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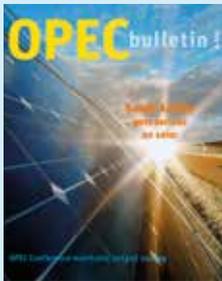
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OPEC Membership and aims

OPEC is a permanent, intergovernmental Organization, established in Baghdad, on September 10–14, 1960, by IR Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its objective — to coordinate and unify petroleum policies among its Member Countries, in order to secure a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the petroleum industry. Today, the Organization comprises 12 Members: Qatar joined in 1961; Libya (1962); United Arab Emirates (Abu Dhabi, 1967); Algeria (1969); Nigeria (1971); Angola (2007). Ecuador joined OPEC in 1973, suspended its Membership in 1992, and rejoined in 2007. Gabon joined in 1975 and left in 1995. Indonesia joined in 1962 and suspended its Membership on December 31, 2008.

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Can the discovery of oil aid nation-building in Somalia?

Somalia is not a country often associated with being frontier oil territory. However, this could all be about to change.

Oil exploration began in earnest in the country in the 1980s only to stop completely by 1991 at the outbreak of civil war. Twenty-two years later and the quest to find oil has started to gather pace once more.

Political progress and sincere efforts at reconciliation and construction have started to reopen Somalia to the international community. In this article, **Ben Turney** examines recent developments in the East African country and looks at what role the discovery of oil could have in assisting the efforts there in building this fledgling nation state.

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Excitement in East Africa

In May 2011, the *OPEC Bulletin* visited the development of the African oil industry with a special report on production in Nigeria, Ghana and Angola. Since the publication of that report, excitement has been building about the huge potential for oil discovery in East Africa.

In 2012, the *United States Geological Survey* released the findings of its survey of coastal waters stretching from southern Kenya to southern Mozambique and out to Madagascar. It suggested this area alone could play host to 27.6 billion recoverable barrels of oil and 441.1 trillion cubic feet of natural gas.

Major onshore commercial oil finds in Uganda and Kenya and world class gas discoveries in Tanzania and Mozambique have further confirmed the prospectivity of the region and some estimate that, in total, there could be over 71bn b of oil waiting to be discovered.

Such promising and underexplored frontier territory will naturally provide many opportunities for trade and the sharing of technology and expertise with existing oil-producing nations. However, it is on the very tip of the Horn of Africa that an underreported and intriguing story is starting to unfurl.

In Somalia, the efforts for finding oil now go hand-in-hand with the efforts of reconciliation and nation-building. The recent troubled history of the country is well known, but last year it went through several key milestones on its road to recovery, including the adoption of a national provisional constitution in August, the establishment of a new federal government and the successful drilling of two exploration wells in the north-east of the country.

The likely presence of significant, yet undiscovered, oil reserves could well prove to be a decisive factor in determining whether or not these successes can be built upon and a new era of unaccustomed prosperity introduced.

Dealing first with a burdensome reputation

There is a feeling that writing about Somalia should be treated with a degree of circumspection. The country has tended to attract fairly sensationalist reporting. It is true that the recent history, ongoing insurgency, lack of

Map 1: The map Somalia, its autonomous regions and Somaliland

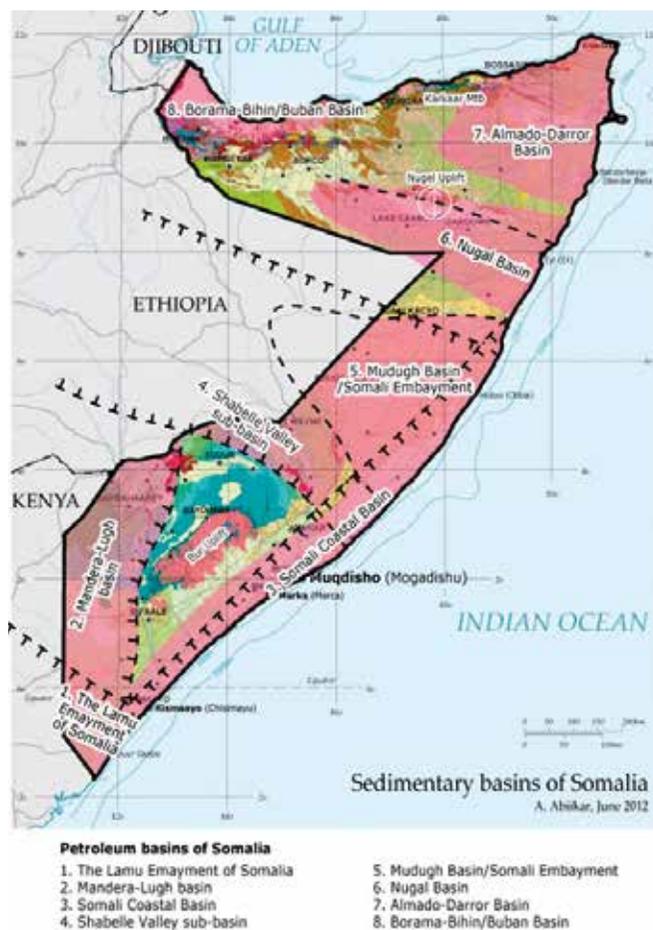


infrastructure and a complex political situation are fertile breeding ground for attention-grabbing headlines, but is such negative coverage helping the local efforts at reaching accord?

Most recently, an article appeared in the *Financial Times* about the attempts to find oil in Somalia. It had the headline 'Oil thrown on the fire' and went on to describe in detail the potentially devastating domestic and international impact this could have by igniting various rivalries.

This report all but ignored the steady progress that has been made in bringing stability to the country, since the establishment of the transitional national government in 2000, and painted a very one-sided view.

Map 2



The article drew a strong response from Norwegian Minister of International Development, Heikki Eidsvoll Holmås, who wrote to the newspaper disputing certain claims as lacking “any basis in reality”.

Specifically, he pointed out that the claims of international tensions over geological boundaries (and therefore probable oil provinces) were inaccurate. The minister wrote that both Somalia and Kenya had made clear to the Secretary General of the United Nations that the disagreement over the continental shelf boundary had not been settled, but was still going through the proper process of international resolution. Suggestions to the contrary were misleading and unhelpful.

No one will claim that the situation in Somalia is simple, or will be easily resolved. However, persistent pessimistic treatment of what is happening there will do nothing to aid the efforts at construction.

Rather than focussing so much attention on the obvious problems facing the country, perhaps a little more attention could be paid to what is being done to resolve them.

The map Somalia, its autonomous regions and Somaliland

This said, it is impossible to discuss Somalia without acknowledging at least some of the problems it must resolve. Understanding a little about the constituent parts of the Somali nation helps contextualise many of the challenges facing it.

For the purposes of this article, the internationally recognized definition of Somalia is used, as demonstrated in **Map 1**.

However, there are limitations using this interpretation,

as the internationally recognised view of Somalia fails to take into account the intricacy of national relations. Officially, the Federal Republic of Somalia is a combination of eight centrally managed areas and autonomous regions. Unofficially, the political landscape is more fragmented than that.

In large part, the situation on the ground is a legacy of the civil war and the absence of a centrally managed government. During this chaotic period, certain local groups took the initiative in managing their affairs and this gave rise to a process of self-determination and decentralization, which endures today.

This decentralized approach to government is most apparent in the north of the country. In the northeast are the states of Puntland and Galmudug, which are officially autonomous regions of Somalia. Meanwhile, the north-western province of Somaliland has gone so far as to declare itself an independent state, although it has not received any international recognition for this.

The Federal Government of Somalia (FGS) is based in the capital, Mogadishu, further to the south. As the internationally recognized ruling body, it is the FGS that foreign governments and supra-national organizations have dealt with.

However, to complicate matters, it is the northern states of Puntland and Somaliland which have been most active attracting foreign investment, directly signing production sharing agreements (PSAs) with oil companies.

A partial explanation for the more vigorous action by the northern regions is that these administrations are more embedded in their respective areas, having been operational longer than the FGS and its immediate predecessors.

This temporal advantage has meant the northern administrations have been able to rely on better developed bureaucracies than the centrally organized government and so were able to move faster.

Of course, the nature of politics has provided additional motivation to secure access to resources. Unsurprisingly, with the establishment of this nascent nation still in its infancy, there is a degree of jockeying for position, while the various groups involved seek to gain influence over the formation of the new government.

The two key bargaining chips in this game appear to be international legitimacy and direct foreign investment. While this does leave the potential for tension the situation is not necessarily as dire as some would like to maintain.

One indication of this is the willingness of foreign companies to continue work programmes, investing fairly significant funds in the regions. Although the regional PSAs have not been formally sanctioned by the FGS, this has not stopped these companies embarking on the first oil exploration efforts in the country for 20 years.

The geology of Somalia and historical exploration

To explain why foreign companies are prepared to take the apparent commercial risk of working directly with Puntland and Somaliland it helps to examine the geology of Somalia and some of the historical exploration efforts. The data collected from these has helped establish the country as such a prospective territory.

Positioned around the rim of Africa's Horn, basic analysis of Somalia's regional geology gives a strong indication of the potential for oil production. In total there are eight major oil basins, each of which could host huge reserves (see *Map 2*).

Of these, the basins to the north and southwest of the country appear to be most enticing. Some estimate these have the potential for billion barrel fields.

The south-western zones are contiguous with a Cretaceous Rift Basin, which runs through Kenya and last year yielded a discovery of several billion barrels worth of oil by a joint venture led by Africa Oil, a Canadian listed company.

However, the operating environment in this part of Somalia is still hazardous. Although significant progress has been made in restricting their operations, the Al-Shabab insurgency remains regionally active and would likely pose too great a threat to any exploratory drill site.

By contrast, the sparsely populated north of Somalia is much more stable and has arguably even more favourable geology. Now separated by the Gulf of Aden, the diagrams (see *Map 3*) show how the basins of northern Somalia were once contiguous with the prolific and producing oil basins in Yemen.

Although Yemen has never been one of the largest oil producers, its production history has still been notable. The relative ease with which its shallow reserves have been accessed and its close proximity to seaborne traffic have led to hopes that similar operations can be created in Somalia, without huge investment.

Compared with the costs of drilling in other frontier territories, such as the Arctic or off the Falklands, the

financial outlay for conducting seismic surveys and drilling exploration wells is much lower in Somalia.

There is also another historical connection between Yemeni oil and the potential in Somalia. Following the first discoveries of oil in Yemen in the early 1980s, this led to an intensification of exploration efforts in Somalia in the following years.

By the end of the decade, 12 international oil companies, including Shell, ENI, Agip, Conoco and Amoco, were all actively looking for oil in the country. Unhappily, just as their labours were starting to bear fruit, the civil war broke out and each of the companies withdrew from Somalia, declaring force majeure.

Where exploration continued in Yemen and several major finds were made, oil exploration then stopped in Somalia for nearly 20 years.

Exploration begins again in the autonomous regions

Although 60 wildcat drills had been drilled in Somalia and oil had not been found in sufficient quantities to allow commercial exploitation, a vast amount of data had been assembled about the region's geology.

This suggested that sizeable oil reserves should be present, but no further attempts to find these deposits could be made until recently. Understandably local security concerns and failing infrastructure were the key impediments preventing further exploration.

It took a joint venture, led by the small Canadian listed operator Horn Petroleum, to lead the way in opening up northern Somalia for foreign investment again.

Following an extensive seismic survey and drawing from the historical data compiled before 1991, at the start of 2012 the Horn joint venture began drilling the first of two exploration wells in the Dharoor basin in northeastern Puntland.

Unfortunately, this campaign was not successful in finding commercial quantities of oil, but it did nevertheless prove the presence of a working hydrocarbon system, good quality reservoirs and thick seal rocks.

It was far from being a technical failure, but the real triumph was that this venture had passed off without any major security or operational incidents. Fears of local attacks and lack of appropriate infrastructure proved unfounded. Horn Petroleum had clearly demonstrated that it was once again possible to search for oil in Somalia.

Since completion of the second Dharoor well in

Puntland, other larger companies have announced plans for further and more ambitious exploration initiatives over 2013 and 2014.

This time, efforts will focus on license areas awarded by Somaliland and the companies include Genel Energy, Ophir Energy and DNO of Norway. In Puntland, the Horn joint venture is required to complete two further exploration wells by October 2015.

How the FGS responds to these regional efforts will likely prove telling in the coming months.

Political progress in Somalia

There is no denying that the PSAs are causing a degree of discord between the FGS and Somaliland and Puntland. The FGS questions the validity of these PSAs and comments have been attributed to Somali President, Hassan Sheikh Mohamoud, criticizing them.

Most recently, however, he made the following statement addressing the Somali people, after his visit to the G8 meeting in June:

“We have made very considerable progress over the past year on security sector reform, political issues and rebuilding state institutions. But I am not under any illusion about the challenges that remain, and nor should you be. This is a job in progress but with much still to do.

“My priority now is to agree an inclusive political settlement on the federal framework for all Somalia; this will include agreement on power and resource sharing between the federal government and the regions.

“Additionally, I am building strong public financial management systems, in particular increasing transparency and strengthening our controls over revenue collection, allocation of budgets, and expenditure of public money.”

The “considerable progress” President Mohamoud refers to should not be underestimated.

There have been sustained and serious attempts at reconciliation in the aftermath of the civil war, which continue today. The formation of the current FGS was the culmination of a measured and inclusive process, which started in 2000 with the creation of the Transitional National Government. This was succeeded in 2004 by the Transitional Federal Government and after eight years of deliberation and carefully taken steps the Provisional Constitution was adopted in August 2012.

The Provisional Constitution formally designated Somalia as a federation. It paved the way for the establishment of the FGS, which is Somalia's first permanent

Map 3



government since the start of the civil war. The length of time it has taken for the country to reach this point is hopefully an indicator that this administration has a firm foundation to build on.

The reaction of the international community to the new government also appears to have been positive and supportive.

In April this year, UN Secretary-General Ban Ki-moon appointed Nicholas Kay, a British Diplomat, as his new Special Representative for Somalia. Then on May 7, the Somali and British governments co-hosted the Somalia Conference in London.

The aim of this conference was to help build international support for the FGS and resulted in several major international donations to assist construction, including \$18 million from OPEC Member Qatar. This was followed by further UK-brokered meetings with other world leaders at the G8 meeting in Lough Erne, Northern Ireland, in June.

Can commercial expediency trump historical enmity?

The steps taken in normalizing Somalia's international relationships should prove helpful, but the crucial tests remain at home. Much is still to be decided about the relationships between the FGS, the autonomous regions and the self-declared independent Somaliland. The situation is finely balanced, but it is not without hope.

Ultimately, what happens in Somalia will probably be the same as happens in most other countries. If the interests of enough groups are aligned then peaceful solutions can be found to the various challenges facing the country.

Even so, there persists a fairly widespread international belief that the discovery of oil in the north of Somalia could reignite the old conflict. Media coverage, such as that in the recent Financial Times piece, has reinforced this view, but this could well prove to be deeply misguided.

One thing that all the various political groups need to sustain their efforts at building functioning administrations is tax revenue. The discovery of commercial oil fields offers Somalia a unique chance at an unparalleled revenue stream.

For a country whose economy is usually towards the bottom of most league tables for indicators of wealth and economic activity, the compelling geological evidence of the presence of massive hydrocarbon systems is a generational opportunity for the people of the region to seize.

Now that international companies have once more started to pour investment into exploration activity and foreign governments are supporting infrastructure construction, it is hard to imagine a scenario that would be in the interests of the regions and the central government, which sees a return to violence.

While such an outcome is not impossible, there have been encouraging signs which hopefully make it unlikely. The consistent political progress of the last 13 years suggests that the various groups in the country have it within their grasp to reach practical and mutually acceptable accommodations.

No one will pretend the path in the future is going to be easy, but Somalia and its autonomous regions at least have vast potential resources to draw from. If these can be tapped effectively there is genuine hope that the revenue oil sales can generate will be a crucial contributor to the efforts at rebuilding this once stricken nation. ■■