

Somalia: Can It Escape The Resource Curse? **By Dr.Mohamed Firimbi**

Oil and gas policy formulation and implementation requires careful planning since the nature of the industry contracts are mostly long term in nature- more than 20 years. Production sharing contracts (PSCs) which are the norm these days instead of the old R/T systems require special expertise that is rare in many parts of the developing countries. One of the most pressing concerns of most governments dealing with petroleum law or licenses are which strategies to use in policy formulation, the division of profits, government take, the **work program**, royalties, cost recovery limits, government carry, ringfencing, or crypto taxes.

In that regard, the guiding lights in petroleum fiscal system design are **efficiency, flexibility, and, of course global competition**. The objective is to create a system that efficiently captures economic rent (profits) yet is flexible enough to encompass a variety of conditions and possible outcomes. The process by which governments attempt to determine “what the market can bear” is sometimes referred to as fiscal marksmanship. This can be a heavy burden for a government agency or ministry. Some countries avoid the risk of getting it wrong by allowing substantial elements to be open for competitive bidding or negotiation. The ultimate test is the number of licenses awarded. In the proposed law there is no PSC that is attached as a model.

Somalia is considered by many experts in the oil and gas industry as being the last frontier for the “Black Gold” in Eastern Africa. The country has **twelve sedimentary** basins that have barely been explored with only **sixty three wells** drilled in the whole of Somalia that is according to an expert in the Eastern African region. In North Sea there are close to **4230 wells** drilled which is a sixth of the size of Somalia’s sedimentary basins. We also know that most of the wells drilled in the 50’s and 60’s had shown good oil shows and prospects and most wells were “**TD**” before actual depth were reached due to **external political influences** that the time was not ripe for oil production in Somalia. In Somali state of Ethiopia in what is called the **Ogaden Basin** there are close to **4 TCF of gas and 30-50 million barrels of condensate**. I will look closely at the competing forces the weaknesses, strengths and possible solutions and on whether their actions can bring more security threats in the region.

In Puntland the leader of that administration Mr.Mohamud Musa aka “Adde Muuse” gave concession rights for the whole of Puntland to his close relative who is also a director of Range Resources- a sham deal which is still causing unrest in Puntland politics. Concessions that belonged to former oil companies that declared “force majeure” in the late 1980’s. Range Resource is a minnow Australian outfit that has no revenues or track record in the Exploration and Production field. The TFG has not signed anything with Range and they seem to have passed the “hot rod” to CANMEX another shadowy company with tentacles in Canada and parts of Europe. CANMEX is also another shell company just like Range, the question comes who is being fooled that oil will be drilled in Somalia and what are the intentions of these smaller companies to the Somali Oil equation? Currently due to demand for rigs it will cost around **\$10million** dollars for a **single** well onshore and for offshore **\$30million** do these companies have that cash?

In Somaliland which is considered as part of Somalia also gave rights that belonged to major oil companies in the 1980's to an unknown "Shell Company" called Rova Energy which is base in London. They somehow managed to bring along for a farm-in partnership with Ophir Energy another small company that is controlled by Mvelaphande Holding of Tokyo Sexwale a South African tycoon who might become the next South African President. We can confirm that the South African foreign policy is to assist Somaliland from breaking away from the rest of Somalia so that **Resources** might be tapped in earnest by South African and other European companies. The deal is claimed was signed by the Mohamed Ibrahim Egal administration and the Riyaale Administration in Somaliland has not even renewed it. A Norwegian company also claims to have been given a concession by the Somaliland administration and a fight back will surely arise from all this shadowy deals that has been done without referencing any Laws.

Recently the Minister of Energy Hon. Abdullahi Yusuf Mohamed no relations with the president signed agreements with the Chinese for an undisclosed amount of money. We have heard that President Abdullahi Yusuf and his family are pushing for the Chinese while the Prime Minister and the Director General are pushing for little know companies in the Middle East and Far East (Kuwait Energy and Medco). Research we did on both these companies points to first Kuwait Energy is not an operator of any oil fields and Medco has been embroiled in the [Sidoarjo's catastrophe Java Province](#) **Oil drillings where it is facing close to \$1billion dollars in costs of a Lava flow** Indonesia's worst environmental disaster that can put the company under receivership even though they have sold out the "risky" part to a "ghost" company.

Both deals are far from the interests of Somalia and lie somewhere in the greed of the Prime Minister and his President. I used to hear from Somalis before that Abdullahi Yusuf does not like **Money** and that he is not **Corrupt**, what is he doing in the sector that would have been left for technocrats and lastly what are his offspring's doing in matters that would have been left for the State to sort out. As for Prime Minister Gedi he is doing the usual thing...."corruption as usual". It seems both camps were interested in quick "bucks" without caring for their reputations and that of the Somali State.

Let me gently analyse what is wrong with the current "**Hydrocarbon Law**" of **Kuwait Energy** and **MEDCO** and the short coming are:

- ✓ 49% of SPC cannot be given to the companies that have crafted their "own Hydrocarbon Law" that is Kuwait Energy and MEDCO
- ✓ What is a **Reconnaissance Authorisation**? Let us look at the first word Reconnaissance and the dictionary say:

. The act of reconnoitring.

- **Military**: a search made for useful military information in the field, esp. by examining the ground.
- **Surveying, Civil Engineering**: a general examination or survey of a region, usually followed by a detailed survey.
- **Geology**: an examination or survey of the general geological characteristics of a region.

- ✓ Does it mean that the work program is compromised? You guessed it right article 12.2.3 of the proposed law States that”**Nothing in a Reconnaissance Authorisation authorises the holder to drill a well or to have any preference or right to enter into a Production Sharing Agreement**” reconnaissance in technical terms means Aero magnetic or Gravity Gradiometry surveys which are not accurate and cost less to do – roughly it cost around **\$500,000** for these services and **\$10million** for a **WELL DRILLING. It means that all companies in Somalia do not have to drill a well.....mmm interesting. Where are Somalia’s educated elite? we know the so called “TASK FORCE” could not see this dangerous clause.**
- ✓ In article 24.1 states that each Production sharing agreement SPC will have a maximum participation interest of **30%** interest by which **49%** will be owned by Kuwait Energy and MEDCO giving them an unfair, uncompetitive stand against other interested parties - another shoddy deal. It could create a legal minefield from previous concession holders considering that by default Kuwait Energy and Medco control huge chunks of Somalia’s Energy resource (49% of 30%) which is **14.7% of all Contracts in Somalia** , what a deal!
- ✓ The law was not Somali made but imposed by some oil companies who had an “Agenda”
- ✓ The so called Petroleum task force consisting of 11 people had 7 foreigners and 4 Somalia which was un-proportional numerously and technically they were outnumbered and outgunned, lastly who has chosen them to act on behalf of Somalis and what experience and education do they have in the Oil and Gas sector. Last but not least it seems the Prime Minister has too many Special advisors what are their functions? because I have seen many people with the same title some being even French

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| Hon. Abdullahi Yusuf Mohamed | Minister of Petroleum and Energy |
| Hussein Ali Ahmed | Special Advisor to the Prime Minister: |
| Oil & Gas | |
| Mr Mohamud Olow Barrow | Head of Mission, Somalia Embassy, |
| Jakarta | |
| Mr Mohamed Farah Dirie | Permanent Secretary: Oil & Gas |
| Sara Akbar | Chief Executive Officer, Kuwait Energy |
| Manssour Aboukhamseen | Chairman, Kuwait Energy |
| Hilmi Panigoro | President MedcoEnergi |
| Patrick Molliere | Special Advisor to the CEO MedcoEnergi |
| J. Jay Park | Partner Macleod Dixon LLP |
| Thomas E. Valentine | Partner Macleod Dixon LLP |
| Rajeev Madhavan | Bus Dev Manager IHS Energy |

- ✓ The Chairman of SPA cannot become the CEO a question of misaligned duties and responsibilities, that could create an executive chairman which is institutionally dangerous for a parastatal

In brief, I think that there are many other errors, omissions and details that need to be reviewed by competent persons and I will leave that to the experts in Law, Finance, Geophysics and Geology. Let me come to what is wrong with the other side consisting of the **Minister** who has been very slow in crafting his own law and who also has been trying to **appease all his masters** – the President and the Prime-Minister and the **“kids”** who have brought him the mantle of the position of Minister.

The report we are getting from reliable sources is that the **Minister** is also pushing for the same sort of deals with the Chinese and it seems that at first the Chinese promised meagre funds for the deal that looked at selling 30% of Somali Petroleum Corporation. The question is when is the SPC going to be formed? And I thought that would come around when new discoveries are made as stipulated in the draft law again it comes down to short-sightedness from both camps- **quick “bucks”, unprofessional, unpatriotic, and greed** playing centre stage in decision making.

In conclusion it seems that all these small companies have been trying to corner a poor African state that does not have **skilled people** and **knowledge** to claim what they are **worth** rather than what they are **thrown at** and I suggest the following:

Possible Solutions

Somalia had a **Mining Code called Law 7 of January 1984**, which was the law that was used by most oil companies in the late 80's, it was never consulted and secondly modern Laws were not also sought after, original stake holders (concession holders) have not been involved. It would be better to revisit that law and take cues from other **Energy laws** such as Nigeria's, Switzerland, Australia that all have Federal system of government.

The **norm for the industry** is to first have a conference where the Ministry invites all potential bidders for an introduction to the Somali arena and latter invites companies to bid for acreage in a competitive, open and transparent method. These avenues were never taken even when experts advised the government on the need to be transparent in all operations but again it seems Somalia needs to learn a lot from other countries like Nigeria who have faced the “**Resource Curse**”. Recently Saudi Arabia which was bank rolling the coffers of the Islamic Courts Union (ICU) that were driven out of Somalia by the TFG has changed positions and is suddenly giving Somalia Bilateral Aid to the tune of millions of dollars to the TFG, was this stance coincidental? Is it also that the Chinese are interested in Somalia's Energy sector that funds are being provided? Also bear in mind that the TFG has been in existence for close to 3 years without any financial or technical assistance from the Arab World, why now? Maybe the funds might become a curse rather than a blessing we shall see!

African states should help Somalia in making sure that it is not abused by minor and major oil companies who send forward shadowy companies that act as proxy for their interests. The Security threat in the region might escalate if financial resources fall into the wrong hands and are misused by a government that wants to settle old scores. IGAD and the African Union should be aware of the dangers of “petro dollars” that can and might destabilize an already unstable Somalia. The **African Energy Commission (AEC)** which was set up to be the Continental African structure with a given responsibility **to ensure, co-ordinate and harmonize the protection, preservation, development and the national exploitation, marketing and integration of the energy resources of the African continent** should wake up and rescue Somalia from the clutches of power hungry minnow international oil companies.

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