The GLOCEPS Policy Brief

Positioning Kenya's Proposed Refinery for Regional Energy Security, Cross-Continental Market Access, and Industrial Transformation

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Executive Summary

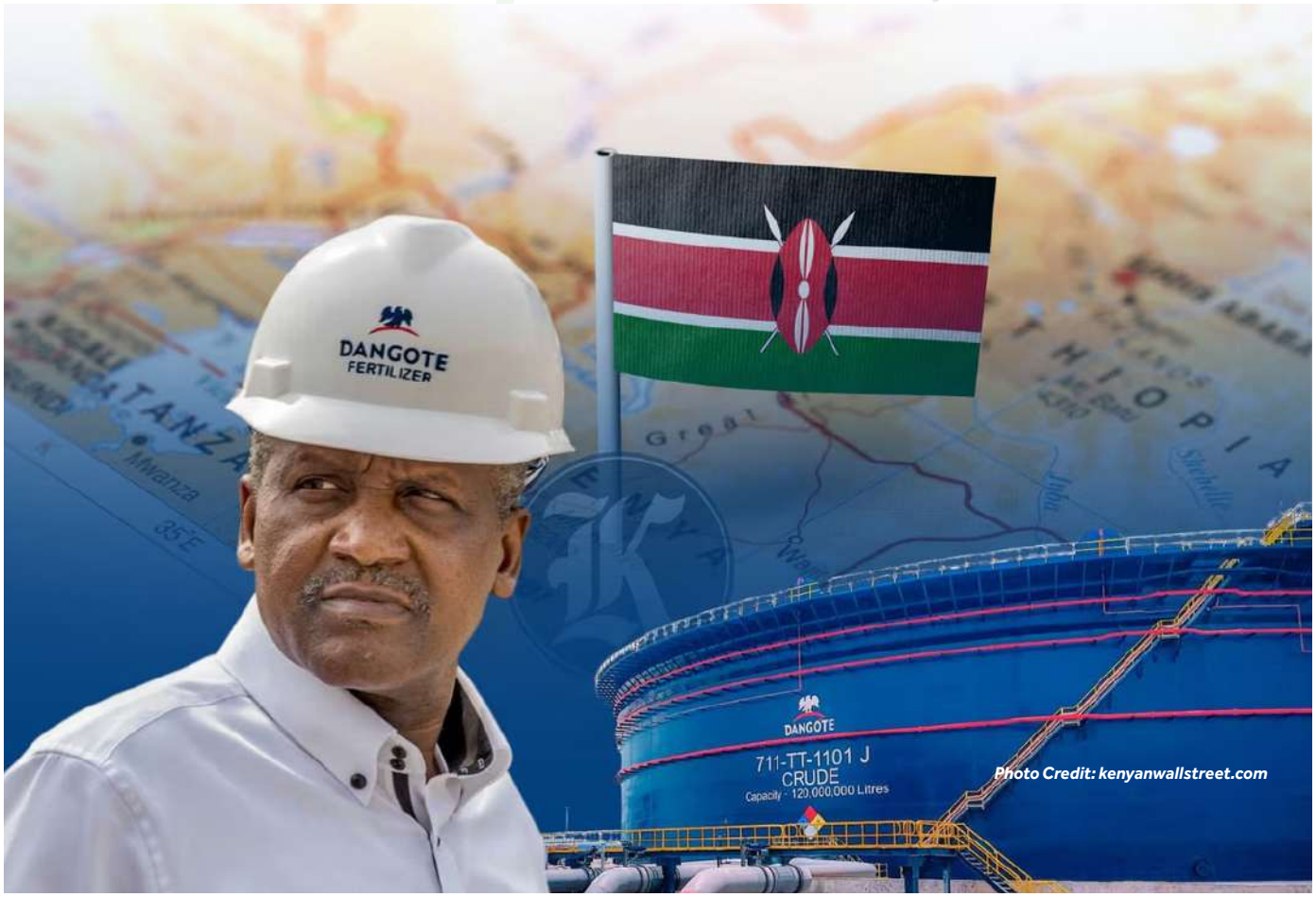
Kenya should strategically leverage the proposed petroleum refinery as a national development catalyst to strengthen regional energy security, accelerate industrialisation, and reinforce its geo-economic leadership in Eastern Africa. Despite serving as a major gateway for refined petroleum products, Kenya remains heavily dependent on imported fuels, exposing the country and region to supply disruptions, price volatility, foreign exchange pressures, and limited industrial value addition. Rising energy demand makes the refinery an opportunity to build a resilient regional energy system and stimulate downstream industries. The Dangote Refinery in Nigeria demonstrates how modern refining capacity can evolve into a regional and international export platform, generating foreign exchange and opening new trade flows. Strategically located on the Indian Ocean, a Kenyan refinery could similarly serve Eastern and Southern African markets while retaining wider export potential. This policy brief argues that the refinery should be treated as a strategic national development initiative, not merely an energy project. It recommends integrating refining with petrochemicals and manufacturing, strengthening strategic reserves and regional energy cooperation, aligning the project with AfCFTA, and ensuring transparent governance, environmental safeguards, cybersecurity, and local content development.

Context

The global energy landscape is undergoing profound transformation as countries simultaneously pursue energy security, industrial competitiveness, and low-carbon economic transitions. Although renewable energy deployment continues to accelerate, petroleum products remain indispensable to transport, aviation, manufacturing, agriculture, mining, and petrochemical industries. At the same time, geopolitical tensions, supply chain disruptions, and growing competition over strategic resources have fundamentally altered national energy priorities. Recent shocks, including the COVID-19 pandemic, the Russia–Ukraine conflict, the US-Israel-Iran confrontation, and Houthi-related disruptions to commercial shipping in the Red Sea, have demonstrated that access to reliable and affordable energy is a national security imperative. Countries possessing diversified downstream energy infrastructure have generally demonstrated greater resilience than those heavily dependent on imported refined petroleum products.

The global trade map for petroleum products is being redrawn in real-time. The Dangote Refinery in Nigeria exemplifies this shift. Initially conceived to serve West and Central African markets, it has exported naphtha, jet fuel, and diesel to European buyers seeking to backfill supplies lost due to the restructuring of crude and product flows following sanctions on Russian oil. This demonstrates that a strategically located, technically sophisticated refinery on the African continent can compete in distant markets, earning hard currency and enhancing the host nation's balance of payments. For Kenya, positioned on the Indian Ocean rim, the opportunity is comparable, as it can serve as a competitive source for South Asian demand growth centers while retaining the flexibility to redirect cargoes to high-premium Atlantic Basin markets during supply crises.

These developments have exposed a fundamental structural weakness across Africa's energy economy. Although the continent produces



approximately 10% of global crude oil output, much of this crude is exported for refining before refined petroleum products are re-imported at significantly higher value. This long-standing dependence on external refining capacity reduces domestic value addition, increases exposure to volatile international fuel markets, widens trade deficits, and constrains industrial development. The closure of the Kenya Petroleum Refineries Limited (KPRL) in 2013 was a direct result of these structural and governance challenges. It left the country as a pure import terminal. The primary policy lesson from KPRL is that technical capacity without a commercially viable processing margin, transparent governance, and integration with global product markets will fail. As African economies seek to accelerate industrialization under the AfCFTA, expanding regional downstream refining capacity has become increasingly important for strengthening economic resilience, retaining value within the continent, and supporting competitive manufacturing.

Eastern Africa exemplifies both this challenge and the opportunity for transformation. Uganda possesses commercially viable crude oil reserves, South Sudan remains an established oil producer, while Kenya continues to explore and develop its petroleum resources. Tanzania and Mozambique have similarly emerged as significant natural gas producers capable of supporting regional industrialization. Yet despite these abundant energy resources, the region remains overwhelmingly dependent on imported refined petroleum products to satisfy domestic demand. This dependence has heightened vulnerability to external supply disruptions, limiting the region's ability to leverage its natural resources for industrial development and economic diversification.

The refinery also presents a direct and high-value outlet for regional crude producers. Uganda's Lake Albert development is targeting its first oil, and the Governments of Uganda and Tanzania are advancing the East African Crude Oil Pipeline (EACOP) to transport this crude to the Tanzanian coast for export. The Ugandan and South Sudanese crude streams require specialized processing. This is because of their high-acidity and waxy crudes that many standard Asian refineries are not configured to handle efficiently. A new refinery in Kenya could be designed with the technical specifications to process these unique regional crudes at a premium. This would offer Uganda and South Sudan a shorter and more secure supply chain than shipping to distant Asian markets. Instead of viewing the Dangote refinery as a competitor, Tanzania can position its facility as a complementary, specialized processor of regional crude. This would unlock value that would otherwise be captured by middlemen or lost to logistical costs. This aligns with increasing demand to establish a regional energy hub, where Uganda and Tanzania are in advanced negotiations to jointly establish a US$ 20 billion Tanga refinery to link the two countries.

Within this regional landscape, Kenya occupies a uniquely strategic position. The country serves as the principal maritime gateway for Eastern and Central Africa through the Port of Mombasa. It also possesses one of the region's most advanced petroleum logistics systems, including an extensive pipeline network, modern storage infrastructure, and integrated transport corridors linking Uganda, Rwanda, Burundi, South Sudan and the Eastern Democratic Republic of Congo. These comparative advantages have enabled Kenya to emerge as the region's primary petroleum distribution center. However, despite this strategic infrastructure, the country has remained dependent on imported refined petroleum products since the closure of the KPRL refinery. This disconnect between Kenya's logistical strengths and limited downstream processing capacity represents one of the country's most significant

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unrealized industrial opportunities.

The convergence of expanding regional petroleum demand, implementation of AfCFTA, ongoing infrastructure investments, growing manufacturing ambitions and Kenya's strategic geographic location creates a timely opportunity to reposition the country within Africa's evolving energy economy. A modern refinery would not simply process petroleum products. It would strengthen strategic supply chains, deepen industrial capabilities, and reinforce Kenya's position within regional value chains. Crucially, it would allow Kenya to move from a passive commodity transit state to an active industrial processor. This would mirror the fiscal and employment benefits already being captured by Nigeria through the Dangote Refinery's operations.

Realizing this opportunity, however, requires viewing refinery development through a broader strategic lens. Against this strategic backdrop, the proposed refinery presents Kenya with a historic opportunity to reshape its long-term development trajectory while strengthening Eastern Africa's energy resilience and industrial competitiveness. The following analysis therefore examines four interconnected strategic priorities that will determine whether the refinery becomes a catalyst for regional energy security, refinery-led industrial transformation, sound investment governance and Kenya's emergence as Eastern Africa's leading geo-economic and energy hub.

Key Issues

Regional Energy Security and Supply Chain Resilience: The Dangote Precedent and Cross-Continental Opportunity

Despite possessing significant crude oil reserves in Uganda, South Sudan, and Kenya, the region remains largely dependent on imported refined products, creating a paradox that undermines long-term energy sovereignty and economic resilience. The continued dependence on imported refined petroleum products exposes the region's limited capacity to absorb external shocks resulting in higher fuel prices, inflationary pressures, and increased production costs.

Kenya is well positioned to address this structural challenge. As the principal petroleum gateway for Eastern and Central Africa, supported by the Port of Mombasa, the Kenya Pipeline network, the Northern Corridor and the LAPSSET Corridor, the country possesses strategic infrastructure capable of anchoring a regional downstream energy system. Establishing a modern refinery would diversify fuel supply sources, reduce reliance on overseas refining centers, and enhance the resilience of regional fuel markets during future geopolitical or supply chain disruptions. This aligns with increasing demand to establish a regional energy hub.

However, energy security is not solely a function of regional supply. It is increasingly linked to the ability to access premium global markets. This is illustrated by the Dangote Refinery's success in penetrating European diesel and jet fuel markets during the Red Sea crisis and the recent US-Israel-Iran conflict. Freight costs from Asia to Europe spiked and delivery times lengthened, making West African-sourced products instantly more competitive. Dangote capitalized on this dislocation. For Kenya, a similar architecture would allow the refinery to establish a stable, high-volume regional business while maintaining the quality specifications and logistical capability to export to premium markets in Europe, the Mediterranean, or South Asia when arbitrage opportunities open. This dual-market model substantially de-risks the investment by ensuring

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baseline utilization while providing uncorrelated upside revenue streams, generating the foreign exchange, and tax revenues Kenya currently forgoes.

The refinery should therefore be accompanied by expanded strategic fuel reserves, upgraded pipeline infrastructure, interoperable storage facilities, and harmonized petroleum standards across the region. Such investments would improve emergency preparedness, reduce supply bottlenecks, and strengthen confidence among manufacturers, transport operators, and investors who depend on reliable energy supplies. Equally important is strengthening regional coordination on fuel procurement and emergency response mechanisms to minimize disruptions during future global crises..

Leveraging the Refinery for Industrial Transformation, Value Addition, and Human Capital Development

The greatest economic value of a modern refinery lies not in producing fuel but in catalyzing downstream industrialization. Around the world, countries that have invested in integrated refining ecosystems have generated substantially greater economic returns through petrochemicals, manufacturing, and industrial value chains than through petroleum processing alone. Kenya should therefore view the proposed refinery as the nucleus of a broader industrial transformation strategy capable of accelerating structural economic diversification.

A modern refinery supplies critical inputs for high-value industries including petrochemicals, fertilizers, plastics, synthetic fibers, pharmaceuticals, lubricants, industrial chemicals, packaging materials and construction products such as bitumen. These sectors stimulate manufacturing competitiveness, reduce dependence on imported industrial inputs, and generate skilled employment across engineering, logistics, maintenance, research, and advanced manufacturing. The refinery can therefore become an anchor

investment supporting Kenya's ambition of increasing manufacturing's contribution to national economic growth.

The Dangote Refinery's impact on Nigeria's skilled workforce provides a direct and transferable model. The refinery has created a massive demand for Nigerian chemical engineers, mechanical engineers, industrial chemists, and process technicians. This reduces brain drain and absorbs university graduates in technical disciplines. It has also stimulated curriculum reviews at Nigerian universities to align with industry needs. Kenya can replicate and improve upon this model. By mandating that the refinery's development and operation framework includes a Workforce Development Plan, negotiated with the consortium and linked to accreditation by local universities and TVET institutions, Kenya can ensure that the project directly enhances the employability of its STEM graduates. This plan should include internships, a graduate engineer training scheme, and seed funding for petroleum technology research at Kenyan universities. This would ensure the refinery becomes a driver of national innovation capacity and not just a processor of imported crude.

International experience demonstrates the importance of integrated industrial planning. Singapore's Jurong Island illustrates how clustering refineries with petrochemical industries, logistics infrastructure and innovation centers created one of the world's most competitive industrial ecosystems. Similarly, Saudi Arabia leveraged downstream industries to diversify beyond crude exports. Equally, India integrated its refinery investments with Special Economic Zones (SEZs) and industrial corridors. These experiences show that refinery success depends on its integration with broader industrial policy rather than operating as a standalone energy project.

Kenya should therefore develop refinery-linked industrial parks, SEZs, research centers and TVET institutions to cultivate specialized skills, promote innovation, and strengthen domestic supplier industries. Strong local content policies should

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encourage Kenyan firms to participate in engineering services, fabrication, transport, maintenance and industrial supply chains, ensuring that economic benefits are widely distributed across the domestic economy.

Industrial transformation also requires sustained investment in research, technology transfer and public-private partnerships that enable local enterprises to progressively move into higher-value manufacturing activities. By fostering industrial clusters around the refinery, Kenya can stimulate productivity growth, enhance export competitiveness, and expand regional value chains serving Eastern and Central Africa. Such transformation would strengthen economic resilience, create quality employment, expand exports and advance Kenya Vision 2030.

Political Economy, Investment, and Regional Infrastructure Coordination

Large-scale refinery projects succeed not solely because of technical capability but because they are supported by robust governance, sound investment frameworks, and effective management of political economy risks. Globally, numerous energy infrastructure projects have experienced delays, cost overruns or underperformance due to institutional fragmentation, regulatory uncertainty, financing constraints, and weak stakeholder engagement. Kenya must therefore establish governance systems that provide long-term policy certainty while safeguarding public value.

A defining strategic choice that will shape the project's viability is how Kenya engages with competing regional energy infrastructure, specifically Uganda's planned refinery at Kabaale and the EACOP to Tanzania. A failure to coordinate would result in two sub-scale refineries in East Africa competing for the same regional market and the same limited pool of skilled labor and investor

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capital. Similarly, a crude export pipeline to Tanzania bypasses Kenya's infrastructure entirely. The alternative is a deliberate, high-level energy infrastructure agreement between Kenya, Uganda, and Tanzania. This arrangement would be based on a principle of complementarity. For instance, the new Kenyan refinery, should be configured for specific crude and product slates serving as the region's primary export-oriented refinery targeting continental and global markets. On the other hand, the Ugandan facility should focus on the domestic and immediate landlocked market. In return, Kenya could negotiate a guaranteed feedstock agreement to process a portion of Ugandan and South Sudanese crude, making EACOP and the Kenyan refinery a mutually reinforcing system rather than rival assets. This approach transforms a source of regional tension into a framework for deeper integration, directly aligned with the AfCFTA's industrial development and infrastructure sharing goals.

A central priority should be developing a transparent investment framework capable of attracting high-quality domestic and international investors. Clear Public-Private Partnership (PPP) arrangements, predictable fiscal incentives, transparent procurement processes, and independent regulatory oversight will reduce investor risk while strengthening public confidence. Equally important is ensuring that responsibilities among national government agencies, county governments, regulators, and project developers are clearly defined to minimize bureaucratic delays and institutional overlap.

Managing political economy risks also requires deliberate strategies for balancing national interests with commercial viability. Local communities should participate meaningfully through employment opportunities, enterprise development, social investment programs, and equitable benefit-sharing mechanisms. Strong local policies can maximize domestic economic participation while reducing political resistance often associated with large infrastructure developments.

Environmental, Social and Governance (ESG) principles should equally underpin refinery development. Adopting cleaner production techno-

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logies, efficient water management systems, emissions reduction measures, and internationally recognized environmental standards will improve investor confidence and ensure long-term com- petitiveness as global energy markets increasingly prioritize sustainability. Integrating ESG consi- derations from project inception also reduces regulatory risks and strengthens Kenya's repu- tation as a responsible investment destination.

The refinery should additionally be treated as critical national infrastructure requiring comprehensive physical and cyber security. Robust cybersecurity systems, pipeline protection, maritime security coordination, emergency preparedness and business continuity planning are increasingly indispensable as digital technologies become integral to modern refinery operations.

International experience demonstrates that governance quality ultimately determines whether strategic infrastructure becomes a catalyst for development or a fiscal burden. Countries such as Norway and Singapore have shown that transparent institutions, regulatory consistency, and long-term strategic planning significantly improve investment outcomes and public trust. By proactively addressing governance, financing, sustainability and political economy challenges, Kenya can create an enabling environment that attracts investment, safeguards public resources, and ensures that the refinery delivers lasting national and regional development benefits.

Advancing Kenya's Regional Energy Diplomacy

In an increasingly competitive global economy, strategic energy infrastructure has become an important instrument of economic diplomacy and regional influence. Beyond meeting domestic energy needs, refinery capacity enables countries to shape regional markets, strengthen trade partnerships, and enhance geopolitical relevance. For Kenya, the proposed refinery presents a strategic opportunity to consolidate its position as Eastern Africa's leading logistics, trade, and energy hub.

The competitive landscape for this ambition is already taking shape. Uganda, in partnership with international investors and the Tanzanian government, is advancing the EACOP project and associated refinery plans, aiming to establish a direct crude export and processing route independent of Kenyan infrastructure. This development represents both a challenge and a strategic prompt. A Kenyan refinery without a coordinated feedstock and market-sharing agreement risks being bypassed by regional crude producers and undermined by competing processing capacity. Kenya must therefore pivot its energy diplomacy from a passive transit corridor identity toward an active market architect role. This requires championing an East African Energy Infrastructure Agreement that explicitly harmonizes the functions of the Kenyan refinery, the EACOP, and any future Ugandan refinery into a single, coherent regional value chain. The pact would establish common technical standards, facilitate cross-border investments, and negotiate collective feedstock sourcing and product placement agreements, making East Africa a unified and more powerful actor in global energy markets.

Energy diplomacy should therefore become an integral component of Kenya's foreign economic policy. Through the EAC and the African Union, Kenya can champion harmonized petroleum standards, coordinated infrastructure investment, cross-border energy trade, and integrated regional fuel markets. Such initiatives would deepen regional economic integration while strengthening Africa's collective energy security and bargaining power within global markets.

International examples demonstrate how downstream energy assets enhance geopolitical influence. Singapore transformed its refining and

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maritime infrastructure into a strategic platform for regional trade and investment, while the United Arab Emirates leveraged integrated downstream industries to diversify its economy and expand international partnerships. These experiences illustrate that refinery investments can generate significant diplomatic and geo-economic dividends when supported by coherent regional engagement strategies.

Kenya should therefore leverage the refinery to promote regional investment partnerships, technology transfer, infrastructure financing and industrial cooperation with neighboring states. Such collaboration would enhance regional supply chain integration, attract international capital and position Kenya as the preferred gateway for energy-intensive manufacturing and downstream industrial investment. This geo-economic approach would elevate Kenya's role from an energy transit country to a regional energy leader shaping the future of Eastern Africa's economic development.

Conclusion

The proposed establishment of a petroleum refinery represents far more than an investment in Kenya's downstream energy sector. It is a strategic opportunity to redefine the country's economic trajectory and strengthen Eastern Africa's long-term resilience. At a time when geopolitical tensions, supply chain disruptions and intensifying global competition are reshaping energy and industrial policy, Kenya has a unique opportunity to leverage its strategic location, established logistics infrastructure, and regional market access to become the region's premier energy and industrial hub. The precedent set by Nigeria's Dangote Refinery, in generating foreign exchange, absorbing skilled graduates, and penetrating global markets, offers both a model and a benchmark. Failure to seize this opportunity would not only prolong dependence on imported refined petroleum products but would also cede regional energy leadership to competing infrastructure initiatives, constraining Kenya's long-term geo-economic influence. International experience demonstrates that successful refineries succeed when embedded within

coherent industrial policy, supported by transparent governance, integrated into regional value chains, and aligned with long-term national development strategies. Kenya must therefore approach refinery development through a whole-of-government approach that combines sound governance, strategic infrastructure investment, private sector participation and regional cooperation. This will position the country as Eastern Africa's leading downstream petroleum, petrochemical, and manufacturing hub while contributing meaningfully to the realization of Kenya Vision 2030, the BETA, and the AfCFTA.

Policy Recommendations

1. **The Ministry of Energy and Petroleum should:**

   i) Spearhead the development of a National Refinery and Downstream Industrialization Strategy that positions the proposed refinery as strategic national infrastructure supporting regional energy resilience and industrial transformation.

   ii) Establish a National Refinery Development and Energy Transformation Steering Committee to coordinate implementation across government ministries, regulatory agencies, county governments, and private sector stakeholders.

   iii) Integrate the refinery into Kenya's long-term energy security framework through the expansion of strategic petroleum reserves, diversified crude sourcing, modern storage infrastructure, and resilient petroleum logistics.

   iv) Strengthen regional energy cooperation by promoting integrated petroleum markets, harmonized standards, and coordinated emergency response mechanisms within the East African Community.

   v) Commission, within 6 months, an independent technical and market feasibility study that specifically models the dual-market opportunity (regional baseload and opportunistic

cross-continental exports to Europe and South Asia), the technical configuration required to process Ugandan and South Sudanese waxy crudes, and a detailed comparative cost analysis with both the Dangote Refinery and planned Ugandan capacity.

2. The Ministry of Investments, Trade and Industry should:

vi) Develop a Refinery-Led Industrialization Framework that promotes petrochemicals, fertilizers, plastics, lubricants, industrial chemicals, and refinery-linked manufacturing clusters.

vii) Integrate the refinery with Special Economic Zones, industrial parks, export processing zones, and local programs to maximize domestic value addition, technology transfer, enterprise development, and skilled employment.

viii) Negotiate and embed a legally binding Workforce Development Pact within the project development agreement, mandating graduate training schemes, university research partnerships, and curriculum co-development with Kenyan higher education institutions, based on the Dangote model.

3. The National Treasury and Ministry of National Planning should:

ix) Align refinery development with Vision 2030, the BETA, and national industrial policy through innovative financing mechanisms and long-term investment incentives.

x) Mobilize blended finance and strategic PPP that enhance commercial viability while safeguarding fiscal sustainability.

4. The Ministry of Roads and Transport should:

xi) Strengthen multimodal connectivity between the refinery, the Port of Mombasa, the Kenya Pipeline Company network, the LAPSSET railway infrastructure, inland logistics hubs, and regional transport corridors to improve supply chain efficiency and export competitiveness.

5. The Ministry of Foreign and Diaspora Affairs should:

xii) Leverage the refinery as a strategic instrument of energy diplomacy by strengthening regional energy partnerships, attracting foreign direct investment, facilitating technology transfer, and advancing Kenya's leadership within the EAC and the AU.

xiii) Initiate a high-level diplomatic dialogue with the Governments of Uganda and Tanzania to negotiate an East African Energy Infrastructure Pact. The objective of this pact shall be the harmonization of the Kenyan refinery, the EACOP, and planned Ugandan refining capacity into a complementary, non-duplicative regional value chain that collectively maximizes value retention, market access, and investor confidence.

6. The Ministry of Environment, Climate Change and Forestry should:

xiv) Promote environmentally sustainable refinery development through strengthened ESG standards, emissions management, cleaner production technologies, public awareness on carbon reduction measures, and protection of coastal and marine ecosystems.

7. **The Ministry of Environment, Climate Change and Forestry should:**

xv) Expand specialized education, research, and workforce development programs in petroleum engineering, petrochemicals, industrial manufacturing, logistics, digital energy systems, and applied research to support refinery-linked industries and technological innovation.

8. **The National Security Council and Relevant Security Agencies should:**

xvi) Strengthen the protection of critical energy infrastructure through integrated cybersecurity, maritime security, intelligence sharing, emergency preparedness, business continuity planning, and coordinated protection of refineries, ports, pipelines, storage facilities, and associated digital infrastructure.

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