



**UNIVERSITY OF NAIROBI**

**INSTITUTE OF DIPLOMACY AND INTERNATIONAL  
STUDIES**

**THE GROWTH AND DEVELOPMENT OF THE QATAR OIL  
INDUSTRY: LESSONS FOR KENYA**

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## DECLARATION

I declare that this Research Thesis is dully my original work and that it has not been submitted for the award of any degree or academic credit in any university or higher institutions of learning.

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This Research Thesis has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

This research is dedicated to my wife Gloria Areman, my daughters Shanny Kokoi Areman, Sasha Ayanai Areman, Sons Larry King Areman, Luis Elain Areman and all my family members for their support. I also dedicate it to my friends Mr. Julius M. Kitili, Luis Franchesci, my Supervisor, Dr. Kizito Sabala for their moral support and encouragement who worked with me on the project. God Bless you all.

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## LISTS OF ACRONYMS

BNOC	British National Oil Corporation
GDP	Gross domestic product
LNG	Liquefied natural gas
OGA	Oil and Gas Authority
OPEC	Organization of the Petroleum Exporting Countries
DEA	Danish Energy Agency
MTPA	Million Tonnes per annum
TCF	Trillion cubic feet
BBL/D	Million barrels of crude oil per day
MPLA	Popular Movement for the Liberation of Angola
UNITA	National Union for the Total Independence of Angola
FNLA	Front for the National Liberation of Angola
MOSOP	Movement for the Survival of the Ogoni People
SPLA	Sudan's People's Liberation Army
SPLM	Sudan's People's Liberation Movement
CPA	Comprehensive Peace Agreement
SCQ	Shell Company of Qatar
QGPC	Qatar General Petroleum Corporation
GTLs	Gas-to-liquid fuels
GCC	Gulf Cooperation Council
PSAs	Production sharing agreements
IOCs	International oil companies
GEFCF	Gas Exporting Countries Forum
OGD	Onshore Gas Development
IGD	Integrated Gas Development
OAG	Offshore Associated Gas
AOC	Africa Oil Corporation
PIAC	Public Interest and Accountability Committee

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## ABSTRACT

The study examined the progress that Kenyan government has made towards managing oil drilling activities in Turkana County effectively in relation to Qatar oil case study. It established that while the government has made significant progress, it is yet to overcome the civil war challenge experienced in majority of the African countries that discover oil. To determine the manner in which the government need to enhance the process going forward, the study evaluated the Qatar oil case study and established that Qatar has been able to deal with its challenges by successfully developing its resources and having a visionary national leadership that is committed to the success of the oil project. In addition, it established that Qatar has been successful due to the vigorous and mutually rewarding relationship it has had with international partners and vigorous implementation of its oil related projects. Besides, it established that geopolitics in the Arabian gulf region together with high demand for oil from other parts of the world have also played critical roles in promoting the success of the oil industry in Qatar.

Besides the above, the study used the resource curse theory to evaluate the possible effects oil drilling activities in Turkana County. With the help of the theory, primary data was collected utilizing three different sets of questionnaires (one for local people, another one for government officials and another one for officials working at Tullow Oil Company). The Statistical Package for Social Scientists (SPSS) program was utilized to analyze the data. The study established that the main challenge related to the processes of harnessing oil and gas relates to synchronizing projects' implementation and making the right strategic choices in contexts that sustain economic prudence while minimizing macro-economic distortions at the same time.

In line with the findings, the study recommends that the authorities that manage the oil project in Turkana should develop adequate national and local management capacity that would enable them to manage the project effectively and include local people/representatives in the management of the project. In addition, it recommends that given the non-renewability of the oil resources, the national government should do whatever it can to reduce corruption related deals in the project, demand for transparency and promote inter-generational equity in the management of the project. The study also recommends policy reforms and clear definition of arrangement of the provisions that govern community development and resource sharing together with the roles played by various stakeholders involved in the project. Additionally, policy reforms should be carried out to tackle the rights of the vulnerable people who might be affected negatively by the mining activities. The study also recommends the government and stakeholders to boost security since insecurity hinders development. Additionally conflict early warning systems needs to be put in place so as to avert violent conflict and address disputes and grievances.

# CHAPTER ONE

## INTRODUCTION TO THE STUDY

### Introduction

Human history is full of examples of comradeships and alliances that were formed by kingdoms and empires in an effort to control and defend access to natural resources that were considered essential<sup>1</sup>. Nevertheless, effort is always been made to calm down those who are deemed as stumbling blocks to those resources.<sup>2</sup> While this is just an example of what takes place in different parts of the world, it depicts the importance attached to natural resources especially in relation to intergroup relations, diplomacy and politics. The rise of the modern states, however, complicated the way resource politics are handled throughout the world. No wonder there are many disagreements nowadays over geographical boundaries drawn in areas thought to be rich in natural resources. Other areas are full of protest over resource sharing that in some instances result to creation of new nations as people attempt to govern themselves in the hope of taking control of their natural resources. This has led to changes in dynamics surrounding natural resources management in different parts of the world.

As a result, while the discovery of natural resources has benefitted some nations, it has also led to tearing of other nations and societies.<sup>3</sup> Africa is the most affected continent probably due to high poverty level. This has led to violation of human rights, depression of economies and disintegration of traditional institutions in most parts of Africa. While this is the case, not every nation that has discovered natural resources especially oil has resulted to chaos. Some countries such as Qatar and developed countries in European Union have benefitted significantly from

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<sup>1</sup> Garrett, N. and Piccinni A. (2012). Natural Resources and Conflict A New Security Challenge for the European Union A Report for SIPRI by Resource Consulting Services.

<sup>2</sup> Raleigh, C. and Dowd, C. (2013) Governance and Conflict in the Sahel's "Ungoverned Space", Stability: International Journal of Security and Development, 2(2), 32, pp. 1–17.

<sup>3</sup>Mutambo, A., Mungai, C. and Nyambega, G. (2012) Oil Discoveries Fuel Fresh Border Disputes, The Eastafrican, 25–31 August 2012.

their oils resources contrary to the way African countries have done due to frequent protests and civil wars over oil.

In the light of the above fact, the current study evaluated Qatar's oil case study with a view to establishing the way Kenya can handle her oil reserves in Turkana County without necessarily going into war with local communities as Nigeria has done over the years. Alongside the case study, primary data has been utilized to evaluate the steps that the government and Tullow oil have taken to quell protests witnessed in the region early this year in relation to grievances from local people. While the study appreciates the fact that the government has taken the necessary measures to curb the possible oil curse witnessed in other parts of Africa, it acknowledges that it ought to do more. In relation to Qatar's case study, the study establishes that political leaders who are part of the process should be committed to enhancing the process through political goodwill. In addition, it establishes that the government should communicate with local people on regular basis to inform the steps taken to address their grievances and implement some of the promises that were made at the start of the drilling process in 2012.

### **1.1: Study's Background**

The Petroleum industry in Kenya has developed over time from early 1950s up to date. The first oil and gas exploration in Kenya was undertaken in the 1950s by British Petroleum (BP) and Shell However, the first well was drilled in 1960. The two oil companies drilled ten wells in present day Lamu County in the Coast. Adobe Oil and Frobisher Oil PLC are reported to be the first companies to have undertaken general and seismic survey works in the North Eastern region of Kenya, but they did not succeed to discover oil.<sup>4</sup>

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<sup>4</sup> Eliza M. Johannes, Leo C. Zulu & Ezekiel Kalipeni (2014): Oil discovery in Turkana County, Kenya: a source of conflict or development? African Geographical Review.

In 1975, a number of oil companies obtained licenses to explore for oil and gas in the upper parts of the Lamu Basin. Texas Pacific et al for instance drilled Hargaso-1 only to discover gas and oil embedded in Cretaceous rocks. The following year, Esso and Chevron drilled Bahati-1 and Anza-1 in the southern parts of Anza basin, but only discovered some traces of microfossils and hydrocarbons that were contaminated by cuttings and geochemical. The offshore exploration showed that there salt diapiric structures along the country's margins, but they did not succeed in discovering oil. Following the extensive oil exploration exercises that were conducted in the country, the legislation on petroleum exploration and production exercises was revised in 1986 to provide better incentives to foreign explorers. That move saw the government enter into a joint venture with a Canadian based company that carried out its extraction exercise in Garissa.<sup>5</sup>

A host of companies under the leadership of the Total and Amoco drilled ten wells; two in Mandera and the others in Anza basin between 1985 and 1990. Although the wells were dry, they had indications of commercially viable oil and gas quantities. The Total Company drilled Kaisut, Ndovu and Duma wells in the northern part of the Anza basin whereas Amoco drilled Hothori, Chalbi, Belltrix and Sirius. Most of these wells did not discover oil that could be extracted even though they showed signs of its presence in different parts of the country. Biostratigraphic studies that were carried out later on showed that majority of those wells did not penetrate deep beyond the sediment that seal oil within Sudan rift basins. <sup>6</sup>

Following the above discovery, the National Oil Company started its own exploration exercise in 1991 still within the Lamu basin, and completed it in 1995. Based on the previous findings and exercises that were carried out before, it divided the basin into offshore and onshore and

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<sup>5</sup>Cernea, Mihail M., and Ravi Kanbur. *An Exchange on the Compensation Principle in Resettlement*. Cornell University, 2002.

<sup>6</sup>Wambugu, S., and M. Moronge. "Determinants of Petroleum Exploration in Kenya." *International Journal of Social Sciences and Entrepreneurship* 1.7 (2013): 304-315.

into ten explorations blocks each with specific target.<sup>7</sup> In conjunction with two more blocks that were created in 2001, promotion efforts by the government resulted to interest for more offshore exercises along the Lamu basins between 2000 and 2002. A total of seven thousand eight hundred and eighty four (7884) kilometres of seismic data covering the blocks under exploration was acquired along the offshore of the Lamu Basin by Woodside between August and October 2003. The national oil company commissioned its tertiary study in Rift Valley in August 2000 and completed it in March 2001. Even though it did not discover oil, it identified potential reservoir rock units and sources.<sup>8</sup>

Oil drilling in Turkana County started in 2012 after a major discovery was made by a British oil company known as Tullow Oil in Lokichar basin. Since then, four more different wells have been identified in the region with an estimated oil value of \$25 billion.<sup>9</sup>

Turkana is the second largest county in Kenya measuring approximately 77,000 square kilometres. The county is located in the north-west part of the country and it neighbours Uganda to the west, Ethiopia and South Sudan to the north. Although it ranks among the largest counties, its climate is arid and semi-arid thereby good for animal rearing as opposed to agriculture or any other economic activity. As a result, majority of the people living in it are pastoralists and their population is about 900,000<sup>10</sup>. Given the county's total area, then the small population is sparsely spread across the county and they are in constant movement with their animals due to the seasonality of pasture and water sources. Although it is a Kenyan county, it is inhabited from time to time by Jie and Karamojong from Uganda and other communities from neighbouring countries besides the Samburu, Turkana and Pokot who come

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<sup>7</sup> Owusu-Ansah, Matilda. "Risks and impacts of oil exploration and production on local communities in the western region of Ghana." (2012).

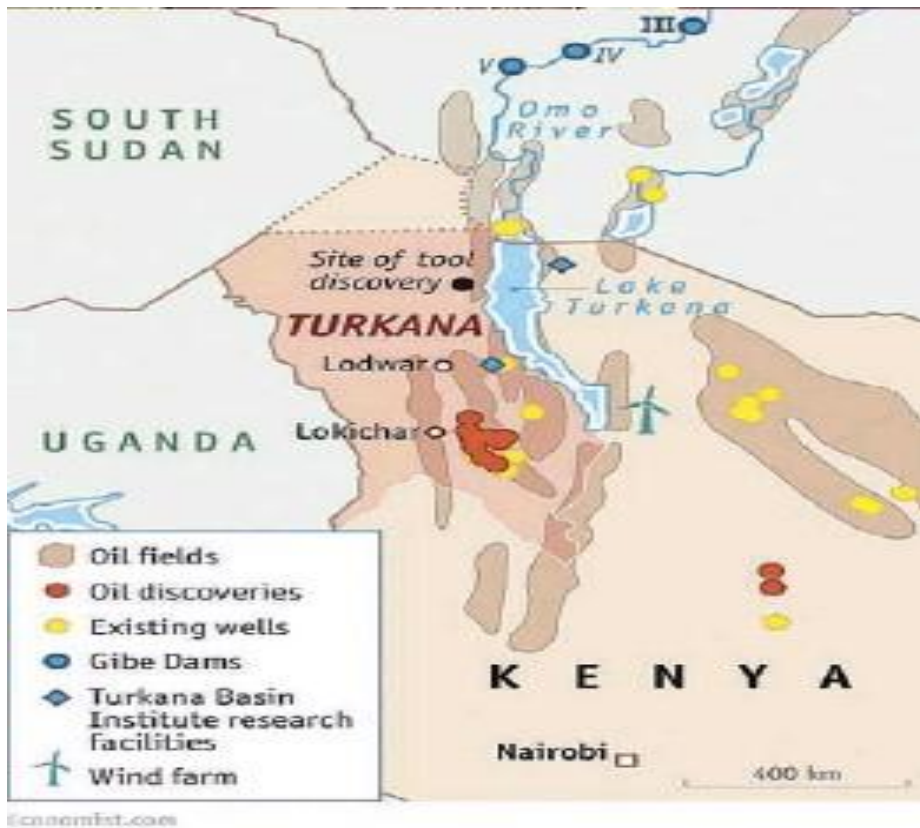
<sup>8</sup> The Petroleum (Exploration and Production) Act

<sup>9</sup> Agade, K. 2.14. Ungoverned

<sup>10</sup> Government of Kenya (2011) National Policy for the Sustainable Development of Northern Kenya and Other Arid Lands. Nairobi: Government Printers

from Kenya.<sup>11</sup> Because of their similarities in practices and origin, the communities share similarities in culture, language, and traditions, but they normally engage in shifting rivalry and friendship from time to time depending on the availability of water and pasture.

**Figure 1.1: Map of Turkana Oil Discovery**



**Source: The Economist, 2017**

While other economic activities are important to these people and African people in general, pastoralism and agriculture tend to be the main sources of income and food for most people living in Africa.<sup>12</sup> Indeed, in Turkana, which is an arid and semi-arid area, pastoralism is the only source of income and food for the people even if some of them engage in small-scale fishing in the Turkana Lake, and in the recent past some form of farming. In spite of this, pastoral

<sup>11</sup>Mutambo, A., Mungai, C. and Nyambega, G. (2012). Oil discoveries fuel fresh border disputes, *The EastAfrican*, 25–31 August 2012.

<sup>12</sup>Government of Kenya (2014) Op. cit.

practices are normally viewed by African national governments as primitive and backward. Such views have resulted to the discrimination and marginalization of the people<sup>13</sup> who practice pastoralism, and Turkana people are no exception. Because of this, the adaptability of these people to different pastoral practices has been hampered by restrictions on movement put by the Kenyan, Ethiopian and Ugandan governments. This is in spite of the frequent climate change in the region that has resulted to frequent drought.

In spite of what the government have done to empower the local people, the most detrimental thing to the resilience of the Turkana people is the constant conflict experienced among the people living in the county. Every year, a sizeable number of people lose their lives from raids, and violent attacks whose aim is to capture the control of water sources and pasture from each other. These types of conflicts are normally intense in the southern part where Ugandan based Pokot fight their counterparts based in Kenya. Nonetheless, in this war-prone region of the country, oil reserves have been discovered and their dimensions are thought to be immense. A UK-based company that is in charge of extracting the resource claims that the region has approximately 600 million barrels.

For the Kenyan government, this is “good news”<sup>14</sup>, as the retired president Kibaki put it at the time the discovery was made in 2012. For the pastoralist communities living in the region, however, the effects are likely to be immense given the constant fights experienced every year in the region.

While plans to build an oil pipeline from the region to Lamu, where the oil will be stored ready for shipping, are underway, the company began transporting some of that oil to Lamu by road early this year. The most unfortunate thing is that even before the actual drilling process starts in 2021, the ripple effects of oil resource have begun to be felt in the region because some of

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<sup>13</sup> Ibid

<sup>14</sup> Government of Kenya (2012) Op. cit



the youths in the region who are jobless following the high poverty level in the county have stormed the company demanding for employment. While the government promised to absorb them into the drilling process, it is evident that majority of these people are uneducated thereby lacking the high skills required in the drilling process. In addition, since oil drilling process is an extensive one involving land acquisition and pollution in some instances, the local people have started demanding their share even before the process starts in full force. More importantly, the government has not been able to meet the high expectations that local people developed the discovery of oil in the region especially at the advent of devolution that seeks to empower people in their local regions.

The above challenges among others that are likely to emerge in the future necessitate the need for government and other key stakeholders to move with speed to address them. While it is evident that the new constitution addresses some of the challenges especially those related to land acquisition, it is also evident that more need to be done especially to address grievances among local people. Nonetheless, the existing studies in Kenya on oil and pastoralism are few thereby do not provide sufficient grounds for the possible effects the new project might have on Turkana and its people in general. To bridge the gap, this study was conducted to evaluate the interaction between the frequent fights in the region and oil exploration exercises including the vulnerability of the communities living in Turkana County.

## **1.2 Background of Qatari Oil Wealth and Development**

In comparison to Kenya, Qatar is a small state that has been able to achieve much in socio-economic development from the time it attained independence in 1971 because it has moved from relying on basic economic activities to exporting oil. Although its population is relatively small in comparison to Kenyan population, the consolidation of the oil industry is massive worth to be evaluated. Nonetheless, it would be worth noting that majority of the people living

in the country are foreigners who have settled into the country to meet the high demand for labour. For this reason, the local people represent below 34 percent of the working force and population. In 2006, its per capita GDP was USD 54,000 in 2006 and was projected to be over USD 103,500 in 2009, which can be considered the world's highest.<sup>15</sup>

As you would expect, the small population size is a major contributor of the high per capita GDP. However, it would be important to note that political leadership has played a major role in boosting the economic development not on the basis of oil alone, but also on sports and cultural basis. Doha, for instance, prides itself in hosting Al Jazeera, an Arabic satellite broadcasting house that hosts most of the Asian games. Besides, it is currently preparing to host the forthcoming 2022 football world cup and 2020 Olympics. Accordingly, it would be important to note that the country has achieved much within a short period given that it attained independence in 1971 after Kenya attained her independence. Of great importance to note is that even if oil exploration exercises have been sources of conflicts in different parts of the world, it accounted for the 56% of the country's GDP, 70% of the government's revenue and 80% of export earnings in 2007.<sup>16</sup>

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<sup>15</sup>Washington Times, 7 June 2010, <http://blog.cntv.cn/7089247-1087.html>,

<sup>16</sup> Qatar News Agency (2015), "Emir Inaugurates Advisory Council's 44th Ordinary Session", in The Peninsula, 3 November, <http://www.thepeninsulaqatar.com/article/03/11/2015/emirinaugurates-advisory-council-s-44th-ordinary-session>

**Figure 1.2 Map of Qatar Gas and Oil fields**



**Source: Environmental Impact Assessment**

The above indicates that Qatar's private sector is relatively small thereby plays a significantly minute role in the expansion and growth of the national economy. This is evidenced by the fact that the other sectors in the country are normally supported by the oil sector through equity injection, favouritism in government procurement exercises, bailouts, subsidies in input prices and loans. In spite of this, the government is aware of this fact and its possible effect on the

national economy especially in a possible decline of the oil prices as it was witnessed between 1982 and 1986. During that time the national GDP contracted significantly to the extent that it took the government about a decade to recover from the shock and stabilize at the pre-shock level.<sup>17</sup> The government responded by diversifying the economy and making it less dependent on oil.

The diversification strategy was aimed at enabling the country to develop its large gas reserve for exportation and domestic consumption. Currently, the country has the third largest reserve for natural gas just behind Iran and Russia. Although the diversification process was expensive, it proved productive once launched and implemented. Consequently, the country leads in exportation of Liquefied Natural Gas (LNG) in the world that since 2006 has generated immense wealth for economic development.<sup>18</sup> Besides, the government has focused on developing other sectors using the wealth it generates from oil industry. The most notable sector in this case is the financial sector.

The government has also resulted to privatising and liberalizing the economy as a way of decreasing its role in the economy. This has expanded private interests that has played important role in creating employment for the local people. The privatization exercise included transferring water corporations to private firms, floating the control of public entities such as Qtel, Nakilat and Qatar industries by listing them on the stock market and privatizing state-owned electricity company.<sup>19</sup>

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<sup>17</sup> El-Khoury, Gabi (2015), “Arab Trade Statistics: Selected Indicators”, in Contemporary Arab Affairs, Vol. 8, No. 2, p. 286-293

<sup>18</sup> The Statistics Portal: Major Liquefied Natural Gas Exporting Countries in 2016. <https://www.statista.com/statistics/274528/major-exporting-countries-of-lng/Statista>, 2018

<sup>19</sup> El-Khoury, G, p. 286.

### **1.3 Statement to the Research Problem**

A preliminary review of what the Kenyan government has done to facilitate efficient extraction of oil in Turkana County indicates that everything has been done in the right way. The government on its part through the national assembly and senate has developed the laws that govern the oil extraction process whereas the Tullow Oil has taken the necessary measures to protect the interests of the local people. However, early this year a number of the local people protested the oil transportation exercise that was initiated by President Uhuru Kenyatta. While this might not be a major worry for the government because the process is in its early development stages, it is a major worry for the people living in Turkana County and country in general given the high number of oil crises witnessed in African countries.

In the past, oil discovery in many African countries has resulted to civil wars and protests among local people that have ended up into brutality. Given the economic position that Kenya occupies in the continent, it would be unwise for the government to sit back and watch protests among the local people living in Turkana County escalate to civil wars that have been witnessed in Sudan and Angola and other African countries that have discovered war in the past.

### **1.4 Objectives of the Study**

On the basis of oil curse, this study was carried out with a view to determining the steps that Kenyan government could take to prevent the country from ending up into civil war. Given that some countries that discovered oil in the past did not end up into civil war, Qatar oil case study was selected to inform the Kenyan case in relation to the steps that the government has taken so far. Accordingly, the study's main objectives were:

1.4.1 To review literature on exploitation and development of oil industry in selected countries

1.4.2 To examine the growth and development of the Qatar oil industry

1.4.3 To draw lessons from Qatar oil industry for Kenya

## **1.5 Research Questions**

In relation to the above objectives, the research questions were as follows.

- What has the Kenyan government done to facilitate efficient oil drilling activities in Turkana County?
- What can the government do differently to ensure that grievances raised by local people against Tullow Oil Company do not occur in the future?
- What has Qatar and other countries that have not ended up into civil war following oil discovery done that Kenyan government can do to restrain protests from local people in the future?

## **1.6 Hypotheses**

The study hypothesized the following.

1.6.1 That discovery of oil in Turkana would lead to armed conflict in Kenya particularly in Turkana County.

1.6.2 That Kenya could avoid the resource curse by learning significant lessons from the oil industry in Qatar.

## **1.7 Study's Justification**

The research study seeks to benefit the policy making and policy justification and academia.

### **1.7.1 Academic Justification**

The study will benefit the academia by adding to the existing body of literature, on the relationship between resources and sustainable development and how to apply relevant cases to the full realization of the potential of oil development in Turkana County. Given the inadequate literature in the area of study, the research will provide valid and relevant information, and recommendations thereof.

### **1.7.2 Policy Justification**

On policy justification, the study will benefit with the current actors and stakeholders efforts by the governments and societies and enhancing development in relations to oil discovery and production as well as efforts that focus on the internal dynamics of the State and the County, its communities and creating community cohesion and resilience for sustainable growth and development. The findings and recommendations will inform policymakers and stakeholder as well as the community members. It will also suggest areas for further study.

## **1.8 Theoretical Framework**

This study uses the resource curse theory which ‘resource curse’ in relation to its two versions namely: the Dutch disease model and the Models of the Rentier State.

The Dutch Disease concept relates to the probable negative effects of a natural resource windfall on an economy coupled with the effects of appreciating exchange rates on the same economy.<sup>20</sup> In the light of this concept, one notable danger of oil boom is the fact that an appreciation of the exchange rate in an economy tends to make other sectors that are non-oil in nature less competitive thereby is at the risk of generating deindustrialisation. The logic behind this concept can be explained as follows. When an economy is at full employment equilibrium,

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<sup>20</sup> Di John, J. (2007), ‘Oil Abundance and Violent Political Conflict: A Critical Assessment’, *Journal of Development Studies*, nr 43 (6), p. 961-986. Di John, J. (2009), *From Windfall to Curse? Oil and Industrialization in Venezuela, 1920 to the Present*, Penn State University Press, University Park, PA.

an undying increase inflow of external funds tends to change relative commodity prices in favour of non-traded goods such as those in construction and service industries, but against non-oil traded goods such as those in agriculture and manufacturing industry. In so doing, it leads to a crowding out of non-oil traded goods by the non-traded goods in other sectors.<sup>21</sup>

A Rentier-state model presumes that the abundance of minerals and oil generates growth that restricts state intervention coupled with unusual large degrees of rent-seeking. The rent seeking contest in this case is presumed to produce uniformly negative development outcomes.<sup>22</sup>

Several important propositions can be developed out of this model. Firstly, it is possible to see that the existence of considerable high levels of mineral rents is possible to increase corruption and rent seeking in comparison to economies with lower levels of mineral abundance. Secondly, one can tell that corruption and increased rent-seeking appetite would obviously reduce growth. Thirdly, since state governments benefit significantly from the windfalls of the rent seeking, then they do not focus on taxing the members of the public as they ought to tax them. Although this appears good to the members of the public, it reduces political bargaining power between interested parties and government, which results to arbitrary, predatory and even paternalistic governance.<sup>23</sup>

The theory of resource curse will therefore be important to the study due to the concern that oil fuel abundance may generate poor economic performance in Turkana. The theory will be useful in examining the proposition that oil abundance has a tendency of generating growth that restricts state intervention and unusual levels of corruption and rent seeking that hamper economic growth.

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<sup>21</sup> Di John, J. (2009), *From Windfall to Curse? Oil and Industrialization in Venezuela, 1920 to the Present*, Penn State University Press, University Park, PA.

<sup>22</sup> Khan, M., & K.S. Jomo (Eds.) (2000), *Rents, Rent-Seeking and Economic Development*, Cambridge University Press, Cambridge.

<sup>23</sup> Auty, R. (2007.), 'Patterns of Rent-extraction and Deployment in Developing Countries: Implications for Governance, Economic Policy and Performance', in G. Mavrotas & A. Shorrocks (Eds.), *Advancing Development: Core Themes in Global Economics*, Palgrave, Basingstoke



## **1.9 Research Design**

A descriptive research design that involved using numbers to collect and analyze data was utilized to conduct the study. The process entailed developing a questionnaire consisting of research questions addressing themselves to specific oil related issues in the area and administering them to the local people, officials from Tullow Oil Company and government officials working in the ministry of energy and petroleum who were concerned with mining activities.

The design was preferred over others designs because the study was intended to provide decision makers in the country with specific facts about oil activities in Turkana County and measures that needed to be taken to protect the region from resource curse that has hit many African countries. Accordingly, it was necessary to make precise predictions about the link between local people and oil, which they consider a local resource. This was meant to give a meaningful insight that could be utilized going forward to minimize violence incidences that had been identified in the region earlier on. Although other research designs would provide this information, it was felt that they could not do better than descriptive research design.

Since the intention was to describe the situation the way it was at the time of data collection, a cross-sectional survey method was utilized to collect the data. The process entailed collecting the data at one point in time and analyzing it to determine the way local people felt about oil drilling activities in the county together with the way officials from Tullow Oil were handling the process and the measures that government had put in place to facilitate the process more efficiently.

### **1.10 Target Population**

To ensure that the data collected provided accurate results, the target population included local people living in Turkana County especially those neighboring the drilling areas. Since the region is inhabited from time to time by people from neighboring countries, only Kenyan citizens living in the area who were eighteen years and above were included in the study. Other people who did not fall into this group were excluded from the study. Also, the government officials working in the energy and mining ministry were also included in the study to provide an overview of what the government has done to address some of the challenges related to oil in the region. The intention of including them in the study was to establish what has already been done with a view to recommending what needed to be done going forward to ensure that the local people do not interrupt the drilling process. Moreover, five officials from Tullow Oil Company were also included in the study to provide an overview of what the company had done to address some of the grievances from local people.

### **1.11 Sample size and Sampling Technique**

A sample of 80 local people living in Turkana County was selected randomly to participate in the study. The sample included both male and female people aged eighteen years and above. The selection process entailed going to their camp sites and residential areas, introducing the study with the help of an interpreter, and asking the people who qualified to participate in the study to participate in it on voluntary basis. The participants who agreed to participate in it were interviewed and thanked at the end of interview for providing information. No form of compensation was offered to them for participating in the study, but they were informed that their information would be used for their benefit going forward. Similarly, the government officials and officials from Tullow Oil Company were also selected randomly to participate in the study.

## **1.12 Data Collection Process**

Three sets of questionnaires attached at the appendix were utilized to collect the data from research participants. The questionnaires were developed from literature review and their validity and reliability were tested through pilot study to ensure that they collected the data they were intended to collect including measuring what they were intended to measure. The process of collecting the data entailed meeting potential participants at their residential places, introducing the study to them by explaining its benefits to them, assuring them that they were at liberty of withdrawing from it at any given time they chose to withdraw from it and asking them to participate in it on voluntary basis. Those who agreed to participate in it were interviewed for less than ten minutes and thanked at the end of the interview process. The questionnaires that were filled were kept safely and utilized for analysis purposes.

For the government officials, the process entailed meeting them in their offices, introducing them into the study and explaining the purpose of the study to them. Afterwards, the officials were requested to participate in the study on voluntary basis. Those who agreed to participate in the study were issued with questionnaires to fill on their own though with some guidance from the interviewer to ensure that they answered questions in the right way.

## **1.13 Validity and Reliability of the instrument**

According to Fletcher, reliability refers to the extent to which an instrument used in a study yields consistent results once repeated trials are conducted.<sup>24</sup> To ensure that the questionnaires utilized to collect the data provided consistent results, a pilot study that was carried out before the actual data was collected was utilized to ascertain the relevance of each research question.

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<sup>24</sup> Fletcher, A. J. (2016). Applying critical realism in qualitative research: methodology meets method. *International Journal of Social Research Methodology*, 20(2), 181-194. doi:10.1080/13645579.2016.1144401

A Cronbach's alpha coefficient that ranges between 0 and 1 was utilized to determine the level of internal consistency with a value above 0.7 used to show satisfactory level.

On the other hand, validity refers to the extent to which an instrument measures what it is supposed to measure. To ensure that research questions measured what they were supposed to measure, the coding process and content analysis process were carried out with a lot of caution.<sup>25</sup> In addition, the participants were selected randomly without favoring certain participants over others. This enhanced the internal validity of the study because the participants were representative of the people living in Turkana County. Accordingly, they provided views that a large group of the people could provide if there interviewed all of them.

#### **1.14 Data Analysis**

Once the data was collected, it was analyzed using Statistical Package for the Social Sciences (SPSS) program version 24. The descriptive statistics were utilized to describe the characteristics of the participants and tabulated the percentage of the participants who were in favor of certain responses. On the other hand, content analysis was utilized to identify the main themes from the responses that were provided by government officials and officials from Tullow Oil Company. The analysis process in content analysis entailed going through the responses they provided and identifying the main themes in those responses.

#### **1.15 Ethical Considerations**

Throughout the study, the interviewer with the help of an interpreter started by introducing the participants into the study, explaining its benefits to them and assuring them they could withdraw from it at any time they felt like withdrawing from it for their own health or psychological benefit. Accordingly, although the participants did not sign any formal consent

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<sup>25</sup> Mugenda, O.M & Mugenda, A. G (2003). Research Methods. Nairobi, Kenya, African Centre For Technology Studies (ACTS)

form, they agreed to participate in it on voluntary basis. Besides, the researcher committed to treating information provided by participants with utmost respect and never disclosing it to anyone else. This enabled the participants to express their feeling freely and answer questions as accurately as possible. Furthermore, the researcher ensured that the interpreter understood the study's purpose to ensure that he did not misinterpret responses from research participants.

### **1.16 Study's Limitations**

Overall, the study was carried out in an efficient manner that ensured that all people living in Turkana County especially those neighboring the drilling area were included in the study. However, given that the representativeness of the method utilized to select the participants was dependent on the accuracy of the sampling frame used, the generalization of the study's findings might be limited by the accuracy of the sampling method utilized to select research participants. This does not mean that the study's findings could not be generalized with accuracy, but it means that the accuracy of that generalization might be limited in some way. Besides, the method that was utilized to conduct the study might not explain why the participants felt the way they felt about oil drilling in the region because the questionnaires were not designed to evaluate those factors. Accordingly, further study should be carried out to establish why the participants do not feel satisfied with the way the government handles oil activities in the region. However, it might be utilized to highlight the opinions of the way people living in the region feel what is right or wrong with the current drilling activities. More importantly, because an interpreter was utilized to help the researcher collect the data, then it might not be possible to tell the extent to which his bias and errors influenced the data collected. In addition, it might not be possible to tell the extent to which the interpreter influenced the way respondents answered various research questions. In spite of these limitations, the study's findings could be utilized to inform future activities based on findings from related studies.

## **1.17 Chapter Outline**

Chapter one introduces the study by providing the study's background, statement of the research problem, objectives, justifications, hypothesis, methodology and structure of the study. Chapter two examines the growth and development of the Qatar oil industry focusing on global perspectives on oil exploration and development using various cases, as well as the growth and development of oil industry in Africa.

Chapter three provides an overview of the Qatar oil industry whereas chapter four draws lessons for Kenya from Qatar's oil industry. Chapter five concludes the study by summarising the findings and recommending the way forward for Kenya.

## CHAPTER TWO

# EXPLOITATION AND DEVELOPMENT OF OIL INDUSTRY IN SELECTED COUNTRIES

### **Introduction**

The issue of making the right strategic choices and ensuring that their implementation is efficient in a manner that promotes fiscal prudence is the main challenge of harnessing gas and oil resources throughout the world. Such effort should always be backed by sufficient institutional capacity and contribution from local people and institutions in the revenue management. Since oil is a non-renewable resource, corruption should always be minimized, negotiations carried out in the right way and inter-generational equity should be promoted. In doing so, it would be important to promote regional cooperation because of the challenges that emanate from international oil markets.<sup>26</sup> The cooperation in this case might address areas such as infrastructure development, but they should be aimed at promoting development. This Chapter discusses exploitation and oil development from a regional and global perspective.

### **2.1 Understanding Natural Resources and Conflicts**

Resource from its originality might be referred to as life. Shiva notes that its Latin origin, *surgere*, represents an image of a spring that rises from the ground continually. Therefore, just like a spring resources rise from time to time even after they are consumed or even used continually.<sup>27</sup> This concept highlights the nature's power to self-regenerate.<sup>28</sup> Nonetheless, with the arrival of industrialization, it lost its creativity power that was connected to self-

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<sup>26</sup> Ibid.

<sup>27</sup> Vandana Shiva, "Resources," in *The Development Dictionary*, ed. Wolfgang Sachs (London: Zed Books Ltd., 1995), p. 206.

<sup>28</sup> Ibid

regeneration. They consequently became materials for use by the people who were desperate to use them for economic gain, but careless to look after their continuity.

In spite of the above, the definition of the term natural resources has been troublesome explaining why there is no generally agreed definition. Nonetheless, it is generally agreed that it constitutes a functional link between people's wants and their abilities to appraise the environment.<sup>29</sup> To address this challenge, there is need for natural resources' students to conceptualize a functional definition that would prevail over its politics of management.

Throughout this study natural resources will be defined as the non-artificial products that are found beneath the soil that can be extracted, harvested and used to generate income or even serve an intended purpose in man's life.<sup>30</sup> Some of the resources that will be included in this definition include petroleum, water resources, animal stocks, water, solid minerals and land. Even though some of the resources such as wind power and solar energy are not included in this broad definition, they are excluded because they are intangible even though their impacts are perceptible. Because of this such resources although valuable can never be linked to conflicts particularly in developing societies that do not understand their importance. Human beings are also left out of the broad definition provided in this study. Their exclusion is on the basis that they are the ones who exploit the resources in question. Accordingly, they cannot be part of the resources they exploit or even fight for. Even though attempts have been made to categorize natural resources the most prominent attempt is provided by Rees who classify them into non-renewable also referred to as stock and renewable that are also referred to as flow resources.<sup>31</sup> The flow resources can be renewed naturally within a short time and they include

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<sup>29</sup> Ian G. Simmons, *The Ecology of Natural Resources* (London: Edward Arnold, 1974), p. 3

<sup>30</sup> Judith Rees, *Natural Resources: Allocation, Economics and Policy* (London: Routledge, 2011), p. 14

<sup>31</sup> *Ibid*



animals, water and plants. Normally, the process of renewing these types of resources can occur naturally or through human processes.

In contrast, the stock resources as their name suggests have fixed supply since they are formed over a prolonged period that is mostly presumed to have reached its peak of availability. Some of them include land, oil and solid minerals. Even though some of the resources fall under this classification, they can also be regarded as renewable. For instance, even though fossil fuels are widely regarded as non-renewable, they can also be renewed thereby referred to as renewable resources. Similarly, minerals can also be renewed through recycling thereby should not be restricted to non-renewable category.<sup>32</sup>

Normally, natural resources are widely converted from their natural state to usable state before they can be meaningful to human beings. Although this is an important process, it explains the politics associated with their management because almost every stage is an ingredient of conflicts. Simmons identifies four approaches that are of great importance in the study of resource process.<sup>33</sup> The first approach known as economic approach follows the widely known principle of supply and demand thereby focuses its attention on the way societies match resource supply to their market demand.

The issue at stake with this approach is the market forces coupled with continued growth of production focused on meeting the demand for increasing population. The second approach focuses its attention on the ethical dimension of processing resources with a special attention on the right process of utilizing biosphere. The approach sees all elements of nature as having some form of aesthetic, cultural or economic value. In contrast to the other approaches, the third approach focuses its attention on behavioural aspects with a special attention on

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<sup>32</sup> Richard Lecomber, *The Economics of Natural Resources* (London: Macmillan, 1979), p. 3.

<sup>33</sup> *Ibid*

psychological impulses and socio-cultural traits that dictate the way people utilize resources in different ways. Finally, the fourth approach referred to as ecological views every resource process as an interface between abiotic and biotic elements of biosphere. It presumes that man's activities have some form of repercussions on natural environment thereby some limits are never crossed without influencing nature in some way.<sup>34</sup>

## **2.2 Resource Management, Oil and Development**

At community level, the management of resources normally cause some form of conflicts because almost everybody in the community tries to maximize his/her utilization of the resources. As a result, controversies surrounding natural resources have resulted to numerous conflicts that do not appear to disappear any time soon.

This is not new because unless managed properly, effort aimed at developing natural resources tends to be influenced by curses associated with their discovery. As a result, most countries with huge natural resource reserves tend to exhibit bad economic outcomes and poor political systems. The resource curse argument thereby appears to suggest that most developing countries with natural resources do not convert them to useful resources for sustainable economic growth including making huge improvements on industrial development and development indicators.<sup>35</sup> This normally results from the volatility of the foreign currency that comes from those resources, decreased competitiveness of the manufacturing sector, diversion of resources and talents away from prolific sectors, de-industrialization, and currency appreciation that eventually results to heightened dependence on foreign aid.<sup>36</sup>

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<sup>34</sup> Francis Deng, "Anatomy of Conflict in Africa" in *Between Development and Destruction: An Enquiry in the Causes of Conflict in Post Colonial State*, ed. Luc Van de Goor, Kumar Rupesinghe, and Paul Sciarone (The Hague: The Netherlands Ministry of Foreign Affairs, 1996).

<sup>35</sup> Stevens, P. (2003). Resource impact: curse or blessing? A literature survey. *Journal of Energy Literature* 9(1): 1-42.

<sup>36</sup> UNECA. (2013). *Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation*. Economic Report on Africa. Addis Abeba: United Nations Economic Commission for Africa.

Besides, there is a political dimension that associates itself with the resource curse because once discovered politics tends to deteriorate due to weak accountability, increased corruption and rent seeking.<sup>37</sup> However, the resource curse argument has of late been challenged both empirically and theoretically. It is argued that weak institutions are normally the sources of curse as opposed to the resources themselves. Therefore, the presence or absence of conflicts in resource-rich regions depend on the way that resource rents are managed as opposed to the rents that create conflicts in those areas.<sup>38</sup> This means that the apparent correlation between weak industrial development, resource development and low levels of diversification emanates from weak manufacturing capacity in the countries rich in resources as opposed to the crowding effect of the resources. This new position that is revolutionary in nature argues that some countries have utilized their resources to spur both economic and industrial development.

Indeed, some of the leading economies in the world such as Norway, Canada and Australia are rich in resources whereas the leading industrial countries such as UK, USA, Germany and Sweden based their industrial developments on their own natural resources. Similarly, some developing countries such as Qatar, Argentina, Malaysia, Botswana and South Africa have benefitted significantly from their resources.<sup>39</sup> Accordingly, it would be wrong to presume that a country cannot utilize its own resources to spur economic and industrial development like the resource curse argument attempt to suggest.

### **2.3 Resource Curse and the Kimberly Process**

In spite of the above, any discussion that focuses its attention on mining industry should start from the resource curse argument because the argument deals with the issues central to the

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<sup>37</sup> Morrisson, K. M. (2010). What Can We Learn About the “Resource Curse” from Foreign Aid? *The World Bank Research Observer*, 27: 52-73.

<sup>38</sup> UNCTAD. (2013a). *Commodities and Development Report: Perennial problems, new challenges and evolving perspectives*. United Nations publication.

<sup>39</sup> UNECA. (2013). *Op. cit*

governance of natural resources. The idea of this argument is that exploitation of any form of commodity suppresses growth, slows down economic development, leads to bad politics and more often than not undermines the development of industries. This idea emanates from a combination of various factors namely: (a) the windfall rent that emanates from resource exploitation normally cause macroeconomic inequity that reduce competitiveness among industries; (b) the volatility of the commodity price results to unpredictability in the government's income that come from taxes levied on the commodities exported to other countries thereby complicates the budgetary allocation process. This threatens macroeconomic stability of a national economy; (c) the nature of the technology-intensive extraction activities does not contribute significantly to job creation thereby it tends to lead to social and political conflict as the members of the public compete for the few job opportunities in the mines;<sup>40</sup> (d) in most cases, governments do not address corruption and rent seeking activities with the attention they deserve due to weak institutions and systems of governance; (e) resource-rich states do not rely mostly on taxes levied on resources because they gain from windfall of the resource rent. As a result, they weaken taxation process that undermines social contract between state and the members of the public. This makes ruling elites less accountable than they ought to be to the members of the public and finally (f) because of the huge gains from resource rents ruling elites are never compelled by external forces to implement policies and strengthen the processes aimed at diversifying resources. Because of this some people are pessimistic about the solutions that can be offered to some of the above problems.

Stiglitz, for instance, thereby claims that the best solution to some of the above problems would be to delay the extraction process until relevant governments and authorities invest in the right way.<sup>41</sup> Morrisson on his part claims that there is no justification for helping such countries to

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<sup>40</sup> Ibid

<sup>41</sup> Stiglitz, J. (2007). What Is the Role of the State? In M. Humphreys, J. D. Sachs and J. Stiglitz, (Eds.). *Escaping the Resource Curse*. New York: Columbia University Press

develop or even exploit their resources.<sup>42</sup> A study conducted by the African Development Bank and others claim that there is no African curse because poverty reduction exercise has been rapid in Africa as in other parts of the world if low incomes would be taken into account; this means that governance is a non-issue in Africa.<sup>43</sup>

Indeed, it is rather obvious that while Venezuela and Nigeria depict cases of resource curse, other countries such as Indonesia and Botswana contradict the curse by illustrating the possibility of turning resources into blessings. That's why Noman and Stiglitz<sup>44</sup> claim that almost every country has embarked on implementing good governance policies before it faced a governance challenge. Accordingly, the developing countries in Asia have gone through that path before they realized the importance of their resources. Such an argument should not however give an impression that good governance does not have considerable impact on economic growth because of political reasons.

The Kimberley Process, which is an unusual agreement among the various players of the diamond trade in African countries, has been successful since it was adopted in 2002. It was initiated for the first time by the UN Security Council back in 1998 to address the conflicts related to diamond that was sold by middlemen and even African insurgents. From the time it was adopted, it has resolved civil conflicts in Sierra Leone, Angola and Liberia.<sup>45</sup> In spite of this, a similar process especially in oil would be far much difficult to adopt and enforce among the market players. This is in relation to the fact that such conflicts can only be unleashed by domestic political competition for resources that has the capacity to transform economic growth through transformation and eradicating poverty. Indeed, while previous studies show

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<sup>42</sup>Morrisson, K.M. (2010). Op. cit.

<sup>43</sup> African Development Bank and Global Financial Integrity. (2013). Illicit Financial Flows and the Problem of Net Resource Transfers from Africa: 1980-2009. Tunisia: African Development Bank and Global Financial Integrity.

<sup>44</sup>Noman, A. and J. Stiglitz. (2012). Strategies for African Development. In A. Noman, K. Botchwey, H. Stein and J. Stiglitz, (Eds.). Good Growth and Governance in Africa. Rethinking Development Strategies. Oxford: Oxford University Press. Pp. 3-50.

<sup>45</sup> Ross, M. L. (2008). Blood Barrels. Why Oil Wealth Fuels Conflict. Foreign Affairs, 87 (3): 2-8.

that formal political institutions play considerable roles in revenue management, they also show that the availability of resources can also change underlying political interests.

Consequently, the standard measures of addressing resource curse are bound to backfire if they do not take sufficient account of the existing institutions and political interests.<sup>46</sup> As a consequence, awareness of such danger coupled with good will to promote good governance is desirable in the management of natural resources. However, the implementation of policies should be politically viable if any transformation is expected on ground and local level. Normally, decision makers might be interested in pursuing efficient industrial policies, but in the absence of political goodwill, it might not be possible for them to promote such policies. Alternatively, they might face unnecessary challenges as they strive to implement such policies. For this reason, it would be important to unpack the political will of all stakeholders including that of decision makers.<sup>47</sup> Nonetheless, in some instances it might be possible to pursue some of those policies even in the presence of political support and goodwill.

## **2.4 Global Perspective on Oil Exploitation and Development**

Throughout the world most countries make use of energy policies to gain access to energy resources so that they can be energy secure and sometimes self-sufficient to promote economic growth and take advantage of geopolitics. For this reason, as exploration exercises in gas and oil resources intensify governmental bodies are working towards enhancing sustainability in the oil industry.

A preliminary literature review indicates that from the 19<sup>th</sup> century petroleum products have become the world's most traded goods. These products are essential because they are utilized in homesteads on daily basis. Oil and natural gas are the widely utilized products. In 2013, oil

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<sup>46</sup> Centre for the Future State. (2010). *An Upside Down View of Governance*. Brighton: IDS-Sussex

<sup>47</sup> Booth, D. (2012). *Development as a Collective-Action Problem. Addressing the Real Challenges of African Governance*. London: ODI.

formed 39.9% of the energy utilized throughout the world whereas gas formed 15.1%.<sup>48</sup> As the data indicates, they both play critical roles in the global energy industry and there is no likelihood that they will be replaced any time soon. Consequently, majority of the countries throughout the world utilize energy policies to attain economic advantage and sometimes dominate politically in their regions. As a consequence, the more that a country gains access to energy resources, the more it is likely to showcase its power and dominance over other nations including making them dependent on it.

Besides the above, the more efficient a country is in accessing energy supplies and utilizing those supplies to its advantage, the more it boosts economic growth, national security and sometimes environmental sustainability.<sup>49</sup> Even though economically it is understood that oil price is largely determined by the supply and demand in the market, international politics equally influence that price significantly.<sup>50</sup> Given the nature of the current world politics and standardization of majority of the policies throughout the world especially in the European Union, energy policies play important roles in promoting national politics; they can thereby contribute to either strengthening or weakening local politics. Indeed, as soon as OPEC was established back in 1960s, the balance of power was shifted in the favor of countries that produce oil.<sup>51</sup>

That shift of power has in the last fifty years enabled state governments throughout the world to promote their economic growth and generate wealth on the basis of their natural resources through regulation and national politics. Industrialized nations such as Canada, those in west Europe and USA that enjoy cheap energy resources depict that Kenya can also achieve

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<sup>48</sup> Ibid

<sup>49</sup>Shaffer, B. (2011). *Energy politics*. Philadelphia, PA: University of Pennsylvania Press.

<sup>50</sup>Falola, T., & Genova, A. (2005). *The politics of the global oil industry: An introduction*. Portsmouth: Greenwood Publishing Group.

<sup>51</sup>Ryggvik, H. (2010). *The Norwegian oil experience: A toolbox for managing resources*. Oslo: Centre for Technology, Innovation and Culture (TIK-Centre) University of Oslo.

sustainable economic growth from its oil reserve in Turkana County. However, this would depend on the life of the reserve and changes in demand of the oil throughout the world. Besides earning a foreign income, energy resources can also be utilized to facilitate development in other sectors of an economy. Indeed, energy factors play important role in promoting growth in other real sectors. Most industrialized nations manage their oil resources in a way that make economy less reliant on oil investments. They thereby minimize their dependence on imports so that they can spur economic growth in other sectors.

The above illustrates that if natural resources would be managed effectively, then all stakeholders would benefit through economic growth. In contrast, if they are not exploited in the right way, they are likely to impoverish a country and members of the public in general. This is well illustrated by African countries and some of the states in the Middle East whose oil reserves benefit a few people. There is no doubt that countries that did not develop efficient political structures before they started extracting oil do not stabilize their economies or even promote economic growth because their environments are normally plagued by cultural tension, poverty and high levels of corruption.<sup>52</sup> Accordingly, it would be correct to conclude that natural resources have contributed significantly to economic growth in some countries whereas in others they have resulted to high levels of corruption and constant fights.

Given that oil plays an important role in promoting economic growth for the countries endowed with this vital resource, then nations throughout the world should strive to manage and regulate petroleum products effectively. Studies indicate that oil rents have the capacity to contribute approximately 70% of a national GDP.<sup>53</sup> Most of these rents are regulated through fiscal regimes - a taxation model – and through the way sector performs. Consequently, a country is

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<sup>52</sup>Falola & Genova,

<sup>53</sup>Kemal, M. (2016). Ownership rights versus access rights allocation to critical resources: An empirical study of the economic impact of changes in oil governance. Colorado School of Mines, Working Paper No. 2016-02.



capable of creating wealth from petroleum products through efficient governance thereby administration of the energy sector boosts the performance of petroleum sector especially in the oil-producing countries. Accordingly, the taxation and regulation systems should ensure that revenue from oil is exploited both safely and profitably. In addition, it should ensure that the best is reaped from the oil that is extracted.<sup>54</sup> Sustainable development in this case together with economic growth can be attained through efficient exploitation of the resources and rational development of those resources.

It is worth noting that a country should strive to secure stable supplies of energy so that it can achieve and maintain stability in its economic activities. Nonetheless, competition to achieve this stability throughout the world remains a challenge to majority of the countries. As a consequence, as exploration and exploitation exercises of the gas and oil products continue state bodies and relevant companies are focused on developing efficient regulations to help them maintain their control and enhance the sustainability of the industry. Nonetheless, the major challenge in this exercise is to meet the ever growing demand in a sustainable manner that would not pose challenge to anyone. For this reason, it would be imperative for nations to adopt administrative models that would promote sustainability, development of other sectors especially those affected by the negative effects of the oil industry and energy independence.

The most important thing to note that in some countries such as Norway governments have utilized natural resources to promote economic growth that has led to higher income and growth.<sup>55</sup> Since this country has achieved great success in managing a resource that is thought by many African people to be a curse, then it provides a case study of the way Kenya can succeed in managing its oil reserves.

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<sup>54</sup>Holden, S. (2013). Avoiding the resource curse the case Norway. *Energy Policy*.

<sup>55</sup>Ibid

A look at the way Norway went about managing its resources indicates that the state government started by developing an administrative structure. The said structure separated the roles of the government in three levels namely regulation, policy making and another one focused on commercial practices.<sup>56</sup> This model was the best for the Norwegian government even though over time it has been demonstrated to lack political stability and institutional quality.<sup>57</sup> In spite of this shortcoming, it would be important to note that at the time that Norway was developing such a framework, it was already a mature democracy. Accordingly, in applying its model to Kenya one should acknowledge that Kenya is in the process of advancing its democratic institutions. Based on this fact, it would not be possible to determine with accuracy the extent to which the Norwegian model can be applied to Kenyan case.<sup>58</sup> Indeed, it would be important to note that Norway was open to greater risks and large costs, but for a nation like ours that is struggling to meet some of its economic obligations, then such risks would be unwelcome.

Cyprus, which is based in the Mediterranean Sea, started its oil exploration exercises in 2007 as soon as the government issued 13 exploration permits to oil companies. While it would be important to evaluate the progress that the country has made in the oil industry, it would also be important to appreciate the fact that the exercise is still at the exploration stage. Nonetheless, it would be worth noting that government's stake in this exercise is at 69%. In contrast, Albania started its exploration exercises in the 1960s, but tremendous investments in this exercise were made after the 1990s when the government invited oil companies. For this reason, Albania may also be not a good case study to consider even though government's stake is at 59%.

The Italian exploration exercises started in the 1950s, and from that time the government has continually expressed its interests in the exercise by issuing exploration rights to many

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<sup>56</sup>Thurber, M. C., Hults, D. R., & Heller, P. R. (2011). Exporting the "Norwegian model": The effect of administrative design on oil sector performance. *Energy Policy*, 39(9), 5366–5378.

<sup>57</sup> Ibid

<sup>58</sup>Holden, (2013).

companies. Presently, it has awarded over 117 exploration permits and is in the process of constructing new production facilities. Due to its intensive investment in the exercise, the country has been producing petroleum products since 1970s and the government's stake in the investment is 56%. Greece on its part started its exploration exercises in 1970s and was lucky enough to start extracting oil in 1981.<sup>59</sup> From that time, though, the government did not make any considerable investment in the exploration exercise until 2013 when it issued three more exploration permits. In contrast to other governments, its stake in oil industry is 32%. Malta, which is also in the same region, started the exploration exercises in 2010 and is yet thereby to start any commercial production, but the government's stake, is 63%.<sup>60</sup>

A review of the studies indicates that oil-producing countries based along the North Sea perform better than the countries based in the Mediterranean Sea. The studies indicate that whereas almost all of the countries in the North Sea perform better in their oil producing business, only 20% of those in the Mediterranean Sea perform better. The UK on its part has to some extent implemented the model developed by Norway. In terms of developing responsibilities and policy-making, the UK government has developed a separate policy-making body under the leadership of the Minister of State for Energy who is also the Secretary for Energy and Climate Change just the same way Norway has developed its model. The regulatory body that is mandated with supervising and controlling the environmental and technical protection requirements and maximizing profit from petroleum products is separate from the one mandated with making policies. Accordingly, it falls under the Oil and Gas Authority (O.G.A.). Finally, the commercial functions that were represented by British Petrol were separated as well from other arms just as they were in the Norwegian model.<sup>61</sup>

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<sup>59</sup> Ibid

<sup>60</sup> Holden, (2013).

<sup>61</sup> Ibid

Throughout the world British Petrol is among the largest oil and gas companies in the world. British data published by the UK trade and investment indicate that as at September 2014, the oil and gas industry was among its largest sector employing approximately 450,000 people and generating over £40 billion on annual basis including over £14 billion of exports. The available data indicate to get to this point the UK government addressed most of challenges identified in this study through theoretical background.<sup>62</sup> Its governance and control measures in the petroleum sector are controlled at national level as opposed at local or even regional level. This is an important aspect for Kenya to note even though it might be problematic at county level, which feels that it deserve to control part of the oil resources. Another important thing to note is that UK has well established environmental and technical laws that safeguard the environment and anything else that is related to oil. A part of that law is a form of fiscal regime model that defines the percentage of the oil revenue that goes to the national government. This was designed right from the start of the exploration and production exercise that equally insisted the importance of investing infrastructure and local companies, which Kenya should borrow from the UK case. This could strengthen the oil industry in the country as it has done in the UK.

Germany like any other developed nation has developed a well-established administrative design even though its system is organized at regional level as opposed to federal level. At the highest level, that is federal level, the ministry responsible for oil industry has only developed mining law that unifies other laws in the country that relate to oil exploration including its production. Nonetheless, the production and exploration rights in the country are awarded to companies at regional level even though such procedures might differ from one region to the other. For this reason, there lacks clear distinction in Germany between regulatory and policy

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<sup>62</sup>BIO by Deloitte. (2014). Civil liability, financial security and compensation claims for offshore oil and gas activities in the European Economic Area, Final report prepared for European Commission – DG Energy.

making bodies; however, this does not cause any problem in the management of oil in the country. One thing to note is that even if Germany as a country has contributed significantly in development of energy related companies in the world such as EON, SIEMENS and RWE, it does not have body that regulates oil at national level.

Of importance to note is that Germany does not have huge oil reserves, accordingly, it relies heavily on imports.<sup>63</sup> This might explain why the German government has not addressed some issues that might be considered important in the industry.<sup>64</sup> For this reason, while developing regulations, Kenya should take note of such issues so that it is not misled into making mistakes for lack of knowledge. The most important thing to note is that even if Germany has developed high quality environmental laws aimed at protecting and safeguarding the environment and also developed fiscal law defining its share in the oil business, it does not address governance of the industry at federal level and procedures aimed at preferring local companies over international companies. However, the government has managed to develop the relevant infrastructure making the extraction exercise simple and efficient at strengthening energy industry.

In contrast to Germany, Netherlands' regulatory and policy responsibilities are organized within a specific division under the Ministry of Economic Affairs. This separates the responsibilities of exploration, policy development and issuance of permit rights from each other. It also separates those concerned with controlling technical issues, revenue sharing and environment protection issues from each other so that each tackles specific tasks. Besides, Netherlands has a distinct commercial body that serves as a national company and as a production and exploration institute. The available data indicates that success factors in Netherlands are addressed by the law developed at national level, efficient policies on

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<sup>63</sup>International Energy Agency. (2013). *Energy policies of IEA countries; Germany, 2013 Review*.

<sup>64</sup>BIO by Deloitte. (2014).

environment protection, fiscal regime model, technical standards and efficient guidelines on infrastructure development.<sup>65</sup>

The Netherlands' case puts more emphasis on a national company that controls oil operations in the country. Besides, it has developed a multinational oil company registered as Royal Dutch Shell to serve international interests in the oil industry. The company is vertically integrated with a specialty in oil production and exploration, marketing, power generation, trading and refining. To date, it employs about 94,000 workers in over 70 countries throughout the world.

Denmark's administrative model is a bit different from the Netherland's model. The model has three bodies that are organized separately. The policy body falls under the ministry of climate, energy and building whereas the regulatory body falls under the Danish Energy Agency (D.E.A.). On the other hand, the commercial body falls under the national oil company known as Danish Oil and Natural Gas (D.O.N.G.) whose majority shareholder is the government. The available data indicates that Denmark has addressed success factors through its binding laws.<sup>66</sup>

Besides the national oil company, another company known as Maersk Oil was formed in 1962 to help in the northern sea petroleum operations.

Although Cyprus has separated regulatory body from policy making body, its commercial body is not under the government. Its policy making body falls under the Ministry of Energy, Commerce, Industry and Tourism, whereas the regulatory body falls under Cyprus Energy Regulatory Authority. In contrast to other countries, Cyprus government has not developed a national oil company. Furthermore, the government has not addressed key issues probably because it is yet to start the extraction activities.<sup>67</sup>

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<sup>65</sup>Ibid

<sup>66</sup>BIO by Deloitte. (2014).

<sup>67</sup>Ibid

In contrast to Cyprus, Albania has established a regulatory and policy body that is under its Ministry of Energy and Industry. As a result, there is no clear distinction between regulatory and policy making functions thereby production, revenue sharing and exploration functions are not separated from each other. Nonetheless, the government has established a national oil company responsible for production and exploration exercises even though most of the ongoing oil related operations are controlled by international companies.

Besides the above, Albania does not have an efficient administrative policy and design mechanism. Italy, on the other hand, organizes its regulatory and policy responsibilities under different divisions within its Ministry for Economic Development. The two responsibilities are separated from each other in terms of issuing production and exploration permits and revenue sharing. The commercial responsibilities are organized under the Italian oil company, E.N.I., and with the government owning 30.1% of shares. Currently, E.N.I is a leading oil company in the world because the government has addressed success factors through its binding laws. <sup>68</sup>

Greece organizes the regulatory and policy making functions within its Ministry of Environment, Energy and Climate Change, but the two functions are separated from each other under distinct bodies. The commercial function falls under the national oil company. The available data indicates that the current law does not address itself to the involvement of the national companies in oil operations.<sup>69</sup> Malta like other countries does not organize its commercial activities under a government body, but it has separated its regulatory and policy making functions from each other. As a result, even if the regulatory and policy making bodies fall under the Ministry for Transport and Infrastructure, they are organized under different divisions. However, the government has not developed a national oil company.

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<sup>68</sup>BIO by Deloitte. (2014). Op cit.

<sup>69</sup>Ibid

The data available shows that Malta is yet to address key success factors and does not have a government body in the oil operation activities.<sup>70</sup> Most of the countries in the North Sea have separated administrative functions from other functions, but those in the Mediterranean Sea do not separate them from others. As a result, only 20% of the countries in the Mediterranean Sea have separated administrative functions from others.

## **2.5 Conflicts in African Oil Industry**

Currently, Africa supplies approximately 12% of the world's oil even though most of the countries boast of unexploited reserves estimated to be at 8% of the proven reserves in the world.<sup>71</sup> Over the decades, the proven reserves have rise from 5.8% as they were in 1991 to 7.6% in 2001 and there are suggestions that they will increase further. From the verified reserves, Africa managed to produce just 9 million barrels per day back in 2011; 8% of which came from Angola, Egypt, Algeria, Libya and Nigeria.<sup>72</sup>

Previous studies indicate that in North Africa, political unrests emanating from oil resources resulted to loss of more than million barrels produced on daily basis in 2011. At that time, it was expected that the daily production would increase in 2012 because Libya had gone back to producing more after unrests were over. However, the region was unable to boost daily production in 2012 as expected due to political unrests. This was in spite of the verified gas reserve of 513 trillion cubic feet with over 91% of this coming from Egypt, Algeria, Libya and Nigeria.<sup>73</sup>

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<sup>70</sup>Ibid

<sup>71</sup> Collier, P. and A. Hoeffler. 2005. Resource Rents, Governance, and Conflict. *Journal of Conflict Resolution*, 49(4): 625-33

<sup>72</sup> Obi, C. (2010): "Oil as the 'curse' of conflict in Africa: peering through the smoke and mirrors". *Review of African Political Economy*, 37 (126): 483-495.

<sup>73</sup> Victor Luvhengo, *Multinational Corporations and Human Rights Violations in African Conflict Zones: The Case* 49(4): 625-33



While parts of Africa struggle to contain political unrests and communal protests against unfavorable terms by their government, a quick review of the literature indicate that oil and gas resources continue to play important roles throughout the world. As a result, most of the African countries such as Liberia, Togo, Namibia, Côte d'Ivoire, South Sudan and Ghana that had previously stopped their exploration exercises have embarked on the process once again. East Africa has not been left out in this exercise especially after Kenya discovered its Turkana based oil reserves.<sup>74</sup> Following this, it is expected that further development and exploration exercises could see Mozambique overtake other gas rich countries such as Algeria and Nigeria because of its huge reserves.<sup>75</sup>

In spite of the above, many African countries that are rich in oil resources have continued to experience unrests of whatever nature.

### **2.5.1 Angola Petroleum and War**

Most of the Angolan diamond and oil deposits are located beneath the development index. In spite of this, the World Bank claims that about 70% of the Angolan population live on less than \$2 a day whereas about 25% of the children who are born annually die before they attain the age of five years.<sup>76</sup> This is in spite of the rich oil deposits in the country that earn over \$30 billion [in 2007] every year from oil exports.<sup>77</sup> In Angola, oil has for many years remained the country's economic growth driver, accounting for over 90% of exports in the 1980s and 1990s. Consequently, in 1999, between 75 and 90 percent of the government's revenue came from oil resources. As evidenced by other countries that suffer from resource curse, the country's state of affairs was plagued by the civil wars that were fought for about twenty-seven years. The war

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<sup>74</sup> Ibid

<sup>75</sup> Ibid

<sup>76</sup> Agalliu, I. (2011). Comparative assessment of the federal oil and gas fiscal systems. U.S. Department of the Interior, Bureau of Ocean Energy Management Herndon, VA. OCS Study, BOEM 2011-xxx. 300 pp.

<sup>77</sup> Ibid

led to the death of about half a million people leaving about a third of the population displaced from their homes.<sup>78</sup>

It is worth noting that from the time the country attained independence, oil has been a key resource in the country's politics thereby it has affected the economy significantly to the extent of leading to civil wars. The country's plight started in 1970s after the independence war (1961-1975) ended in 1975. After the colonial master left the country, the three rebel groups in the country (MPLA, UNITA and FNLA) signed an Alvor agreement thereby formed a unified government with a unified military. However, as the time to unify the military group approached, the country broke into war once again in mid 1975. Backed by the Cuban forces, the MPLA seized power and declared the onset of the People's Republic of Angola in November 1975.<sup>79</sup>

The breakdown in the unified government can be explained on two bases. Firstly, even though the three groups had signed the Alvor agreement, the peace that followed independence exposed the political and ideological differences among the groups mostly between the two main parties UNITA and MPLA.<sup>80</sup> The MPLA was socialist since mid 1950s, a position that was not embraced by UNITA and its leaders. Secondly, the ideological differences that the two main parties depicted were interconnected to the cold war that was prevalent in different parts of the world. For this reason, the cold war could be considered a catalyst in the civil war that ensued in the country. The USA in particular was devastated by defeat in the Vietnamese war thereby was focused on winning the Angolan war.

The MPLA's support from the Cuban forces was matched by the USA's and South African support that was given to UNITA.<sup>81</sup> In line with cold war forces, the two forces continued to

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<sup>78</sup> Ibid

<sup>79</sup> Kemal, M. (2016).

<sup>80</sup> Ibid

<sup>81</sup> Agalliu, I. (2011).

propagate their ideologies on Angolan land. This distanced the two warring factions in the country from uniting because they were receiving military aid from their sponsors. Accordingly, the civil war ended once the cold war collapsed, but rather than uniting the country, the warring factions started scrambling for oil reserves. At this time, they were determined to acquire as much as they could to the extent of risking their lives and resources. This however does not mean that oil exploitation exercises were not carried out before 1988 when the peace deal was struck.

A review of the data indicates that by 1986 most of them had worked their ways to acquiring oil resources as much as they could. This scramble even though was necessary; it had disastrous outcomes on the peace deal that began in the 1990s under the Bicesse Peace Accord signed in 1991. The accord brought peace in the country by prohibiting the warring factions from acquiring new weapons and surrendering the existing ones. This is in spite of the fact that there were many issues that needed to be resolved after the deal was struck.

The first issue was that the peace deal that was signed did not envisage a unity government thereby the person who would win the election was expected to take control of everything in the country. Accordingly, the groups organized themselves along tribal lines ready to take control of the oil resources. The bad thing is that MPLA had an authoritarian government that had excluded certain ethnic groups from power and even benefiting from developmental projects in the country.<sup>82</sup> While this was aimed at enabling the party to clinch power and retain it, it fuelled further the deep seated hostility and hatred among the people and political parties. In addition, the Bicesse peace Accord did not provide the disarmament process for either party; thus, the groups retained their weapons ready for any eventuality.<sup>83</sup>

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<sup>82</sup>Kemal, M. (2016).

<sup>83</sup> Ibid

The Bicesse accord, which was obviously weak, was hampered further by the resources that both parties had exploited and utilized to fund their military activities. A review of the data indicates the extent to which oil revenue prolonged the war in 1990s. During this time, the government's income from this resource was between \$1.8 and 3 billion every year for the period between 1990 and 1999.<sup>84</sup> The huge income gave the MPLA, which was in power during this period, substantial revenue to fund its military activities to a tune of about \$400 and 450 million in 1995 and 1996 respectively.

Even if some of the peace deals signed in some parts of Africa have not been successful, some of them have been successful. For instance, the Mozambique peace deal that was signed in Italy back in 1992 between FRELIMO that was in power and RENAMO is a good case indicating that the fight was not resource related only as it was in DRC and Angola.<sup>85</sup> This deal materialized within a short period than the Angola peace deal.<sup>86</sup> This indicates the extent to which resources enable warring factions to fund their military activities.

It is clear that if the Angolan resources, diamonds and oil, were managed effectively, the country would be among the rich countries in the world as the Qatar's case indicates. If that was the case, the Angolan people would be among the best educated, healthiest and best fed people in the African continent or even in the world.<sup>87</sup> This bond of contention can also be seen in Nigeria where oil has resulted to tribal clashes among the local people with the government and oil companies on one end and the fight for the rights of the people on the other end.

### **2.5.2 Nigeria and the Niger Delta Oil**

Currently, Nigeria ranks fourth among the major oil exporters to USA, but it is presently facing a bad militant situation in its Delta region that hosts about a quarter of its national oil output.

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<sup>84</sup>Agalliu, I. (2011).

<sup>85</sup> Ibid

<sup>86</sup> Ibid

<sup>87</sup>Kemal, M. (2016).

History indicates that people living in this region have been affected by the greed of outsiders who exploit resources without giving anything back to the society.<sup>88</sup> To a large extent, corruption has played a major role on this issue. This is coupled by insecurity, poor governance, high poverty index, and unemployment that have intensified animosity in the region.

Back in 2005, the Amnesty International observed that people living in the Delta were among the poorest people living in the world most of them earning less than \$1 a day. That was in spite of the windfall gains from oil reserves in the region. Given the high inflation rates witnessed over the world, the condition has obviously worsened rather than improved. In spite of this, every other person living in Nigeria does not enjoy the huge income earned from oil resources because most of them are poor. Because of the high poverty level in the region the people who live in the region engage Nigerian government in constant fight over oil resources, which they consider as their own natural resource.<sup>89</sup>

Overall, a preliminary literature review indicates that most communities in Nigeria are never compensated for their land that is taken by government and oil companies for extraction exercises. In spite of this, most of the land that is not taken by the government is rendered useless by the resultant acid rain, oil spillage and other forms of pollution from oil companies. Accordingly, the World Wildlife Fund claims that Nigeria is among the most polluted countries throughout the world because in terms of gas pollution, it is the number one polluted country.<sup>90</sup>

On the account of environmental impact of oil activities in the region, the local people have justifiable claims against the government and oil companies even though the constitution places oil resources under the federal government.<sup>91</sup> Nonetheless, the government has almost in all instances responded to protests from the local people in a brutal manner that should be

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<sup>88</sup> Ibid

<sup>89</sup> Quashie, A. L. (2017). The case of mineral resources management and development in Sub-Saharan Africa.

<sup>90</sup> Ibid

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condemned. No wonder the brutality and conflicts in the region have intensified over the years. In the 1990s, for instance, the Ogoni people who were represented by MOSOP in their bid to have the government respond to their grievances was met with brutality from military forces between 1993 and 1998. While this was good for restoring peace and stability, it was bad for cohesiveness in the country and prosperity of the people living in the region. The brutality led to the assassination of Saro-Wiwa, the MOSOP's president and other eight people in an attempt to silence the local people and suppress their rights.<sup>92</sup>

The non-addressed conflicts strengthened in 1999 when the Isoko youths living in the Delta region attacked and shut five of the oil flow stations in the region. The attacks intensified following the establishment of the MEND and NDPVF movements. The MEND held about 200 oil workers hostage reducing the national production by 1.5 million barrels per day forcing the oil major companies to compensate the loss by extracting more in their other reserves.<sup>93</sup>

### **2.5.3 The 'Larger' Sudan**

The conflicts between local people and government can also be seen in the Sudanese case. In this case, the southern oil fields were coveted by the government and people living in the southern parts of the country. Due to these interests, Sudan suffered from civil wars from the time it attained independence in 1956.<sup>94</sup> Before the succession of South Sudan, Sudan had a population of 36 million people. The people were divided among 450 different ethnic groups. While this was a good diversity attribute, it contributed significantly to differences in cultural, religious and social identities.

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<sup>92</sup>Quashie, A. L. (2017).

<sup>93</sup>Ibid

<sup>94</sup> Ibid

When British government colonized the country, it focused on modernizing the economy thereby replaced authoritarian institutions with English traditions.<sup>95</sup> Because of the bad state of the southern parts of the country, the region did not attract the attention of the British colonial rule until the end of the First World War. Before then, the British government claimed that the southern part of the country was not ready for the new technology thereby no foreigner was allowed to access the region. Nonetheless, the government's 1920s southern policy opened up the region for development. This created the idea of the unique separatist southern region that finally led to the secession of the South Sudan. This promoted the development of the identities of the southern people in terms of their culture and traditions.<sup>96</sup> The process of disregarding and undermining the southern parts of Sudan continued until the British government signed an agreement with Egyptian government to provide Sudanese people with an independent government in 1953. Following the independence deal, the first Sudanese government was inaugurated in 1954 with the country attaining full independence in 1956.

After independence, the people living in the northern part of the country did not consider strengthening unity with those living in the south. In addition, the government that was formed then did not bother to address challenges witnessed among the people living in the south thereby there was total isolation of the people living in the south.<sup>97</sup> The division between the two groups of people – those living in north and those living in south – was intensified by their difference in politics, religious practices and cultural practices. This division led to the first civil war in the country, which back then was just a low-intensity battle between Khartoum military forces and southern people who were deemed as separatists. The battle lasted for about

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<sup>95</sup> Obi, C. (2010)

<sup>96</sup> Ibid

<sup>97</sup> Russett, Bruce. 2002. Violence and disease: Trade as suppressor of conflict when suppressors matter. In Economic interdependence and international conflict: New perspectives on an enduring debate, ed. Edward Mansfield and Brian Pollins. Ann Arbor: University of Michigan Press.

seventeen years between 1955 and 1972. A peace deal was only struck when an Ethiopian Emperor intervened in 1972.<sup>98</sup>

Nonetheless, the hostility among the two groups of people would return once the former President Nimeria who ruled between 1969 and 1985 introduced a Sharia law in 1983. The people living in the south considered the new law as a way of depriving them their rights. This led to another civil war in the country that as opposed to bringing people together has torn them apart. As a consequence, the battles fought in the country have impoverished the Sudanese people rather than resolving their deep seated hostility against one another. They have thereby destroyed economic grounds in the country despite inflicting endless miseries on the people.

Despite inflicting miseries on people, the wars have also been terribly costly claiming lives of over two million people and displacing over 4.4 million people from their houses. The second conflict, which started in the 1983, revealed the link between oil resources and war. It was fought by the southern people under SPLA against the northern people under SPLM who were led by the Khartoum based government. Basically, it was a war between Muslims and Christians, who on one side were English speakers and on the other side Arabic speakers. The war depicted some similarities with a war that was fought in Angola just on the same religious practices each party protecting its practices from the other.

To the government, the war offered opportunities for it to renew some of its strategies that had been established before aimed at displacing the non-Arab people from rural areas that were rich in oil and clear their territories ready for oil development with a focus to stabilising the flow of revenue from oil.<sup>99</sup> The government carried out this exercise through a cover-up policy that purported to protect the southern oil fields from western and Chinese investors. However, in the reality it was displacing people slowly thereby utilized brutality including raping women,

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<sup>98</sup> Ibid

<sup>99</sup> Ibid



abducting children and their mothers, shooting people from the air using helicopters, burning villages and destroying humanitarian relief sites.<sup>100</sup>

As a consequence, the US government has in the past accused the government of bombing villages at the time that the UN's relief workers were distributing food to the hungry people. The ill-intended war strategy took the government about two decades to devise it, but by the start of 2000, the government had gained control of most of oil fields in the south.<sup>101</sup> The income generated from these oil reserves enabled the government to solidify its military activities including buying more weapons, and helicopters that were used in the attacks against the local people.

Another impact that was felt from the oil resource was re-development of the internal hostility among the various ethnic groups especially between those living in north and those from south. Even though the second civil war was generated by social and political division, the oil in the south was the main target of the war. In Sudan, the precious resource had been discovered in the 1970s along the Melut and Muglad rift basins. These reserves were among the most contentious issues in the first civil war.<sup>102</sup> They became hot spots for violation of human rights in the country to the extent that the loss that was incurred has never been quantified to date.

As at January 2009, the proven barrels of oil in the country were five with an estimate of 563 million barrels.<sup>103</sup> To a large extent, this was the reason that the northern people led by the Khartoum based military could not let the southern people to secede from the larger Sudan despite fighting intensify for their independence. That's why oil is currently considered to be the leading cause of war and miseries in Sudan. The ownership of all reserves was claimed by

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<sup>100</sup>Russett, Bruce. 2002.

<sup>101</sup>Tebogo B. Seleka and, Happy Siphambe, et al, Social Safety Nets: Administration, Targeting and Sustainability (Gaborone: Lightbooks, 2007).

<sup>102</sup> Ibid

<sup>103</sup> Ibid

the Khartoum based government that did not want the southern people to have any say on the management of those reserves.

The first peace deal in Sudan was signed after the two warring factions were convinced that it was never possible to end the war. Besides, it was after the two warring factions established that it was not possible for them to export oil that they agreed to sign the peace deal. That's the time the Khartoum based government gave the south based people right to vote to determine their destiny and take control of their oil reserves. The time saw a period of six years of interim government that shared the oil revenue on a 50-50 basis as a way of facilitating the execution of CPA.

Even if the CPA that was signed specified the manner in which oil revenue was to be shared, the southern based government did not have access to the oil figures that were produced on daily basis. Accordingly, it could not verify the authenticity of the amount of money it received from the northern based government. No wonder most of the people in south suspect that the figures were flawed to the advantage of the northern based government. The World Bank included could not verify the authenticity of the figures that were published.<sup>104</sup>

The data available indicates that Khartoum government claimed that the oil figures that were published by oil companies were relatively lower than those published by oil companies. Consequently, there was a difference of 14% in block 3 and 26% in blocks 1, 2, 4 and 6 in 2005.<sup>105</sup> A difference of 12 million barrels that was in contentious was significantly huge. It is estimated that it was worth \$370 million, which was sufficient to power a city in USA for a year. Other contentious issues to do with distribution of state resources and access to oil have never been addressed.

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<sup>104</sup>Lujala, P. (2010): "The spoils of nature: Armed civil conflict and rebel access to natural resources". *Journal of Peace Research*, 47 (1): 15-28

<sup>105</sup> Ibid

Other contentious issues such as the ownership of Abyei region, which is an oil-rich region, not resolved by the CPA hampered the peace deal that was signed between the two levels of government. Because of this President al-Bashir vowed not to address the issue thereby the region remained in the hands of the Khartoum government.<sup>106</sup> This oil inconsistency further fuels the decade's long mistrust between the regions.<sup>107</sup>

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<sup>106</sup>Lund, D. (2014). State participation and taxation in Norwegian petroleum: Lessons for others? *Energy Strategy Reviews*.

<sup>107</sup> Ibid

## CHAPTER THREE

### GROWTH AND DEVELOPMENT OF THE QATAR OIL INDUSTRY

#### Introduction

The current economic growth of the Qatar has a number of parallels. Notably, it neither emanated from the plentiful oils resources nor did it occur by chance. Of great importance is to note that many oil-rich countries do experience economic growth that Qatar experiences. One thing to note is that success in Qatar's case emanated from commitment of its visionary leaders who understood where they wanted to take the nation. Also, it emanated from rewarding relationship the government developed with international partners, and vigorous implementation of its policies. Furthermore, it emanated from shift in geopolitics of the Arabian Gulf and changing demand for oil in the international market. This chapter explores the manner in which Qatar oil industry evolved with a view to determining the way Kenya can utilize benefit from the case study.

#### 3.1 The Way Qatar Oil Industry Has Evolved Over Time

After many years of the behind the scene battles, the British government and other groups that were controlling much of the oil in Qatar agreed to grant Anglo-Persian oil company onshore concession in 1935. The company later on transferred that concession to the Petroleum Development, which was an associate of the Iraq Petroleum Company (IPC). Most US, French and British oil companies had stake in IPC. The company later on rebranded to Qatar Petroleum Company (QPC) in 1953.<sup>108</sup>

Although oil in Qatar had been discovered early in the 1900s, it did not start until 1938. During this time, new reserves were discovered in Dukhan (1939), and by 1940 approximately 4,000 barrels were produced on daily basis. However, the extraction exercises came to a standstill

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<sup>108</sup>Farah Talal, Toufic. 1985, *Protection and Politics in Bahrain, 1899-1915*. Beirut: American University Press

during the Second World War and slightly after the war ended. Further exportation started in 1949.<sup>109</sup> At the time, the famous Dukhan field was extensive covering the south part of the region and west coast thereby had three reservoirs with extensive natural gas fields. The crude oil from this region had a rating of 40 with 1.2% sulphur content.<sup>110</sup>

As at 1952, an oil company by the name Royal Dutch Shell, which was an ancillary of the Qatar Shell Company, was allowed to explore oil along the continental shelf. During this time, most of the offshore discoveries were conducted on the Halul Island, which was about 90 kilometres east of Doha. The main offshore fields however were the Maydan Mahzam that was discovered in 1963 and Idd ash Sharqi that was discovered in 1960. Production in most of these fields started in 1964. A field discovered along Al Bunduq field was however control by Abu Dhabi and Qatar government because they both claimed ownership of the field. They started exploiting it in 1969. Another important field was discovered in 1991 by a Qatar based oil company. The crude oil discovered along the offshore fields had a rating of 36 that had 1.4% sulphur content. Most of this oil was stored at facilities based on the Halul Island, which by the time had two mooring machines for loading tankers and pumping stations. A combination of the oil that was extracted from offshore and onshore reserves was 4.5 billion barrels back in 1990.<sup>111</sup>

The concession granted to the oil companies was for 75 years thereby gave companies sufficient time to recover their investments including rights to market, transport, refine, explore and produce oil in their predetermined areas. At the time, the oil companies that received permit from the government to extract oil in the country were exempted from paying taxes and other duties on their exports and imports. Nonetheless, they were mandated by the agreement to hire

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<sup>109</sup>Fisher, Sidney N. *The Middle East*. New York: McGraw-Hill, 1990

<sup>110</sup>Sindelar, H. Richard, III, and John E. Peterson (eds.) 1988. *rosscurrents in the Gulf: Arab Regional and Global Interests*. London: Routledge.

<sup>111</sup> Ibid

as many local people as they could and as their exercises could allow them. After receiving a down payment of 400,000 rupees back in 1935, the Anglo-Persian company was instructed by the government to pay Shaykh Abd Allah ibn Qasim a total of 150,000 rupees annually after that. The government ensured that before the extraction exercises were initiated an oil industry with functional institutions was established. The Anglo-Persian company thereby built a pier at Bir Zikrit, shipped foodstuffs and water for its workers, shipped the relevant equipments and supplies from different parts of the world.<sup>112</sup> Because of ensuring that everything was in its rightful place, the exercise was profitable as soon as the first consignment of oil was exported to the international market. This was partly due to cheap labour that was readily available, relatively inexpensive drilling costs, good transport network, reduced pumping costs and favourable concession terms.

To enhance the drilling process further, the concession agreement was revised between 1952 and 1953 to allow the companies and the government share revenue on a 50-50 basis. The king's share rose from \$1 million to \$61 million between 1950 and 1958 even it declined to \$53 million in 1959 and never rose beyond \$61 million until 1963.<sup>113</sup> Part of the money was spent to grow the local economy, but it resulted initially to inflation of the basic commodities and high incomes for Al Thani.

From the time that QPC was initiated in 1935, most people did not feel its impact. Accordingly, it triggered some forms of strikes for violating workers' rights especially by forcing them to work during Muslim holidays. However, by 1950s it had initiated its own infrastructure including houses, communication lines, water and power hereby was able to offer its workers' health care services and hire policemen to protect their facilities.<sup>114</sup>

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<sup>112</sup>Graz, Liesl. 1990 *The Turbulent Gulf*. New York: St. Martin's Press

<sup>113</sup>Fisher, Sidney N. 1990. Op Cit

<sup>114</sup> Ibid

In order to gain leverage over the oil companies that were acting on its behalf, the Qatar government decided to join the OPEC in 1961; a year after it was founded in 1960. Most of the time the country has observed its quota even though it exceeds them at some specified times to take advantage of the increases in prices especially at the time of invasion of some major oil producing countries. Its annual production more than doubled between 1960 and 1970 when it rose to 132.5 million barrels from 60.4 million barrels. The highest peak was seen in 1973 when it produced 208.2 million barrels.<sup>115</sup> During the early 1980s, there was a steady decline apart from the recovery that was experienced in 1984. The recovery period was experienced further in 1990 when it produced 146.7 million barrels that exceeded its OPEC quotas.<sup>116</sup>

After the country attained independence in 1971, the government created Qatar National Petroleum Company in 1972 to conduct the oil operations. Back then, the government held 25% shares of SCQ and QPC. Two years later, QGPC was founded and given 60% ownership by the government. Consequently, at the end of 1977 the government had nationalized both offshore and onshore operations with the service contracts awarded to the former concessionaires.<sup>117</sup>

The official oil production in the country started in 1953 when a QPC owned refinery started refining oil with a capacity of 600 bpd. This capacity had risen to 6,000 bpd in 1975 and by the start of 1980s production had been beefed up by about 4,000 bpd. Another refinery firm that was opened in 1983 increased the then capacity by 50,000 bpd bringing the national total to over 60,000 bpd. A national company that was mandated with distributing oil in the country was able to refine about 62,000 bpd on average in 1990; 75% of this oil was exported to the

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<sup>115</sup>Sindelar, H. Richard, III, and John E. Peterson (eds.) 1988 Op cit.

<sup>116</sup>Fisher, Sidney N. 1990. Op Cit

<sup>117</sup> Ibid

global market. The price increase that resulted from Kuwait invasion by Iraqi at this period saw the country reap huge profits that were in excess of 40% profit earned in 1989.<sup>118</sup>

Twenty years of independence were celebrated in the country in September 1991 when phase one of a development project initiated in north field was inaugurated. A gas project that lies along the north-east coast that occupies about 6,000 square kilometres of the region is under the supervision of Technip Geo-production of France and Bechtel of the United States. The project is part of what the government has done to diversify its economy and make it less reliant on oil products alone. To date, north field is considered the world's largest reserve for natural gas thereby its full exploitation will place Qatar in a class of its own. Gas found in other fields is utilized to produce petrochemicals, steel plants, fertilizer's raw materials, and fuel for producing power. Since the oil reserves are expected to deplete by 2023, researchers in the government hope that north field will replace the gap that will be created by that depletion.<sup>119</sup>

The country flared approximately 80% of its 16.8 million meters<sup>3</sup> of the natural gas that was produced on daily basis in the early 1970s. During that decade, the government laid the grounds for exploiting natural gas despite the setbacks it encountered. Even though about 66% of gas coming from onshore fields was flared in 1974, the percentage had declined by less than 5% in 1979. Besides, two more oil plants for producing Natural Gas Liquid (NGL) were started in Umm Said by the end of 1981. The first plant NGL-1 obtained its gas from Dukhan field whereas the other one, NGL-2, processed gas coming from offshore fields. As a result, the daily combined capacity was 2,378 tonnes of propane, 2,495 tonnes of ethane-rich gas, 1,480 tonnes of condensate, and 1,840 tonnes of butane.<sup>120</sup> Nonetheless, the plants were unable to

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<sup>118</sup>Qatar - gas field awaits development (1981). *Petroleum Economist*, 48(9), 375-379.

<sup>119</sup>Fisher, Sidney N. 1990. *Op Cit*

<sup>120</sup>Sindelar, H. Richard, III, and John E. Peterson (eds.) 1988. *Op cit*.



operate at full capacity and coming on-line as it had been planned due to unexpected challenges. The SCQ that was discovered in 1972 has a reserve of 4.6 million cubic meters.<sup>121</sup>

### **3.2 State of Qatar Oil Development**

Relative to the other GCC countries, Qatar has an abundance of natural gas resources. Because of its small population, its energy needs are met by domestic sources. Besides, even if it is a member of OPEC, it is the second smallest country that produces crude oil among the 12 members in the group. Nonetheless, Qatar's earnings from its hydrocarbon sector have been reported to account for 56% of GDP, 60% of revenue for the government, and 90% of earnings from exports. With a reported 872 trillion cubic feet, Qatar has the third largest proven reserves of natural gas in the world (exhibit 19) and almost all of its reserves are in the north field that has the highest deposits of natural gas in the world. Qatar holds the thirteenth biggest oil reserves known in the world today.<sup>122</sup>

Qatar is one of the top dry natural gas producers (behind the United States, Iran and Russia), but currently the major export of LNG in the world. Besides, it is in the process of producing gas-to-liquids (GTL) with the largest GTL facility throughout the globe. The country's growth for production of natural gas especially since 2000 has enhanced the country's total production of liquid oil and other oil products.<sup>123</sup> The country is one of the smaller crude oil exporters within the OPEC member states. However, the increase in manufacture of non-crude liquids, particularly the by-products of natural gas, contributes significantly to the growth of liquid gas. The country's lease condensate and crude oil production ranks position 17 throughout the world with most of the products sold abroad as export. The Barzan gas project worth \$10.4 billion is expected to boost the national gas production.<sup>124</sup> The project encompasses offshore and onshore

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<sup>121</sup> Ibid

<sup>122</sup> Fisher, Sidney N. 1990. Op Cit

<sup>123</sup> Ibid

<sup>124</sup> Sindelar, H. Richard, III, and John E. Peterson (eds.) 1988

developments including offshore pipeline, gas processing plant and other types of platforms. At the time of establishment, which was in 2011, it was expected to start operating in 2016 as per the announcement that was made by ExxonMobil in conjunction with the national government.

As Qatar's economy growth so does overall energy demand. Natural gas consumption has almost tripled between 2003- 2013 and continues to rise. Much of the consumption of natural gas is accredited to the electricity and water (desalination) sectors. Production has kept up demand at local level thereby the country is capable of exporting the excess gas. The last time for the government to raise gasoline prices for its citizens was in 2011 followed for an increase of the electricity tariffs in 2015.<sup>125</sup> Its vast emphasis on gas exports and natural gas reserves, likely make it one of the best placed GCC countries to weather the current fall in oil prices. Nonetheless, the impact of the frequent changes in oil prices is widely felt in the country due to over dependence on oil. In addition, despite forecast indicating price stability, the threats of inflations are high as the country prepares for the 2022 world cup. While the 2030 vision builds largely on revenue from oil resources, the vision is aimed at enabling the country to diversify its economy with private sector playing major role.<sup>126</sup>

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<sup>125</sup>Crystal, Jill. 1992. *Kuwait: The Transformation of an Oil State*. Boulder, Colorado: Westview Press.

<sup>126</sup>Qatar National Vision 2030, General Secretariat for Development Planning (2008), GSDP, Doha

## CHAPTER FOUR

### LESSONS FROM QATAR OIL INDUSTRY FOR KENYA

#### Introduction

This chapters outlines the major lessons that Kenya can learn from Qatar oil and gas industry. It provides an overview of the process that Qatar has taken to get to its current position that Kenya can take to overcome some of the main challenges facing the industry.

The current economic growth of the Qatar has a number of parallels. Notably, it neither emanated from the plentiful oils resources nor did it occur by chance. Of great importance is to note that many oil-rich countries do experience economic growth that Qatar experiences. One thing to note is that success in Qatar's case emanated from commitment of its visionary leaders who understood where they wanted to take the nation. Also, it emanated from rewarding relationship the government developed with international partners, and vigorous implementation of its policies. Nonetheless, the shifting geopolitics in the Arabian gulf and changing demand for oil in the international market also played important roles in its development.<sup>127</sup> This chapter explores lessons that can be lifted from the Qatari Oil management and governance for the application in the Kenyan case, Turkana oil discovery and development.<sup>128</sup>

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<sup>127</sup>Abulof, U. (2015) “Can't buy me legitimacy”: the elusive stability of Mideast rentier regimes’, *Journal of International Relations and Development*, February: 1-25

Al-Khatteeb, L. (2015) *Gulf oil economies must wake up or face decades of decline*, Brookings Doha Center, Doha

<sup>128</sup>Apergis, N. and Payne, J.E. (2014) ‘The oil curse, institutional quality, and growth in MENA countries: Evidence from time-varying cointegration’, *Energy Economics*, Vol. 46: 1-9

## **4.1 Lessons**

### **4.1.1 Creation of vital infrastructure to meet domestic needs and exploiting revenue from exports**

In the first phase of the development of its North Field gas resources, which got underway in the early 1990s, Qatar focused on meeting its domestic needs. But given the vastness of the resource, Qatar was fully aware that successful exploitation would require exports.

### **4.1.2 Top leadership commitment**

Top leadership commitment and perseverance, the creation of vital infrastructure, new openings for reliable gas supplies in the Far East, and successful partnerships with international oil companies eventually enabled Qatar to sell its LNG in bulk and at a profit in Japan (to Chubu Electric).

### **4.1.3 Value Addition and**

Having overcome these hurdles, Qatar never looked back. Over the next 15 years, it built a competitive LNG value chain with a global reach. Qatar succeeded by scaling up, integrating downstream and building a reputation as a reliable and flexible partner and supplier. In the late 1990s, and with an eye on expanding opportunities in the fuel transport market, Qatar turned its attention to opportunities to convert lean gas into clean-burning gas-to-liquid fuels (GTLs). Having overcome these hurdles, Qatar never looked back. Over the next 15 years, it built a competitive LNG value chain with a global reach. Qatar succeeded by scaling up, integrating downstream and building a reputation as a reliable and flexible partner and supplier. In the late 1990s, and with an eye on expanding opportunities in the fuel transport market, Qatar turned its attention to opportunities to convert lean gas into clean-burning gas-to-liquid fuels (GTLs).

#### **4.1.4 Calculated Risks and Partnership Strategies**

Taking measured risks, at a time when oil prices were low and GTL's commercial prospects were uncertain, Qatar broke new ground with its joint venture partners. Construction on Oryx GTL, the world's first commercial-scale GTL plant, began in 2003, and production came on stream in 2007. Work on the US\$ 23 billion Pearl GTL plant, now the world's largest GTL facility, started in 2007 and swung into production in 2011. By the late 1990s, production sharing agreements with international oil companies, and the application of horizontal drilling methods, had yielded substantial increases in recoverable reserves and reversed declines in production. Outcomes speak for themselves.

#### **4.1.5 Creating New Industries and Investing in Complimenting Industries**

Downstream, Qatar is building new industries from scratch, such as polyethylene, which add value to its low-cost feedstock. And though gas has now taken over the reins, oil continues to make a significant contribution to exports and to fiscal revenues. Qatar is now reliably serving global energy markets [2]. Large financial dividends have followed from Qatar's investments in oil and gas, and its macroeconomic achievements have been impressive.

Growth in oil and gas revenues has afforded higher living standards and rising consumer spending among Qataris. But a significant portion of hydrocarbon income has been saved, and the debts accumulated in the 1990s, as Qatar invested in its hydrocarbon's industry, have now been largely amortized. Qatar's generous surpluses have funded a range of investments. To meet the needs of a growing economy and larger population, Qatar has spent prodigiously on expanding and upgrading economic and social infrastructure. Qatar has also used its resources to hedge against uncertainty and to build a legacy for future generations.

#### **4.1.6 Sustainability**

Understanding the risks of tying expenditure on essential services to volatile oil revenues, Qatar established sizeable financial endowments early on to provide continuity and predictability of funding for health and education services. Realizing, too, that alternative forms of wealth creation would eventually have to replace finite hydrocarbon resources, Qatar Foundation (QF) was created in 1994 to expand opportunities in education and scientific research, and to promote community development. This was followed in 1998 by the establishment of Education City, a state-of-the-art campus and learning environment. Then, in 2005, the Qatar Investment Authority (QIA) was formed as the primary vehicle for state financial investment.

#### **4.1.7 Diversification**

Through the QIA, the state not only sought to accumulate funds for the future, but also to diversify the asset classes in which it invested. Even during the early extractive phase of its development, Qatar had started to venture beyond oil and gas. Then, in 2005, the Qatar Investment Authority (QIA) was formed as the primary vehicle for state financial investment. Through the QIA, the state not only sought to accumulate funds for the future, but also to diversify the asset classes in which it invested. Even during the early extractive phase of its development, Qatar had started to venture beyond oil and gas. Qatar Airways, the national flag carrier, started from modest beginnings in 1994, and was re-launched in 1997 under a new ownership structure and management. The television news network, Al Jazeera, now a global media player, first broadcast in Arabic in late 1996. In 2004, Qatar Science Technology Park, a hub for technological innovation and commercialization was opened. It acquired status as a free-zone in 2006. Soon recognizing that information and communications technology would be integral to realizing a prosperous future, ICT Qatar, a regulator and development agency for the industry, was created in 2004. Top political approval of Qatar's National Vision 2030 (the Vision), launched in November 2008, marked a watershed. The Vision (GSDP, 2008)

superseded the twin-track (hydrocarbon development plus ‘‘pocket diversification’’) approach initially cultivated in the mid-1990s.

In relation to Qatar’s Journey to successful oil development, Kenya has a lot to learn. To begin with, during the first phase that started in 1990s, the state government focused its attention on addressing and meeting domestic demands. However, given the resources’ vastness, the national government understood that it would be prompted to export some of its oil to the international market. Nonetheless, plans to sell to the neighboring countries were not successful. As a result, the government worked around eliminating constraints that hampered the exportation of liquefied natural gas (LNG) for almost a decade.<sup>129</sup> Fortunately, after working around these constraints it was able to export its first oil shipment to Japan in 1997. This success was attributed to the commitment of the top leaders, perseverance, creation of the relevant infrastructure, partnership with international oils companies and new openings for gas supplies. Upon overcoming the constraints, Qatar did not bother to look back. It in the next fifteen years built a competitive LNG value chain with a global outreach. It scaled upward, built a reputation for itself and integrated downstream. Later in the 1990s, the state government turned its attention to converting lean gas into clean gas-to-liquid fuels (GTLs).<sup>130</sup>

At the time that GTL’s commercial prospects were not certain and oil prices low, Qatar learned to take measured risks by entering into joint ventures as a way of breaking new grounds. As a way of implementing this new business strategy, the government started constructing Oryx GTL, which was worth \$23 billion, in 2003 that started operating in 2007. Later on, it invested in a large-scale GTL facility in 2007 as soon as the other one started operating. The new facilitate started its operations in 2011 and gave the oil industry a new look after declining in

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<sup>129</sup>Crystal, Jill. 1992. Op cit.

<sup>130</sup>General Secretariat for Development Planning. (2011). Qatar National Development Strategy 2011-2016, GSDP, Doha

the 1980s. The new look was enhanced by the 1990s agreements that the government entered with international oil companies increased yields from recoverable reserves.<sup>131</sup>

Following the above ground breaking investments, Qatar is currently the main exporter of GTLs and LNG throughout the world. It is thereby constructing new industries to improve the value of its low-cost feedstock. And even though the gas business has become the country's main source of foreign currency, oil has continued to be an important contributor to its fiscal revenue and export business. Accordingly, it can be argued that Qatar has become a reliable supplier of oil resources to the global market.<sup>132</sup> Because of this, the country has continued to reap huge financial dividends from its immense investments in gas and oil businesses that have improved economic growth.

As a result, Qatar has from 2000 experienced significant economic development than any other nation in the world. The economic growth has resulted to higher living standards for the local people and enhanced spending index. At the same time, the government has been able to amortize the huge debts it accumulated in the 1990s and invest in other sectors.<sup>133</sup> The government has particularly spent huge sums of money in upgrading and expanding social and economic infrastructure to meet the needs of expanding economy and people in general. The government has also dedicated part of its national income to establish a legacy for future generations and hedge against market uncertainties.

Since Qatar understands the risks associated with pegging most of its crucial services to income from oil resources, which is highly volatile, it has set aside a considerable amount of its income from oil in its national reserves to guarantee the continuity of its education and health systems even at the time of economic hardships. The government has also created a foundation referred

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<sup>131</sup>Wietfeld, AM (2011) Op cit. Understanding Middle East gas exporting behavior. Energy Journal, 32(2), 203-228.

<sup>132</sup>Ibid

<sup>133</sup> Ibid



to as Qatar Foundation to expand opportunities in scientific research and education as well as enhance community development. In addition, it has established an education city with a state-of-the-art learning environment and learning institutions. Besides, it has invested heavily in the financial sector through Qatar Investment Authority (QIA) that was established in 2005.<sup>134</sup>

With the help of QIA, the state government does not only focus its attention on accumulating funds for future use, but it also focuses on diversifying asset investment. The government has also invested in air transport by initiating Qatar Airways, which serves as a national flag carrier. Besides, it has invested in an international television network, Al Jazeera, which went on air as an Arabic news network in 1996, but transformed later on to broadcasting in English. Also, it started Qatar Science Technology Park in 2004, which was back then an innovation hub for technology.<sup>135</sup> Later on, it became a free-zone in 2006 soon after the government realized that technology would be a critical component in global development. Moreover, the government initiated a financial center authority in 2005 to promote financial services in the country. Other important institutions were also developed during this period.

The constitution that was publicized in 2004 was focused on promoting development thereby it defined principles that guided the process of regulating state and its respective institutions. Those principles guaranteed citizens rights to own properties, established grounds for giving state government control over oil resources and promoted economic freedom among the members of the public. Due to this there were important institutional reforms that were implemented in the oil industry and throughout the state. The national university for instance was granted independence from the central government thereby was able to strengthen research activities. In addition, the education sector was reformed to once a supreme education council was constituted in 2003 the lead the reform process and oversee the implementation of an

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<sup>134</sup>Wietfeld, AM (2011) Op cit.

<sup>135</sup> Ibid

independent school model whose aim was to promote accountability and extend choices to learners.<sup>136</sup>

Due to immense changes that boosted economic growth, the national population doubled between 2000 and 2007 because people from other parts of the world were settling in the country to provide labor force. Owing to this fact, the local people were becoming the minority group in their own country. Consequently, there was a challenge in preserving the local traditions. The expanding population equally put strain on environment and natural resources. The public facilities were thereby unable to accommodate the high demand because the intake of the foreigners was more than the country through its readily available resources could handle.<sup>137</sup>

The government responded by proposing major reforms in public sector in 2008. The aim was to rationalize government and improve the quality of services offered by public officers. During this time, the country experienced high levels of inflation due to the high demand for the few products and services that the economy could offer. At the top of the 2008 global financial crisis, the inflation level in the country was at 15%.<sup>138</sup> Consequently, even though the government had tried to plan its budget in line with conservative oil prices that had been projected before, public spending was however affected by the crisis thereby it moved in sync with revenue and oil prices. This trend affected some of the agencies such as public works department, which acted as a spending agency.

Private sector was also affected significantly by the crisis because it had to cope up with unpredictable challenges in the market. This was the case because even if the diversification exercises adopted earlier on were able to meet the set goals, they were bound in some way

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<sup>136</sup>Forbes, A (2011). Pearl promises a new dawn for GTL. *Petroleum Economist*, 78(2), 2 p.

<sup>137</sup>Al-Amoodi, A, Felton, KC, Kasim, K, Whitehead, M, & Kouki, K (2011). Leveraging a common infrastructure to support Qatar's rapid LNG expansion. *SPE Projects, Facilities and Construction*, 6(3), 145\_154.

<sup>138</sup>Al-Amoodi, A, K (2011). *Op cit*.

because they lacked links with each other, they depended highly on labor force from outside the country and they did not pervade into the wider society. As a result, the unifying national vision needed to support cohesive national efforts that were yet to emerge and develop. In response to these challenges and the need to promote cohesiveness, the government established the General Secretariat for Development Planning (GSDP) in 2007 whose mandate as to provide strategic leadership and fresh thinking on matters related to national development.<sup>139</sup>

The effort was cemented by the approval of the national vision 2030 that was launched in 2008. This vision superseded the twin-track approach of pocket diversification that was launched in the mid 1990s.<sup>140</sup> The vision contrary to other activities carried out before, defined the direction the country intended to take thereby signaled the choices that the government was committed to making and taking. This re-affirmed some of the commitments that were enshrined in the constitution that was launched in 2004. It particularly re-affirmed the government's commitment to a safe and just society and providing all people with equal opportunities. This introduced the idea of sustainability prosperity that was interpreted as necessary in the preservation of wealth and creating a legacy for the future generations.

In broad terms, the vision established extensive social, human, environmental and economic sustainability attributes besides emphasizing interdependence. This addressed the question of sustainable development that had been introduced for the first time in March 2011 as a form of national strategy.<sup>141</sup> Although the then strategy and vision 2030 provided development framework, they required extensive transformations. Currently, the leadership is committed to implementing the proposed changes thereby the vision is beginning to bear fruits as expected. In addition, it is supported by business processes that align themselves to the broader vision,

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<sup>139</sup> Ibid

<sup>140</sup> First cargo of Pearl GTL products ship from Qatar (2011). Oil Gas European Magazine, 37(3), 116.

<sup>141</sup> Ibid

efficient coordinate in the government, discipline control, sufficient budgetary allocations and tools and incentives streamlined towards promoting growth.

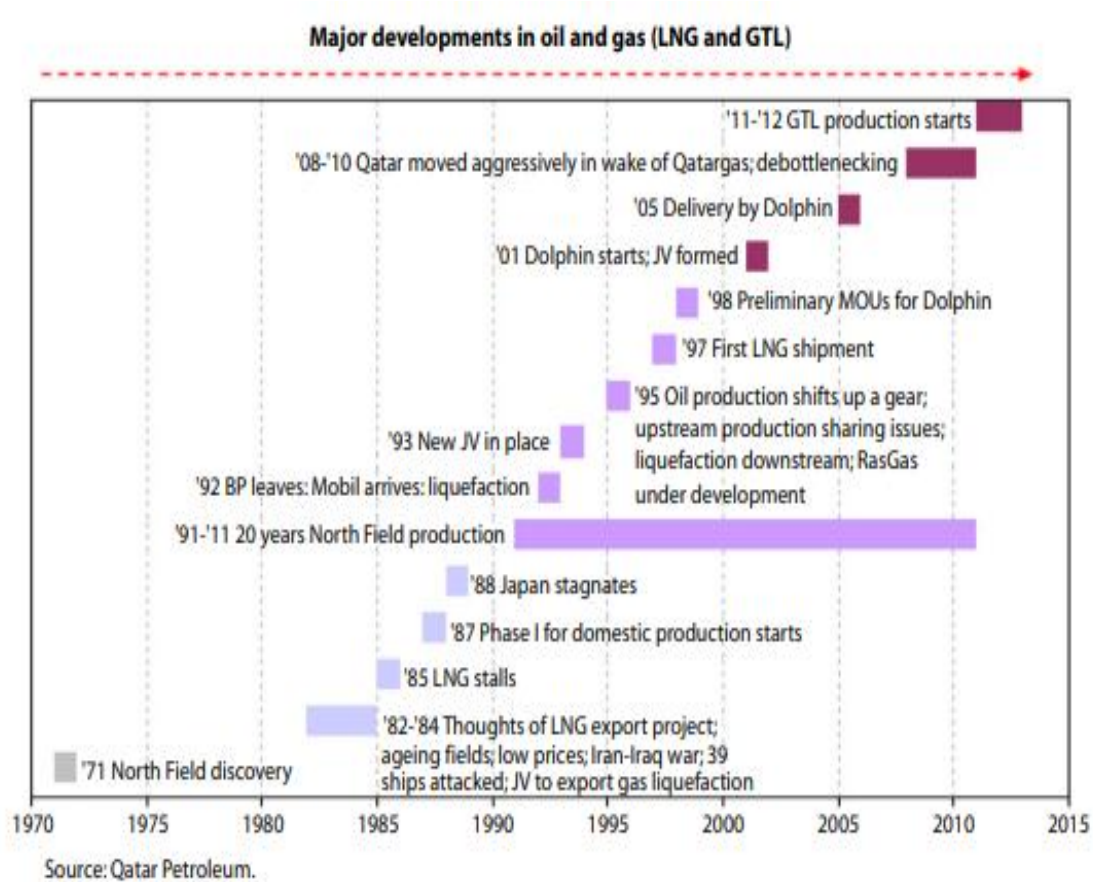
The 2011's strategy provides the benchmarks for measuring the success of the visions 2030. It monitors the process on periodic and continuous basis; a process that enhances learning, mid-course adjustments and refinements. Economically, if Qatar is to achieve sustainable development it must invest in graduates with good backgrounds in mining activities and improved efficiency in production processes. Once these components are embedded into the economy, diversification opportunities will widen and goals aimed at creating and harnessing knowledge assets will advance as well. So far, the government has made significant progress that has achieved much within a short time, but a vibrant economy as anticipated require more time because the mindsets, institutions, capabilities, networks, infrastructure and incentives needed to propel such an economy necessitate time to develop.

The North Field, which is the largest reservoir in the country, was discovered in 1971. Throughout the world it is considered the major reservoir for gas field in relation to the estimates of over 900 trillion cubic feet of gas as it was the case in 2009. This accounts for 14.3% of the conventional gas reserves in the world, but extensive efforts to exploit the reservoir did not start until mid-1980s.<sup>142</sup>

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<sup>142</sup>Al-Amoodi, A, K (2011). Op cit.

**Figure 4.1: Major developments in Qatar’s oil and gas since 1971**



**Source: Qatar Petroleum**

Figure 3 provides a timeline for the major developments made in the country since the North Field was discovered in 1971 through 2015, when Qatar’s Barzan project was completed. It highlights some of the major activities the government undertook to enhance the extraction of oil in the country.

At the start, gas supply from the reservoir was able to meet domestic demand even though it did not match export needs. Nonetheless, at this time gas was not considered to be a valuable resource thereby most of it that was extracted from oil was burnt through industrial processes rather than exporting it. Consequently, there was a lot of skepticism locally and internationally about the viability of gas available in the North Field. For this reason, the financial resources required to exploit gas reserves were not made available by the government to the relevant

authorities and people. However, during the early 1980s, the situation changed slightly when people started appreciating the importance of gas resources even though the exploitation of the North Field was delayed a bit by a variety of factors.<sup>143</sup>

The dominant view was that even though the reservoir could be exploited to meet local demand for gas, the process of exporting LNG would be economically and technologically unviable. Nonetheless, by 1984 a strategy to export it in that form had been developed and identified as viable. This was facilitated by joint venture with international partners that could oversee the transportation process. This led to implicit intentions of the government to exploit the field. However, the national government had to overcome the challenge of marketing the commodity in far-off markets.<sup>144</sup>

Between 1985 and 1997 when the first shipment of liquid gas was transported to Japan, the Qatar government had to battle with a lot of challenges some technical, logistical, and infrastructural whereas others were financial and others market related. In addition, geopolitics and ever changing demand for energy also affected the process in some way.

Because of the above challenges even though natural gas is an efficient source of energy in comparison to oil, it only plays a subsidiary role for the reason that it costs a lot of money to transport it and market has not to enhance its demand.<sup>145</sup>

The existing technologies in various transport industries also hamper the full utilization of gas in air and road transport sector. These factors have in the past influenced the prices for oil and gas in both ways. As a result, the gas price has been considerably lower than that for oil because

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<sup>143</sup>Abulof, U. (2015) “‘Can’t buy me legitimacy’: the elusive stability of Mideast rentier regimes’, *Journal of International Relations and Development*, February: 1-25

<sup>144</sup>Apergis, N. and Payne, J.E. (2014) ‘The oil curse, institutional quality, and growth in MENA countries: Evidence from time-varying cointegration’, *Energy Economics*, Vol. 46: 1-9

<sup>145</sup> Al-Khatteeb, L. (2015) *Gulf oil economies must wake up or face decades of decline*, Brookings Doha Center, Doha

of the energy content.<sup>146</sup> Currently, a barrel of oil has six times of energy that 1 million British thermal unit of gas has. At the same time, the price of gas has over the years tended to follow that of the oil.

During the mid 1990s, Qatar's vision was to take advantage of the GTL by using it to hedge oil prices and exploit the opportunities of the gas resources. Back then, the market risks were significant; thus, commercial activities in GLT required substantial scaling up of the plant's size. Nonetheless, there were only two GLT projects in the country that were on the pilot stage. Given the huge sums of money that were required to get the plant started, then there was the need to sell oil at high prices (because then a barrel was at \$20) so that the project could break even. In the light of such an environment, the government evaluated a number of proposed projects that had been forwarded by the oil companies particularly Pearl GTL and ORYX GTL between 2000 and 2004. ORYX GTL was a joint venture of South African based company known as Sasol. After considering the proposals, it awarded the project to ORYX GTL that began constructing the plant in 2003 and finally started operating in 2007 with a capacity of producing 34,000 GTL's barrels on annual basis. Another project was also awarded to Pearl GTL and it was between Shell Company and Qatar Petroleum. The project was also able to scale up its production process thereby at the time it was on a large-scale basis.<sup>147</sup>

At that time, the Pearl's project was at a capacity of 140,000 barrels per day producing premium GTL products such as naphtha, diesel and kerosene. It could as well deliver a total of 120,000 b/d of liquids for instance ethane, LPG and condensate. The project's such could be attributed to the state-of-the-art technology the company was utilizing to conduct most of its projects thereby it was among the largest plants in the world. Although the project was commenced in 2006, it shipped its first consignment to the international market in the mid 2011.<sup>148</sup> Nowadays,

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<sup>146</sup> Qatar National Bank, Qatar Economic Insight 2015,p 12

<sup>147</sup> Ibid

<sup>148</sup> Auty, R. and Warhurst, A. (1993) 'Sustainable development in mineral exporting economies',

because oil prices are high though the gas prices are relatively low following the introduction of the shale gas from USA, the market for GTL in the international market is a bit promising thereby there is hope for the country's new business. The success that the country has made into the energy market with the help of GTL guides the prospects for exploiting gas resources despite acting as a testimony to the leadership. No wonder, Oil Qatar is currently and will continue to be the major producer of crude oil in the Gulf Region and other neighbouring regions.

The oil production business in Qatar reached its peak in 1970s with a peak of about 500,000 b/d, but as the fields started depleting production reduced to 300,000 b/d in 1987. As a result, the exploration exercises proved unprofitable thereby the process was stopped for some time. Following the changes that were made to address some of the challenges, profound changes were made in the country's oil industry in 1990s. Subsequently, the processes of exploring, appraising and developing oil products were condensed into Production Sharing Agreements (PSAs) in certain fields. This strategy that engaged International Oil Companies (IOCs) through PSAs was a major deviation from the former strategies, but was in line with OPEC's directives and policies. The government felt that such practice was necessary among the fields that were considered difficult to develop and costly to manage. Despite the changes, Qatar Petroleum retained its control over three major fields in the country. The intention was to retain the profitability of the industry in the midst of possibilities of some fields drying up. Nonetheless, because of its attractive returns and terms, Qatar was able to attract competent partners. One of such successful ventures was with Al-Shaheen that started producing oil in 1994.<sup>149</sup>

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Resources Policy, 19(1): 14-29

<sup>149</sup>Bahgat, G. (2011) Sovereign wealth funds in the Gulf - an assessment, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, LSE, London



The venture with Al-Shaheen was able to deliver huge offshore reserves in the country. It was then followed by Idd El Shargi dome field in south and Al-Rayaan in 1996. Others that followed were A-Structures in north field and Al-Karkara that started operations in 2005. Following the initiatives, the production of crude oil in the country more than doubled in the 2000s with total production standing at 682,000 b/d: 36% coming from PSA-developed fields. This was a major achievement for the government given that no such venture was ever experienced in the country before 1994.<sup>150</sup>

The PSA projects proved profitable for the country given that by 2005 their output had risen gradually to match the 50% of the total output. Al-Shaheen field at that time was at its peak of 300,000 b/d whereas Shargi's northern dome was at 100,000 b/d. From that time, production has been within this range. Even though most of those fields are under PSA agreement, the credit for success belongs to Qatar Petroleum that has exercised cautious control over reserves all along. A major transformation in the company's strategy took place in 2005 when the company changed its management approach to address any possible production challenge.<sup>151</sup>

In spite of the above, the company has all along been provided with resources and technical support it required by the government. The major transformation helped the company to re-assess most of the reservoirs so that they could sustain the long-term production prospects that had been developed right from the start. Accordingly, it is so encouraging to see that some reservoirs such as Bul Hanin have been able to meet their goals and even exceed them.

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<sup>150</sup>Beblawi, H. (1987) 'The Rentier State in the Arab World', in Beblawi, H. and Luciani, G. (eds) *The Rentier*

<sup>151</sup> Ben Ali, M. S. (ed) (2016) *Economic development in the Middle East and North Africa: challenges and prospects*, Palgrave Macmillan, London

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### Introduction

This chapter concludes the study by providing a summary of the main findings and recommending the few changes that the Kenyan government can make to enhance the oil drilling process in Turkana County and any other part of the country that might discover oil in the future.

#### 5.1 Summary of Findings

Majority of the local people who participated in the study claimed that their main grievance against oil drilling activities in the county was lack of job opportunities for the local people. This was followed by land compensation issues that most of them felt that the oil company had not done enough to compensate them for the land that was taken for extraction activities. Although pollution was not a main issue, it was cited by a few of them suggesting that if the government does not take the necessary measures to ensure that Tullow Oil Company does not pollute the environment, it might be a major issue in the future. For this reason, the government should act early enough by developing the relevant environment related laws to ensure that Tullow oil and any other oil company that might engage in oil drilling activities in the country would not pollute the environment like Nigerian-based companies have done.

**Table 5.1.: The participants' grievances against government and Tullow Oil**

Grievances				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Job Opportunities	51	63.8	63.8
	Land	21	26.3	90.0
	Pollution	8	10.0	100.0
	Total	80	100.0	

In relation to the promises that the government made to the local people before the oil drilling process started in the county, majority of the people felt that the government had not built schools, hospitals and roads as it had promised them right from the start. In addition, they felt that the government was not doing anything to address their grievances despite promising that it would look at their issues in various meetings they held with Tullow Oil. Accordingly, most of them did not think that the government was committed to fulfilling its promises.

In spite of the above, the government officials who participated in the study claimed that the government had done much to safeguard the interests of the local people. This was in spite of the fact that local people had protested transportation of oil from the county to Mombasa. They claimed that the government was following the constitution in sharing and allocating resources thereby the interests of the local people were safeguarded. In addition, they claimed that natural resources fell under the national government thereby it was rightfully executing its mandates at the interests of the local people and Kenyan citizens in general.

**Table 5.2: Promises that government has not honored**

**Promises Not Honored**

	Frequency	Percent	Valid Percent	Cumulative Percent
Schools	30	37.5	37.5	37.5
Hospitals	25	31.25	31.25	68.75
Roads	25	31.25	31.25	100.0
Total	80	100.0	100.0	

In relation to their grievances, the participants were asked to highlight their greatest fears against the oil drilling activity. Most of them (31.25%) said that they feared that they might lose grazing land for their livestock. While other issues are pertinent, it is evident that grazing land remains important to the local people. As a result, the government needs to do more to

safeguard the interests of the local people. Others said that they feared that their land would be taken by Tullow Oil Company without being compensated as the company did before. Others claimed that they feared that they might not benefit directly from the drilling activity. Because local people attach significant interests on community land, the government should ensure that Tullow oil does not take land without observing due diligence and following land laws in the country.

**Table 5.3: The participants’ greatest fears in relation to oil drilling**

**What is your greatest fears against oil drilling activity**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Losing grazing land	25	31.25	31.25	31.25
Land being taken away	20	25.0	25.0	56.25
Lack of direct benefits	20	25.0	25.0	81.25
Pollution	15	18.75	18.75	100.0
Total	80	100.0	100.0	

### **5.1.2 Content Analysis’ results**

In spite of the grievances that research participants raised against the government and Tullow Oil Company, the government officials together with officials from Tullow oil who participated in the study claimed that the necessary measures had been put in place to compensate local people and safeguard their interests. The government officials acknowledged that the environment laws in place were sufficient to address any pollution concern that local people might have against Tullow Oil. In addition, they acknowledged that the government was committed to fulfilling the promises that it made to the local people in 2012, but the process

was taking place according to budget allocations. Given that majority of the local people lack high levels of education, thereby there is need for the government to educate them the process followed in fulfilling promises made by the government. Otherwise, the people might remain unaware of the process followed thereby continue to express their dissatisfaction with the process whereas the government is committed to fulfilling its promises.

In relation to land compensation issue, they claimed that there was a land commission institution mandated with land issues thereby such issues needed to be addressed to that body. The Tullow Oil officials, on the other hand, claimed that they were committed to protecting the environment and safeguarding the interests of the local people. Accordingly, anything that was supposed to be observed right from the start of the process was observed. Nonetheless, they acknowledged the fact that the company was not able to hire many people from Turkana County because majority of them did not have the requisite job qualifications. Besides, they acknowledged that the company could not hire local people on rotational basis as local people had suggested the company should do.

## **5.2 Conclusion**

Overall, it appears that the necessary mechanisms have been in put in place, but the local people do not understand some of those measures. While the government should sit back and relax because it has done much as far as it is concerned, local people will continue to express their dissatisfaction with the process so long as they do not understand what the government has done or doing to address their grievances. For this reason, there is need for the government to make sure that local people understand the steps it is taking to safeguard their interests and benefit them. In addition, Tullow oil should make effort to make the local people understand that it cannot hire all of them or even hire them on rotational basis because of the high skills required to handle the drilling exercises.

## **5.3 Recommendations**

Based on the above findings, the study recommends the following.

### **5.3.1 Strengthening Institutions**

The study demonstrates without exemption that nations that manage to outwit the resource curse tend to develop superior organizational settings that enable them to overcome political interference. Additionally, it demonstrates that weak institutions tend to misappropriate resources by allocating them inefficiently. It is general knowledge that the quality of economic and political institutions plays an important role in the management of natural and other types of resources. The Nigerian delta case is a good example of the way corrupt deals can misappropriate resources and disappoint the process of resource sharing. Given that governments tend to be overwhelmed by wealth if they do not have institutions in place to manage resources effectively, Kenya should take precautionary measures to overcome such challenge.

### **5.3.2 Policy Reforms**

The institutions, laws and policies that govern mining industry in Kenya ought to be revised to address the current challenges and those anticipated in the future. Kenya needs a shared vision of how development of oil/gas and minerals should occur at county level by building on experiences from other parts of the world. The government should develop bills that define the role and mandate of each party that would be involved in the extraction of oil. In addition, it should clarify the role that local institutions would play, establish relationships among those institutions and define the role of county government if any in the management of oil activities. More importantly, it should develop environmental laws that would govern companies that would extract or even transport oil, define roles for various stakeholders, and establish measures aimed at protecting the vulnerable people in the region.

Besides the above, it should develop economic policies on the management of public finances to address the possible volatility of the revenue that would be acquired from oil. This would involve determining the way financial resources would be allocated especially with the help of the new devolved system of governance. This might involve the devolution of certain responsibilities to the county government thereby it would be necessary for the relevant people to be held to account and trained to manage resources effectively.

### **5.3.3 Managing Local Expectations**

So far the government has not taken any deliberate attempt to identify the expectations and opinions of the local people who obviously will be affected by the project in the future, and if it has done so, majority of the people do not feel represented. Given that the local people have varied expectations as witnessed through the media and the above findings, then it is likely that they will react negatively in the future when the exercise is conducted in full force. Based on this fact, the government should move with speed to identify the expectations and opinions of the local people in relation to the ongoing oil extraction exercise before it kicks in full force and address those expectations. Doing this would help the government to address the oil issue in the country with the attention it deserves thereby solve possible protests that might emerge in the future.

In doing the above, the government with the help of Tullow Oil should provide the local people with information regarding the process on a continuous basis. The government should understand that even if it is mandated by the constitution to manage all natural resources in the country, local people are important stakeholders in the management of those resources. Accordingly, it should not use excessive force to control those resources without making sure that local people understand what is going on in their management. In this respect, it should hold regular meetings with local people to inform them the progress it has made in implementing some of the promises it made before. Otherwise, local people are likely to pile up grievances for lack of information and finally engage in protests that will disrupt the drilling

process as it has been the case in Nigeria that other than engaging local people in the management process uses military force to intimidate local people.

#### **5.3.4 Safeguarding the interests of the local people**

The government should ensure that local people feel secure in its hands than they do elsewhere. In this case, although it should not engage in competition with county government, it should ensure that local people understand that it is its mandate under the constitution to manage natural resources for their benefits and the benefits of the country as a whole. Accordingly, it should not sit back and let county government appear as though it is the one responsible for the management of oil resources in the county. Of great importance would be to note that majority of the people living in the county are uneducated thereby it should not allow politicians and interested parties to misguide them by inciting them. The government can only address this issue by engaging local people in public forums on regular basis to ensure that they understand the progress made to manage oil resources effectively. Accordingly, it should engage in multi-stakeholder dialogue on regular basis as a way of reducing tension among local people and building trust by investing in them. Doing this would go a long way in managing expectations from local people including their political leaders.

#### **5.3.5 Support from government officials**

Since government officials especially the cabinet secretary in charge of the ministry of energy and petroleum together with the national parliament are involved extensively in the award of oil contracts in the country, it would be important for them to understand from Qatar's case study that their commitment will be critical in the success of the Kenyan case. As a result, they should handle the process with care and due diligence that it deserves without over emphasizing their personal gains out of the resource like it has been the case in the country as witnessed in different ministries such as National Youth Service (NYS) and in various parliamentary committees such as agriculture in the recently concluded sugar saga.



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## APPENDICES

### Appendix A

#### For government officials

1. From the time the process of drilling oil in Turkana County started, have you ever experienced any form of violence emanating from the exercise especially between Tullow Company and local people?
2. If you have ever experienced any form of violence, what do you think has been the cause of such violence?
3. What do you think the national government need to do to eliminate such violence?  
Please explain.
4. What do you think the Tullow Company ought to do? Please explain

*Thank you*

## **Appendix B**

### **For the local people**

What is your name? \_\_\_\_\_

What is your gender?

1. Male
2. Female

Do you live in this county?

1. Yes
2. No

What is your highest level of education?

1. No education
2. Primary
3. Secondary
4. College
5. University and above

Are a Kenyan citizen?

1. Yes
2. No

If no, terminate the interview by thanking the interviewee.

Are you aware of any oil drilling activity in this county?

1. Yes
2. No

If yes, do you think the process has been going on well?

1. Yes

2. No

If no, why is the process not going on well? Explain \_\_\_\_\_

What is your grievance against the government and Tullow Oil Company?

1. Lack of job opportunities in the company
2. Land related issues
3. Pollution
4. Others (specify) \_\_\_\_\_

Did the government promise the community to do anything as a form of compensation?

1. Yes
2. No

If yes, what did it promise?

1. To build schools for the community
2. To build hospitals for the local people
3. To build roads
4. Others (specify) \_\_\_\_\_

What has the government not honoured?

1. Building schools
2. Building hospitals
3. Building roads
4. Others (specify) \_\_\_\_\_

What do you fear most about the oil drilling exercise?

1. Losing grazing land

2. Lad grabbing
3. Pollution
4. Failing to benefit from oil activities directly

What do you think should be done to improve the oil drilling exercise? \_\_\_\_\_

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*Thank you*

## **Appendix C**

### **For officials from Tullow Oil Company**

1. From the time the process of drilling oil in Turkana County started, have you ever experienced any form of violence emanating from the exercise especially between Tullow Company and local people?  

Yes

No
2. If you have ever experienced any form of violence, what do you think has been the cause of such violence?
3. As a company what have you done to do to eliminate such violence? Please explain.
4. What do you think the government need to do to suppress such violence from local people? Please explain
5. In the past, have you been able to hire many local people from the neighbouring region?
6. How have you employed them

***Thank you***