

1.0 Introduction

Natural resources are useful raw materials that we get from the Earth which occur naturally, they are not man-made and instead, we use and modify natural resources in ways that are beneficial to us. Some examples of natural resources include oil, coal, minerals, natural gas etc.

In Kenya, mining is primarily for production of non-metallic minerals encompassing industrial minerals such as soda ash, fluorspar, kaolin and gemstones. However, Taipan, Tullow Oil, Africa Oil presence amongst other oil and mineral explorers in Kenya has been driven by the opportunity to obtain exposure to a world class Tertiary oil exploration play. Kenya has a huge mineral potential but its exploration efforts have only picked recently with the awarding of commercial licences in prospecting for oil, gold, coal, geothermal and rare earths.

2.0 History of Oil and Gas exploration in Kenya.

Petroleum Exploration in Kenya begun way back in the 1950`s with British Petroleum (BP) and Shell being the first oil companies to explore oil prospects in the Country. Their first attempt was in Lamu Embayment where they drilled ten wells and unfortunately, none of the wells were fully completed for production despite several indications of oil staining and untested zones with gas shows.

Further attempts were made in 1975 and several consortia acquired acreage in upper part of Lamu Basin. Texas Pacific drilled Hargaso-1 in 1975 and encountered oil and gas shows in the Cretaceous rocks. In 1976 Chevron and Esso drilled Anza-1 and Bahati-1 wells in the southern part of Anza Basin. Between 1985-1990, the Government of Kenya got into a joint venture with

Petro-Canada International Assistance Corporation to conduct seismic work and consequently, Kencan-1 was drilled to test deeper strata on the structure adjacent to Garissa-1 well. Since then, a number of companies have been involved with examples of Amoco who drilled Sirius-1, Bellatrix-1, and Chalbi-3 and also Total who drilled Ndovu-1, Duma-1 and Kaisut-1

Kenya's run of geologic luck continues, following the announcement of the country's fourth consecutive discovery of oil by the UK's Tullow Oil and Canada's Africa Oil in Turkana.

Similarly, while activity in the natural gas sector is proceeding at a slower pace, following the recent departure of one explorer, the outlook for new finds is promising.

2.1 New wells

Tullow and Africa Oil, which are joint partners in the exploration of the East Africa Rift Basin, have noted that drilling revealed oil in the Auwerwer and Upper Lokone sandstone reservoirs will bring their total discoveries in Kenya to an estimated 300m barrels.

Tullow and Africa Oil have exploration licences for 12 blocks and have identified 10 additional leads and prospects. They plan to drill 12 wells over the next year. Meanwhile, there is continued activity around the existing licences. The UK's Premier Oil recently bought into an exploration project through a deal with Taipan Resources for Block 2B, which contains the Pearl prospect, with its potential for 100m barrels. Upstream investment in oil production, already at \$1bn a year excluding exploration, is expected to grow 60% per year through 2018.

2.2 Titanium

Apart from Oil and natural gas, as mentioned earlier, there are also other mineral deposits in Kenya that include gold, silver, copper, lead, graphite and precious stones. Kenya also joined mineral exporters with export of 25,000 tones of Titanium to China which left from Mombasa on 13th February, 2014. Kenyan Subsidiary of Australian Company Base Resources has since been given the export licence. It has also been reported that there are 3.2 billion tones of Mineral deposits available in Kilifi, Coastal Kenya.

3.0 Key Players and Interest from Foreign Investors

The Oil discovery in Turkana has led to major international interest in Kenya's remaining oil exploration licences, including from France's Total, China National Offshore Oil Corporation, ExxonMobil and Chevron. We already have UK's Tullow Oil, African Oil and Taipan Oil on the ground.

Kenya has 46 blocks, of which 44 are licensed to 23 exploration companies. The government plans to create and offer seven new blocks in the near future. Titanium mining is also being done an Australian Company base Resource.

Investment into Africa's burgeoning oil and gas sector is expected to rise in coming years as big oil companies and foreign investors from the US, Europe and Far East finance existing and new projects in the continent. According to Keith Hill, CEO of Canadian oil and gas exploration company Africa Oil Corp, foreign investors are excited by the "growth in Africa" and this would mean that there are positive prospects in the region.

4.0 Commercial Potential & Economic Impact

Kenya is headed to become the first oil exporter in East Africa, moving in less than five years from being a have-not nation to the regional leader in cutting reliance on energy suppliers such as Royal Dutch Shell Plc. Tullow estimates it has found more than 300 million barrels of oil equivalent resources after making three discoveries in Kenya's South Lokichar Basin. In February, Twiga became the first well in Kenya to produce oil at a commercially viable rate and has the potential to produce 5,000 barrels a day.

Keith Hill, the Chief Executive of Canadian oil and Gas Exploration reported that Africa Oil was offered US\$930m by investors when seeking funding while it only wanted to raise \$450m. That shows a lot of interest and prospect in not only Africa oil as a company but also Kenya as the source. There has also been consistent interest from companies from the US, from Europe, China and from the Far East.

The U.K.'s Tullow Oil and Canada's Africa Oil have found crude at two wells in the Rift valley which they are working on and plan up to 11 more test wells. The valley could yield 10 billion barrels, Tullow estimates, enough to supply Kenya for three centuries. Kenya is set to start shipments in 2016, overtaking neighboring Uganda which had discovered oil earlier on.

Following the Turkana discovery, the government switched to a production sharing contract (PSC) model for oil discoveries to replace its prior practice of collecting 3% royalties on natural resources. Oil production will also be subject to a 42% corporate tax on net profits in addition to the PSC arrangement

Exports will underpin Kenya's shilling currency and are being pushed by a government that wants a lead on Uganda and Democratic Republic of Congo, whose East African resources in recent years attracted explorers such as China's Cnooc Limited and France's Total SA. Most oil companies traditionally had focused on the African powerhouses of Nigeria and Angola to the west, and Libya and Egypt on the Mediterranean.

Oil will allow Kenya to diversify export earnings and act as a catalyst for infrastructural spending, especially on the transport network. The shilling is expected to benefit from inflows of foreign exchange and reduced spending on fuel imports.

5.0 Possible impacts of discovery of oil and other natural resources on Kenya's Foreign Policy

Oil is a principal agent of political problems and as of now, Kenya doesn't have institutions and if there are, they are weak to provide accountability and constrain government and more so in this matter, the multinationals. They therefore cannot prevent collusion with other large oil companies, corruption, political patronage, lower capacity for investment, increased authoritarian and even civil conflict

Considering that Kenya so far imports all its fuel, almost 80,000 barrels of oil a day at a daily cost of more than \$8 million and relies on exports such as coffee and tea to support the balance of trade in a \$37 billion economy, (U.S. government data) there is no doubt that discovery of oil will be a game-changer in how Kenya conducts its business.

Oil in Kenya has been discovered in Northern Kenya where there is already on going conflicts.. It therefore calls for political willingness, policy and administration capability to deal with the

conflict and oversee the oil business. Drilling itself will continue being done by multinationals from Europe and consequently, Kenya has to provide them with security to maintain good foreign relations with their mother states. Exploration companies have also been pushing for a revision of the terms to give them a bigger share of income generated from their operations based on the argument that tapping gas reserves costs more than developing oil wells. This means that while Kenya will be drafting the new Mining Law, these considerations have to be made and the same time ensuring there is no exploitation and consequently defining foreign policy.

The discoveries have been made in the remote and underdeveloped Turkana region in the northwestern part of Kenya's Rift Valley. Kenya like before will have to seek assistance from the developed states like China Infrastructure development which has to have a linked pipeline network in the region.

There will also be continued regional bilateral and multilateral relations in development of infrastructure for cost sharing purposes. Uganda's President H.E Yoweri Museveni and his Kenyan and Rwandan counterparts, H.E Uhuru Kenyatta and H.E Paul Kagame, in June 2013 discussed plans for regional fuel and crude pipelines.

Kenya's first titanium shipment was to China and this fastens Kenya's economic relations with China and also cements the "Look East" Policy.

Conclusion

Discovery of oil may be either a blessing or a curse to the Republic of Kenya, all depends with how the whole process is handled. In line with Kenya's Economic diplomacy, we have no

option to but to promote fair trade and especially equitable bilateral, regional and multilateral trade agreements so that Kenya can derive maximum benefit from the natural resources.

To reduce dependency on developed states in technical assistance, we need to enhance technological advancement by exploring new sources of affordable and appropriate technology. Kenya also needs to strengthen regional economic communities and organizations to serve as competitive spring boards to emerging and global markets, especially those countries that have also discovered oil like Uganda and those already producing like Southern Sudan.