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COMPETITIVE RESPONSE STRATEGY OF EAST AFRICA COMMUNITY CUSTOMS UNION AND PERFORMANCE OF THE OIL INDUSTRY IN KENYA

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ABSTRACT

Performance is the main goal of any business organization. The EAC Customs Union assist to level the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries, which should assist the region to advance its economic development and poverty reduction agenda. However, there has been no empirical study that has focus on determining the influence of competitive response strategy of East African Community Customs Union on the performance of Oil Industry in Kenya. The purpose of the paper is to determine the relationship between competitive response strategies of EAC Customs Union on performance of oil industries in Kenya. This research adopted descriptive research design. The study carried out a census of all the 14 oil companies in Kenya. The study respondents comprised the general manager, financial manager and human resource from every company making a total of 42 respondents. A questionnaire was used as primary data collection instrument. The collected data was summarized, coded and tabulated. Descriptive statistic technique means and standard deviation were used to analyze the data. Inferential statistics correlation and regression analysis was also done to establish the relationship between variables. The study established that there is a significant relationship between competitive response strategies of EAC Customs Union on performance of oil industries in Kenya. Efficiency and effectiveness of customs procedures has a significant influence on the trade performance in Kenya. This is evidenced by the performance of Oil trade in Kenya among East Africa Community which has been high since introduction of Customs union. From the findings, the study concludes that competitive response strategy of customs union lead to an increase in performance of oil industries in Kenya.

Key Words: Competitive Response Strategy, Customs Union. Performance of the oil industry

INTRODUCTION

Regional economies have become the core of social life and policy making (Schiff, 2019). The new regionalism tends to focus on various regional conditions geographic social, resources, technology, and market (Pearce, 2020). The Customs Union strategy has the potential to form the basis for expanding trade in the region. In today's economic terms a Customs Union is a form of macro-economic integration between two or more countries based on the elimination of internal customs borders and the establishment of common import and export tariffs. According to Nixon (2023), in the hierarchy of macro-integration, the Customs Union stands in the middle, between a Preferential

Customs Area, where member states trade at preferential tariffs or on a duty-free basis, and a Political Union, where the common market place is accompanied by a unified economic policy (Newlyn, 2023). The formation of the Customs Union (CU) of Belarus, Kazakhstan and the Russian Federation is probably the most important trade policy change in Central Asia in recent years. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labor, goods, and capital across national borders, reducing the possibility of regional armed conflict, and adopting cohesive regional stances on policy issues, such as the environment, climate change and migration (Fox, 2024)

Customs Duty in many developed nations has been used as a policy instrument to attract foreign capital for export industries and to make the maximum use of the country's comparative advantage (Jayawickrama & Thangavelu, 2020). By moving towards the creation of one economic region through the Customs Union, industries performance becomes of interest to parties ((Rahedi, 2023).Oil Companies strategy plays an important part in determining the competitiveness of oil industry in the global market (Kasekende & Nagendo,, 2020). As governments embrace trade liberalization, oil firms have become increasingly exposed to fierce competition from a growing array of international suppliers (Schiff, 2021). These competitive pressures have stimulated a range of strategic changes across industries. An important survival tool for oil firms is the formulation of a global marketing strategy cost leadership/differentiation (Andraz & Rodrigues, 2010).

Given that customs duties constitute a significant source of government revenues in most of those countries, choosing the appropriate mechanism for collecting and allocating customs revenues is an important challenge for officials (Seyoum & Manyak, 2019). Many firms use customs duty to facilitate global sourcing and collaborative supply chain networks (Tybout, 2018). Dispersing certain activities across the transnational value chain through successful global business strategy lowers costs influence gain competitive advantage is considered a (Jayawickrama and Thangavelu, 2010). In short, customs duty allows firms to leverage differences between economic areas to support cost-effective production (Hangi, Mbilinyi & Lunogelo,2019). Efficiency seeking elements of multinational company's global strategies. The subject of customs union has attracted limited research interest despite the growth of customs union in many countries reduce national welfare by creating distortions in the economy and another that underscores their positive role in industry host countries (Hoekman & Olarreaga, 2021).

Oil companies in Kenya operates in East Africa community initiate and transmit the export supply response through the establishment of affiliates and collaboration with local firms (Rhee and Belot, 2012). Kee, Nicita and Olarreaga (2014) stated that Oil firms shift production to different locations to attain cost competitiveness with the building up of competition as the product cycle reaches maturity. These locations feed the local markets in host countries as well as those in other countries. The Kenya Oil operating companies in East Africa concentrated in low and medium-technology oil sectors characterized by increased import competition (Chiumya, 2020). Despite the critical role of customs union in East Africa Community oil industry, there has been scanty or no empirical studies for instance Mugisa, Onyango and Mugaya (2009) that focuses on effects of customs union on specific sectors in the East Africa Community market. Previous study has focus on eastern and southern Africa (EAC, 2024)). For instance Rahedi carried out a study on effects of the common market for eastern and southern Africa (COMESA) on the export of manufactured products from Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature

There are various theories which explain the benefit of CU in different regional economic integrations. This study relies on Viner's model as the point of reference to the impact of CU in Tanzania's intra East Africa trade performance (Pearce, 2009). According to Schiff and winters (2003), a well-crafted trade bloc can raise efficiency and economic welfare among its members. It is known that Free Trade Areas (FTAs) change the prices of imports from partner states as a result of tariffs reduction. The effective reduction of price changes the patterns of demand which may lead to adjustment of trade and output flows (Mistry, 2020). This is achieved through facilitation of consumer choice and increasing competition among producers. When countries reduce obstacles to trade, markets enlarge giving more efficient producers' entry into countries where prices are naturally high (Newlyn*,* 2023). This is best explained by the theory of trade creation and diversion based on the conventional interpretation of Viner's (1950).

Trade diversion occurs when a CU like the EAC-CU diverts trade away from a more efficient supplier outside the EAC region, towards a less efficient supplier within the union. This is likely to either reduce Tanzania's national welfare or improve despite the trade diversion. On the other hand, trade creation occurs when a CU creates trade that would not have existed otherwise without the formation of the CU. In this case, as a result, supply will come from a more efficient producer of a given product. Gains occur if higher-cost domestic production is replaced by cheaper imports from one/or all EAC partner states (Otieno and Shinyekwa, 2021). CUs tend to move price relationships between products to or away from equality with the real rates of transformation between the corresponding products (equalization of all relative prices and rates of transformation is the condition for optimization) tariff elimination among member countries brings relative prices and rates of transformation to equality while moving in the opposite direction the relationship between imports from partner countries and from third countries (Schiff, 2020).

2.2 Determinants Driving the Design and Level of the Customs Union

In many developing-country customs unions, the difficulties of agreeing on a common external tariff and on the distribution of revenues have proved to be so great that the resulting tariff schedules tend to include numerous country or sector-specific exceptions and sensitive lists (Ngugi, 2009). Although the CARICOM CET is largely in place, it allows broad scope for tariff reductions and suspensions, as well as for national derogations. The CET in Mercosur does not cover all sectors, and it includes special regimes for the automotive and sugar sectors (Tybout, 2018). An often-stated objective of most customs unions among developing countries is to promote a harmonized reduction in internal and external trade barriers in order to better integrate the region into the multilateral trading system. There are, however, arguments that seem to suggest that CUs create pressures for more protectionism. Like other integration initiatives, CUs permit member countries to combine their market size and thereby increase their market power. Since trade policy is set jointly, this measure could strengthen their incentive to adopt high CETs in order to improve their terms of trade. That is, they can reduce global demand for an imported product, and thereby decrease the import price, by charging higher tariffs (Nixon, 2023).

The establishment of a CU also changes the power of lobbies, but it is not clear whether the result will be stronger or weaker demand for protection. It is possible that lobbying pressure within a CU may be diluted, compared with national lobbying for protection within an FTA. As Rahedi (2015) suggested, it is more costly to lobby for a tariff increase in a CU than in an individual FTA member country because there may be more opposition to overcome or more representatives to influence. Moreover, the returns to lobbying activities are less under a CU, given that an extra one percent tariff protection becomes available to all members. Ngugi (2019) provide a formal treatment of the argument that a customs union is a more effective instrument for diluting the power of interest groups than is an FTA.

2.3 Empirical Review on Competitive Response Strategy for Customs Unions in Oil Industry

Using the WITS-SMART simulation model, Kee, Nicita and Olarreaga (2015) in their paper provides insights on the effects of the East African Community Customs Union principle of asymmetry on Uganda with regard to trade, welfare and revenue effects since 2005. The end to the phased tariff reduction on category B products (these products were treated as sensitive products in 2005) increased trade creation and welfare effects. This effect shall have a reflection on consumer surplus in terms of reduced prices (Kemp, 2020). The results also suggest that government shall incur a tariff revenue loss which should not be ignored given the fluctuating growth in the general trade tax revenue; hence the need to strengthen domestic ability to mobilise revenue or seek alternative source of funding (Nixon, 2023).Odhiambo (2010) argues that NTBs in EAC, like in any other region, result in delays and increased costs which ultimately hinder the free movement of goods and services.

DeRosa, Obwona and Roningen (2022) conducted their study on evaluating the implementation and the impact of EAC-CU covering the three original Partner States, namely Kenya, Tanzania and Uganda. Using descriptive statistics, their results were that there are some uncertainties regarding the establishment of the regional integration and others saw it as unrealistic although the general finding was that the EAC-CU has generally led to increased cross-border and EAC extra regional trade in all Partner States.Geneva Kemp (2020) conducted a study on the Non-Tariff Barriers in trading within the East African Community (EAC), focusing on trade trends among member countries before and after the introduction and implementation of the protocol. The study which is based on the documentary review found out that, there has been decreasing trend in the intra EAC trade among the member countries.

3.0 RESEARCH METHODOLOGY

This research adopted descriptive research design. This research design involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data. Descriptive studies portray the variables by answering who, what, and how questions .According to Kothari (2018), descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. The design was deemed appropriate because it would provide a great depth of responses resulting in a better and elaborate understanding of the phenomenon under study where the population of interest in oil companies in Kenya was selected for the study. The study respondents comprised the general manager, financial manager and human resource from every company making a total of 42 respondents. A questionnaire was used as primary data collection instrument which was divided into two parts.The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics means and standard were used to analyze the data. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables for easy of understanding and interpretations. The content analysis was used to analyze the respondents' views on competitive responses of East Africa customs duty on performance of Oil industry in Kenya.

4.0 DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

It elaborates on the response rate, presents findings under specific objectives and presents overall comparison of the factors. The respondents were 42 where 39 respondents completed and returned the questionnaires. This constituted to 92.85% response rate. The researcher administered the questionnaire with the help of the research assistants and hence the high rate of respondent's rate. Kothari(2018) indicated that respondents of 50%, 60% and 70% response rate is sufficient for a study therefore 92.85% responses was excellent.

4.2 Competitive Responses East African Community Customs Union on performance

The study sought to know whether implementation of the Customs Management Act started in January 2005 has been successful. From the findings, majority 64% 0f the respondents indicated that Customs Management Act started in January 2005 has been successful while 36% of the respondents indicated that Customs Management Act started in January 2005 has not been successful. Respondents further stated that under the provisions of the Customs Management Act, the oil company operates successfully with the EAC-Customs Union legislation in January 2005. Additionally, the East African Community Customs Management Act, 2004 borrowed many of the principles, standards and recommended practices such as transit, inward and outward processing, application information technology and export processing zones. This is in line with EAC Business. Council (2021), which states that it was expected that the Customs Union would come to be fully implemented in January 2010, after the 5-year transition period.

Table 1 Determinants Influencing Implementation of East Africa Community Customs Union

	Mean	**Std Dev**
Pooling market power	4.72	0.67
Coordinating trade policies among member of EA state	4.35	0.33
Combining efforts to negotiate with the rest of the world	4.87	0.81
Interaction associated with a CU can foster trust	4.44	0.48
Decrease the risk of conflicts in trade	4.73	0.75
Avoiding trade deflection while facilitating more fluid trade flows among member of EA states	4.68	0.70
Generate greater economies of scale	4.89	0.87
Promote a harmonized reduction in internal and external	4.46	0.51

trade barriers

The study sought to investigate the extent to which the given factors have led to Implementation of East Africa Community Customs Union. From the findings, majority of the respondents indicated that indicated that generating greater economies of scale, combining efforts to negotiate with the rest of the world, decreasing the risk of conflicts in trade, pooling market power and avoiding trade deflection while facilitating more fluid trade flows among member of EA states have led to implementation of East Africa. Community Customs Union to a very great extent as indicated by a mean of 4.89, 4.87, 4.73, 4.72 and 4.68 with standard deviation of 0.87, 0.81, 0.75, 0.67 and 0.69. The study further found that most of the respondents indicated that promoting a harmonized reduction in internal and external trade barriers, interaction associated with a CU can foster trust and coordinating trade policies among member of EA state factors have led to implementation of East Africa Community Customs Union to a great extent as indicated by a mean of 4.46, 4.44, 4.40 and 4.35 with standard deviation of 0.51, 0.48, 0.47 and 0.33 respectively. This is in line with East African Community (2024), which states that the broad objectives of the Customs Union include elimination of internal tariffs and non-tariff barriers in order to facilitate the formation of a large single market and investment area, harmonization of trade policies between partner states and other countries by way of the Common External Tariff (CET) and creation of a single customs territory to enable partner states to enjoy economies of scale with a view to supporting economic development in the region. This implies that the establishment of a Customs Union has been as a result of various beneficial factors.

Table 2 Influence of Common External Tariff (CET) on trade performance in oil industry in Kenya

	Mean	Std Dev
Has greatly liberalized the oil industry in East Africa Community through	4.86	0.77
Reduction of oil export taxes	4.91	0.87
Has enhanced predictability for oil exporters and investors in Kenya	4.64	0.73
Has led to an increase in oil imports under the 3 tariff bands at 63.6%	4.73	0.69
Has led to an increase in tariff dispersions within petroleum products in the oil industry in Kenya	4.49	0.57
Led to deviation from regionally agreed rates of petroleum products	4.40	0.43

Table 2 presents the extent respondents agreed with the given statements on influence of Common External Tariff (CET) on trade performance in oil industry in Kenya. From the findings, majority of the respondents strongly agreed that there has been reduction of oil export taxes, CET has greatly liberalized the oil industry in East Africa Community through, that CET has led to an increase in oil imports under the 3 tariff bands at 63.6% and has enhanced predictability for oil exporters and investors in Kenya as indicated by a mean of 4.91, 4.86, 4.73 and 4.64 with standard deviation of 0.87, 0.77, 0.69 and 0.73. From the findings, most of the respondents agreed that CET has led to an increase in tariff dispersions within petroleum products and has led to deviation from regionally agreed rates of petroleum products in the oil industry in Kenya as indicated by a mean of 4.49 and 4.40 with standard deviation of 0.57 and 0.43 respectively. This is line with Venebles (2023), who stated that the joint, consensual determination of the external tariffs may provide incentives to agree on higher CETs, since these imply higher preference margins and benefit partners' firms. This implies that a well-designed and generally accepted CET is crucial for the sustainability of a customs union.

Table 3 Revenue increase in oil industry in Kenya

	Mean	**Std Dev**
Improvements in economic performance	4.61	0.66
Improvement in tax administration like simplification of tax laws and regulations, improvement in staff competencies	4.51	0.59
Growth in oil trading activities attract investors in Kenya	4.88	0.64
Greater reliance on other taxes (income tax, VAT) other than trade taxes (import duties)	4.65	0.60

Table 3 presents the extent to which respondents agreed with the given statement concerning revenue increase in oil industry in Kenya. From the findings, majority of the respondents strongly agreed that revenue increase in oil industry in Kenya has led to growth in oil trading activities and attraction of investors, greater reliance on other taxes such as income tax, VAT other than trade taxes (import duties) as indicated mean of 4.88 and 4.65 supported by standard deviation of 0.64 and 0.60. Most respondents agreed that revenue increase in oil industry in Kenya has led to improvements in economic performance and in tax administration that is simplification of tax laws and regulations as well as improvement in staff competencies as indicated by a mean of 4.61 and 4.51 with standard deviation of 0.66 and 0.59.

Competitive Responses of EAC Customs Union on oil industry investment

Table 4: Influence of EAC Customs Union on oil industry investment

	Mean	**Std Dev**
Led to harmonizing oil investment policies in Kenya	4.64	0.73
Increase in incentives such as government subsidies to improve performance in the region	4.73	0.69
Improve effectiveness of oil trade laws	4.60	0.51
Experience variations in minimum capital threshold requirements increasing oil trade performance	4.53	0.56
Increase Cross-border oil investments in other EAC members	4.50	0.47

From table 4 above, majority of the respondents strongly agreed that EAC Customs Union has led to increase in incentives such as government subsidies to improve performance in the region, led to harmonizing oil investment policies and improve effectiveness of oil trade laws in Kenya as indicated by a mean of 4.73, 4.64 and 4.60 with standard deviation of 0.69, 0.73 and 0.51. Most of the respondents agreed that the companies experience variations in minimum capital threshold requirements increasing oil trade performance and cross-border oil investments in other EAC members as in dated by mean of 4.53 and 4.50 with standard deviation of 0.56 and 0.47. The results is supported by chiff (2021) that embrace trade liberalization, oil firms have become increasingly exposed to fierce competition from a growing array of international suppliers and competitive pressures have stimulated a range of strategic changes across industries.

Pearson Product moment correlation coefficients (rs) and P-values were used in criterion decision in making inferences. The significant value was tested at 0.01 or 0.05

Table 5: Correlation Analysis

		Performance of Oil Industries in Kenya
Liberalization of the oil industry in East Africa Community	Pearson Correlation	. 717**
	Sig (2-tailed)	.0000
Fostering predictability for oil exporters and investors in Kenya	Pearson Correlation	. .542**
	Sig (2-tailed)	.000
Increment of oil imports	Pearson Correlation	. .779**
	Sig (2-tailed)	0.000
Reduction of oil export taxes	Pearson Correlation	. .773**
	Sig (2-tailed)	0.000

*- Correlation is significant at the 0.05 (2 tailed)

The results in Table 5 indicates that, there exists a strong , significant and positive correlation between liberalization of the oil industry in East Africa Community and Performance of Oil Industries in Kenya as indicated by correlation factor, r=0.7177, PV=0.0001<0.000). The results indicated that there is a strong , significant and positive correlation between Fostering predictability for oil exporters and investors in Kenya and Performance of Oil Industries in Kenya as indicated by correlation factor, r=0.542, PV=0.0000<0.01).Correlation findings revealed that strong, significant and positive correlation between Increment of oil imports and performance of Oil Industries in Kenya as indicated by correlation factor, r=0.7779, PV=0.0000<0.01).Also, there as a strong , significant and positive correlation between Reduction of oil export taxes and Performance of Oil Industries in Kenya as indicated by correlation factor, r=0.773, PV=0.0001<0.000).This implied that competitive response of custom duty reforms contribute to performance. The findings is supported by Hoekman and Olarreaga, (2021) that efficiency seeking elements of multinational company's global strategies. The subject of customs union has attracted limited research interest despite the growth of customs union in many countries reduce national welfare by creating distortions in the economy and another that underscores their positive role in industry host countries.

Multivariate Regression Analysis

The study perform multiple regression analysis to determine whether combined total sum variables predict dependent variable as recommended by Mugenda (2008).

Table 6: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828[a]	.685	.651	.29336

Predictors: (Constant), Liberalization of the oil industry in East Africa Community, Fostering predictability for oil exporters and investors in Kenya, Increment of oil imports and reduction of oil export taxes

b. Dependent : Performance of Oil Industries in Kenya

Table 6, the value of adjusted R^2 is 0.651. This implied that, there was a significant variation of 65.1% of Performance of Oil Industries in Kenya due to change in competitive response strategy of custom duty reforms as indicated by Liberalization of the oil industry in East Africa Community, Fostering predictability for oil exporters and investors in Kenya, Increment of oil imports and reduction of oil export taxes .

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.935	4	1.734	20.145	.000[b]
	Residual	3.184	37	.086		
	Total	10.119	41			

Predictors: (Constant), Liberalization of the oil industry in East Africa Community, Fostering predictability for oil exporters and investors in Kenya, Increment of oil imports and reduction of oil export taxes

b. Dependent: Performance of Oil Industries in Kenya

The F-calculated of 20.145 reported at 0.000< 0.05 far exceeded that F-critical 2.1780. This clearly indicated that there existed a goodness of fit between competitive response strategy and Performance of Oil Industries in Kenya.

Table 4.1: Beta Coefficients

Coefficients a Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.577	.311		11.503	.000
	Liberalization of the oil industry in East Africa Community	0.610	.047	.583	12.974	.002
	Fostering predictability for oil exporters and investors in Kenya	0.569	.038	.484	14.986	.0011
	Increment of oil imports	0.418	. .055	. .331	7.602	.0015
	Reduction of oil export taxes	0.651	.073	.398	8.915	.0001

Predictors: (Constant), Liberalization of the oil industry in East Africa Community, Fostering predictability for oil exporters and investors in Kenya, Increment of oil imports and reduction of oil export taxes

b. Dependent: Performance of Oil Industries in Kenya

From the results in Table 4., constant value in regression model was α= 3.577. This reveals the level of Performance of Oil Industries in Kenya holding the influence of competitive response strategies of customers duty constant. Regression results revealed that Liberalization of the oil industry in East Africa Community had a significant positive influence on performance of Oil Industries in Kenya as indicated by 0.610, PV = .002<0.05, t=12.974. Regression results revealed that fostering predictability for oil exporters and investors in Kenya had a significant and positive influence on performance of Oil Industries in Kenya as indicated by coefficient 0.569, PV = .0011<0.05, t=14.986.

in Table 4. Indicated that Increment of oil imports had a significant and positive influence on on performance of Oil Industries in Kenya as supported by beta coefficient 0.418, PV = .0015<0.05, t=7602). Also, regression results established that reduction of oil export taxes had a significant and positive influence on employee performance of Oil Industries in Kenya as indicated by coefficient 0.651, PV = .0015<0.05, t=8.915). The finding demonstrated that competitive response strategy as define through liberalization of the oil industry in East Africa Community, fostering predictability for oil exporters and investors in Kenya, increment of oil imports and reduction of oil export taxes. The results is supported by Kee, Nicita and Olarreaga (2014) that Oil competitive response strategy as define through liberalization of the oil industry in East Africa Community shift production to different locations to attain cost competitiveness and improve performance of oil industries in Kenya.

5.1 Summary of the findings

From the findings, the study established that implementation of the Customs Management Act started in January 2005 has been successful as indicated by majority 64% of the respondents. Under the provisions of the Customs Management Act, the oil company operates successfully with the EAC-Customs Union legislation in January 2005. The establishment of a Customs Union has been as a result of various beneficial factors. The study revealed that the various factors that have led to implementation of East Africa Community Customs Union to a very great extent are generation of greater economies of scale, negotiation with the rest of the world, to decrease the risk of conflicts in trade, pooling market power and avoiding trade deflection, promoting a harmonized reduction in internal and external trade barriers, interaction associated with a CU can foster trust and coordinating trade policies among member of EA state. However the level of awareness of the customs union among oil trade companies in Kenya have been revealed to be above average, despite the many benefits that the Customs Union bring to oil trade companies and the generally positive connotations Kenya enjoys.

The study established that implementation of the Customs Management Act influence trade performance in Kenya to a very great extent. This is evidenced by the accurate, predictable and speedy movement of goods across the border which has offered an attractive feature in the strategy of trade performance in Kenya. Efficiency and effectiveness of customs procedures has a significant influence on the trade performance in Kenya. This is evidenced by the performance of Oil trade in Kenya among East Africa Community which has been high since introduction of Customs union. There has been reduction of oil export taxes, CET has greatly liberalized the oil industry in East Africa Community through, CET has led to an increase in oil imports under the 3 tariff bands at 63.6% and has enhanced predictability for oil exporters and investors in Kenya. CET has led to an increase in tariff dispersions within petroleum products and has led to deviation from regionally agreed rates of petroleum products in the oil industry in Kenya**.** Customs union implemented in East Africa Community increased revenue in oil industry in Kenya.

EAC Customs Union has led to increase in incentives such as government subsidies to improve performance in the region, harmonised oil investment policies and improved effectiveness of oil trade laws in Kenya. The study established that the companies experience variations in minimum capital threshold requirements increasing oil trade performance and cross-border oil investments in other EAC members. Introduction of East Africa Community customs unions has been effective in improvement of oil trade performance in Kenya, a position supported by all the respondents. However the effectiveness has been challenged by lack of a well-informed standards programme, national sovereignty, conflicting interests at national and regional levels and slow implementation of decisions reached regionally. appeals system that are not yet working properly in spite of existence of appropriate provisions under the existing laws, lack of efficient dispute settlement mechanism, financial constraints and structural rigidities challenges effectiveness of EAC customs union in improving oil trade performance in Kenya to a great.

The study established that liberalization of the oil industry in East Africa Community had a significant positive (0.610, PV = .002<0.05, t=12.974) influence on performance of Oil Industries in Kenya , that fostering predictability for oil exporters and investors in Kenya had a significant and positive influence on performance of Oil Industries in Kenya as indicated by coefficient 0.569, PV = .0011<0.05, t=14.986 and that increment of oil imports had a significant and positive (0.418, PV = .0015<0.05, t=7602) influence on performance of Oil Industries in Kenya. Also, regression results established that reduction of oil export taxes had a significant and positive (0.651, PV = 0.0015<0.05, t=8.915) influence on performance of Oil Industries in Kenya The finding demonstrated that competitive response strategy as define through liberalization of the oil industry in East Africa Community, fostering predictability for oil exporters and investors in Kenya, increment of oil imports and reduction of oil export taxes extent.

5.2 Conclusions

The study concludes that the broad objectives of the Customs Union include elimination of internal tariffs and non-tariff barriers in order to facilitate the formation of a large single market and investment area, harmonization of trade policies between partner states and other countries by way of the Common External Tariff (CET) and creation of a single customs territory to enable partner states to enjoy economies of scale with a view to supporting economic development in the region. Abolishing customs barriers and non-tariff barriers boosts the volume of trade and prompts growth. From the researcher perspective the simulation results show adverse effects from the EAC Customs Union. The certainty, clarity, flexibility and timeliness have been realized in Kenya oil companies have been as a result of implementation of the Customs Management Act. The argument that level of awareness and support for the Customs Union is not enough, and would be exposed to the more developed and competitive Kenyan producers and that the design and implementation of Customs Management Act be addressed to be key drivers of trade policy reform and to occupy an important place in policy debates is valid.

The study concluded that competitive response strategy as operationalized by liberalization of the oil industry ,fostering of predictability for oil exporters and investors in Kenya had a significant and positive influence on performance of Oil Industries, increment of oil imports and reduction of oil export taxes significantly and positive influence performance of Oil Industries in Kenya .The finding demonstrated that competitive response strategy as define through liberalization of the oil industry in East Africa Community, fostering predictability for oil exporters and investors in Kenya, increment of oil imports and reduction of oil export taxes extent

5.3 Recommendations

EAC Customs Union has led to increase in incentives such as government subsidies to improve performance in the region, harmonised oil investment policies and improved effectiveness of oil trade laws in Kenya. Companies experience variations in minimum capital threshold requirements increasing oil trade performance and cross-border oil investments in other EAC members. To reap the benefits of Customs Union from EAC to the fullest possible extent, oil companies in Kenya needs to address problems that could negate the potential benefits from the EAC CU. To maximize the benefits of the EAC membership, policy makers need to initiate measures to harmonize tariffs under COMESA, the EAC as well as under the different RIAs to address the shortcomings of shared jurisdiction between the different regional initiatives since the present responsibility for enforcement is not demarcated precisely. This finding illustrates existence of exploited EAC custom union potential at oil firm level. To enhance this potential, it is necessary for an analysis at product level to be commissioned to show the EAC market potential and to determine impediments and devise strategies for businesses to apply in order to capture the market potential.

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