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Ten Years After Liberalizing Petroleum Marketing in East Africa: Is the Playing Field Still Tilted Against the National Entrepreneurs

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Table of Contents

ABSTRACT

The three East African countries; Kenya, Uganda, and Tanzania are net importers of petroleum products. The imports constitute a significant portion of the countries import bill. Petroleum fuels are also used widely in the productive sectors of the economy. The transport sector, for instance, is almost entirely dependent on petroleum fuels. High petroleum prices adversely affect the growth of the countries economies. Petroleum prices are mainly determined by the international price of crude oil. The East African economies are therefore vulnerable to global events that affect the international oil prices. This is evident by the impacts of the past oil crises on the economic performance of the three countries.

In the past decade, the petroleum sector has undergone rapid institutional and policy changes. One of the key changes is the shift from strict governments control to a liberalised market. These changes have wide implications in terms of access and affordability, subsidies for low in-come groups, taxation and government revenues, price fixing and oligopoly for multinationals and investment of retail networks in the rural and remote areas. Although the public sector has retained a strong presence in the storage and refining of the products, the pricing and marketing is in the hands of the private sector, and mainly through subsidiaries of multinational corporations. Previous research has identified the low penetration by local entrepreneurs into the market as major constraint to the sustainable growth of the sector. Competition can be intensified by increased participation of indigenous entrepreneurs. This paper reviews to what extent indigenous owned companies have been able to penetrate the market.

1.0 INTRODUCTION

1.2 Background

Crude oil is one of the world's most actively traded commodity. The largest markets are in London, New York and Singapore. Commonly used benchmarks include the Brent, Dubai crude, West Texas Intermediate (WTI) and the Opec basket price. International prices are mainly determined by the 11 members of the Organization of Oil Exporting Countries (OPEC), who produce 40% of the world's crude oil[1].[2] OPEC's main objective is to exercise a determining influence over price through control of production levels to generate high revenues for budgets to meet their development needs. In 1973, OPEC members cut oil supply to punish the west for supporting Israel. Subsequently, the price of oil jumped from US$3 a barrel to US$ 12 a barrel, severely affecting developing countries, which had come to rely on cheap energy[3]. The high prices in 1999 were again due to OPEC members decision to cut their output to address an oil market surplus caused by a drop in demand after the Asian financial crisis. The move pushed the oil prices from US$10 a barrel to US$ 30 a barrel. With slow economic growth, OPEC is expected to cut production in 2002, in an attempt to keep oil at above US$25 a barrel.[4]

The world's petroleum industry remains divided between the state companies that dominate the upstream, and the private companies that dominate the downstream sector. Multinational oil companies that dominate the extraction, transportation, refinement and distribution of petroleum products had a global reach long before public discussion on a global trade regime started[5]. Internationally, about 10 multinational companies control the sector. The four big companies Exxon /Mobil, Royal Dutch/Shell, BP, and Total /Fina-Elf dominate the downstream sector accounting for about 32% of global product sales and 19% of the refining

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1 Unlike a decade ago, OPEC no longer holds as much clout in determining prices. Today states as geographically and politically diverse as Russia, Norway, Angola, Mexico, and the Central Asian states of the former Soviet Union are all players in the world oil stage.

2 According to an article in the 8 April 2002 News Week, since the end of the gulf war in 1991, as a critical anchor of the global economy, Riyadh (Saudi Arabia is the largest producer) and Washington (United states is the largest consumer) have become co-leaders of an informal global league of oil producers and consumers, all conspiring to keep prices as stable as possible at levels that do not inflict to much pain on either side.

3 See BBC Business report on The Power of Essential Oil, July 6, 1999.

4 See the economist edition on the World in 2002.

5 See Oil, The World Trade Organisation and Globalisation article in Drill bits and Tailings, Volume 6, Number 9, November 30,2001.

capacity. As shown in Table 1, their market values makes them more powerful economic forces than many of the individual national economies of the world.

The industry has also witnessed "mega-mergers[6]" between the major oil companies especially triggered by low oil prices in 1999. The mergers are aimed at creating economies of scale and cutting costs. The main mergers include BP/ Amaco/Arco, Mobil/Exxon, Total/Fina/Elf, YPF/Repsol, and Conoco/PetroCanada.

Table 1: World's Biggest Oil Companies (2000)

Company	Market Value (US$ billions)
Exxon/Mobil	315
Royal Dutch/Shell	221
BP/Amoco	209
Total Final Elf	113
Chevron-Texaco	85
ENI	45
Repsol	21

Source: Economist Magazine, 2001

In East Africa, the multinational oil companies have in the past dominated the marketing of petroleum products. The liberalisation of the sector in the three East African countries was expected to allow more players into the market. The assumption was that more firms in the market are likely to make the market more price competitive[7]. The lifting of price and supply controls was expected to attract new investors. Even after licensing a number of local firms to operate in the market, very few firms are in operation. Kenya, for instance, has licensed over fifty firms to start petroleum marketing enterprises but only less than fifteen are in operation. There is a need to increase the level of national entrepreneurship in the industry by developing policies that will promote national entrepreneurs to participate effectively in the industry. By so doing, more of the potential profit from the sector would remain in the country.

6 See Table 1 on world's biggest oil companies

7 In 1911, when Standard Oil controlled more than 90% of the refined oil in the USA, the supreme court ruled out that Standard Oil should be broken into smaller competing companies.

1.2 Methodology

This report is part of a broader study being done by the ESRF Globalisation project on development of local entrepreneurship. The aim of the study is to identify policies that will enhance increased participation of the national entrepreneurs in the petroleum sector. The study is looking at the linkage between the following groups of entrepreneurs:

- Multinationals
- State Corporations
- Non –Indigenous Local[8,9]
- Indigenous large and medium scale
- Small and informal sector entrepreneurs

This is one of the industrial case studies to be incorporated into the final report. Similar case studies include the tourism industry and the export of horticultural products.

The study will use a combination of desk search and interviews with stakeholders in the industry. The study will rely mainly on secondary sources of data, published literature and policy documents.

To measure the degree of market competition and concentration, this report uses the Herfindahl Hirsman Index (HHI)[10]. A virtual monopoly has a HHI of 10,000 which is equivalent to a 100 percent market share. A HHI of above 1,800 indicates a highly concentrated market. A HHI of 1,000 and below indicates a competitive market. A competitive petroleum market such as Germany has a HHI of 600.

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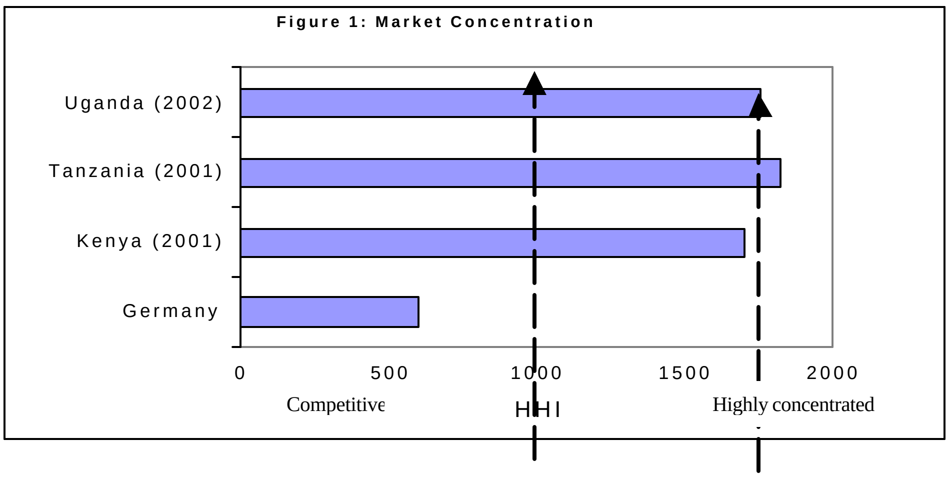
8 In this paper, non-indigenous local entrepreneurs refers to entrepreneurs of Asian and European decent who have citizenship of one of the East African countries. On the other hand indigenous entrepreneurs refers to Africans

9 Kilby (1983) argues that minority entrepreneurs usually have superior initial endowment of capital, knowledge of markets and technology, and acquired traditions that help raise productivity. External environmental parameters such as lim ited occupational choice, the never distant threat of expulsion, and enforceable cooperation with fellow minority entrepreneurs, help to build networks of trust which provide access to scarce information, risk spreading arrangements, favourable terms of credit and a large pool of individuals to whom managerial responsibility can be delegated.

10 The HHI is calculated by summing up the square of the market share of all companies in the market. A virtual monopoly is therefore the square of 100 (%) which is 10,000.

For Tanzania, the HHI was 1868 in 2000 and 1825 in 2001. Though the market is still not competitive, there is an improvement from the highly concentrated market with a HHI of 3218 and 2730 in 1981 and 1992 respectively. In the Kenya market, the HHI was over 1,780 and 1,720 in 1994 and 1995 respectively. In 2001, the HHI was 1700[11].

Before liberalization, the market was highly concentrated in Uganda with a HHI of 2400 in 1992. Though the number of oil companies increased, the HHI only decreased slightly to 2263 until1999. Currently, the HHI is about 1756 indicating that the market is still highly concentrated compared to the other countries.



The pricing mechanism varies from country to country. Key pricing factors include inflation, taxation and subsidies. As shown in table 2, key elements in the price build up includes the CIF, taxes and levies, margins, delivery and transport allowances[12]. Key pricing factors include taxes, inflation and subsidies. Duties and taxes form a substantial part of the total price in many countries. Petroleum products are some of the most highly taxed products. The taxes also account for a substantial part of the petroleum prices build up. In UK, the highest fuel taxing country, taxation accounts for almost 73% of the cost of a litre of petrol compared to 22% in the US.

[11] This was before BP/Shell acquired Agip to have a presumably market share of 37%
[12] ee World Bank, 1992.

Table 2: Typical Breakdown of the price structure

A	Ex-refinery price	Ex-refinery or import price (ex-main depot)
B	Primary transport	Transport allowances from main depot to inland depot (including losses allowances)
C	Depot costs	Depot transit allowance (including losses)
D	Wholesale margin	Allowance paid to marketing companies
E	Wholesale price	A+B+C+D
F	Retail delivery	Transport allowance from inland depot to retail stations (including losses allowances)
G	Dealer margin	Allowance paid to retail dealers
H	Price before taxes	E+F+G
I	Taxes	Government charges
J	Levies	Funds raised for specific projects
K	Excise duties	Customs expenses
L	Pump price	H+I+J+K

Source: Bhagavan, 1998

In a regulated market, a cost plus pricing mechanism is normally used. The maximum product prices are calculated from oil product import costs, operating costs and allowable industry margins. In fully deregulated countries such as USA, prices are determined by the forces of supply and demand. Others include the Spanish system where prices are set at the same level as prices in near by countries of a similar size to Spain and with free markets after adjusting for differences in tax levels and import costs. The South African system[13] is a cost-plus system, but the oil companies are compensated for any losses in their margins by adjusting prices in future periods.

[13] This system could have changed in the recent years.

2.0 PETROLEUM SECTOR AND ECONOMIC DEVELOPMENT IN EAST AFRICA

The three East African countries; Kenya, Uganda, and Tanzania are net importers of petroleum products. The imports constitute a significant portion of the countries import bill. Petroleum fuels are also used widely in the productive sectors of the economy. The transport sector, for instance, is almost entirely dependent on petroleum fuels. High petroleum prices adversely affect the growth of the countries economies. Petroleum prices are mainly determined by the international price of crude oil. The East African economies are therefore vulnerable to global events that affect the international oil prices. This is evident by the impacts of the past oil crises on the economic performance of the three countries.

Tanzania has no known oil reserves and currently imports all its petroleum products. According to the 2000 Economic Survey, petroleum products account for 8% of the total energy supply. The sector absorbs on average 55% of the country's foreign exchange earnings. In 1999, the sector accounted for 5.8 percent of the total imports bill, compared to 19.8% in 1994[14],[15]. According to the 2001 Economic Survey, petroleum products also account for over 63% of the commercial and industrial energy needs in Kenya. Petroleum imports accounted for 25.7 percent of the total imports bill in 2000, compared to 19.8 percent in 1999. In Uganda, the petroleum sector provides about 5 percent of the country's energy consumption requirements and supplies 82% of the country's commercial energy needs. The import bill on petroleum and related products as a percentage of total import bill, ranged between 6.8 and 8.9 for the period 1995-99[16]. It also represents above 20% of total export earnings.

[14] The decrease in the percentage of export earning is due to improvement in export earnings while for the percentage of exports is due to increase in importation of machinery and consumer goods.

[15] Its not clear why the figure for Kenya is not consistent with the other countries but one may attribute it to high dependence on thermal electricity generation as opposed to hydro based generation.

[16] Uganda Revenue Authority.

3.0 ENTREPRENEURSHIP IN THE PETROLEUM SECTOR

The petroleum industry is normally divided into three parts. Namely; the upstream (exploration and production), mid stream (transportation mainly by pipelines and ships from the production areas to the refinery), and the downstream sector (importation, storage, refining[17], distribution and sales). This paper is confined to the downstream petroleum sector.

A key characteristic in the sector is the degree of integration. In some cases, the supplier and the buyer are the same entity and that entity has a sizeable market share in one or both segments. For instance a company like Shell might be the one doing the importation, owns the refinery and accounts for over 50 percent of the market share in distribution and marketing. Creating a competitive business environment is essential at the national level. A study by the World Bank (1996) identified the following as some of the structural characteristics indicative of ineffective competition in the petroleum sector:

- Limited market: Five to six competitors are required with the largest having no more than 20 to 30 percent of the market.

- Excessive power or responsibility lodged in the state oil company. The state oil company, because of past policies, may enjoy unfair advantage after its commercialised and begins to compete with other companies.

- Excessive barriers to entry: This might include physical assets such as storage or non-physical assets such as licensing requirements.

- Excessive integration: An industry player may have too much power by virtue of its integrated activities.

- Excessive capacity: companies may refrain from real competition to remunerate their assets.

[17] The oil refining process separates crude oil into different hydrocarbons (such as liquefied petroleum gas, gasoline, kerosene, diesel oil and lubricants) and removes impurities such as sulfur,nitrogen, and heavy metals.

4.1 Refining

Establishing a petroleum refining plant is capital intensive and also a risky venture[18]. For instance, the Kenyan Government is considering the option of building a new refinery at the cost of US$ 600 million. This can be categorised as a large enterprise, sometimes requiring joint ventures.

When one reviews the case of East Africa, two countries Kenya and Tanzania have a refinery[19]. The refinery in Kenya is owned jointly by the Government and the oil companies. The private sector owns 50% equity share with Shell owning 12.7%, Caltex 11.75%, Mobil 12.8% and BP 12.7%. The Tanzania refinery is owned by the Government (50%) and Agip[20]. This joint venture arrangement between the state and multinational oil companies seems to have worked out effectively in the industry[21].

In terms of entrepreneurship, refining is better off undertaken by multinationals in partnership with the state. It is not economical for the local entrepreneurs to venture into refining. However, there is a possibility of large local companies such as Kenol Kobil in Kenya and GAPOIL/GAPCO in Tanzania being able to invest in the sector. These four companies as discussed in a later section have grown to a similar size as the multinationals subsidiaries in the region. The Government when privatising the refineries should consider selling shares to these companies to increase the level of local participation in this segment.

4.2 Importation and Marketing

Importation is also a highly capital intensive venture. A company needs to invest in storage facilities. It also needs to be financially sound to be able for instance to obtain letters of credit. This would therefore be categorised as a large enterprise.

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18 Risky in the sense that you have to compete with imports from big refineries which can refine at a cheap cost due to economies of scale.

19 Since 2000, the Tanzania Refinery has not been operational.

20 Addax later bought Agip shares in the refinery in 1999.

21 However, the company’s article of association and the shareholder’s agreement allowed the government only to appoint the board chairman, while the other owners nominated the other senior posts. Currently, the six posts of general and safety managers, operations, trainers, refineries superintendent, technologies and laboratories manager and senior inspector are held by expatriates.

For a long time, state corporations were responsible for the importation of oil products in Kenya and Tanzania. State Oil Corporations were set up during the period of the oil crisis to ensure security and stability of oil supply. The National Oil Corporation of Kenya (NOCK) and the Tanzania Petroleum Development Corporation (TPDC) were responsible for the procurement and importation of crude and refined products, refining, and administration of price control system and for liaison with oil marketing companies operating in their respective countries.

The liberalisation of the petroleum industry has rendered state entrepreneurship in the importation invalid. State corporations are supposed to be regulators and can therefore not be entrepreneurs at the same time. Importation is subsequently currently done by private oil companies.

There are currently about 15 companies active in the Kenya market, although more than 50 have been licensed. The main companies, which account for over 80% of the market, are BP/Shell, Caltex, Total/Elf, Mobil, Agip and Keno-Kobil. Except for Kenol, which has a 100% Kenyan equity shareholding, all the other 7 major companies are foreign owned. Local shareholding in Total Kenya is about 20%. Total-Kenya and Kenol are the only companies quoted on the Nairobi Stock Exchange. Between 1992 and 1994, Kenol's total investments amounted to Kshs. 30.2 million compared to Total's total cumulative investment of Kshs 286.1 million. The other players are Alba Petroleum, Engen(K), Fuelex Oil, Jovenna from South Africa, Galana, Mafuta Products and National Oil Corporation of Kenya (NOCK)[22]. Fuelex, which is the largest local company accounts for less than one percent of the market share.

Table 3: Entrepreneurship in the Kenyan Petroleum Marketing

Company	Multinational	Joint venture	State	Non Indigenous Local	Local indigenous
Shell	√				
BP	√				
Caltex	√				
Total/Elf		√			
Esso	√				
Agip	√				
Kobil					√
Kenol					√

22 Although it is still government owned, NOCK entered the retailing business after liberalisation but as commercial entity.

Company	Multinational	Joint venture	State	Non Indigenous Local	Local indigenous
Engen	√				
Jovenna	√				
NOCK			√		
Fuelex					√

In 2000, after the sector liberalisation, according to the 2001 Economic Survey, 21 companies were licensed to operate in Tanzania. Less than 15 companies are however operational. This has however improved compared to six oil firms (BP,AGIP, Esso, Caltex, Total, Mobil) in 1996. Before the licensing of the new companies, BP which was the leading company accounted for 44% of the overall market, 36% of the retail or station service sector, almost 50% of the commercial sector and nearly 70 % of the aviation sector. The Government in the 1970s acquired 50% shares in BP-Shell and Agip but the entire management remained in the hands of the company. Currently, a combination of GAPCO/GAPOIL (which though registered as different company is owned by one entrepreneur) accounts for over 40 percent of the market share. Other entrants include Jovena and Engen of South Africa, and Kobil of Kenya though their market share is still marginal.

Table 4: Entrepreneurship in the Tanzanian Petroleum Marketing Companies

Company	Multinational	Joint Venture	State	Local non Indigenous	Local Indigenous
BP-Shell		√			
Agip		√			
Esso	√				
Caltex	√				
Total/Elf	√				
Engen	√				
GAPCO				√	
GAPOIL				√	
Mobil	√				
Natoil**				√	
Oilcom				√	
Oryx	√				
Rochas					√
Toico					√
Kobil*					√

** In August 2002, NatOil was purchased by Petrol Oil (Kenya) Ltd, based in Mombasa

Currently there are 17 licensed companies in Uganda but only about 10 are operational. Shell, Total and Caltex are the main players. Other companies include Gapco (which in 1995 bought Esso) and Kobil of Kenya, which entered the market in 1999. In1991, Shell acquired the outstanding 50% of its Uganda share holding from the Government. Shell also bought out Uganda Petroleum (UPET) in 1998 and Agip in 2000[23].

State entrepreneurship in the marketing of petroleum products is expected to gradually wane in the three countries. The Government has already divested its shares in Uganda and there are similar plans in Tanzania. It is therefore expected that the entire operation will be in the hands of the private sector in the future.

Table 5: Entrepreneurship in the Uganda Petroleum Marketing Companies

Company	Multinational	Joint venture	State	Local non indigenous	Local indigenous
Shell	√				
Agip (Shell Malindi)	√				
Caltex	√				
Gapco*				√	
Jovena	√				
Petrol Uganda					√
Kobil*					√

*These companies are not national in the respective countries but in the East African context may be considered as local

Multinationals still control the importation and marketing of petroleum products in East Africa. However, indigenous oil companies are gradually entering into the market to compete with the multinationals. A good example is Kenol in Kenya and GAPCO-GAPOIL in Tanzania, which account for 40% and 21% of the market share respectively. As discussed in later chapters, GAPCO acquired shares of Caltex in Tanzania and Esso in Uganda. Others, however such as the Uganda Petroleum Company (UPET) have not been able to withstand the competition. UPET was recently bought by Shell.

[23] UPET was a local company owned by Asians who had acquired Mobil operations in the 70s.

The growth of the indigenous companies, is however, still slow. Though more than ten new indigenous companies have been licensed, less than five started operations in all the three countries. Different analysts have come up with different views regarding the slow growth of local entrepreneurship in the industry. In Kenya this include barriers of entry created by the seven big companies. These barriers created by the big oil companies to limit entrance into the market include the following:

- Refusal by the multinationals to provide storage facilities, even at fees above commercial levels. This they do among themselves when one of them requires additional storage for products. New entrants for instance are not allowed to use the loading facilities in Nairobi owned by the multinationals. They therefore use the Kenya Pipeline Company loading facilities in Nakuru (about 100 miles from Nairobi) and then transport the products by road to Nairobi.

- Refusal by refinery (owned by the multinationals) to offer storage facilities to a company without any crude oil processing agreement, despite the fact that it would be not be commercially viable for a new entrant to start processing at the refinery without an established market. The companies that win the tenders for bulk supply end up not being able to supply, re-tendering is done and the existing big companies win it.

- Insistence by the existing big oil companies that new entrants must provide KPC with line fill, equivalent to 4 percent of the total volume of products in the entire pipeline before being allowed to use the pipeline[24].

- Due to lack of LPG import handling facilities, the existing oil companies have been forced by the Government to continue processing crude oil at refinery to generate at least 25,000 tonnes of LPG annually. The oil companies have insisted that new firms not buying products from any of them should process crude oil at the refinery to generate LPG.

- Another barrier identified in a study done in Uganda is regional price differentials[25]. In a market with real competition, prices outside Kampala should be higher and reflect the higher transportation costs. Contrary, there are relatively low and high

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[24] This term is used instead of multinational because Kenol and Kobil are local companies

[25] See Wallenfels, 2000.

price areas that do not reflect the higher transportation costs. Although the low price areas might be a sign of competition, it could also reflect the companies attempt to create artificial and cross-subsidized low price areas for a certain time to avoid new market entrants[26].

There is no concrete evidence that these barriers are the ones responsible for the poor performance of the indigenous companies. Other factors could have stagnated the emergence of the indigenous entrepreneurs apart from the ones listed above. For instance, the big companies have elaborate distribution channels and enjoy economies of scale forcing new entrants to come in large scale or accept cost disadvantage[27]. They have also developed brand identity with consumers through advertising and service warranties that would take new entrants time and resources to develop. For instance, due to limited research and development capability, GAPCO has not been able to develop a lubricant , which is a major constrain. The multinationals are also vertically and horizontally integrated. Horizontal integration means that the branded retail outlets can only purchase products from the multinationals. Other factors include capital and infrastructural investment required for start-ups, costs such as fixed facilities, customer credit and absorbing start up losses. The huge capital venture and related costs favour big corporations with huge capital reserves.

Despite some of the new entrants not being able to penetrate the market, there are successful local companies such as Kenol and GAPCO that have made a breakthrough. Studying the factors responsible for the growth of these local companies would shed some light into how indigenous entrepreneurs can be able to succeed in the industry. What emerges however is that medium scale entrepreneurs might not be able to compete with large companies in this segment due to economies of scale. Later chapters include a case study on these companies.

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26 This is a strategy used by John Rockefeller to maintain Standard Oil Corporation. The Standard regularly lowered its prices in a given area to eradicate a smaller competitor, who could not resist selling at loss for long enough (http://www.micheloud.com/FXM/SO/politiqu.htm)

27 A recent article argues that although eight of the world's ten biggest oil companies in the 1950s are still in the top ten today, much of the growth in the industry has been with small emerging companies "petropreneurs". Outside the US, they include Fortune's Oil's entry as an independent gasoline marketer in China, Reliance Industries in India, Seven seas in Colombia and Arakis in Sudan. The article argues that skills have become more important than scale or scope and strategic insight and foresight more important than structural position. In the business world today, the article says that legacy assets, vertical integration, or the sheer size of the balance sheet will not insulate the big companies from industry changes and new forms of competition (www.mckinseyquartely.com).

4.3 Transport and Distribution

Transportation includes road, railways and pipeline. Railway and pipeline are capital intensive and therefore are normally state enterprises. In general, state enterprises should include public utilities where private sector may be unviable, unattractive or in restraint of competition.

In our case we are looking at enterprises involved in the distribution of petroleum products by road. These are mainly tankers. Transport by road tankers will mainly be placed in the category of medium enterprises.

In all the three East African countries, individual businessmen are contracted by oil companies to deliver products from deport to retail outlets and bulk consumers. In terms of management, it is cheaper for multinationals to subcontract the business to individual businessmen than run it internally. Subsequently, this is one area where indigenous entrepreneurs have dominated and managed to succeed[28].

4.4 Retailing

The classification of retail stations varies. An ultra modern petrol station with more than 3 dispensing machines that are computerised would be classified as a medium enterprise. A filling station with probably two dispensing pump machines would be classified as a small enterprise.

Retail petrol stations are divided into two categories. Those affiliated to the big oil companies and those that are run by independent dealers. Before liberalization, most of the service and filling stations in the three countries were managed by dealers who leased them from respective oil companies on terms which included monthly rental payment and purchase of fuels and lubricants from the companies which own them[29]. Violation of the station operating agreement would lead to instant termination of lease agreement and immediate repossession of the station by the concerned oil marketing company[30]. The liberalization of the sector,

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[28] The transport licensing regulations of 1967 affected trans nationals including foreign owned companies engaged in local transport. Licenses were mostly limited to citizens and specific Kenyan firms.

[29] Note that kerosene pump dispensing yards have always been operational .

[30] This policy remains even after liberalization especially regarding procurement of brands.

however, has led to the proliferation of independently owned petrol stations[31]. The independently owned petrol stations are however small, and lack most of the infrastructure required in a modern petrol station. Due to lack of capital (a modern retail station costs about 0.512 million US$), the small independent station entrepreneurs are unable to expand their business to compete with those leased by the oil companies. Although the time span since liberalisation is not long, except for GAPCO there is however no evidence of another independent oil dealer who have been able to expand his business to the level of the multinationals[32]. Consumer loyalty to brands offered by the multinationals also ensures that the throughput by the independent dealers is low.

[31] In this report, the author uses the term liberalization and deregulation interchangeably.

[32] Although as individual operators they might not amount to much, however in aggregate they can pose serious threats to the oil companies.

5.0 REVIEW OF MULTINATIONAL OIL COMPANIES

In this section, we review the historical development of some of the multinational oil companies operating in East Africa. The rationale is to give the reader a glimpse of the financial, geographical and technical extent of the companies operations, which local entrepreneurs has to contend with. In addition, the section highlights some of the lessons that local oil companies can learn from the historical development of the multinationals as they try to establish themselves in the market.

5.1 Mobil Exxon

The roots of Exxon and Mobil can be traced back in 1882, when John Rockefeller acquired a diversity of petroleum interests and organised them under the Standard Oil Trust. That same year marked the incorporation of two refining and marketing organizations; Standard Oil Company of New Jersey and Standard Oil Company of New York. In 1911, the U.S. Supreme Court ordered the dissolution of the Standard Oil Trust, resulting in the spin-off of 34 companies, including Jersey Standard and Socony. Jersey Standard and Socony, as they were commonly known, were the chief predecessor companies of Exxon and Mobil, respectively. Both companies expanded separately. Each company vigorously built up every segment of its businesses, ranging from production and pipelines to refining and research. They also expanded across the U.S. and abroad. They also merged with other oil companies. In 1933, Jersey Standard and Socony-Vacuum merged their interests in the region into a 50-50 joint venture. Standard-Vacuum Oil Co., or Stanvac, operated in 50 countries, including East Africa, before it was dissolved in 1962.

In 1955, Socony-Vacuum became Socony Mobil Oil Co. and simply Mobil Oil Corporation in 1966. Jersey Standard changed its name to Exxon Corporation in 1972 and established Exxon as an uncontested trademark throughout the United States. In other parts of the world, Exxon and its affiliated companies continued to use its long-time Esso trademark and affiliate name. In 1998, Exxon and Mobil signed a definitive agreement to merge and form a new company called Exxon Mobil Corporation. Total revenue and net income in 2001 was 213.5 billions and 15.3 billion dollars respectively.

5.2 Caltex

Chevron Texaco Corporation operates in the African market as Caltex. The company was formed as a result of a merger between Chevron and Texaco in 2001 and has its headquarters in San Francisco. Chevron was founded in 1879 as Pacific Oil Company. In 1900, Pacific Coast Oil Company merged with Standard Oil Group of companies run by John Rockefeller. Texaco was founded in 1901 as The Texas Fuel Company. The company is active in more than 180 countries and is involved in every aspect of oil and gas industry including exploration and production, refining, marketing and transportation and power generation. It has a global refining capacity of more than 21,000 service stations around the world.

5.3 BP Amoco

British Petroleum Company was started in 1901 when a wealthy Englishman, William Knox D'Arcy ventured into the Iranian desert to search for oil. In 1909 Anglo-Persian Oil was formed. The formation was a year after the first oil discovery was made in southwest Persia. By then, most of the company was owned by Burmah Oil Company. Shortly before the Second World War, in exchange for secure supplies of oil, the British Government injected 2 million pounds of new capital into the company and acquired a controlling interest. In 1935, the company was renamed Anglo-Iranian Oil Company. In 1951 Iran decided to nationalise the company's assets, which by then were the UK's largest investment overseas. In 1954 the conflict was resolved and the company renamed British Petroleum Company. This was followed by intensive oil explorations in other countries and regions including North Sea and Alaska in the 1960s. The Government in 1987 sold its shares. In 1998, the company merged with Amoco to form a new company with a market capitalisation of $110 billion and interests in more than 70 countries worldwide. The Amoco Corporation, which has been in operation since 1889, is one of America's leading oil companies. In 1997, Amoco recorded earnings of 1.6 billion pounds and revenues exceeding 21 billion pounds.

5.4 Shell

Shell Oil Company is a consortium of Royal Dutch and British Shell companies. The later was first registered in Hague in 1890 as the Royal Dutch Company for the Exploitation of Petroleum Wells. In 1949, the company changed its name to Royal Dutch Petroleum

Company. Shell on the other hand was first registered in Britain in 1897 as the Shell Transport and Trading Company Ltd[33].

Royal Dutch and Shell started joint operation in 1903 when the Asiatic Petroleum Company was established. In 1907, Royal Dutch and Shell merged all their operations (Royal Dutch 60% and Shell 40%), although the companies shareholding still remains separate up to today. In 1912, the Group founded the American Gasoline Company to sell gasoline along the pacific coast and Roxanna Petroleum to buy oil in Oklahoma. In March 1997, Shell, Texaco and Saudi Aramco announced a joint venture that would combine their Eastern and Gulf Coast United States refining and market business.

In East Africa, Shell operations dates as far back as 1900 with the operations in Mombasa and Zanzibar selling illuminating kerosene in bulk. In Kenya, a bulk installation was made in 1911 in Kisumu to supply Uganda. In 1914, another bulk installation was made in Nairobi to supply kerosene. In 1928, the Consolidated Petroleum Company was established to cater for BP and Shell in Africa and Asia. The Consolidated Petroleum Company was dissolved in 1961. Subsequently, Kenya Shell Ltd and BP Kenya Ltd was formed as a 50:50 joint venture managed by Kenya Shell Limited. Currently, Shell Kenya has about 160 retail stations through out the country.

5.5 TOTAL

The company was founded in 1924 under the name of Compagnie Française des Pétroles (CFP) after a request by the president of the French Government council. This was followed by a discovery of the first oil field near Kirkuk in Iraq by the Irak Petroleum Company (IPC) and CFP become one of the first shareholders. CFP shares were first listed on the Paris Bourse in 1929. In the same year, CFP in conjunction with the French State and several private French companies established the Compagnie Française de Raffinage (CFR). The French Government also authorized CFR to refine crude oil corresponding to 25% of the needs of the petroleum marketing companies. This was followed by a period of rapid expansion in the company's activities in the Middle East and other regions such as China and Algeria. In 1947, a company for petroleum distribution in Africa called Compagnie Française de Distribution des Pétroles en Afrique (CFDPA) was established.

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[33] In 1833 Marcus Samuel opened a small shop in London, selling seashells to Victorian natural history enthusiasts. The business expanded to a thriving import-export business. On a visit to the Caspian Sea coast Marcu's son recognised a huge opportunity to export oil for lamps and cooking for the Far East. He commissioned the first special oil tanker in 1892 and delivered 4,000 tonnes of Russian kerosene to Singapore and Bangkok.

In 1960, CFR absorbed other French marketing companies with links to the Group. The company's name was changed from CFP to TOTAL CFP in 1985. The French State divested a further 4% of TOTAL's capital in 1996, reducing the government's stake to 0.97%. Total and PetroFina made an alliance in 1999 to become Totalfina as the fifth largest oil company. Totalfina and Elf Aquitaine merged in 2000 to form TotalFinaElf the fourth largest oil company in the world. The company has a refining capacity of 2.6 million barrels per day and accounts for 12% market share in Europe's service stations. More than 10 million tons of petroleum products sold annually in 38 African countries where the company has 3,350 service stations.

5.6 Agip

The General Italian Oil Company (AGIP) was established in 1926 by the Italian Government to carry out all activities related to the oil industry. The depression in 1929 led to a stagnation phase in the company but its role of ensuring national self-sufficiency made it survive. In 1945, Enrico Mattei restructured the company after the Government appointed him liquidate the firm. In 1953, the Government established ENI (National Hydrocarbon Agency) under which Agip operated. Around the same period Agip went international in oil prospecting, refining and distribution. Agip's European and African network were established this time.

The company was restructured to meet the challenges created by the 1970s oil crisis. AgipPetroli was founded in 1977 and in 1981 it became Eni Group's chief firm. The company's principle objective of ensuring security of national supplies limited the expansion of sales and industrial capacities. Subsequently, to meet the challenges of a complex market, the company was restructured from 1987. This led to changes in its strategies, organisation and entrepreneurial behaviour. Today, AgipPetroli operates in the oil downstream in Italy and abroad with strong integration between its crude oil supply system, the refining structure and product sales. AgipPetroli's foreign sector runs approximately 3,000 service station located mainly in Europe, South America, and to a lesser extent in Africa.

5.7 Petronas/Engen

Petronas is regarded as a role model for the creation of a national oil company from state assets. It is a company that has given challenge to the traditional multinationals globally . Short for Petroliam Nasional Berhad, Petronas, the company is wholly owned by the Malaysian Government. It was formed in 1974 to tap the nation's rich hydrocarbon resources. Since its incorporation PETRONAS has grown to be an integrated international oil and gas company with business interests in more than 20 countries. Petronas is now a full-integrated oil company with upstream and downstream oil and gas interests. Outside Malaysia, the company is involved in upstream and downstream ventures in Vietnam, Pakistan, the Philippines, China and the Middle East. It also has interests in Australia and Argentina. In Africa, Petronas has upstream ventures in Algeria, Sudan, Libya and Tunisia.

At the end of March 2001, the PETRONAS Group comprised 62 wholly owned subsidiaries, 19 partly owned outfits and 47 associated companies. Today, with over 100 subsidiaries and associated companies, the PETRONAS Group operates in 25 countries around the world and is ranked among the Fortune Global 500 companies. The Fortune magazine ranked it the fourth most profitable oil company in the world after Royal Dutch/Shell Group, Exxon Mobil and BP Amoco. The ranking was based on the US$3.11 billion profit posted by the national oil corporation for the year ended March 31 2000.

Petronas has in the past entered into a number of joint ventures with multinationals and with niche oil companies. In 1998, Engen (Engen Petroleum Limited is a subsidiary) South Africa become a wholly owned subsidiary of Petronas[34]. Engen Limited, which is incorporated in South Africa, is a holding company with investments in the oil and related industries. Although the original company (Trek Beleggings Beperk) was quoted in the Johannesburg stock exchange since 1968, Engen Limited was created in 1990 following the acquisition of Mobil's refining and marketing business in Africa. The company has marketing operations in South Africa, Namibia, Botswana, Lesotho, Swaziland and Kenya. Engen bought a R 100 million bulk oil terminal in Dar es Salaam, Tanzania with a pre-emptive right to take over two service station networks and several inland depots.

[34] Engen was subsequently delisted from the Johannesburg Stock Exchange and in support of Engen's support for Engen's Black Economic Empowerment goals, Petronas sold 20% of its shareholding to World wide African Investment Holdings (Pty) Limited early in 2000

6.0 CASE STUDIES FOR LOCAL COMPANIES IN EAST AFRICA

6.1 Gulf Africa Petroleum Corporation (GAPCO)

The Gulf Africa Petroleum Corporation (GAPCO) provides evidence of how a local entrepreneur can seize opportunities and develop one of the most competitive companies in the region. With its head office in Mauritius, the GAPCO group is an organisation initiated in Dar es Salaam and rapidly developed into a fully integrated trans national oil corporation. The company has a strong presence in Uganda, Tanzania and Sudan, where it commands a market share of 42%, 20% and 18% respectively. The company also operates in the Great Lakes region serving Rwanda, Burundi, the Democratic Republic of Congo, Zambia and Malawi. It owns a total of 750 petrol stations. The company employs almost 300 direct employees all over East Africa.

GAPCO was established by two Tanzanian brothers of Asian origin. Their grand father had opened a single Shell gas station back in 1931[35]. After school entered into business and become prominent traders. One of the main business was YDK holdings, which run a go-down. In 1978, they started trading in oil but were not able to expand rapidly since the market was not liberalised. In 1989 they built the first oil terminal Bulk Oil Tanzania Limited. The terminal was completed in 1992.

Founded in 1980, GAPCO was incorporated in Mauritius to purchase the assets of the main oil companies exiting the region. In 1994, it bought the shares of Esso in Tanzania and Uganda as the parent company Exxon pulled back from East Africa. Having proven their business acumen, they were able to successfully apply for loans from local and international financial institutions. The companies are now trading as GAPCO Uganda and GAPCO Tanzania Limited. In 1995, the group also acquired Caltex Oil Tanzania, now trading as GAPOIL Tanzania Ltd. The company took a significant step in 1998 when it purchased the assets of Agip in Sudan. GAPCO Kenya Limited and GAPCO Rwanda Limited have been established and now ready to enter the market.

The company currently accounts for about 8 percent of the Kenyan market as it is the main supplier of fuel to power generating plants. It is targeting 20 percent of the market share in the next two years, which would make it the second largest oil company in Kenya. The company has already started constructing numerous petrol stations in various parts of the

[35] Although they entered into business immediately after school, the two are credited for their shrewdness in business

country. The expansion follows an ongoing $42 million project comprising a 120,000 tonne fuel oil terminal and blending unit at Changamwe, and a 25,000 tonne condensate storage terminal at Shimanzi in Mombasa. The combined 145,000 tonne storage facility is the biggest in the region and is been co-financed by the International Finance Corporation who are injecting $15 million into the project.

In Tanza nia, the company owns 170 petrol stations and has a throughput of about 30 million litres a month. In addition to the depots in Zanzibar, it also purchased the Tanga and Bukoba Oil Terminals from British Petroleum. GAPCO is gradually penetrating into the BP market. Three years ago the market share of BP and GAPCO was 45 and 20 % respectively. Today, GAPCO controls over 40% while the share of BP is below 27%. Another major success is that it has managed to acquire some of the large consumers. These include TRC, TZ harbours, TANESCO, Tanga Cement, Wazo Hill Port and Cement. It also supplies jet fuel to major airlines such as KLM, Ethiopian Airlines, Air France, South Africa Airways and Egypt Air.

The company has also faced numerous challenges as it expands into the Tanzanian market. It has had to modernise the infrastructure, which is a capital-intensive venture. It has also had to develop an image that consumers can identify with like the other multinationals. It's still trying to develop a lubricant bland for the market. Staff training has also been a challenge. Unlike multinationals, which send their staff to train in their overseas affiliates, GAPCO training has been in-house. Maintaining international standards especially for aviation industry products has also been a challenge. This is aggravated by the inability to fully access the hydraulic system at the airport owned by BP. Fierce competition is also expected from the former companies Esso and Caltex, which has come back into the market. In 2001, the Tanzanian market was estimated at $150 million while forecast sales for the whole group was about $ 400 million.

6.2 Kenol-Kobil

Kobil is a Kenyan based private limited company incorporated in the USA. There is no documentation of how the company started or who are the actual owners. According to media reports, the company is owned by some very senior politicians in the former Kenya Government. Kenol is a public company quoted at the Nairobi Stock Exchange [36]. Since 1987,

[36] Kenol has operated in the market with a share capital of 7.2 million ordinary shares at Kenya Shillings 5 each and two Class "A" shares, also at Kenya Shillings 5 each. The total current value of its shares in 1999 was about Kenya shillings 36 million. This is still low compared to TOTAL company which had a total share capital of Ksh 280 million (Bhagavan, 1999)

the two companies have been operated and managed jointly. Kenol acquired majority share holding in Mid Oil Africa in 1999, through which the company specialises in niche marketing.

The two companies have over the years been expanding market networks. Kenol and Kobil have a combined retail network of over 165 stations. In 1999, Kenol/Kobil had an inland market share of over 21%. They also cater for some of the big customers such as the Kenya Electricity Generation (KenGen), Kenya Power and Lighting Company, East Africa Portland Cement and Kenya Tea Development Authority. Others include airlines such as Kenya Airways and KLM.

Kenol recently entered Uganda by buying out the Uganda Galana Oil Company Limited. Kenol-Kobil now runs 17 service stations in Uganda and has a market share of about 5%. Kobil entered the Tanzanian market in 2000 and has developed ten service stations in Dar es Salaam. Kenol has also started operations in the Rwanda market where it is trading under Kobil brand. In February 2002, Kenol purchased a 100% interest of the issued share capital of Jovenna Zambia Ltd and is currently running a network of nine petrol stations. This new development provides a platform for future entry into Angola, Democratic Republic of Congo, Mozambique and Zimbabwe.

6.3 TOICO

One of the latest entrants into the Tanzania Oil Market is TOICO Ltd. TOICO was established in December 2001 by Mr. Wilson Chacha. Mr. Chacha is also the Chairman of the Tanzania Parking Systems Company Limited, which lenders paid parking service in the Dar es Salaam City Centre. Mr. Chacha has been in the business of petroleum for sometime. Prior to starting TOICO Company, he was the owner of Ubungo Petrol Station Company Ltd and Regent Service Station Company Ltd.

Since the Tanzania Parking Systems Ltd is not permanent and depends on the renewal of the contract, based on the experience he had acquired in running the two petrol stations, Mr. Chacha decided to start an oil Company. The liberalisation of the market had opened opportunities for potential entrepreneurs to enter the market. Since then, two petrol stations have been amalgamated with the company. More petrol stations are in progress in order to meet one of the governments licensing requirements to have at least six petrol stations in the initial stages.

The company does not have a depot and this creates problems in the business. Although plans are underway to construct a depot, lack of capital has been a major barrier. Financial support from international finance institutions such as the International Finance Corporation has not been forthcoming. Multinational oil companies are also not willing to extend hospitality to small companies especially regarding depots. The standards set by multinationals in order to cooperate are too high to be met by small companies at their infancy stage and trying to establish themselves into the market. The Government has also set very stringent conditions on those wishing to open new petrol stations and huge capital is required to meet these conditions. Currently, the key focus of the company is to expand their petrol station retail network and train the staff to meet the challenges of a competitive business environment.

7.0 CONCLUSIONS AND RECOMMENDATIONS

GAPCO and Kenol-Kobil companies are a clear indication that local entrepreneurship in the East African petroleum marketing has taken root, and its possible to compete effectively with the companies from developed countries which have been in the market for almost a century. The two companies are now extending their operations outside the East African markets. It is not clear if this is strategic, since the multinationals had already established a stable home market before going international.

The two successful case studies can however not be compared with Engen of South Africa. Engen acquired Mobil when it was pulling its operations from Africa almost ten years after local companies in East Africa such as Kobil and UPET had acquired Mobil operations. Compared to Engen, the two East African companies have not managed to expand as rapidly as the latter. Engen is currently a leading company in East and Southern Africa markets and has some operations in West and Central Africa. Although we cannot compare South Africa companies with those from East Africa, the rapid expansion of Engen illustrates the capital constraints limiting the growth of indigenous companies in East Africa. Before being acquired by Petronas of Malaysia, Engen was traded on the Johannesburg Stock Exchange for a long time. Kenol is the only oil company in East Africa traded on the stock exchanges. Kenol has managed to penetrate markets as far as Zambia. Although being quoted on the stock exchange is only one of the factors responsible for the rapid expansion, it however indicates that this can be a viable source of capital for local companies seeking to expand to a level they can be able to compete effectively with the multinationals. After offering shares globally, Petro-China a former state company might be the fourth largest publicly traded oil and gas company[37].

TOTAL is also quoted at the Nairobi stock exchange and this is an indication that nationals can be part of the multinationals ownership. Creating conducive environments by the Government for multinationals in the industry to participate in the capital markets can greatly enhance local participation. This however might not lead to the emergence of big national entrepreneurs in the petroleum industry.

[37] Sinopec Corp. issued 16.78 billion H shares in Hong Kong, New York and London on Oct. 18th, 2000. The Company floated 2.8 billion A shares in Shanghai Stock Exchange on August 8th, 2001. The Company's exiting total number of shares is 86.702349 billion, of which 55.06% is held by the state through Sinopec Group, 22.36% by domestic banks and assets management companies (AMCs), 19.35% by foreign investors and 3.23% by investors at home.

From the discussion in the previous chapters, it is clear that some of the multinationals developed with a very close link to their Governments. In Companies such as BP, Total and Agip, the respective Governments were shareholders in the initial stages of the company's development. The Governments of the respective multinational companies injected capital to sustain the companies, when the companies were faced with internal or external (such as low international prices) crisis. In this period, however, forces of globalisation had not taken root and development of national companies was given prominence. This support is lacking for the local companies in East Africa, which have to compete with multinational on equal basis at their infant stage of development. Petronas of Malaysia is one example of a company that have managed to expand through state support. Kenya made an attempt to promote the state enterprise through the Petroleum Development Levy (PDL)[38]. PDL was supposed to be utilised by the state enterprise, the National Oil Corporation of Kenya (NOCK). NOCK has however not been able to access the funds from the treasury.

State enterprises in the petroleum marketing and retailing in East Africa has not had any impact in the market. The National Oil Corporation of Kenya has not made any substantial investment to match the standards of the multinationals[39]. Plans are underway to sell the shares owned by the government in multinationals in Tanzania. Uganda has already divested in all the oil companies that the government had some interest. The partnership where the management was left to the multinationals while the government only held equity shares therefore did not play any role in promoting national entrepreneurship.

When one considers the case of Petronas of Malaysia one can not rule out the ability of national oil corporations developing into trans national corporations with the right state support. It is unlikely that even when given exclusive rights the state enterprises will be able to establish themselves to be major players in the market. For a long period, state corporations such as TPDC and NOCK had a monopoly in the importation of petroleum products. No remarkable entrepreneurial growth was witnessed at this period. Unlike Petronas, state oil companies in the region were established with an inclination towards policy administration as a regulator, than a commercial entity.

It is also worth adding that the state will continue to play a key role as an entrepreneur in sectors considered to be of strategic importance or where the private sector might not consider economic to invest because of the risk involved or because of being capital

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38 The Petroleum Development Levy was established in 1991 by the Kenya Parliament through the PDL Fund Act November 4 of 1991. The objective of the levy fund was to increase or supplement distribution and retail facilities in areas inadequately served by the existing oil marketing companies. The levy by 1999 was Ksh. 114 per kilolitre

39 By the year 2000, NOCK had only managed to establish about 5 service stations

intensive. The state will therefore continue to be involved in investments such as pipelines and refineries. This can however be effectively done as a joint venture with the private sector.

Multinational oil companies have also developed through mergers especially in times of crisis. This is still happening up to date and is what has enabled them to gain control of the market by increasing their capital. Some of the big oil companies from developing countries have also had to merge. For instance, India's Reliance Petroleum which is the country's biggest oil refiner and Reliance Industries, the country's biggest petrochemicals firm merged in 2002 creating a new energy company valued at over $10 billion. All the entrepreneurs currently in the East African oil market quote capital as the main limitation to the expansion of their companies. None of them has ever considered merging the companies. This is probably because of the small size of the companies and the management problems that might ensue. When the going gets tough for the local companies, they might actually decide to get synergy through mergers. Kenol-Kobil is a good example of two companies that although have not merged they have joined their operations into one company. Kenol Kobil could be replicating the Shell/Royal Dutch strategy of combining but still remaining different companies.

Except for the state joint venture in case of Tanzania Shell-BP and Agip, and the Kenya Petroleum Refineries, joint ventures between multinationals and indigenous private entrepreneurs are lacking. There is no documented case of joint ventures. This is a contrast to other industries such as the hotel industry where partnership in big hotels is a norm. Multinationals normally prefer entering the market on their own. This has denied the locals the networking necessary to develop entrepreneurship skills. Although the situation in East Africa is not as critical as in South Africa, the Oil Charter developed by the Government of South Africa to promote equity in the oil industry may serve as a model for developing national entrepreneurship in East Africa[40]. The South African approach might in future however turn out to contradict the Energy Charter Treaty as is happening in China[41,42].

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[40] The South African Government has taken a more radical approach to increase black ownership in the oil and petroleum firms. As part of black empowerment policy, the Department of Mineral and Energy Affairs published a White Paper on Energy in 1998 (which called for significant empowerement within the fuel oil industry) and later published an oil industry charter on Black Economic Empowerement within the oil industry. The industry charter was signed in November 2000, committing firms to a target of 25% black ownership by 2010. Blacks only owned 5.8% of the industry at the time of signing the charter. At the end of 2001, nearly 14% was in the hands owned by the minorities. Shell has sold 25% of its marketing arm to an empowerment firm, Thebe Investments. Total is involved in negotiations with potential empowerment partners, Calulo for the sale of 25% equity stake covering the whole range of business, including refining sales and marketing. BP ceded 25% equity to empowerment partners in 2001. It sold 17.5% of its business to the Mineworkers Investment Company and a further 7.5% to the Women's Development Bank. About 29% of Caltex retail partners are black and 14% of procurement expenditures with black companies. It is also exploring the possibilities of selling an equity stake

Lack of vertical integration will still remain a barrier to indigenous oil companies growth. The multinationals are not only vertically integrated, but have also diversified into similar products along their line of operation. They have interests from extraction, transportation, refining, and retailing. This is what has helped them remain dominant in the market[43]. This is also one of the tactics used by Mr. Rockfeller to control the oil market. East African countries being oil importing, it might not be feasible for the local oil companies to pursue vertical integration.

Despite been owned by local entrepreneurs, the two successful private companies are incorporated outside their countries of origin. Gapco is incorporated in Mauritius and Kobil is incorporated in USA. This study has not been able to establish if this strategy has any effect on their growth and operations.

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41 The Energy Charter Treaty primary aim is to regulate energy related trade between its members according to the rules of the multilateral trading system as embodied in the World Trade Organization. It aims at eliminating non-discriminatory treatment of foreign investors (www.encharter.org). The ECT rules are going to apply to all aspects of the energy industry from the exploration and extraction of fossil fuels to the distribution of refined fuels, such as gasoline at the local level, thus eliminating the possibility of democratic cover over the resources (see Oil, The World Trade Organisation and Globalisation in DrillBits and Tailings, Volume 6, Number 9, November 30, 2001).

42 The import of oil in China, which has been conducted exclusively through state organisations at the national and provincial level, will undergo immediate changes with joining WTO. Beginning this year 2002 non-state organisations will be permitted to import refined product up to a certain amount, which will be steadily increased. On the distribution side, within three years of WTO entry foreign companies will be able to established retail operations, followed two years later by wholesale. Joint-venture operations will be allowed after one year. In 2000, BP spent $378 million to acquire a share holding in Sinopec at the time the company floated $1.43 billion shares on the Shanghai Stock Exchange.

43 Mr. Rockfeller realized that by controlling the refining process, he was the master of the whole industry, and worked from that point on to a *vertical concentration* to the whole industry, taking over every stage of production, from extraction to retail, including transport, research, marketing and even the manufacture of barrels. This was an ambitious plan because of the fierce resistance of the staunchly independent producers, and the great diversity of operations, but nevertheless he succeeded above all hopes. At its peak, the Standard Oil owned not only all the infrastructures necessary to the making of refined oil, but also pipelines, cars, tankers, groceries(www.micheloud.com /FXM/SO/politiqu)

There is no evidence of political patronage playing a role as far as development of national entrepreneurs in the industry is concerned[44,45]. However, one of the local oil companies in Kenya is owned by prominent politicians. It is not clear to what extent that has helped the growth of the company since there is no evidence of the company been favoured in contracts and tenders even for government related institutions. One can however argue that the owners have leverage in accessing financial capital required for the growth of the company. By the “national bourgeoisies” being involved in the oil industry, the Government policies in the industry are favourable for investment. Although there is no evidence, the small and medium companies interviewed complained that the Kenyan government policies have mainly been tilted in favour of the big oil companies.

GAPCO and Oil Com in Tanzania present two different growth patterns. GAPCO started by buying an existing company while Oil Com started from scratch. Oilcom currently accounts for over 6 percent of the market share, which is far below that of GAPCO. It is however an indication of the challenges that local entrepreneurs have to face when they start their business from scratch, and try to compete with already established companies. With enough capital it might be easier for a local entrepreneur to acquire an existing company rather than establish a new company from scratch[46]. One also notes that the owners of GAPCO have been in the petroleum industry since 1930s when their grand parents established a petrol station. Even before acquiring Esso and Caltex, the entrepreneurs were already in the petroleum business and therefore had already established a good network to enable them expand rapidly. There is also no evidence of those who have worked as senior executives either in the ministry of energy or multinationals becoming entrepreneurs. This is in contrast with the tourism industry where senior ministry of tourism officials were able to use state machinery to access fund to venture into the business. Most of those in petroleum business have been businessmen in most of their career life.

In terms of ethnicity and local entrepreneurship, the Asians have managed to establish themselves more than the indigenous. In Tanzania, GAPCO, OilCom and Nat Oil is owned

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44 Numerous examples of bribery of judges and politicians is also documented to have played a role in the growth of Rockerfeller’s Standard Oil enterprises (www.micheloud.com/FXM/SO/politiqu.htm)

45 The same is told of Dhirubhai Ambani the entrepreneur behind the giant Reliance Petroluem in India. In the 1980s, allegations were raised in Parliament and in newspapers that Ambani was a master manipulator —that he received favors from politicians, cajoled officials to interpret the rules his way, brought down endless audits and inspections on his rivals, and reputedly had the power even to make or break governments.

46 Except for BP Shell, the other companies have been in and out of the East African Markets.

by local Asians. The indigenous owns the other small companies such as Rocha's and Toico whose share in the market is insignificant. UPET of Uganda which had established itself in the market before been acquired by Shell was also owned by an Asian. Although information for Kenya is not available, there is no evidence of the non-indigenous locals participating in any of the well-established oil marketing companies. The distribution section has however been dominated by the indigenous.

Three issues have emerged from the above discussion regarding local entrepreneurship in the sector:

- Local companies will have to consider merging as an option that will enable them gain capital to assist them expand to a level where they can effectively compete with the well established multinational companies. As shown by the case of GAPCO, financial institutions such as the International Finance Corporation (IFC) are only likely to extend credit to companies which are expanding and have only a sizeable share in the market. Other forms of partnership such as the one Petronas of Malaysia (which owns 80% of Engen) and Worldwide African Investment Holdings of South Africa (which owns 20% of Engen) might be replicated in East Africa.

- For the established local companies such as GAPCO and Kobil, more capital can be acquired through listing their companies in the stock exchanges. This is especially important for the companies considering expanding into the regional markets. The Government therefore has to soften the conditions that such companies need to meet before been listed on the stock exchange.

- Rather than competing in the conventional markets, indigenous markets should identify niche markets where they have a comparative advantage. A good example is the new company Mid Oil Africa by Kenol, which supplies your fuel requirements at the location of your convenience.

This paper has mainly concentrated on the development of large national companies to compete with the multinationals. The reality however is that a stable petroleum market in East Africa will depend on how effectively the medium and small scale entrepreneurs are promoted. This is especially for the remote rural areas. Lack of venture capital and business management skills, stringent health, environment and safety (HSE) standards will still remain a barrier for the small operators. This is a challenge for future research to explore the niches that small and medium scale indigenous entrepreneurs can be more effective.

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