By Mark Pabst, Senior Correspondent

# Security Concerns Cloud Kenya's Promising Future

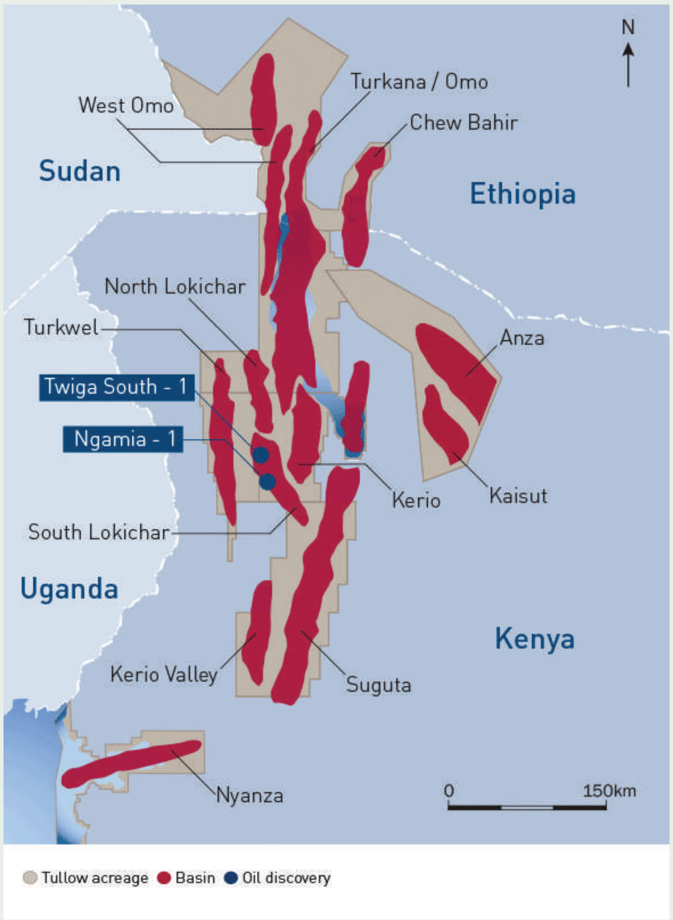
*Kenya is poised to earn billions of dollars from oil revenues in the coming decades, but ongoing problems with Islamic militancy in the region are casting a pall over otherwise upbeat assessments about Kenya's future as an oil exporter.*

There is nothing like proven oil reserves to boost a country's self-confidence. For years Kenya was little more than an afterthought in the scramble for African oil; now the East African country finds itself the center of attention. In January the Anglo-Irish oil firm Tullow and its partner, the Canadian-based Africa Oil, doubled the estimate of their discoveries in northern Kenya's South Lokichar basin from 300 to 600 million barrels. In February John Sisa, an analyst covering upstream oil and gas in sub-Saharan Africa for consulting firm GlobalData, projected that the South Lokichar discoveries could yield $10 billion in revenue over a 30-year production period. If the estimate proves accurate, Kenya's gross domestic product could rise more than 0.8% per year on the strength of the country's first commercial oil discovery alone.

Of course, both the Kenyan government and international oil companies know that the country's first oil find will not be its last. The politicians in Nairobi are busy hammering out new oil legislation that would give Kenya a greater share of the money generated from oil and gas production. The law would boost Kenya's royalties, provide gas-sharing terms, and address windfall profits. Most analysts expect that the new law will likely cut into the earnings of companies working in Kenya, but concern about new legislation has not necessarily cooled interest in the country. Although it has delayed its first competitive licensing round until at least the Q4 2014 while the government hammers out the details of the oil law, Sisa thinks the wait might actually increase the appetite international oil companies have for Kenyan acreage. In a statement released by GlobalData Sisa claims the delay in the licensing round "could also result in greater industry interest when the round is held, as the delay will provide more time for further commercial discoveries or developments that could increase the country's attractiveness to new investors in the area."

Ironically, the licensing round is one of the few delays to hit Kenya's nascent oil sector. Since Tullow and Africa Oil made their initial discoveries, the companies have been drilling wells almost nonstop and plan to run six rigs fulltime for the indefinite future. The development of Kenya's oil industry is proceeding so rapidly that Kenyan oil may come online at the same time as neighboring Uganda, where Heritage Oil discovered oil in commercial quantities well over half a decade before similar discoveries in Kenya.

The real issue now is getting the infrastructure in place to get Kenya's oil to market. Tullow expects to submit its field development plans to




Source: Tullow Oil

the government in Q4 of 2015, with Nairobi reportedly focused on early development. Moreover, the government is in the process of soliciting expressions of interest for a pipeline designed to bring oil from Uganda and Lokichar to the Kenyan port of Lamu for export. Current plans call for the pipeline to consist of three distinct sections, with the first from Hoima in Uganda to Lokichar, the second from South Sudan to Lokichar, and the third from Lokichar to Lamu. Plans are also afoot for a refinery at Lamu. The refinery is just one part of a larger project called the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor, which could also include a standard gauge railway line and a fiber-optic cable constructed to link Lamu to Juba and Addis Ababa.

Obviously, many of the upgrades will create stronger regional ties, with oil serving as a catalyst to further integrate the economies of Kenya, Uganda, and South Sudan. However, regional issues are not confined to economic initiatives. In recent years Kenya has also been forced to dedicate an increasing amount of resources to dealing with the regional threat posed by Al Shabaab, the Somali Islamist militant group attempting to topple Somalia's government.

The group has garnered the most attention for its operations in Somalia, including a recent attack on the Somali parliament in Mogadishu. However, Al Shabaab has increasingly used terrorist attacks against Kenyan civilians since Nairobi decided to send troops into Somalia in 2011. The group grabbed international headlines in September 2013 when it attacked a Nairobi shopping mall, but it has also managed to carry out a series of less well publicized operations in Kenya in the last several months. In May the militants ambushed a police convoy in northern Kenya in retaliation for Kenyan airstrikes against Al Shabaab positions in southern Somalia, and the group has crippled the Kenyan tourism sector with a series of bombings near tourist hotspots.

Tourism is the country's second largest source of foreign currency, and the drop in visitors has left the Kenyan government scrambling. In May the country announced it would spend 200 million shillings ($2.3 million) on a marketing campaign to promote tourism, and will temporarily reduce national wildlife park fees and eliminate the value added tax on airline tickets. Nairobi also reacted angrily to moves by the UK, US, and Australia to caution their citizens against travel to Kenya, with Karanja Kibicho, the principal secretary at the foreign affairs department, calling the travel advisories "obviously unfriendly acts."

The row seems to have encouraged Al Shabaab. Sheikh Fuad Mohamed Khalaf, one of the group's leaders, said in a May radio broadcast that the group is committed to "shifting the war" to Kenya and Uganda because both countries have soldiers fighting in Somalia. Despite Al Shabaab's demands that Kenya quit Somalia, it seems unlikely that Nairobi will withdraw its soldiers. While the Kenyan government is frustrated by Al Shabaab's ability to wage a terror campaign inside Kenya's borders, it believes the group could become even more dangerous if allowed a free hand in Somalia.

In short, it seems likely that Kenya will remain a target for Al Shabaab for the foreseeable future. Despite the best efforts of regional and global powers, Al Shabaab has maintained its capabilities of planning and carrying out attacks in Kenya, and the Kenyan government is unlikely to negotiate with the terrorists. Al Shabaab has also demonstrated a desire to undermine the Kenyan economy when given the opportunity. While this has largely been confined to the tourist sector, with Kenya galloping towards an oil-based economy, it is reasonable to predict the militants will target Kenya's new oil infrastructure once it gets built. Pipelines, refineries, and port facilities present high value targets for terrorists, and Kenya is making rapid progress in its oil sector. At the same time, it is making little progress towards reigning in Al Shebaab. Given the trajectory of Kenya's economic and foreign policies, it seems likely that Al Shebaab and Kenya's oil industry will meet at some point in the future.