

## Ahead of further battles in fractured Somalia, Puntland pins its hopes on a black gold bullet

Oil means everything to Puntlanders, who believe its discovery will lift the Somali region's people out of poverty, transform the economy into a Dubai-style success story and unite all Somalis. But oil has yet to be discovered – and if it is, it might equally fuel tensions that have so far cost the lives of over 1m people. Pushing concerns aside, the government and its friends are doggedly pursuing a controversial exploration programme, writes **Nadine Marroushi**, recently in Puntland.

**O**n 19 March, Puntland's parliament approved a petroleum and minerals law, which claimed full ownership rights for the unrecognised state over its natural resources and the ability to sign deals with foreign companies. This is seen as a significant development in Puntland, a breakaway region of fractured Somalia, because it sets the terms by which any future production-sharing agreements (PSAs) will be signed between neighbouring states once a federal Somalia is formed (*AE 134/Online 14*).

In an interview in his capital, Garoowe, on 19 March, Puntland President **Mohamoud Muse Hersi** gave *African Energy* his interpretation of Somalia's new constitutional arrangements. "Somalia will be divided into four or five federal states and every state will need its own oil law. The law that was recently passed ensures that Puntland is a priority stakeholder. It also states that the resources of Puntland belong to its people." Hersi added: "We are going to share the resources with the Somali people, and this will be an annex attached to the law after the parties reach an agreement. But until a federal legislation is in place we don't have to answer to them" – Somalia's governing *Transitional Federal Government (TFG)*.

Hersi's last point has been the source of much controversy regarding Puntland's agreements with **Australian** minnow *Range Resources*, which is preparing to drill onshore this summer and has exploration rights to all of Puntland's offshore assets, as well as to its most prospective onshore mineral and oil assets. Critics say that Puntland's natural resources still belong to Somalia, since it is not an internationally recognised state, but Puntlanders remain very bullish and argue that the cash-strapped TFG is not a functioning government, and lacks any authority (*AE 128/9*). The TFG is due to hold elections in 2009, but many are sceptical whether this will happen.

A response to the law from TFG Minerals and Energy Minister **Mohamud Ali Salah** gives a flavour to the contentiousness of Puntland's moves. According to *Garowe Online*, a controversial online news website set up by a former Puntland presidential candidate now based in Australia, Salah issued a statement which called Puntland's attempt to ratify an oil law "unacceptable", since the constitution states that "natural resources... are considered 'national property' and the TFG is the peoples'

caretaker authority." Salah is said to have described the law as "nepotism, looting of public property, corruption and fraudulent."

Puntland Energy and Minerals Minister **Hassan Osman Mohamoud** published his response on the Puntland government website, calling Salah's intervention "ill-advised and inflammatory". He demanded "that the TFG stops certain individuals from sending treasonous and threatening letters to our partners in the development of our region." Mohamoud added: "Puntland reserves the right to manage its own development without sacrificing the 'common good'... Puntland is willing to share its revenues in a just and equitable manner with the rest of Somalia." His statement goes on to say that Puntland has been "reassured by senior members of the TFG that the views of the minister are his views only and not a press release authorised by the TFG." This had not been confirmed by the TFG as *African Energy* went to press.

### Building trust

While politicians argue over the legalities, Puntland's IOC partner, *Australian Stock Exchange* and London *Alternative Investment Market*-listed *Range Resources*, is pursuing its drilling programme, strongly backed by Hersi's government. "We advise any company that approaches Puntland to consult *Range Resources* first," Hersi said. But, he added, "if they fail we may go somewhere else."

The trust between *Range* and Hersi has been built up through a variety of means. *Range* has been one of the few companies to show interest in Puntland, and follow through with its commitments, at a time when few companies could afford the risk. The company has provided a source of revenue to the government's over-stretched budget, which is fed only by port customs, airport and land revenues. According to the Vice Minister of Fisheries **Abdiwalla Abdirahman Gayi**, Boosaaso port earns \$35m–40m/yr. Finance Minister **Mohamed Ali Yusuf** said the annual budget is 30bn Somali shillings (\$21.6m).

Managing director **Mike Povey** told *African Energy* that since 2005, when *Range* started working in Puntland, it has raised \$20m–25m for the government, which includes contributions to the development of airports at Garoowe, the capital, and

Bossasso, where Range's headquarters are based. Another key link is Range director **Liban Bogor**, who is Hersi's (much younger) uncle. Canadian-educated and based in Dubai, Bogor also serves as economic adviser to Hersi.

Povey has also been instrumental in engaging with Puntland's parliament to make transparent Range's activities, and to reassure Puntlanders that their agreement ensures the government gets a fair deal. He alleges that when *China National Offshore Oil Corporation* expressed interest in the area, it proposed a PSA where it would earn 70% of revenues, while the government took 30%. According to Range, in its PSA with the government and farm-in partner *Africa Oil Corporation*, Puntland will earn up to 60% of profits (see box on page 24 in electronic editions).

### The work must go on

Range has set its drilling date for August, at the latest, and will spud its first well at Nogal-1. A drilling rig is on its way from China; on 18 March, Range received notice that 12 containers of drilling equipment had already arrived in Djibouti (*AE* 134/14). The agreement is that *Africa Oil* has to drill four wells in three years in the Nogal and Dharoor basins to earn an 80% interest. Range expects the spending programme for the four wells to exceed the original estimate of \$45m, and instead expects to spend \$80m (in which case, 2.5% of costs must be sourced by Range). After four wells are drilled it would cost around \$10m to drill each well and would take about 60 days.

*Consort Private*, the company which sold its exploration rights in Puntland to Range, will earn 15% of shares after the first well is drilled and get a bonus payment of \$20bn after four wells. *Africa Oil* has signed an agreement with a company to shoot 2D seismic in Dharoor by May.

The next step is for Range to find a partner for its offshore assets. Povey told *African Energy* it was looking for a partner that can add value and experience. *Africa Oil* is seen as an ideal partner for the onshore. Its major shareholder is Swedish player *Lundin Petroleum*, which was present in Somalia with *ConocoPhillips* prior to the civil war. Conoco is said to have spent \$150m during its time in Somalia, but wrote off its assets, because of US pressure not to deal with Somalia and the benefits of tax pay offs. *African Energy* could not find a public record of this.

The emirate of **Ras Al-Khaimah (RAK)** also signed a number of deals with the Puntland government for oil exploration, but has turned out to be a disappointment (*AE* 119/2). Povey claimed that RAK had no financial resources to offer. For a 70% farm-out, Range would need \$10m-20m up front from a partner and a commitment of \$2m to cover the seismic.

In a mid-March interview, RAK's driving force, Crown Prince Sheikh **Saud Bin Saqr Al-Qasimi**, told *African Energy* there had been no developments in Puntland after signing an agreement to form the *Hydrocarbon Development Company*. The emirate is focusing only on helping Puntland with its livestock, Sheikh

Saud said. Alongside Saudi investor *Al-Jaber Group*, RAK is investing in a *Livestock Holding Ground*, which will bring Puntland's livestock to international standards.

### Security concerns

A key concern for government officials and Range Resources is how Puntland is going to secure itself against any potential internal or external threats, either from Somaliland or southern Somalia, if oil is found. A risk assessment survey was conducted for Range by US-based *Akela Security*, which concluded that the Puntland government needed \$5m to secure itself.

The challenge is sourcing the funds to do this. According to Hersi, "when we strike oil we will have money and then we can protect ourselves." According to Akela operatives, a Puntland-registered security company is being formed, in which 98% of staff will be local, from all of Puntland's clans. Akela is already providing security training to *Puntland Intelligence Service (PIS)* officials, and will continue to do so with the formation of the new company.

PIS officers also receive military training from the US' *Central Intelligence Agency (CIA)*, which is concerned mainly with routing out terrorist Islamic cells. This has not been as big a problem in Puntland as it has been in Somalia, but the threat is there. The *Islamic Al-Shabaab*, involved in violence in the Somali capital Mogadishu, which is not a clan militia, claimed responsibility for a bombing in early February in Boosaaso, when 20 Ethiopian migrants and guest workers died and around 100 people were injured.

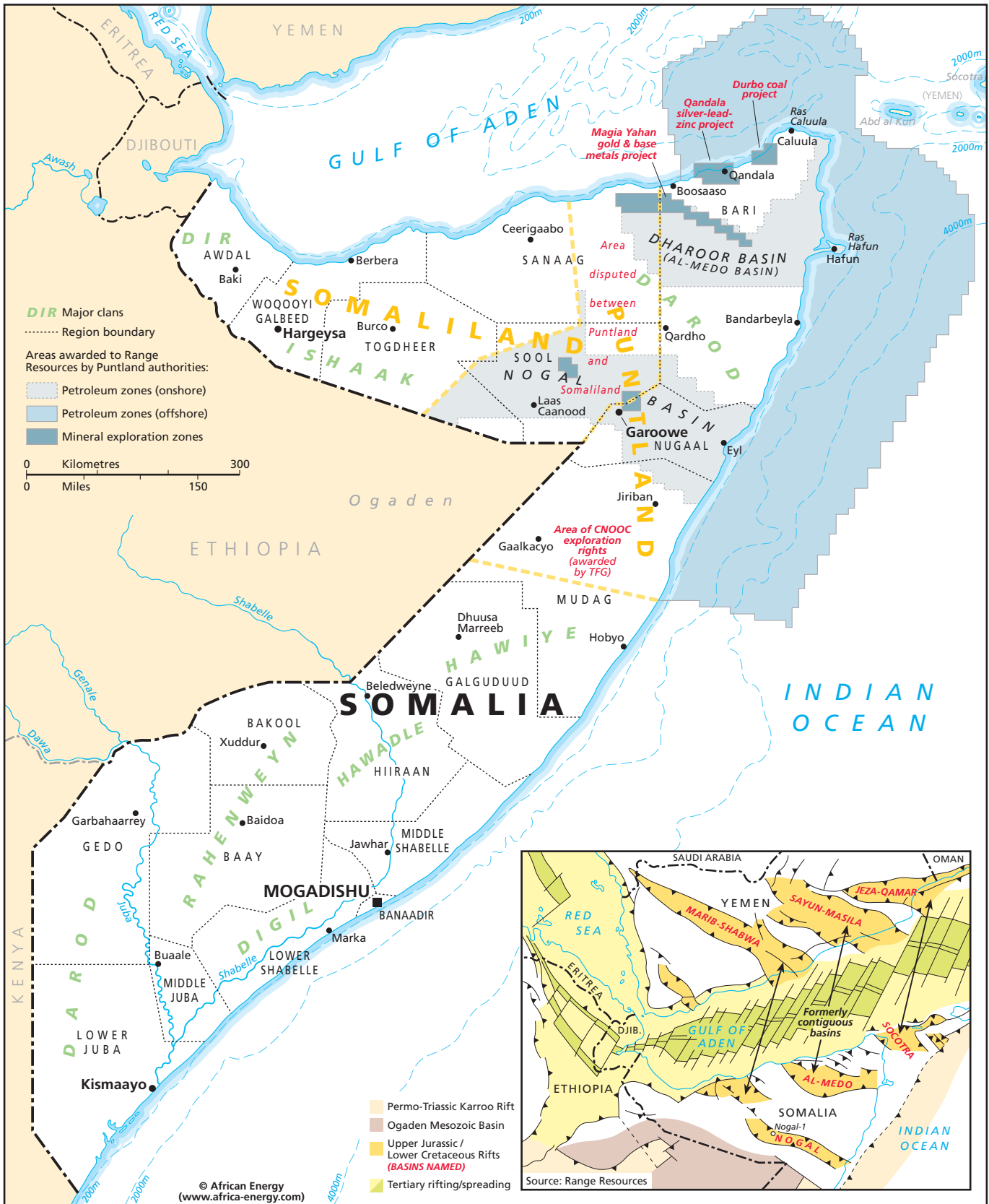
According to Akela officials, another concern is counterfeit money. *African Energy* was privy to pictures, which showed \$800,000 worth of printed counterfeit money with Puntland money changers. Finance Minister Yusuf said "we are fighting this and have already captured some of the printing machines, which were stolen. We have also captured the people involved, taken them to court, and burned the money." Asked whether a currency change was an option, Yusuf said, "we can't do that because it belongs to a federal Somalia and the central bank, but we should do it as a country because there is a lot of misplaced money... Puntland's Finance Ministry is recommending it to the TFG." A financial security system will have to be put in place if Puntland is going to develop a banking system.

Piracy and kidnappings are also key obstacles, particularly since ransom payments are being made, as is the disarmament of locals; every family is said to own an AK-47 rifle.

A major challenge to the status of autonomous Somaliland and Puntland is the dispute over the Sool and eastern Sanaag regions, which are believed to be oil-rich. Both regions fall within Somaliland's 1960 post-independence boundaries, but the argument in Garoowe is that a large portion of the inhabitants tend to identify with Puntland.

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# Resource plays and geology in Somalia and autonomous regions



“We are operating independently in the market and using our experience and balance sheet strength to help maximise prices obtained by sellers,” a spokesman told *African Energy*. “If a project with a delivery guarantee doesn’t perform, the buyer will receive substitute credits from IFC, which therefore has to undertake due diligence to get project and performance comfort.”

IFC’s first step into the carbon credits market came in 2002, when it joined forces with the government of Netherlands, via the IFC-Netherlands Carbon Facility and the *Netherlands European Carbon Facility*. These both enable IFC to purchase emissions reductions in developing countries on behalf of the Dutch government, which, in turn, uses the emissions reductions to comply with its *Kyoto Protocol* commitment.

In South Africa, IFC’s new agreement covers up to 900,000 carbon credits from fertiliser producer *Omnia*, whose emission reductions will come from a nitrous oxide destruction facility.

In India, IFC signed a deal for 850,000 carbon credits from *Rain CII Carbon (India)*, which is the largest merchant of calcined coke in the world. Rain used IFC financing to install waste heat recovery facilities that help eliminate its dependence on fossil fuels for power generation and generate carbon credits as a result.

Given a renewal of the Kyoto Protocol, which expires on 31 December 2012, “we see an increasing use of the delivery guarantee”, the spokesman predicted.

**SOMALIA**

**Regions face complex politics in ‘oil-rich’ borderlands**

A major challenges to the status of Somalia’s autonomous Somaliland and Puntland territories is the dispute over the Sool and eastern Sanaag regions, which are believed to be oil-rich. Both regions fall within Somaliland’s 1960 post-independence boundaries, but the argument in Garoowe is that a large portion of the inhabitants tend to identify with Puntland.

Puntland’s establishment in 1998 provided a homeland for the **Harti** community, a sub-group of the **Darod** clan. The largest Harti sub-clan, the **Majeerteen**, inhabits Puntland, while two smaller groups, the **Dhulbahante** and **Warsengeli**, are mainly within the colonial borders of Somaliland. Members of the Harti clan also inhabit the southern coastal town of Kismayo in southern Somalia, which was one of the reasons given for Puntland’s keenness to form a united federal Somalia.

A further complication to the dispute over Sool and eastern Sanaag is that many Dhulbahante and Warsengeli feel they are inadequately represented by Somaliland, Puntland or Somalia’s governing *Transitional Federal Government (TFG)*. “Some of them want to declare a state of their own, independently of

others,” a Somali analyst told the *International Crisis Group*. Since loyalties in these disputed territories are divided, and administration is weak, tensions occasionally flare into armed conflict.

Puntland President **Mohamoud Muse Hersi** alleges that these tensions are being fuelled by a major oil company, which held concessions in the region during the 1980s. He claimed oil interests were funding insurgents from Mogadishu to stir trouble in the region. Further, “certain oil companies are trying to push Somalilanders, but we won’t let this happen. Companies should first learn who is who.”

According to Hersi, Somaliland’s President **Dahir Rayaale Kahin** was his junior officer when they both served in the army. Asked about a potential confrontation if oil was discovered, Hersi said “our people are there to defend themselves sufficiently.” Puntland’s Women Development and Family Affairs Minister **Asha Ghelle Dirie** claimed “the problems between Somaliland and Puntland are coming from Mogadishu.” Puntland Finance Minister **Mohamed Ali Yusuf** said “we are determined to resolve our problems through peaceful means. Somaliland will be more friendly with us once oil is struck.”

Either way, the Puntland government realises the need to secure itself and is working with its three forces – the military, police and coast guards – to do so. The government estimates that it needs around 2,000 forces to secure its borders. It is looking to oil to finance this and much else

**The Range/Africa Oil Puntland PSA**

According to the production-sharing agreement signed by Range Resources, Africa Oil and the Puntland government, a 20-year development plan is in place should a commercial discovery be made, with the option of extending by up to five years if the fields are still on commercial production. Further extension would be possible through negotiations. The royalty rate for produced oil is set as a sliding scale.

From (b/d)	to (b/d)	Royalty rate
–	25,000	4.0%
25,000	50,000	5.0%
50,000	75,000	7.0%
75,000	100,000	9.0%
100,000 and above		10.0%

- **COST OIL** – after deduction of royalty, up to 70% of gross annual income will go towards unrecovered capital, operating capital and expenses.
- **PROFIT OIL** – after royalty and cost oil deductions, profit is split 50% to the government and 50% to other parties (Africa Oil 80%, Range 20%).
- **TAXES** – any taxes that may in the future be imposed on petroleum operations shall be paid by the Puntland government on behalf of all parties out of the government’s share of profit oil.