Press Release July 5th 2017, Nairobi

Government Halts Early Oil Pilot Scheme

The Kenyan Government has indicated its intention to temporarily halt the Early Oil Pilot Scheme (EOPS). The Scheme, which was initially supposed to begin in June 2017, has failed to take off due to various reasons related to unpreparedness including; infrastructure upgrade delays and security concerns. The EOPS was ostensibly aimed at testing the market and providing early lessons for the development of Kenya's petroleum sector.

The Kenya Civil Society Platform on Oil and Gas (KCSPOG) in its October 2016 report that argued against the EOPS based on a number of reasons. The Platform's research indicated that neither Tullow nor the government would generate any significant economic benefits as the scheme would largely be characterised by small export volumes and high transport costs. The use of an Early Oil Pilot Scheme is not necessarily standard practice in the petroleum development. Indeed, Uganda, where Tullow used to have a stake in one of the blocks, abandoned plans for an EOPS. Transporting oil by trucks and rail is certainly more expensive than transporting it via a pipeline.

In the aforementioned report, KCSPOG had identified risks to the Early Oil Pilot Scheme and these included;

- Election related violence in some counties through which the trucks would have to pass, heightening the risks associated with blocked roads and sabotage of the tankers
- High and unmet expectations from the local communities, particularly given the nascent conflicts that emerged around revenue sharing between national and sub-national governments during the national debates on the Petroleum Bill
- Poor infrastructure development that would require a substantial investment in upgrades and development

The government has reportedly abandoned the scheme and has indicated that this would only be revived once the Petroleum Bill is passed, but with the expectation that this would be done in September. The KCSPOG contends that there remain serious risks to the pilot scheme notwithstanding the government's plan to halt it.

It is difficult to determine when the Petroleum Bill will be passed as Parliament and its committees, may only be fully constituted in September, after the 8th August election. It may very well be too optimistic to imagine that the new National Assembly would then pass the Petroleum Bill in September to allow for the EOPS to begin in September. This is particularly so given the fact that one of the issues that had held up the passage of the Bill is disagreements around the revenue sharing model between national government and county governments. After a general election, a Bill has to begin its passage through Parliament afresh. And the constitutional requirement of public participation must not be overlooked. Indeed, many Kenyan legislation's are passed hurriedly without careful drafting and proper consideration of public views and contributions.

The risks of community protests, poor infrastructure and unmet expectations also remain as the delay in kicking off the EOPS does not address the root causes and in any case, only staves off the EOPS by two months. It is hard to imagine that the infrastructure and security concerns will have been addressed by September 2017.

If the EOPS proceeds without the government taking a lead in addressing the risks, far from providing an opportunity to test the market, the scheme would dampen international markets' confidence in Kenya's petroleum industry. It is important to note that Tullow had already awarded contracts for transportation and other related services. The implication of this sudden halt of the EOPS is not immediately clear and the losses accruing from the same.

The KCSPOG calls on the government to;

- Reconsider the Early Oil Pilot Scheme through a well thought out cost and benefit analysis that takes into account the targeted production levels and the oil price. The government should instead concentrate on full field development as the EOPS, aside from 'testing' the market, is not economically viable.
- Finalise the Petroleum Bill through a process that ensures effective participation of the public , local communities and county governments
- Publicly disclose any production sharing contracts related to full field development and the EOPS. This would assist in managing the expectations of the local communities and the national citizenry
- Work with Tullow, county governments and CSOs to ensure meaningful public participation in decisions on EOPS as required by law on the EOPS and its potential impact on the local community

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