

EMERGENCE OF INDEPENDENT PETROLEUM DEALERS IN KENYA

By: Livingstone Indetie

SR No. 04/2003

The aims of this study were to review the performance of independent petroleum dealers in Kenya's downstream petroleum industry since liberalization, evaluate the trend and impact of their retail market share, enumerate the challenges facing them, and propose policy strategies to promote competition through a more proactive presence of the independent petroleum dealers in the industry. The overall petroleum policy in the country is to ensure a secure, reliable, and least cost supply of petroleum products to the domestic economy. Consistent with this policy and in tandem with reforms in other sectors of the economy, the government liberalized the distribution and pricing of petroleum products, and at the same time partially deregulated petroleum supply. Partial deregulation of the procurement process was necessitated by lack of adequate storage capacity for Liquefied Petroleum Gas in the country and therefore the need to serve the domestic Liquefied Petroleum Gas market through processing of 1.6 million tons of Liquefied Petroleum Gas-rich crude oil at the Kenya Petroleum Refineries Limited in Mombasa. Liberalization of petroleum trading has seen new players enter the market to engage in import, export, wholesale, and retail petroleum businesses. The impact of the new entrants in the industry has, however, been insignificant due to the absence of an effective legal and regulatory framework to guide the industry players in a liberalized market consistent with international norms, and characterized by prohibitive entry barriers to petroleum trading in the country. This has denied the economy the inherent gains of free market and competitive pricing of petroleum products. Some of the critical market entry barriers include the high initial investment capital requirement, which is made worse by the high cost of money in the domestic financial market; baseload processing requirement of at least 500 metric tons per month; line fill and dead stock contribution requirement by the Kenya Pipeline Company Limited lack of truck loading facilities; and restrictive trade practices by the traditional oil marketers. The independent petroleum dealers also suffer a credibility problem. With consumers and policy makers due to perceived unethical business practices, especially with regard to fuel adulteration, dumping of export products, and running off spec and ill-located retail dispensing sites. To address these challenges and consolidate the gains of liberalization in the petroleum industry, the government should review the existing legal and regulatory framework and implement policies aimed at eliminating all tariff and infrastructural barriers to entry into domestic petroleum business. In particular, the government should revise the Restrictive Trade Practices, Monopolies and Price Control Act (CAP 504, Laws of Kenya), to give the Commissioner of Monopolies more legal leverage to deter uncompetitive behaviour in the petroleum industry; enact into law the Petroleum Bill 2001 with specific provisions to commence crude oil tendering and establishment of the office of Commissioner of Petroleum; invest in common-user truck loading facilities in Mombasa, akin to those already developed in Nairobi, Nakuru, Eldoret and Kisumu; and develop adequate Liquefied Petroleum Gas handling, storage and refilling infrastructure in the country.