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Rival explorers optimistic as controversial Somali oil law goes to parliament

Efforts to pass a draft oil law are widening the rift within the transitional government and Somalia's breakaway states.

As well as new deals in Puntland and Somaliland, IOCs may be set for a return, writes **Nadine Marroushi**.

The draft oil law being discussed in Somalia's Baidoa-based

parliament, which sets out the terms for production sharing agreements (PSAs) and establishing a national oil company (NOC) with two foreign players, indicates continuing tension between **Transitional Federal Government (TFG)**, President **Abdullahi Yusuf Ahmed** and Prime Minister **Ali Mohamed Gedi**. It also highlights further disunity between the TFG and the breakaway **Republic of Puntland** (*AE 119/1*). The law, being heavily promoted by Gedi, would nullify existing PSAs in Somalia, Puntland and the **Republic of Somaliland**, instead giving international oil companies that declared *force majeure* and quit Somalia 16 years ago the right to resume their activities.

Analysts told *African Energy* that this had been done to attract as much investment as possible to a government that has very little financial strength.

According to the draft bill obtained by *Reuters* in August, companies that held concessions before 30 December 1990 will be given the right to return to those areas under new PSAs, which set out different financial terms, exploration periods and obligations, as well as new block sizes. A PSA template stipulated that the government would receive 8% of revenues in cash on the first 25,000 b/d if the price was \$55-plus/bbl; it would receive 14% on output of more than 100,000 b/d.

A number of oil majors, including **Royal Dutch Shell**, **Amoco** (now part of **BP**), **ConocoPhillips**, **Chevron** and **Italy's Eni** held exploration concessions in the 1980s before leaving in 1991 when warlords removed the late **Mohamed Siad Barre** from power, creating a vacuum which has descended into anarchy. Oil majors have been very reserved in their public response to the announcement. Chevron said it had no plans to re-enter Somalia. Gedi has said oil majors, including Shell and Conoco, had been in touch with the TFG.

A number of factors would deter IOCs from returning, including the security situation and the TFG's instability – not to mention the lack of proven reserves. "There needs to be a lot more drilling done to collect data about Somalia's resources," Brussels-based **International Crisis Group** energy analyst **Charles Esser** told *African Energy*.

According to Gedi, the oil law has 85% support in parliament, and was due to be passed by the end of August. Esser said it was likely parliament would approve an oil law with the aim of setting up an NOC, but it remained unclear how the deal would be structured with the named partners, **Kuwait Energy Company (KEC)** and **Indonesia's Medco Energi**.

There is speculation that KEC/Medco would get 49% with 51% being held by the TFG. But it remains unclear how KEC and Medco will divide the stake between themselves or how much investment each will put into the NOC. KEC was unavailable to comment and a Medco spokeswoman said she was unauthorised to speak.

Somalia needs foreign partners because it does not have the capacity to operate alone even if it were to just monitor IOCs' operations. KEC has helped Gedi to draft the new law, as well as providing technical assistance and training.

Severed relations, contested contracts

Debate continues over who has authority to grant exploration licences in the two breakaway regions of Puntland, which describes itself as 'autonomous', and Somaliland, which wants full independence (*AE 100/6*). The TFG claims it has authority over Puntland's resources and Puntland denies this.

According to Esser, "the TFG does not have people on the ground in Puntland who would support their laws." Puntland President **Adde Muse** said his administration planned to pass its own legislation in favour of previous oil agreements.

Adding to the confusion, another clause in the TFG's draft law says: "any right to conduct petroleum operations in Somalia granted after 30 December 1990 shall terminate and cease to be a binding obligation on the Government." This brings into the question a number of existing licensing agreements, including one signed by the TFG President Ahmed and **China National Offshore Oil Company (CNOOC)** in July – of which PM Gedi said he was "unaware".

Although the CNOOC exploration permit does not interfere with **Range Resources'** concession areas, both of which are in Puntland, one analyst told *African Energy* that the Puntland government has still not approved the agreement.

Range battles on, KEC digs in

Neither **Australian** minnow Range nor the Puntland authorities seems to be put off by the draft legislation. Range managing director **Michael Povey** told *AE* that "the Puntland government has reaffirmed its commitment to us and our partner **Africa Oil**, and we are still on target for drilling by the end of this year or early next year."

Puntland's Finance Minister **Mohamed Ali Yusuf** wrote a letter posted on the web-based Puntland news agency **HorseedNet** expressing his disapproval of recent moves by Gedi and the TFG. He said: "recent moves by PM Gedi to introduce a so-called national oil law through the TFG parliament must be viewed with great suspicion, and little credence should be given to the move."

Yusuf added: "Puntland and the TFG government acknowledge the contracts by Range Resources... as it stands Puntland stands to earn billions in royalty and profit share payments from the development of its natural resources. Puntland has always maintained that it would share these earnings with any legitimately formed federal Somali government. Put simply, the proposed structure would be detrimental to both Puntland and Somalia as a whole... [Gedi] has decided to go down a path (without any consultation with Puntland or its own president), which throws out Puntland's efforts to bring in foreign investment when no other entities were prepared to come in."

Gedi and KEC chief executive **Sara Akbar** are said to be old friends. Akbar gained public prominence during her time with state-owned **Kuwait Oil Company (KOC)**, where she was the only female to volunteer to join fire-fighters who helped extinguish more than 700 oil wells set ablaze by retreating **Iraqi** forces during the 1991 Gulf War. She was a founding member in 2005 of KEC, an E&P company targeting a production of 50,000 b/d by 2010, from 1,971 b/d at end-2006. KEC has operations in Kuwait, **Egypt, Oman, Yemen, Russia** and **Cambodia**. As well as its head office in Kuwait, the company has offices in Cairo, Jakarta, Muscat and Sanaa, plus three locations in Iraq – Baghdad, Basra and Erbil. KEC's main shareholders include Kuwait's **Global Investment House** with 40%, **Aref Investment Group** (37%) and a Chicago-based company with 15%. Smaller shareholders include a brother of the Kuwaiti oil minister who resigned amid controversy in June, Sheikh **Mohammed Al-Jarrah Al-Sabah** (who holds less than 2%) and Kuwait's **Zahra Holding Group**.