PRESS STATEMENT ON THE GOVERNMENT-TO-GOVERNMENT IMPORTATION OF PETROLEUM PRODUCTS

On 10th March 2023, the Government of Kenya entered into Master Framework Agreements (MFAs) with Aramco Trading Fujairah FZE (Aramco), Abu Dhabi National Oil Company (ADNOC), Global Trading Ltd and Emirates National Oil Company (Singapore) Private Limited (ENOC) for the supply of petroleum products under a Government-to-Government arrangement (the G-to-G arrangement).

The G-to-G arrangement was mainly intended to address the US Dollar (USD) liquidity challenges and exchange rate volatility caused by the global dollar shortage at the time. This exposed the country and the region to the risk of disruption of supply of petroleum.

From a macroeconomic perspective, the country is set to realize greater benefits from an accumulation of foreign reserves as demand for foreign exchange from the oil sector eases, arising from deferred payments for petroleum. This would also ease speculative tendencies in the foreign exchange market that had exacerbated exchange rate volatility and the sharp depreciation of the Kenya shilling in the past. Exchange rate stability and slow-down in currency depreciation, supports economic recovery and slow down the growth of public debt. This exchange rate stability is a regime of floating exchange rate supported by higher levels of foreign exchange reserves provides an effective shock absorber to external economic shocks, that further reinforces investor confidence,

The first three Letters of Credit (LCs) under the G-to-G arrangement were issued as follows:

LC	Issue Date	Cargo	Maturity	LC Value (USD)
1st LC	17th Mar 2023	Jet A1/DPK	29th Sep 2023	72,242,033
2nd LC	3rd Apr 2023	Super Petrol	25th Sep 2023	83,804,865
3rd LC	24th Apr 2023	Super Petrol	13th Oct 2023	82,795,812
			Total	**238,842,710**

So far, these are the earliest maturing LCs under the G-to-G arrangement**.** It is worthwhile noting that these LCs, with a **combined value of USD 238,842,710.12,** have **already been settled** (prepaid before maturity) without distorting the forex market.

Payment for the entire import of Jet A1/Dual Purpose Kerosene and the transit portion of Super Petrol and Diesel imports under the G-to-G arrangement is made in USD and such amounts credited to an escrow account. The Kenya Shillings that paid for the local portion of Super Petrol and Diesel imports are credited to a separate escrow account and subsequently converted into USD as each individual LC maturity date nears. Currently, the USD escrow account holds **USD 1 Billion** while the **Kenya Shillings escrow account** holds **KShs. 115 Billion** which will ensure timely and seamless payment of all maturing LCs.

A Treasury and Risk Management Committee (TRIMCOM) composed of Government, Nominated Local Oil Marketing Companies and the Financing Parties has been closely monitoring the go-to-market dates for USD conversions for various LCs to ensure timely fulfilment of all LC obligations. The G-to-G arrangement has therefore been de-risked and more Financing Parties have joined in with others at advanced stages.

The country has been able to realize the following benefits from the implementation of the G-to-G arrangement:

1. The G-to-G arrangement has eliminated spot purchases for the USD by about 100 Oil Marketing Companies which previously created speculative pressure in the spot market. The G-to-G does not therefore in any way expose the country to exchange rate volatility or depreciation, but rather protects the economy from such negative effects.
2. Thirty-five (35) cargoes have successfully been delivered under the G-to-G arrangement assuring the country and the region of continued supply of petroleum products;
3. The Government has been able to leverage on the economies of scale resulting from the G-to-G arrangement to renegotiate for a reduction in the Premium and Freight at a time when the Premiums and Freights for the rest of the world are on a steep upward trend driven by the recent production cuts by OPEC, the ongoing Russia-Ukraine conflict and the approaching winter in the Northern Hemisphere. Reductions

of up to USD 30 per metric ton have been realized which will greatly cushion the country going forward.

GOK through the Ministry of Energy and Petroleum and the National Treasury will continue monitoring the implementation of the G-to-G arrangement to ensure continued security of supply of petroleum while at the same time ensuring maximum benefits to the country and the region.

Cabinet Secretary

National Treasury & Economic Planning

26th September, 2023