

The status of oil and gas exploration in Somalia

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Geologists and professional in the oil industry became fascinated with Somalia's geology and its oil and gas potential since the 1920s. Most of the land and the continental shelf of Somalia (marine), nearly 90% is underlain by a sedimentary section of varying thickness ranging from 2000 m to more than 5000 m. Available are source rocks, generating oil and gas; reservoir rocks that are supposed to keep the oil or the gas and the existence of other necessary traps, seals and structures that are needed to keep oil/gas in place. Practically exploration started as early as 1948. The first exploratory well was Sagaleh – 1 well in what is now Puntland in 1956 and since then eight sedimentary basins were recognised in Somalia. In the past, many companies came in and were awarded exploration acreages. The companies carried out gravimetric, magnetic, seismic surveys and exploratory drilling. Some relinquished their exploration rights and some held to their concession areas until Somalia became unstable and the state collapsed in 1991. Major companies such as Conoco-Phillips, BP, Shell (Pecten), Chevron, ENI (Agip), Total and others declared “force majeure” until Somalia becomes again more stable and business as usual. That moment seems to be approaching and many companies are keeping their eyes on Somalia.

However, there are companies who tend not to wait for the mainstream to kick in and instead they are minor to medium companies, aggressive and energy-savvy risk-takers. At present, the following companies (risk takers) are active in Somalia:

#	Date	Oil Companies doing business in Somalia	Type of work or activity
	2014	<ol style="list-style-type: none"> 1. Soma Oil & Gas under a deal with the Federal Government of Somalia 2. Genel in Somaliland 	<ol style="list-style-type: none"> 1. SeaBird Exploration is acquiring up to 20,000 km of 2D seismic data off the coast of Somalia. The company is also reprocessing historic seismic data using modern techniques, and will prepare an evaluation of Somalia's petroleum potential. Soma Oil & Gas will create a data room for the Federal Government of Somalia, into which all available data will be placed, including the newly acquired data from the Seabird seismic survey. 2. Genel Oil is restarting its work in 2014 after a

		<p>3. Ophir Energy/RAK Petroleum (Dubai-based UAE company)</p> <p>4. RangeRes./Africa Oil and Horn Petroleum</p> <p>5. Liberty Petroleum Corp in Galmudug</p>	<p>disagreement with Somaliland back in 2013.</p> <p>3. Ophir says it has a legitimate contract with Somaliland. Its partner, RAK Gas LLC of United Arab Emirates, in September acquired a controlling stake in the lease; RAK Gas didn't respond to inquiries. BP says its Somali leases are valid and that it is discussing them with Mogadishu.</p> <p>4. Range Resources intends to restart its activities in Nugal Valley after two disappointing wells in Dharor Valley, Puntland.</p> <p>5. Liberty is discussing with TGS, a geophysical company to undertake seismic and other investigations on their behalf.</p>
1	October 2013	CWC/Somali Oil and Gas/Ministry of Resources Sponsored Summit in London	The Federal Government of Somalia coupled with CWC and Soma Oil and Gas sponsored the Summit in which over 100 delegates gathered to hear the Somali plan and regulatory framework and activities paving the way for the Majors to come back and resolve issues with Puntland and Somaliland so that exploration efforts are not hampered.
2	2008 - 2014	Various companies signed deals with the Federal Government or its Federal Members such as Puntland and Somaliland (though Somaliland claims to be independent of Mogadishu).	<p>1. Indian Ocean: Soma Oil & Gas (only exploration agreement) with some incentives with the Federal Government in August 2013. Seismic exploration is being carried by SeaBird Exploration.</p> <p>2. Somaliland: Genel Energy (Turkish/British) is carrying out seismic surveys in Somaliland and will drill in late 2014 or early 2015. DNO signed a deal but it is not active at present in Somaliland.</p>

			<p>3. Somaliland: DNO international an Oslo-based Norwegian Company entered into a Production Sharing Contract covering Block SL 18 onshore Somaliland in Washington DC during an official working tour by H.E Ahmed Mahmud Silanyo in April 2013.</p> <p>4. Puntland: Range Resources (with Horn Petroleum and Africa Oil) dug two dry wells in 2013 in Dharor Valley and now they intend to work in Nugal-Valley block.</p> <p>5. Galmudug - Liberty Petroleum Corp: Signed a deal with Galmudug in 2013.</p>
3	2008	The Somali Parliament passed the Petroleum Law of Somalia	This work was done by Jay Park of Macleod Dixon LLP in conjunction with a Somali professional team and Kuwait Energy and Medco Energy (Indonesian).
4	2007	TGS-NOPEC Geophysical in Somaliland:	TGS-NOPEC Geophysical Company (TGS) has completed processing and interpretation of two new multi-client programs in Somaliland. Acquired in partnership with the Somaliland Ministry of Water and Mineral Resources (Ministry), the programs include 5,300 kilometres of marine 2D seismic, gravity, and magnetic data, plus approximately 34,000 km. of high resolution aeromagnetic data covering onshore areas. TGS carried out seismic survey in the coastal waters of the Gulf of Aden and magnetic survey at onshore
5	2007	Canmex in joint venture with Range Resources in Puntland	Canmex will start drilling for oil in Puntland at the beginning of 2008 in blocks previously awarded to Conoco. [Conoco declared “force majeure” in 1990.]

The Somali Mining Code, (The old Law that was in use prior to 2008):

- **Law No. 77 of 22nd November 1970 and Its Regulations (Decree No. 173 of 3rd April 1971**

The above Law and Regulation governed petroleum exploration and production until the Petroleum Law of 2008 came into operation. Petroleum belongs to the State which grants three types of licenses: Oil Exploration (OEP), Oil Prospecting Permits (OPP) and Oil Mining Leases (OML).

1. OEP – There is no limit to the size of an OEP under which one can carry out only surface geological and geophysical surveys.
2. OPP - An OEP holder can obtain OPPs with a maximum size of 400 square miles (1036 square kilometres) and then carry out geological and geophysical work as well as drilling in accordance with a programme agreed to with the Ministry. Both OEPs and OPPs are for initial terms of two years and can be renewed three times in one year.
3. OML – Once a discovery is made, the Ministry may grant an OML normally covering 160 square miles. Royalties of 15% on crude oil and 12.5% on gas are due. The level of income tax payable is defined in each concession agreement.

Two concession agreements were negotiated during the second half of 1979, one with Arco and the other one with Texaco. As a result of these negotiations, the Ministry realised that its procedures for awarding exploration acreage and its legal framework needed revision to:

- a. Provide for a competitive bidding on small blocks;
- b. Specify data to be delivered by the company to the government;
- c. Define working commitments in physical terms (example wells to be drilled until stated objective is reached);
- d. Provide for prompt acreage relinquishment;
- e. Assure development of a discovery or provide for its reversion to the Government and
- f. Improve the financial benefits to the country.

The Petroleum Law (2008) of Somalia:

- Adopts the Production Sharing Agreement as the principal form of host government contract to be used in Somalia.
- The grant of petroleum rights under a production sharing agreement should involve a signature bonus and a share of profits resulting from successful petroleum exploration.
- Somalia's share of profits from a successful petroleum exploration should increase as the profitability of the venture increases to insure a fair share of profits and a durable

fiscal structure.

- The Fiscal Terms of the production sharing agreement: One of the most important terms for Somalia of the Production Sharing Agreement are the fiscal provisions. The petroleum revenue pie shared between the investor and the Federal Government and its Federal Member States in the following manner after cost recovery: The Federal Government share is 69% (Fed. Gov. + Federal Member States + regions) and the Investor share of 31%.
- Prior to 1991, a number of large reputable International Oil Companies (IOCs) had rights to conduct Petroleum exploration in Somalia under concession agreements: Shell, BP, Conoco-Phillips, Chevron-Texaco, ENI and Total. Force Majeure interrupted their ability to conduct petroleum activities. The Federal Government of Somalia continues to honour those agreements but offers the opportunity to replace their concessions with new production sharing agreements based on the model PSA: a new exploration period; new financial terms and new block sizes (one block = 5,000 km²) and any concession not converted in one year will terminate.
- Some investors have received petroleum grants since 1991. Some of these grants may suffer from some or all the following flaws:
 1. Investors without and gas operations experience.
 2. Small to very small share to the government
 3. Land blocks are too large
 4. Little or no minimum exploration obligation
 5. Exploration rights continue for an excessive period
 6. Little or no local benefits
 7. Awarded without competitive bidding
 8. No agreed sharing of revenues among Somali governments
 9. Awarded without proper legal authorisation under the Federal Government Constitution
- Such petroleum grants will need to be reconsidered or else Somalia is risking all the problems that have plagued petroleum operations elsewhere in Africa and many other places.
- Sharing of petroleum revenues: Somalia is an emerging Federal country. When federalisation is complete, Somalia will consist of a Federal Government and Federal

Member States (Puntland, Juba and other emerging states). Revenues (69%) must be shared between the Federal Government and its federal components and to some extent the local authorities in the areas of operation. Some of the items that can be share are the signature bonus, royalty, profit share, rentals, training fees, production bonus, and local community benefit.

The Challenges:

The Federal Government in Mogadishu says it considers leases by regional Somali governments invalid. The constitution "doesn't allow any federal member state or a potential federal member state to enter any agreements, whether that's Somaliland, Puntland, Juba or Galmudug or any other region," said Somalia's previous Natural-Resources Minister, Abdirizak Omar Mohamed.

After Somaliland announced the Genel deal, the Federal Government of Somalia objected: "There is no 'Independent Republic of Somaliland,' " federal oil adviser Patrick Molliere wrote in an email to Mr. Hayward. "You were the BP CEO, and you know that you cannot sign a petroleum deal with a local federal member state government." Mr. Hayward says he was unfazed: "It's not dissimilar to the experience in the Kurdistan region of Iraq." Genel says it believes the regional government has jurisdiction.

Genel's block overlaps with a ConocoPhillips lease from Mogadishu. ConocoPhillips isn't exploring in Somalia, but "We have not relinquished our interests there," a company spokesman said.

Another similar argument has occurred between the Federal Government of Somalia and its component federal member state, Galmudug. The FGS considers the deal between Liberty Petroleum Corporation and Galmudug invalid and unlawful. Shell's permit in Somalia has lain idle for more than two decades because of "force majeure" but the company, Shell, clearly prizes the acreage.

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