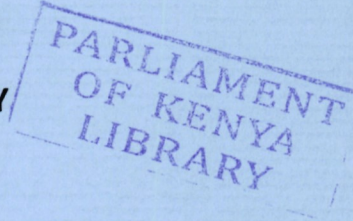


Ministerial statement issued by Hon. Minister for Energy (Mr. Mwangi) on Thursday, 12th May 2011.  
12/5/11



REPUBLIC OF KENYA

MINISTRY OF ENERGY



### Time for Energy sector reforms

Today the question is: do we reform or regulate specifically the oil sector? Many argue that government intervention in a liberalized market economy is not the right thing to do. The second question then become, when there is a market failure, what happens, should government sit back and wait for market forces to stabilize? The answer is NO!

What we have experienced since last year 2010 and the first quarter of 2011, is worrying to the economy. Increasing inflation (12.5 %), spiraling poverty, surging price of commodities, increased transport costs, declining purchasing power, and therefore this calls for a regulatory mechanisms. Failure for industry self-regulation, government controls become inevitable. Whose interest? Whose benefit?

In view of the foregoing, Oil sector performance and contribution to the economy has negative impact, given the provisions of the new constitution on Consumer rights (Article 46). It's sad, for private sector to take advantage of the consumer and make supernormal profits at the expense of customers courtesy of poor legal and administrative frameworks in the sector. National Oil Corporation (NOC) was established to tame the monopolistic tendencies, Energy Regulatory Agency (ERC), was an administrative decision whose mandate and capacity has cast doubt on its role in the sector. Many believe it is engaging in price fixing and not regulation. Oil price liberalization then becomes a problem in two ways; it fuels inflation and adversely affects commodity prices making live untenable. It is amoral that the industry should make supernormal profits at the expense of economic and social needs and wants of the citizenry. It is a true capitalist mentality of man eats man society!

It is embarrassing that government subsidies have not been forthcoming. Government is accused of high taxation regime, and laxity in intervening on



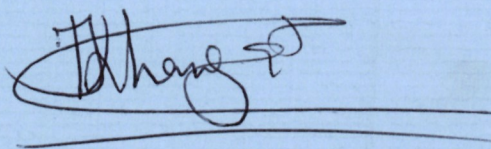




prices. For example progressive legislation should encourage government to administratively peg oil prices say 5% below the international market prices, these may caution citizenry. Likewise, Its unacceptable for government to fail to establish strategic oil reserves, yet we boast of achieving energy needs of our people. We need to find alternative sources of our crude oil supplies; countries like Sudan are close by for a start.

It is imperative we overhaul our tax regime. The idea of increasing taxes to offset government deficits is fueling further high prices. In order to have an efficient and effective oil industry re-structuring, the design and administration of such a regime should be embedded in legislation. It is important that industry players, understand the rights, duties, obligations stipulated in laws and policies. Individual contracting is skewed given political connectedness of some lobbyists, or players. There are many unethical issues that come to play, hoarding, colluding, un-ethical competition behavior, impromptu price hikes are but a few of issues that need urgent attention in the sector.

As a Ministry we have learnt valuable lessons from the past and recent oil prices. First, any increment in oil prices has significant effect on economy. Consumers suffer. It is the expectation of the public that government should intervene to lessen the burden over its people. Regulation is the optimal option. Second lesson, in a liberalized market economy, industry players can alter their behavior. And become a rogue industry. Oil industry conforms to this description in the eyes of the public.

A handwritten signature in black ink, appearing to read 'Magerer K. Langat', is written over a horizontal line. The signature is stylized and cursive.

**HON. MAGERER K. LANGAT, MP**  
**ASSISTANT MINISTER FOR ENERGY**



