Somalia to struggle to tap Western oil investment

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By Tom Bergin - Analysis

LONDON (Reuters) - Western oil majors who quit Somalia at the beginning of its long civil war have no plans to take up a government invitation to return, and their insistence that 1980s deals remain valid threatens Somalia's hopes of oil riches.

Prime Minister Ali Mohamed Gedi is trying to push a new oil law through parliament that would pave the way for foreign investment in oil and gas exploration.

Gedi told Reuters last week he hoped companies that were formerly active in the country -- Conoco, now known as ConocoPhillips (COP.N: Quote, Profile, Research), Chevron (CVX.N: Quote, Profile, Research), Amoco, now owned by BP Plc (BP.L: Quote, Profile, Research), AGIP, a unit of Italy's ENI SpA (ENI.MI: Quote, Profile, Research) and Royal Dutch Shell Plc (RDSa.L: Quote, Profile, Research) -- would return and take up new contracts.

However, none of the companies previously active in Somalia said they had any plans to resume operations there.

Industry sources said concerns over security and the stability of the government, and doubts about the potential rewards, were deterring the oil majors.

"There's not a lot of excitement about it. No one thinks it's going to yield lots of elephant fields," a source at one of the firms said.

Somalia has no proven reserves, but some geologists believe oil-rich basins across the Gulf of Aden in Yemen could extend into Somalia, and that technology developed since exploration last took place could help unlock significant reserves.

Rumors abound among those active in the Somali oil business of internal Conoco files that document individual fields containing hundreds of millions of barrels of oil.

Monica Enfield, Africa specialist at industry consultants PFC Energy said that, as with Iraq's Kurdistan region, Somalia was currently more likely to receive investment from independent oil explorers.

"If they're hoping to attract investment, it's going to be from companies that have a much higher risk tolerance than traditional international oil companies," she said.

CLAIMS REMAIN

Two little-known companies have already acquired rights in the semi-autonomous Puntland region and the breakaway Somaliland enclave, but the companies lack the resources necessary to develop the fields alone, industry sources said.

Somalia needs mid-sized firms prepared to bet hundreds of millions of dollars on exploration and development.

However, BP and Shell insist that their exploration contracts from the 1980s are still valid.

Conoco, Chevron and ENI declined to comment, but industry sources said they also probably had similar claims.

Although the contracts typically spanned only a few years, BP and Shell say the civil war forced them to declare "force majeure", a term that effectively stops the clock on the contract but keeps it intact.

BP and Shell declined to say what steps they might take if the transitional government awarded licenses over the blocks they formerly owned to other companies, but Chris Flynn, senior energy associate at international law firm Ashurst, said it was likely they would seek legal redress.

"There is a possibility that they could claim, under international law, that the assets have been expropriated," Flynn said.

This threat could cast a shadow over any licensing round.

"I'm sure it will be a point of difficulty ... Most companies awarded a license don't lightly give it up," said Andrew Hayman, director at industry experts IHS.

The case of London-based White Nile Plc (WNL.L: Quote, Profile, Research) shows how larger companies often come off best from such disputes.

In July, the autonomous South Sudan government said it had withdrawn an oil block from White Nile and returned it to France's Total SA (TOTF.PA: Quote, Profile, Research), which was awarded the block by the Khartoum government in 1983.

However, one group might not be deterred by all the risks.

Flynn said Chinese and Indian state-owned oil companies enjoy political backing that provides cover against legal risks and have strategic imperatives to secure energy for their booming economies, which encourages them to bear greater financial and security risks.

Indeed, President Abdullahi Yusuf recently agreed a deal with CNOOC Ltd. (0883.HK: Quote, Profile, Research) that gave the state-controlled Chinese company exploration rights in the Puntland region.

A Somali businessman with oil interests said the government's preference was still for the western oil majors to return, but that the CNOOC deal was a warning sign to them against waiting indefinitely to do so.

"He wanted to frighten the daylights out of them," the businessman said.