developing retail marketing. National Oil Corporation of Kenya is wholly Government owned charged with supervisory role of the Industry. Never the less, it can as well import crude oil and since liberalization, it has moved into mainstream business and has established five retail outlets in the fifty valley and one in Nairobi.

Table 2.4: Ownership of Filling and Service Stations by Company Excluding Kerosene Dispensing Facilities

Company	Number	% Share
Caltex	117	17
Mobil	109	15
Kenol	49	7
Kobil	72	10
Total Oil	100	13
Shell/BP	250	35
Others	25	3
Totals	**722**	**100**

Source: Survey data

Figure 2.c: Market Share by Oil Marketing Companies



Source. Nyoike and Oketch (1999)

BP/Shell as joint operators control the largest market share, they have 250 outlets which represent 35% of total market outlets. Their position was enhanced due to their recent acquisition of the assets and filling

stations of Agip, Caltex enjoys a large market share than any single company having a total of 117 outlets. BP/Shell (with a market share of 35 percent), Caltex (22 percent) and Total (15 percent) control over 50 percent of market shares. Any decision, which these firms may take collectively, would impact heavily on the country's marketing operations.

According to a study carried out by the Institute of Economic Affairs 2000:14 using the Herfindabl Hirsman Index (HHI) which assigns to a market a value denoting the level of competition, a value of 10,000 would be a monopoly situation. Any value of 1000 or less represents a competitive or unconcentrated market.

The HHI value computed for the sub-sector before acquisition of Agip by BP/Shell was at 1700, making the market incapable of supporting competition. The HHI is definitely higher given the considerable rise in the market share of BP/Shell on account of the acquisition of Agip. Although liberalization permitted the entry of other foreign and local players into the market, the prevailing circumstances in the sub-sector point to the fact that it is unlikely that the market has become less concentrated. Part of the reason being that most of the concerns that were licensed (the government has licensed about 48 new firms) have not began operations.

Control of more than 50 percent of the market shares by three leading firms points to oligopolism in the sub-sector. This coupled by 50 percent ownership of Kenya Petroleum Refinery facilities by Shell/BP, Mobil and Caltex led to the move to initiate the Petroleum Amendment Bill 2001. The bill among other things proposed for a re-introduction of price controls and that loading facilities be provided by parastatal National Corporation of Kenya (NOCK) (Daily Nation, March 27, 2001; BW8).

The oil industry in Kenya is a perfect example of oligopoly reinforced by vertical integration of the firms on one hand and their common ownership of KPRL on the other hand. The majority of firms are vertically integrated both internationally and internally. Within the domestic market, they are involved in importation, storage, refining, transporting and selling petroleum products (Institute of Economic Affairs, 2000:14).

CHAPTER THREE

PETROLEUM POLICIES

3.0 Introduction

The previous chapter dealt with an overview of Kenya's petroleum industry since 1973 to date. This chapter will focus on various Government policies and their effects on petroleum sub-sector.

3.1 Taxation Policy

The main policy objective of taxation on petroleum products is to raise Government revenue. Other objectives are to effect income distribution and to discourage wasteful consumption (Bhagavan 1999:59). The significance of the revenue objective is shown by the fact that petrol taxes account for a high proportion of the Government revenue. For example in the Fiscal years 1993-1994 and 1994-1995, revenue generated from taxation of Petroleum fuels accounted for 11.3 percent and 12.6 percent of the revenues respectively (Ibid). Petroleum related revenue from custom duty and Value Added Tax (VAT) and more recently from excise and the Road Maintenance Levy (RML), both of which were introduced in June 1994 rose from Kshs 9.31 billion in fiscal year 1992-1993 to KSH 11.4 billion, KSH 14.9 billion and KSH 17.0 billion in 1993-1994 and 1994-1995, 1995-1996 respectively (Republic of Kenya,

1994c). The Government, through revenue collected from taxation of petroleum fuels hopes to effectively re-distribute and transfer resources through provision of essential services such as health and education especially to those members of the society who cannot afford the privately provided services.

Table 3.1 Analysis of Nairobi Retail Prices (Ksh/Kilolitre) and Taxes (% of Retail Prices) September 1990

Product	In-Bond Price	Import Duty	VAT	PDL	Transport Tariff	Retail Margin	Town Delivery Tariff	Nairobi Retail Price	Total Taxes as % of Retail Prices
LGP (1000 Kg)	12658	242	1142	87	521	750	110	15510	9
PMS	8465	653	4238	50	304	600	100	14410	30
RMS	8017	653	4396	50	304	590	100	14110	36
IK	6649	204	203	50	304	510	100	8020	6
AGO	7321	454	2123	50	304	560	100	10911	24
JET A-1US$	1.44	-	-	-	0.06	-	-	1.50	-
1GAL	6969	-	683	50	353	-	115	8.70	9
IDO	5075	-	338	50	384	-	115	5962	7
FO 125 CST	4645	-	342	50	384	-	115	5536	7
FO 180 CST	4335	-	406	50	384	-	115	5290	9
FO 280 CST	6860	121	474	49	440	-	-	7944	8
BITUMEN									

Source: Information from Oil Marketing Companies

Another dimension of income distribution relates to the skewed taxation of various petroleum fuels. For example, in September 1990, the combined duty and taxes on super petrol (PMS) amounted to Ksh 4,941 per kilolitre, while those on automotive diesel (AGO) and illuminating kerosene (IK) stood at Ksh 2,627 per kilolitre and Ksh 457 per kilolitre respectively (Bhagavan 1999: 61). While it is true that kerosene in Kenya is widely used by consumers in the lower income brackets, the policy is defeated because kerosene also finds use in some industries such as pumping of water and generation of electricity to a limited extent (Institute of Economic Affairs 2000:17).

High taxes generally translate into higher product prices in the country. The demand for petrol a product which traditionally commands higher combined duty and taxes than other petroleum fuel products fell from 376700 tonnes in 1989 to 339900 tonnes in 1990 (Republic of Kenya, 1991a). This decline was a result of a combination of a decline in GDP growth in 1990 and higher crude oil prices during the second half of 1990 attributed to a high tension between Kuwait and Iraq.This led to the temporary annexation of the former by the latter (Bhagavan 1994: 59). The 1994 Budget introduced a new tax i.e. excise duty on Petroleum products and at the same time abolished VAT on petrol and automotive diesel. The policy consideration which mitigated the replacement of VAT with the excise duty was that business consumers of both petrol and

automotive diesel were not able to claim or offset excise duty as the Customs and Excise Act, did not have provisions to this effect. With the abolition of VAT on petroleum and automotive diesel, and the introduction of the excise duty in its place, the Government was able to increase its revenue collections from petroleum fuels without raising the unit taxes of the products.

The 1994 Financial bill introduced the Road Maintenance Levy (RML) to provide for Kenya's road network (Republic of Kenya, 1994d). This was additional to the direct annual financial provision of the Ministry of Finance, which had proved to be grossly inadequate. The RML Fund Act number 9 of 1993 was enacted by the Kenya Parliament which among other things objected to the proposal that the levy proceeds be used for repair and maintenance of classified roads. The proposal was nonetheless implemented in June 1994. The levy has since been adjusted upwards twice. An increase in RML lead to an increase in consumer prices. The Petroleum Development Levy was established by the Kenya Parliament through the PDL Fund Act number 4 of 1991. The levy was introduced first in September 1989 when the government increased consumer prices of various petroleum fuel products to compensate the oil companies for the increased cost of oil supply. In November 1991,the PDL was raised from Ksh 50 to Ksh 114 per kilolitre

Collection of levy proceeds was only possible

after the enactment of the Levy Fund Act in 1991. The objective of the Levy Fund was to increase distribution and retail facilities in areas inadequately served by the existing oil marketing companies.

The Government has adopted equitable income distribution as one of its policy objectives in the petroleum sector and has used discriminatory practices as the policy instruments. Cross-subsidization has emerged in the petroleum product market from such practices. The Government has invariably adopted both taxation and price-based discriminatory policies in the setting of fuel prices. Bhagavan points out that certain products are sold at prices above their economic values, while others are sold at prices lower than their values. For business to break even, resources generated from higher prices compensate for gains foregone as a result of lower prices.

Table 3.2: Proportion of taxes levied on various petroleum products (percentage of Nairobi retail prices)

Products	September 1990	July 1992	June 1994	February 1996
LPG	9	21	25	18
Premium Petrol	30	47	48	49
Regular Petrol	36	47	49	50
Illuminating	6	15	1	1
Kerosene	24	34	40	37
Automotive Diesel	24	34	33	32
Heavy Diesel	7	39	38	32
Fuel Oil (125CST)	7	41	37	32
Fuel Oil (180CST)	8	42	37	32
Fuel Oil (280CST)				

Source: Bhagavan 1996:70

The table shows the extent to which discriminatory taxation policy has been applied among the products, the pattern and trend of cross subsidization in the 1990s. Illuminating Kerosene has remained the least taxed product. It tax-price proportion increased from 6 to 15 percent in 1992 from 1990, more than doubling but it drastically declined to only 1 percent in 1994. This product remains the most heavily subsidized even under the liberalized petroleum market conditions in the country. The two brands of petrol have remained the biggest source of cross-subsidization and illuminating kerosene the leading beneficiary. The policy is justified in view of the government's need to ensure adequate supply of some petroleum products particularly kerosene to the rural areas and to the relatively poor household sector at relatively low costs. It should be noted here that it is not only Kenya which pursue an energy subsidization policy. Energy subsidies have been used as a policy instrument in industry and trade in both developing and developed countries. Subsidies have been widely used as an economic policy instrument to address welfare and poverty issues in developing countries (Karekazi et al 1996: 24).

3.2 Pricing Policy

The policy objective of the petroleum sector is to provide the country with a secure supply of petroleum products at a price that is reasonable and

affordable to the general public (Institute of Economic Affairs 1994: 106). The IEA paper, while advocating for price deregulation in the petroleum sector asserted that the country used a substantial proportion of her export earnings to finance imports for petroleum. There was need to deregulate the pricing of petroleum products so that the national economy could benefit from an improved and competitive product supply. The petroleum sub-sector is Kenya's second largest source of energy with energy consumption growing from 17.28 million TOES in 1989 (Bhagavan and Karekezi, 1992: 99).

Prior to the liberalization of the sub-sector a committee with membership drawn from government and the oil companies met regularly in order to monitor developments of those parameters that determine retail pump prices. These parameters include Free on Board (FOB), crude oil price, freight rates from the Persian Gulf to Mombasa, the Kenya Shilling/US Dollar exchange rate, cost of working capital, return on fixed asserts, and the level of operating losses including inter-country transshipment and related expenses. Monthly meetings were held to review and take stock of over or under recoveries with regard to FOB crude oil prices, freight and exchange rates, as this changed daily (Bhagavan and Karekezi 1992: 101). Example of how in-bond prices of various products were worked on the basis of the procurement and refining costs (PRC) of crude oil

imported and processed at KPRL for consumption in Kenya. Let us assume, that the following are the international prices FOB Persian Gulf:

a) LPG = US$ x 1 per tonne

b) PMS = US$ x2 per tonne

c) RMS = US$ x 3 per tonne

d) IK = US$ x 4 per tonne

e) JET A-1 = US$ x 5 per tonne

f) AGO = US$ x 6 per tonne

g) FO180CST = US$ 7 per tonne

Step one is to assume that the AGO price, US$ x 6, will be adjusted by the RC Delta, US$D. Then that the margin by which the price of each product will be adjusted will have to relate to that of AGO. Then dividing the price of that product by that of GO and then multiplying the resultant ratio by US$D. The results are:

a) LPG $x1/x6 * D = D_1$

b) PMS $x2/x6 * D = D_2$

c) RMS $x3/x6 * D = D_3$

d) IK $x4/x6 * D = D_4$

e) JET A-1 $x5/x6 * D = D_5$

f) AGO $x6/x6 * D = D_6$

g) FO180CST $x7/x6 * D = D_7$

Step two is to multiply the crude oil quantity processed at KPRL to generate various products, say 'Q" kilolitres, by the PRC Delta D. This would give the amount of money by which current prices should be adjusted to reflect the total change in the cost of supply i.e. 'QD'.

Step three is to multiply each of the product prices Deltas by the respective product quantity generated by KPRL through processing Q kilolitres of crude oil. Monetary values are then aggregated and compared with the value 'QD' in step two; the two values must be equal in the final analysis. If after the first computation they are not equal, then one of the values is divided by the other and the resultant ratio is used to divide or multiply each product price as derived in step one. Through this computation, the margin by which each product prices is to be adjusted is accurately calculated.

The final step is to multiply the newly derived domestic in-bond prices by a mark-up determined by each company to cover its operating expenses and a return on trading asserts (Bhagavan 1999: 41).

In the liberalized era, the Government's pricing objective is to ensure that market forces determine consumer prices. To continue to monitor supply, distribution and marketing environment with the view to: provide consumer with information on retail prices charged by different

companies and ensuring cartelization and artificially created shortage situations are not allowed to escalate and distort consumer prices (Republic of Kenya, 1995b: 47).

Although a cartel does not seem to exist, an obligopolistic structure has supported cartel-like market behavior in determining product prices since the advert of liberalization. The mode adopted is price leadership (Bhagavan, 1999: 43). An oligopolistic market becomes a cartel if there exist arrangements amongst at least a few larger sellers on key decisions in such areas as pricing level of production and market shares. The fact that there are seven firms who own the entire filling and service stations and control the marketing of petroleum products reveals the existence of an oligopolistic market in the sub-sector. It was further revealed (chapter two) that over 50 percent of the filling and service facilities are owned by only three firms (BP Shell, Caltex and Total Kenya) points to the degree of market concentration which characterizes an oligopolistic market. A study carried out from the Ministry of Energy indicates that although 45 companies have been registered after liberalization, only 2 companies have effectively entered the market. This can be attributed to barrier to entry caused by obligopolistic market structure.

On price-leadership mechanism, the leading sellers (price leaders) take the lead in determining and announcing price changes with the "wait and

see" attitude". The other sellers follow immediately or almost immediately and announced prices in line with the price leader(s)' adjustment (Nyoike and Oketch 1999: 44). The price leader usually sets the new prices above the would be free market prices and above the market's margin cost levels leading to realization of windfall profits. The price leadership in Kenya's petroleum sub-sector has been changing hands. In the past, Shell/BP group and Caltex have played the role (Nyoike and Oketch 1999: 45). In 1999 Total Kenya limited, the third largest marketing company in the country assumed the role. It announced price adjustment per litre of each fuel product, Shell/BP followed suit and announce adjustment of their prices by the same margin the day that followed. The remaining companies also joined in announcing prices adjustment (Ibid: 44). This year Caltex and Kenol/Kobil companies played the role and increased their petrol and paraffin pump prices by between 50 cents and Ksh 1.50 per litre and the other companies also adjusted their prices accordingly (East African Standard, June 16, 2001:5).

3.3 Competition Policy

In a market economy, Government role diminishes as that of private sector grows. However, it retains the regulatory role and the provision of public goods. It must also protect its citizen from the adverse activities

by the private businessmen such as exploitation, deprivation of basic welfare need like health, environmental degradation among others (Republic of Kenya; 1998: 47). This policy enables the Government to intervene in the market to correct distortions and put in place guiding principles enabling adherence to fair trading. This policy does not appear to does appear to have had an impact on the petroleum sub-sector due to price leadership discussed under pricing policy. It is evident from the Minister of Finance directive during this year's budgetary speech when he ordered oil firm to absorb the Shs 2 increase on fuel duty, not to transfer it to consumers. The oil companies increased oil prices (East African Standard: June 16, 2001: 5).

The oligopolistic structure of the oil market does not conform to the competition policy. Competition implies fairness that rests, inter alia, on equitable opportunities, impartial application of competition rules and redemption of past undue losses (Republic of Kenya: 1999:4). There is lack of equitability in the petroleum sub-sector as over 50 percent of the filling and three companies own service stations.

This policy is not adhered to in as far as exploitation of consumers is concerned, the only role the government has is that of providing consumer with information on retail prices charged by different companies. The government needs more power to enable it ensure that

prices are determined to accordance with existing petroleum market forces. It needs more power to intervene than it presently has (Bhagavan 1999:4)

Business mergers and acquisition are types of anti-competitive conduct whereby the conduct of individual firms affects the structure of the market (Republic of Kenya, 1999: 33). Mergers between firms can be an effective way of developing competitive advantage optimizing the benefits of complementary strength and taking advantage of economies of scale and scope. Emanating from the survey carried out during the study, some mergers are due to policy from parent companies. The legal provision requires that certain mergers and acquisitions be approved and gazetted by the Ministry of Finance. However, the mergers and acquisitions, for example the acquisition of Agip by Shell/BP in the recent past has greatly increased the group's market share and filling and service stations (250). This is not augur in a market structure which is highly oligopolistic.

3.4 Environmental Policy

Emerging from the survey carried out is that the Government has not done much in terms of this policy. Most of the multinationals have adopted health and environmental policies enshrined by the mother

companies. The MOE's Officials have agreed that this Government policy had been laxed. There is a new Kenya Gazette Supplement Acts 2000 that is meant to protect against oil pollution. The Act set a national assessment and audits report to set up a National Environmental Tribunal to punish offenders. This Act has weakness as the MOE does not have a direct say since the National Environmental Tribunal comprises of people from various departments such as the police, MOE and Kenya Bureau of Standards.

The lack of environmental policy was recently highlighted by stakeholders in the oil and marine sectors who raised their concern about recent finds that the East African Coast is at high oil risk of oil spills but does not have the legal and institutional framework to handle this eventuality. In Kenya the National Oil Spill Response Council (NOSRC) formed in 1993 to prevent and fight oil spills at the coast is yet to be given legal status by the government. (The East African, June 4-10, 2001: 22).

3.5 Registration Policy

Licensing of new oil marketing companies intending to import petroleum supplies into the country is reviewed by the permanent secretary in the ministry of Energy and endorsed by the minister. Gazetted power

however lies with the permanent secretary and the ministerial review is just a formality (PIEA: 2001).

One-year grace period is allowed within which the new entrant does not have to process crude oil (30% as is required by law) at the Kenya petroleum refinery. (MOE: 2001). The rationale advanced is that this period is required to determine a marketer's demand upon which its mandatory crude yearly input calculations will be based. Presently a number of companies have been struck off the authorized oil transportation list due to their inability to meet this crude import/processing condition (Ibid). A few of the new entrants who initially complied with the crude oil importation rule incurred heavy costs in terms of financing and some of them have gone out of business. Others have not been able to import crude again and rely on proaring small amounts of crude from the multinationals (PIEA: 2001).

CHAPTER FOUR

THE BUSINESS ENVIRONMENT IN KENYA AND ITS EFFECTS ON THE PETROLEUM INDUSTRY

4.0 Introduction

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The data used in the study is drawn from the Ministry of Energy, the oil marketing Companies and the Petroleum Institute of East Africa (PIEA). One questionnaire with two different categories of questions was used in the study. One category of questions was for officials of the Ministry of Energy while the other was for officials of oil marketing companies.

This chapter presents the empirical findings of the field research carried out to examine what effects Kenya's business environment is having on the petroleum sub-sector. The parameters of business environment considered by the study include Government policies in the sub-sector, degree of competition in the market, status of the infrastructure and corruption. The chapter examines the effects of these parameters on the sub-sector.

4.1 Empirical Findings

Data collection and analysis focused on two hypotheses. The first hypothesis was that Kenya's business environment has contributed to fluctuations in foreign direct investments.

Table4.1 Trends of flows in foreign investment in Kenya

Year	US$
1992	6m
1993	2m
1994	4m
1995	33m
1996	13m
1997	40m
1998	2.4 billion

Source: World Investment Report 2000

1992 witnessed the first multiparty general elections. This was at a time when the World Bank and IMF had frozen donor aid to Kenya (in 1990). The government printed money to sponsor the elections, which caused inflation to rise and occasioned a decline in foreign investment. Investment dropped from six million in 1992 to two million in 1993. Investments grew marginally in 1994 to four million as the economy was

on the verge of recovery. In 1995, investments picked and reached 33 million. This rise was caused by the resumption of donor aid, which created lending capacity for private borrowers.

The drop to 13 million in 1996 was due to withholding of the second phase of donor aid. The increase in investment trends in 1997 (40 million) and 1998 (2.4 billion) was due to privatization of the public owned institutions. This was a response to one of the donors' requirements. Kenya Airways was privatized in 1998. Thirty-one foreign companies invested in Kenya in 1997, creating 4701 jobs while in 1998 only twenty-five foreign companies made investments creating 2,946 jobs.

The second hypothesis was to investigate whether the existing business environment has led to more investments in the petroleum sub-sector. This was analyzed by evaluating the environment in which the petroleum industry is operating. The focus was on the change in the factors, which attracted the multinationals in the petroleum industry to invest in Kenya. They were also asked to comment on whether government policies and new entrants into the market had either enhanced or hindered the business environment.

4.2 Factors Which Attracted Multinationals to Invest in Kenya

The eight questionnaires sent to the multinationals in the petroleum industry were done with a view to find out the factors that attracted them to invest in Kenya as well as to evaluate whether these factors have changed. They were also geared to examine the efforts of the government through policies in enhancing business environment. With regard to the factors that attracted them to Kenya, the results show that 100 per cent invested in Kenya due to the country's strategic position in the East Africa making it a gateway to the sub-Saharan region.

The Survey results show that 50% of the respondents were attracted to invest in the country by the fact that it was a growing economy with all saying that economic growth is a major factor to attracting investments. Some of the respondents, 20% said that their investment in Kenya was as a result of their overseas affiliates policy. 30% gave good infrastructure, political stability, and size of market and security as reasons for investing in Kenya. Credit accessibility was said by all to have been one of the major influencing factors.

The respondents were also questioned on whether the factors that attracted them to invest in Kenya have changed. 100 percent of all the respondents indicated that the factors have changed. All the

respondents said that the economy was stagnant. The specific cause of decline was observed to be the recession in the economy.

10% said that the petroleum transportation through Kenya pipeline has greatly enhanced the transportation of its products. 35% said that the profit margins have declined since the liberalization of the sub-sector. 20% said that the conflicts in the neighboring countries have affected the environment negatively since the influx of refugees had increased insecurity in the country.

25% said that credit sequence due to government commercial borrowing leaving little capacity for private borrowers. 10% said that the Sudan oil would interfere with their policy of penetrating the sub-Saharan region.

With regard to government policies, 100 % said that taxes on petroleum products are very high. 80 % said that registration process is lengthy while 20% said registration process encouraged corruption due to issuance of different documents by different departments/ministries. 100% said that prices are market determined. 95% said that they observe health and environmental policy from their over sea affiliates. 5% said that they observe the environmental policy by the Kenyan government. On degree of competition, 50 % said that the market is competitive while 50% said it was not.

The respondents were questioned on the new entrants into the market. 75% said that their presence has little impact on the market and therefore their market shares. 5% said that they have an advantage over them since the rule of 30% compulsory import of crude oil is not enforced on them. 20% said that some of the new entrants' products do not comform with laid down standards.

On the question of some companies diversification into fast food business and mergers of some oil companies, 75% said diversification is due to increased competition, therefore would retain customers by offering fast food and /or shopping facilities at the filling station. 10% said diversification was due to economics of scale. 15% said global mergers occasioned local mergers.

Table 4.1 Number of Companies and Countries of Origin

COMPANY	COUNTRY OF ORIGIN	MARKET SHARE (%)
Caltex	America	17.1
Shell/BP	Britain	32
Mobil	America	15.3
Total Fina	France	17.9
Kenol/Kobil	Kenya	17.6
Elf	France	Undetermined
Engen	South Africa	"
Gapco	Tanzania	"
Jovenna	Kenya	"
Fuelex Kenya Ltd.	Kenya	"
National Oil Corporation of Kenya	Kenya	"

(NOCK)		
Triton Petroleum Co. Ltd	Kenya	"

Source: Survey data

There are twelve licensed oil companies out of which eight are multinationals while the remaining four are locally owned. Kenol/Kobil with a market share of 17.6 per cent is the only local firm among the old firms. The old multinational firms hold majority of the market shareholders (i.e. 72.4 per cent). BP/Shell has the largest number of market shares, 32 per cent having acquired Agip early in April 2001. The seven new entrants share has not yet been determined.

The high percentage of multinationals (including Kenol/Kobil) market share is probably because many of the old firms, own loading arms at Nairobi an Mombasa, some (i.e. BP/Shell and Caltex own 50 per cent of the Mombasa refinery and their sizes enable them to better utilize economies of scale. The survey showed that the old firms who were interviewed said that the new entrants have little effect on their market share.

Table 4.2 KENYA Refined Imports Tender-2000

MONTH	PRODUCT	QUANTITY(MT)	WINNING BID PREMIUM USD/T	WINNING BIDDER
Jan-00	AGO	19000	0	Caltex oil K Ltd.
	Jet A-1	20000	8.5	Caltex oil K Ltd

	PMS	7500	-5	Total (K) Ltd
	Jet A-1 (Parcel 2)	31000	0	Shell (K)Ltd
Feb-00	Jet A-1	23350	22	Shell (K)Ltd
	AGO	22500	16.06	BP (K) Ltd
	Jet A-1 (Parcel 2)	23350	19.89	BP (K) Ltd
Mar-00	Jet A-1	20000	11	Mobil (K) Ltd
	PMS	9500	-1.5	Mobil (K) Ltd
	Jet A-1 (Parcel 2)	22200	18	Mobil (K) Ltd
Apr-00	Jet A-1	23250	22	Caltex oil K Ltd
	AGO	9300	19	Total (K) Ltd
	Jet A-1 (Parcel 2)	23250	8.5	Shell (K)Ltd
May-00	Jet A-1	30000	-17.25	Shell (K)Ltd
	PMS	9500	-17	Mobil (K) Ltd
	AGO	9300	-5.76	Mobil (K) Ltd
Jun-00	AGO	9000	-7.9	Gapco(didn't deliver)
	Jet A-1	12100	-5.1	Mobil (K) Ltd
Jul-00	AGO	15000	-6.1	Total (K) Ltd
	Jet A-1 (Parcel 1)	11750	2	Total (K) Ltd
	Jet A-1 (Parcel 2)	21750	9.38	Jovenna
Aug-00	AGO	19500		Caltex oil K Ltd
	Jet A-1 (Parcel 1)	14000		Mobil (K) Ltd
	Jet A-1 (Parcel 2)	14000		Mobil (K) Ltd
Sep-00	AGO	12800	17.69	Mobil (K) Ltd
	Jet A-1 (Parcel 1)	18600	31.31	Mobil (K) Ltd
	Jet A-1 (Parcel 2)	18600	18.45	Mobil (K) Ltd
	PMS	7700	-17.5	Mobil (K) Ltd
	AGO	24400	-6.22	Caltex oil K Ltd
Oct-00	Jet A-1 (Parcel 1)	35000	5	Mobil (K) Ltd
	AGO	33900	-0.57	Caltex oil K Ltd
Nov-00	PMS	7750	-29.74	Mobil (K) Ltd
	AGO	22790	-6.54	Mobil (K) Ltd
	Jet A-1 (Parcel 1)	34000	15.82	Mobil (K) Ltd
Dec-00	PMS	8800		Mobil (K) Ltd
	Jet A-1 (Parcel 1)	33250		Mobil (K) Ltd

	AGO	13450		Mobil (K) Ltd
	TOTAL	691140	TONNES	

Source: Anonymous

Table 4.2 indicates that only seven out of the licensed twelve oil companies imported refined oil products. This is because only companies processing crude oil at the refinery were allowed to import refined products for domestic consumption. Imports for Kenyan consumption by refining marketers are only possible through the tender systems. Bids are only accepted from registered suppliers. Essentially it is only the multinational companies operating in the country, including Kenol/ Kobil are eligible.

Table 4.3 Refined Products Imports QTY: 2000-Suppliers

COMPANY	QTY-MT	%
BP (K) Ltd	45,850	6.1
Caltex Oil (K) Ltd	140,050	18.7
Gapco (did not deliver)	9,000	1.2
Jevenna	21,750	2.9
Mobil (K) Ltd	379,540	50.8
Shell (K) Ltd	107,600	14.4
Total (K) Ltd	43,550	5.8
TAOTAL	747,340	100

Source: Survey data

Table 4.3 summarizes table 4.2 and shows that other than the multinationals who imported refined oil products in the year 2000. Out of the new entrants only Jevenna delivered its quantity whose share was 2.9 per cent of the total market share. Gapco, had won a tender to

deliver 9000 million tonnes representing 1.2 per cent of the market share.

Mobil's import (379,540 million tonnes) had accounted for 50.8 per cent of the total market share. BP/Shell's quantity accounted for 20.5 per cent (i.e. 153,450 million tonnes). This supports the claim from respondents of the old firms that the new entrants, effect on the market is negligible. This is despite the sub-sectors liberalization. This means that the requirement, by the ministry of energy that all companies process 30 per cent of their oil requirements at the Mombasa refinery implies heavy financial demands to the new entrants. The ministry should review this percentage downward in a bid to create competitiveness in the market by allowing new entrants to enjoy the benefit of importing refined products.

Response to Various Government Policies

Table 4.4 Response to Taxation Policy (%)

COMPANY	LOW	HIGH	VERY HIGH
Caltex(K) Ltd	-	-	100
BP/Shell	-	-	100
Engen	-	-	100
Keno/Kobil	-	-	100
NOCK	-	-	100
ELF	-	-	100
Mobil(K) Ltd	-	-	100
Total(K) Ltd	-	-	100

Source: Survey Data

All the respondents from the oil companies above, said that petroleum taxes are very high (table 4.4).

Table 4.5 Response to Registration Policy (%)

COMPANY	VERY GOOD	GOOD	BELOW AVERAGE
Caltex(K) Ltd	-	-	100
BP/Shell	-	-	100
Engen	-	-	100
Keno/Kobil	-	-	100
NOCK	-	100	-
ELF	-	-	100
Mobil(K) Ltd	-	-	100
Total (K) Ltd	-	-	100

Source: Survey Data

Table 4.5 indicates that nearly all the respondents except form the government owned company said that the registration process is good. This may be attributed to the company's relationship with the government.

Table 4.6 Response to Competition Policy (%)

COMPANY	Very Competitive	Competitive	Below Average
Caltex (K) Ltd	-	100	-
BP/Shell	-	100	-
Engen	-	-	100
Keno/Kobil	-	100	-
NOCK	-	-	100
ELF	-	-	100
Mobil(K) Ltd	-	100	
Total (K) Ltd	-	100	

Source: Survey Data

Five out of eight respondents interviewed said that the market is competitive. They indicated that with liberalization, the market forces are

responsible for price determination. Three of the respondents said that the market is not competitive (table 4.6).

4.3 Trends in the petroleum sector

Officials from the ministry of energy were interviewed. The purpose was to investigate the number of oil companies licensed in the last ten years. 145 companies have been registered out of which 5 are in operation and 139 are dormant. Officials of the petroleum institute of East Africa said that 13 companies have been registered in Uganda, 3 of which are in operation and 10 are dormant. In Tanzania, there are 30 new companies registered in the last 10 years, with 5 in operation while the other 25 are dormant.

Table 4.7. Market Players in the East African Region

COUNTRY	Traditional or Old Firms	New Operational	New Dormant	Total	% of New Operational
KENYA	Shell/BP, Kenol/Kobil Caltex /Shell Total	NOCK, Engen, Fuelex/Galana, Gapco, Jevenna	139	150	11.1
UGANDA	Caltex/Shell, Total, Gapco	Kobil Petrol Uganda Jovenna	9	17	23
TANZANIA	BP, Total, Gapco Orix Engen	Caltex, Shell, Kobil Oil company, Tiot	25	35	16.6

Source: Anonymous

According to the table 4.7, Kenya has the highest number of oil companies registered in the last 10 years but has the least in terms of percentage, i.e. 11 per cent, Uganda is leading with 23 per cent and Tanzania is second with 16.6. Per cent. The high number of dormant companies points to the low level of competitiveness in the Kenya market (oligopolistic market structure).

The PIEA respondents said that Uganda's higher percentage of new entrants is due to the country's vibrant economy and donor aid flow. Tanzania does well because her economy has been restructured and the mining activities have increased. Unfortunately for Kenya, the economy in recession hence the poor performance.

Table 4.8a KENYA

Response on Market shares of Old Firms vis-a-vis New Firms in Kenya and Uganda, year 2001

Old/Traditional	Market Share %	New Entrants	Market Share
Caltex	17.1	Jovenna	Undetermined
Mobil	15.3	NOCK	"
Kenol/Kobil	17.6	Engen	"
Shell/BP	32.1	Gapco	"
Total	17.9	Galana	"
		Fuelex	"
TOTAL	100		UNDETERMINED

Source: Survey data

Table 4.8b UGANDA

Old/Traditional	Market Share %	New Entrants	Market Share%
Shell	40	Jovenna	1
Caltex	22	Kobil	2
Total	18	Galana	2
Gapco	12	Petro Uganda	4
TOTAL	92		8
GRAND TOTAL		100 %	

Source: Survey data

Tables 4.8a and 4.8b show the market share of traditional firms and new firms in both Kenya and Uganda. Available data on Kenya shows that the old firms share is 100%. The new entrants` share is yet to be determined. Uganda's data shows that the old firms` share is 92 per cent while the new firms share is 8 per cent. Although the latter share is small, it is better than in the Kenyan situation.

The niche of the new entrants in Uganda may be explained by the country's vibrant economy. The market is more concentrated in Uganda with the biggest firm's share at 40 per cent (Shell, whereas Kenya's biggest firm (Shell/BP) is 32.1 per cent. Uganda's two biggest firms have a market share of 62 per cent (Shell and Caltex) whereas Kenya's two biggest firms market share is 50 per cent (BP/Shell and Total Fina).

This means that Uganda's market is more concentrated hence more oligopolistic than the Kenyan markets. Hence Uganda's favorable

economic climate is more responsible for breaking through the barriers to entry for the new firms than the market structure.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.0 Conclusion

The business environment in Kenya has not been conducive due to several factors. For instance, there is a lot of insecurity especially in the urban areas. This does not augur well with foreign investors. There has also been mass retrenchment at a time when poverty eradication is a priority. The credit squeeze occasioned by the government's commercial borrowing leaves little room for private borrowers.

The government's role in pricing was greatly overshadowed after liberalization, thus leaving the consumer vulnerable to price exploitations by the oil markets.

Foreign investors have shunned Kenya because of the general infrastructure. For instance, depleted roads, high cost of telephone faxes etc.

Petroleum products are highly taxed in Kenya in abide to as discouraged use of imported oils. Despite this the government has not offered an alternative source of energy.

The government has subsidized the price of kerosene in a bid to cater for the low-income group especially in the rural areas. However, rich companies who should not be benefiting from this subsidy also use kerosene.

Mergers and acquisition in the petroleum industry have compounded the already highly concentrated market, thus hindering entry into the market by others.

The licensing process is lengthy and licenses are issued by different ministries/departments, hence creating confusion and encouraging corruption.

5.2 Recommendations

There are various factors that have caused foreign investors to shun investing in Kenya. Firstly, the government's failure to offer security. The loss of lives and property due to insecurity scares away investors. The government should therefore take measures to curb crime and ensure security. One of the factors that have caused increased insecurity is unemployment. This has greatly raised the poverty level. To address this the government should alleviate poverty in the country.

The influx of refugees from war torn neighboring countries has also led to increased insecurity. A lot of illegal arms have come into the country with the refugees. The government should tighten border checks to ensure that these arms do not get into the country.

Corruption often tied with nepotism causes delays in obtaining licenses, approval of permits for expatriate technicians, extortion and bribery. This discourages investors from investing. There is little evidence that the government is doing all in its power to fight and defeat corruption. The revival of the Kenya anti-corruption Authority (KACA) with the mandate to prosecute offenders is paramount to fighting the vice of corruption. The government should facilitate in KACA's revival and clean up the judicial system to ensure that law is applied fairly.

The credit squeeze, which has left little capacity for private borrowers, does not augur well for investors. The squeeze has been caused by government's bad relationship with donors leading to aid freeze. The government should seriously address corruption and governance, which are among the reasons that have led to a stalement with the donors to facilitate aid resumption. When aid id received, it should be used judiciously in line with set objectives and accountability ensured.

The country's economic growth has stagnated and investors are fleeing to other countries whose economies are vibrant. The capital flow emanating from FDI is essential in spurring economic growth. This capital is very essential for Kenya, hence the government should create a business environment that will give confidence of returns to investors money.

High taxation has deterred investors. The government's heavy taxation in a bid to raise revenue impacts heavily on the investors' returns. It also generates high prices leading to expensive standards of living. This erodes people's purchasing power. The government should therefore rationalize the tax policy.

The country's infrastructure has been neglected. The road maintenance levy is misused, cost of telephone, faxes and e-mail are expensive as

compared to those of the neighboring countries. The government should ensure that the RML is properly utilized to upgrade the country's road network. It should also reduce tariffs for telephones faxes and e-mail to enable their cost to compete with those of other countries in the region.

The environment policy has not been implemented despite the negative impact on both health and the environment. In the petroleum sector, standards are not met especially on crude refined at the Mombasa refinery due to the refinery's age (too old). Products processed at the refinery do not conform to the world standards of 0.5 sulphur. These combined with the fuel adulteration (mainly by mixing premium and illuminating kerosene) reduce the life span of vehicles and are highly pollutant. The vehicles using this product are very smoky and cause an environmental hazard. The new Kenya gazette supplement Acts 2000 has set a national management authority to look at emission and waste. The authority is expected to issue an environmental impact assessment and audit report to set up a national environmental tribunal to punish offenders. The act has a weakness by not giving the ministry of energy, under whose jurisdiction the offences are committed the mandate to punish the offers. The tribunal comprises of personnel from the departments such as police, Kenya Bureau of Standards and Ministry of Energy. The government should address the environmental effects by petroleum products seriously, set out clear guidelines for the Ministry of

energy to follow, give the necessary legal framework to prosecute offenders and avail funds for the tribunal to carry out its work.

The study recommends that the government should have a more active role in pricing of the petroleum products. Its current role of merely monitoring prices has not deterred oil-marketing companies from exploiting the consumers for instance through the use of price leadership. While the industry is liberalized, the interest of the consumers ought to be considered. Protection of consumers will justify a return to price control while liberalizing procurement of petroleum fully. This means abolishing the requirement of oil companies to refine 30% at the Mombasa refinery.

The competition policy has failed due to the mergers and acquisitions. While it is argued that this can bring about fairness, this has not been so in the petroleum sub-sector. The government should review this policy in consideration of its achievement in each sector. In the petroleum sub-sector, it should be pursued more keenly to ensure that mergers and/or acquisitions do not give one, two or three players undue advantage over the others, such that they dominate the market.

The petroleum oil marketing companies should stop capitalizing on OPEC's reduction of supply in raising prices very highly in a bid to get

higher margins. Price increases should be in line with rise due to supply cut by OPEC. Likewise, when OPEC increases supply leading to a reduction in the cost of petroleum products, the oil companies should respond as first by reducing prices as they do in raising prices. The reduction margins should coincide with the margins in the international market.

APPENDIX 1

QUESTIONAIRE

RESEARCH TOPIC

The effects of business environment on Foreign Direct Investment: Case Study of Kenya's Petroleum Industry.

GOVERNMENT OFFICIALS

1. Designation of Interviewee

2. Department

3(a) How many oil marketing companies have been registered in the last ten years?

(b) What effects have they had on the old firms in terms of market share?

4. How big are the old firms?

(a) Who is the market leader?

(b) Who is the second?

(c) Who are the owners of these firms?

(d) Are these firms floated at the Nairobi Stock Exchange?

5(a) How would you describe the current business environment facing the oil marketing companies in Kenya.

(b) How do you compare the business environment during the 1960s/1970s and the 1980s/1990s?

(c) How would you describe the

(i) Registration policy

(ii) Taxation policy

(iii) Pricing policy

(iv) Environmental policy

(v) Degree of competition in market

(d) What effects do you think the foreging policies have had on Kenya's petroleum business environment?

6. To what extent does the government deal with oil marketers on a day to day basis on issues other than licensing?

7(a) Do you keep data on how much oil each company imports, crude or otherwise refined at Mombasa, say on monthly basis?

(b) Data on quantity of oil of each company's market share of refined oil imports or/and that refined at Mombasa on yearly basis?

OIL MARKETING COMPANIES

(1) Name of organisation.

(2) How long have you been in operation in Kenya?

(3(i) What factors attracted you to invest in Kenya?

A) ....

B) ....

C) ....

D) ....

E) ....

F) ....

G) ....

H) ....

(ii) Have these attractions changed?

If yes, how?

A) ....

B) ....

C) ....

D) ....

E) ....

F) ....

G) ....

H) ....

4. How would you assess Kenya's current business environment?

5. What are your comments on the emerging firms?

(a) Are they posing a major opposition in the old firms?

(b) What are your comments on their petroleum sourcing?

(c) How do you deal with it?

(d) What is their market share?

6(a) What would you attribute some companies' diversification into fast Food and retail outlet business to?

(e) What would you attribute mergers of some oil companies to?

7(i) What are your comments on the following existing policies:

(a) Registration

(b) Taxation

(c) Pricing

(d) Environment

(e) Degree of competition in the market

(f) Others

(ii) Do these policies enhance Kenya's petroleum business environment? ....

If yes how?

If no why?

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