



Conflict Research Programme

Memo

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Oil and Gas in the Political Marketplace in Somalia

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Overview

The prospects around hydrocarbons (oil and gas) and future oil concessions have been accelerating in Somalia since 2012. The potential in this sector is already an important factor in political dynamics in the country, as seen for example in the ongoing maritime dispute with Kenya, as well as through the interests of several different countries and the involvement of a number of commercial actors.

This memo argues that, while legislation and regulation, at least nominally, has been progressing in the last 3-4 years, it remains unfinished but now frames the operation of the political marketplace, with control over the Ministry of Petroleum and Somalia Petroleum Agency (SPA) constituting the key motivations of political elites and associated bargaining. Control of these 'institutions' enables access to informal flows of money as well as allows control over the allocation of sub-contracts, which are likely to come from the various grants and loans that will become available through the debt relief process. Control over contracts is a major issue in Somalia's political economy and political marketplace.

The memo highlights the underlying dynamics behind the regulatory developments and the push for – arguably premature – auctioning. It suggests that speculation is feeding the political marketplace in Somalia; speculation in future oil wealth (in the short-term through foreign oil companies that are willing to pay access fees, rents and other inducements up front). In addition, speculation on the operational sub-contracts that exploration will generate (logistics, security, accommodation and hospitality). These drivers are elevated in the current pre-election period, where potential unconditional cash injections and the political trading around key positions – and the control or influence of contracts – in the emerging 'institutions' are important dynamics.

The establishment of the federal government in Mogadishu, in 2012, has changed the organisation of this sector bringing it under a central authority where for years previously arrangements were made with regional authorities. In addition, past controversies associated with Soma Oil (Coastal Exploration) and TGS (Spectrum) still cast a shadow over the Somali petroleum sector and serve a useful purpose in highlighting the reputational risks of opaque engagement in this area and the need for proper regulation and oversight.

Analytical framework and methodology

1. The political marketplace framework outlines that transactional politics is more important than institution-building in contexts such as Somalia, and that new resources, such as from hydrocarbon prospects are likely to become - or are already part of -the political budgets, calculations and networks of Somali actors.¹ In this light, while legislation and regulation play a part in organising the sector and associated political dynamics, this is often to provide the appearance that formal, technical requirements are in place, disguising the real political processes taking place behind the scenes.²
2. The role of mineral rents in the organisation and operation of political marketplaces is often extremely important as can be seen in other contexts; in Sudan for example, control of oil and gold drove dynamics in this marketplace.³ In the case of Somalia, the short-term and longer-term potential rents associated with the oil/gas sector are drawing in commercial investment and political positioning. The dynamics of the political marketplace determine how that positioning plays out, with this memo suggesting that the President's office (and allies) is exerting a centralising hold where previously these rents were decentralised.
3. The memo is based on 39 interviews with a range of key informants, including Somali analysts, long-term aid experts, government officials (present and former), businesspeople, and oil sector experts. The interviews were carried out remotely between March and August 2020, as well as in person in Mogadishu, by an experienced researcher. A range of media sources, published documents and reports as well as other grey literature were consulted for the study.

Background

4. From the 1970s, geologists have demonstrated that Somalia has a promising geology for hydrocarbons.⁴ The most promising areas for oil and gas prospecting by the 1980s was believed to be found in eight petroleum basins.⁵ More recently, the prospects of offshore deposits were surveyed in 2014 by Soma Oil (now renamed Coastal Exploration)⁶ and Spectrum Geo (acquired in 2019 by TGS of Houston) in 2015, showing that the prospects of offshore oil is promising (see Map 1).⁷
5. The risk that politically influenced positioning around potential oil resources could deepen Somalia's underlying tensions and lead to conflict was emphasised in a UN report in 2014 which recommended a moratorium on oil licensing until Somalia had the political and institutional stability to manage the vast funds that could be generated.⁸ Post-civil war initiatives to regulate the oil and gas sector have been ongoing since 2008 and are important to the operations of the political marketplace as well as to the perceptions of progress to reach critical benchmarks by the international community. In 2012, a new Petroleum Law had to be drafted to bring the 2008 law in accordance with the new provisional constitution (Article 44), which stated that the allocation of natural resources must be negotiated and jointly agreed upon by the Federal Government and the Federal Member States together.⁹

1 See: <https://www.lse.ac.uk/ideas/Assets/Documents/Conflict-Research-Programme/crp-memos/PMF-TOC-Feb-2020.pdf>

2 In another CRP report, the concept of the 'frontstage' and 'backstage' was used to illustrate the disconnect between the technical and political aspects of food/cash aid analysis and programming. See: <http://eprints.lse.ac.uk/103138/>

3 See: <http://eprints.lse.ac.uk/101291/>

4 Barnes, Sydney U. 1976. "Geology and Oil Prospects of Somalia, East Africa."

5 Hussein, A.A. (2012) *Somalia's Oil and Gas Potential - A frontier country that will be open for oil and gas exploration in 2013*, December 27, 2012, https://hiiraan.com/op4/2012/dec/27479/somalia_s_oil_and_gas_potential.aspx

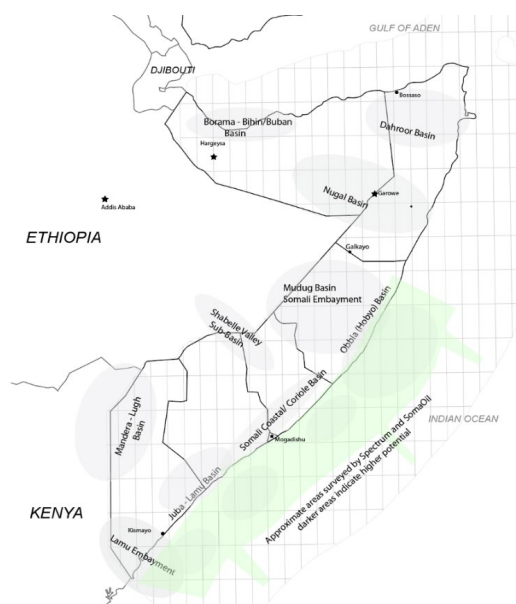
6 Soma Oil actually only facilitated and paid for the survey, which sub-contracted SeaBird to do the actual survey.

7 Kearns, H. Berryman, J. Hodgson, N. and Rodriguez, K. (2016) Offshore Somalia: East Africa's Oil Frontier, Spectrum, GeoExpro Magazine, Vol. 13, No. 2, 2016 <https://www.geoexpro.com/articles/2016/05/offshore-somalia-east-africa-s-oil-frontier>; Davidson, Lindsay & Arthur, T. & Smith, G. & Tubb, S. (2017). Geology and hydrocarbon potential of offshore SE Somalia. Petroleum Geoscience. 24. petgeo2016-154. 10.1144/petgeo2016-154. accessed at https://www.researchgate.net/publication/320985861_Geology_and_hydrocarbon_potential_of_offshore_SE_Somalia

8 See UN Monitoring Group Report: https://www.ecoi.net/en/file/local/1199912/1226_1426687824_n1452986-727.pdf

9 Reitano, T. and Shaw M. (2013), Briefing: Peace, Politics and Petroleum in Somalia, African Affairs, October 2013, Vol. 112, No. 449 (October 2013), pp. 666-675 (by Oxford University Press).

Map 1.¹⁰ Potential Oil and Gas Areas



(Source: Map design and adaptation based on the reviewed literature by Joakim Gundel, 2020.)

6. However, a new Petroleum Law was not passed by the Parliament until May 2019, and the Upper House did not pass it until January 2020. It was finally ratified and signed by President Mohamed Abdullahi Farmaajo on February 8, 2020.¹¹ Delays in the legislative process concerned the content of the Production Sharing Agreement (PSA), Resource Sharing Agreement (RSA) and the establishment of the regulatory institutions, such as the Somali Petroleum Authority (SPA); these in turn concern the relative power of central vis-à-vis regional authorities in the still nascent federal arrangement in Somalia.
7. The UN Monitoring Group on Somalia and Eritrea (UN SEMG) reported in October 2014 that increasing commercial activity in the oil and gas sector in Somalia without a resolution to constitutional and legal disputes surrounding the control of natural resources increased the risk of conflict.¹² In 2015, the UN SEMG again raised these issues regarding the Soma Oil agreement which led to an investigation by the UK Serious Fraud Office (SFO) and caused further delay to the legislative process. A report by the Adam Smith Institute (ASI), in 2014, raised many of the same issues as the UN SEMG, and made a number of recommendations including in the area of technical support and the need for ‘constitutional consensus’ as a precondition to such support.¹³
8. The issues raised by the ASI and UN Monitoring Group reports prompted international partners to engage with the FGS on developing the legal frameworks for the oil sector. The World Bank (WB) took the lead on this in 2016 and produced a review of the legal framework for the petroleum sector. One of the key recommendations of their report was that a consultative process with the FMS needed to take place regarding the powers of the various organs with respect to petroleum administration, ownership and revenue allocation.¹⁴ The WB report also suggested that the petroleum law should set the main principles for contracting and that a model PSA should be developed. Due to the risks of creating dangerous and destabilizing competition between the various actors, it was recommended that no exploratory drilling by international oil companies would be permitted until a new legal and fiscal framework for petroleum was agreed upon.

10 Obbia Basin (corresponding to the Mudug Basin and Somali Embayment), Coriole Basin (corresponding to the Somali Coastal Basin), and the Juba-Lamu Basin (corresponding to the Lamu Embayment).

11 <http://somalialicensinground.com/wp-content/uploads/SOMALI-PETROLEUM-LAW-2020-2.pdf>

12 See: https://www.ecoi.net/en/file/local/1199912/1226_1426687824_n1452986-727.pdf

13 Adam Smith International (2014), Needs Assessment for the Development of Somalia’s Extractive Industries, March 2014, Adam Smith International.

14 World Bank (2016), Review of the legal, regulatory, and fiscal framework of Somalia for the Petroleum Sector, Federal Republic of Somalia, FINAL REPORT, 4 August 2016, World Bank.

9. Hence, a Revenue Sharing Agreement (RSA) was negotiated between the Federal Government (FGS) and the Federal Member States (FMS) in Baidoa, in June 2018.¹⁵ The international partners, World Bank and IMF (who by then had been engaged in the debt relief process) had used the debt relief process, which has been underway for some years in Somalia, as a lever to encourage agreement.¹⁶ The RSA was not passed by legislation until 20 May 2019.¹⁷ It established that the FGS will retain 55% of revenue from future offshore oil production and 30% from onshore output, with the FMS and the local communities receiving the remainder. This was written into the new Petroleum Law passed in February 2020. However, the Financial Governance Committee (FGC) raised concern that there could be significant disparities in the revenue shares between the FMSs, and therefore advised in June 2020 that the terms of the agreement be reviewed periodically.¹⁸ Areas of the RSA remain contentious. For example, Puntland believes the Petroleum Law breaches Article 44 of the 2012 Constitution, which declares that the principles of federalism rather than centralism should be the key principle of governance.¹⁹
10. The Soma Oil controversy is an important reminder of the complications of engaging in an unregulated environment. The promising offshore reserves were clearly sparking impatience,²⁰ not only from the Government officials, but also from UK based Soma Oil & Gas and Norwegian Spectrum Geo. Both companies had been pushing and assisting the government to initiate the oil licensing process, in their attempts at acquiring their rewards for their support to the Ministry of Petroleum. While sale of survey data was the business interest of Spectrum, Soma Oil, a UK company which involved the ex-PM, Hassan Khaire, attempted to gain access to 12 oil blocks (See Map 2) while also dictating the terms of the production sharing agreement (PSA).²¹ This event has ultimately served a useful purpose as it highlights the reputational risks of opaque engagement in this area and the need for proper regulation and oversight.

15 The formal title was the *Agreement on Ownership, Management and Sharing of Revenues from the Natural Resources of the Country (Oil & Minerals)* - also called the Baidoa Agreement.

16 See CRP memo on debt relief and the political marketplace: <https://www.lse.ac.uk/ideas/projects/conflict-research-programme/publications/memos>

17 Somalia Moves Step Closer to Reviving Oil Sector with New Terms, Bloomberg, 28 June 2019. <https://www.bloomberg.com/news/articles/2019-06-28/somalia-moves-step-closer-to-reviving-oil-sector-with-new-terms>

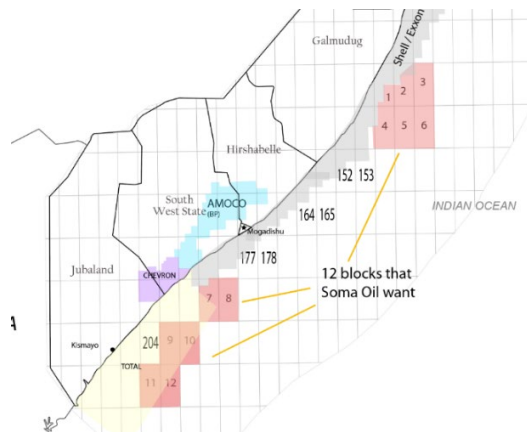
18 Financial Governance Report 2020, Federal Government of Somalia, World Bank, EU, IMF, AfDB, July 2020. <https://mof.gov.so/sites/default/files/2020-08/Financial%20Governance%20Report%202020%20-%20English%20Report.pdf>

19 Financial Governance Report 2020, Federal Government of Somalia, World Bank, EU, IMF, AfDB, July 2020. <https://mof.gov.so/sites/default/files/2020-08/Financial%20Governance%20Report%202020%20-%20English%20Report.pdf>

20 The seismic surveys conducted by Soma Oil & Gas and Spectrum Geo, suggest that Somalia has promising oil reserves along the Indian Ocean coast, between the cities of Garad and Kismayo. Total offshore deposits could be as high as 100 billion barrels. See Somalia Readies for Oil Exploration, Still Working on Petroleum Law, Voice of America, February 13, 2019. <https://www.voanews.com/africa/somalia-readies-oil-exploration-still-working-petroleum-law>

21 Announced on 6 August 2013 of the Oil and Gas Agreement Signed between Somalia and Soma Oil, according to a presentation by Soma Oil & Gas entitled Unlocking Somalia's Potential, at Eastern African Oil Conference in Nairobi, 29-30 April 2014. <https://www.voanews.com/africa/somalia-readies-oil-exploration-still-working-petroleum-law>

Map 2. Soma Oil Blocks



(Source: Map design and adaptation by Joakim Gundel, 2020)

11. Despite the emphasis that is being placed on regulation, Somali authorities still appear to be unduly rushing the oil licensing process. A February 2019 oil and gas conference, held in London, took place with a model Production Sharing Agreement presented, but with neither the legal framework nor institutions in place.²² The FGC raised concerns about the PSA because it was different from the previously designed model and was not aligned with the Procurement Law.
12. A requirement of the new Petroleum Law is that a regulating institution - the Somali Petroleum Authority (SPA) - is established within six months from the date of the law's ratification,²³ which would be by the launch of the Oil Licensing Round in August 2020. Henceforth, the responsibility of negotiating oil exploration and production contracts and concessions would lie with the SPA. However, the board of the SPA, its Chairman and CEO was not appointed until July 30, only a few days after the Parliament had dismissed PM Hassan Khaire, who resigned under duress on July 25. This was controversial because according to Article 97(4) of the provisional constitution,²⁴ the cabinet, which is the only authority that can make such appointments, is effectively dissolved if the PM is removed. The appointment was therefore made by a Cabinet that de jure was dissolved by law and thus not legitimate.
13. The composition of the SPA has raised questions among many observers, where Article 19 (3b) states that the members of the SPA must be selected for their knowledge, professionalism, competence, and integrity. This does not appear to be the case. Article 19 (3d) is particularly important for understanding why the setting up of the SPA is a key transactional element in the political marketplace because it states that the members of the SPA shall hold office - assuming good behaviour - for a period of four years, that is beyond the forthcoming elections. If this is respected, placing favoured candidates in this agency would be advantageous to the incumbent ruling cabal,²⁵ because it would enable them to maintain influence in the oil sector even if they lose the elections.

²² Financial Governance Report 2020, Federal Government of Somalia, World Bank, EU, IMF, AfDB, July 2020. <https://mof.gov.so/sites/default/files/2020-08/Financial%20Governance%20Report%202020%20-%20English%20Report.pdf>

²³ Federal Republic of Somalia, Ministry of Petroleum and Mineral Resources, Somali Petroleum Law, Signed February 2020, Mogadishu, Somalia

²⁴ Federal Republic of Somalia, Provisional Constitution, Adopted August 1, 2012, Mogadishu, Somalia

²⁵ The ruling cabal were often referred to by Somalis as FFK ("Farmajo, Fahad & Khaire"), President Mohamed Abdullahi Mohamed (Farmajo), (now ex-) Prime Minister Hassan Ali Khaire and the Director General of the National Intelligence and Security Agency, Fahad Yasin Dahir).

14. Since 2017, strains between the FGS and the FMSs have been widely reported reflecting the tensions between centralized and decentralized power, with the incumbent FGS representing a centralizing 'turn' in Somalia's political evolution (supported by Ethiopia and Eritrea); the heavily contested elections in South West State (SWS) and Jubbaland being the prime examples.²⁶ Influence by the FGS over the FMSs has included appointments within the SPA. Having gained influence over SWS, Galmadug and Hirshabelle, the FGS was able to rush the new Petroleum Law through the Upper House, which the President was able to sign quickly on 8 February 2020.
15. In terms of implications for the political marketplace analysis, two elements emerged as important:
 - α) Ensuring the launch of the oil licensing round in the hope of signing several PSA's to obtain funds to finance the upcoming election campaigns.
 - β) Ensuring that it is "your people" who sit in the controlling positions of the SPA (which maintains more permanency than the Minister of Petroleum) to secure control over licensing and contracting negotiations.
16. Finally, although the Petroleum Law has been passed through the legislature and signed by the President, and the SPA board has been appointed (although controversially), the regulatory and institutional frameworks are still not entirely in place, and past practices still cast a shadow over the prospects of oil licensing and exploration in Somalia. These are listed in Annex I.

Key Actors in the Hydrocarbon Sector in Somalia

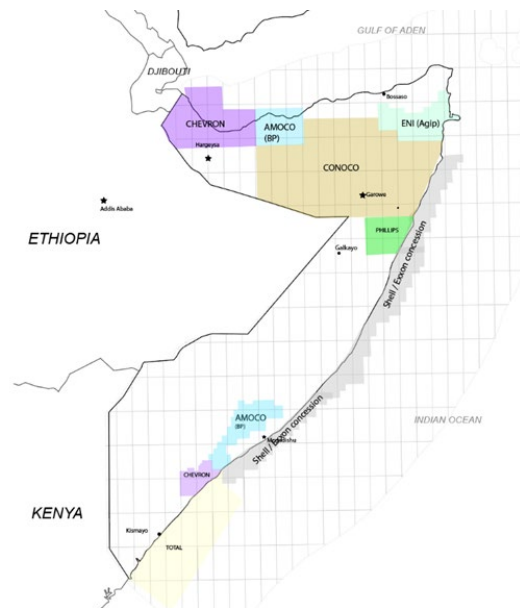
Oil Companies

17. Somalia has never had the commercial companies and political leadership with available capital and capability to pursue oil and gas production on their own. Exploration for oil and gas has therefore been driven forward by a combination of foreign oil companies, foreign states, international organizations such as the World Bank, and local Somali actors and the Government(s) of Somalia trying to attract investments.²⁷
18. The most important "firms" in the oil sector are the so-called Oil Majors. Many of these household names were involved in Somalia in the 1960s and 70s. Following the collapse of the state in 1991, Conoco-Phillips, Amoco (BP since 2001), Shell (Pecten), Chevron, ENI (Agip) and TOTAL all declared "force majeure" until Somalia become stable again. The most important block concessions in February 1991 (see Map 3) were held by Pecten (now in joint venture Shell/Exxon), Conoco-Phillips, Chevron, Amoco (Now BP), and ENI (Agip).

26 See: <https://www.somtribune.com/2018/12/27/icg-blames-villa-somalia-on-muscling-in-on-southwest-election-inflaming-crisis/>; <https://www.crisisgroup.org/africa/horn-africa/somalia/b158-ending-dangerous-standoff-southern-somalia>

27 See for World Bank (1988), Petroleum Exploration Promotion Project, Project Completion Report, December 8, 1988, and Reitano, T. and Shaw M. (2013), Briefing: Peace, Politics and Petroleum in Somalia, African Affairs, October 2013, Vol. 112, No. 449 (October 2013), pp. 666-675 (by Oxford University Press).

Map 3. Concessions held by the Oil Majors from 1991 (including TOTAL's 2001 concession with the TNG)



(Source: Map design by Joakim Gundel, 2020)

19. Over the last 2-3 decades different national and regional authorities have signed agreements with major and minor companies, complicating the concessionary landscape.²⁸ For example, in February 2001, TOTAL signed an exploration agreement with the Transitional National Government (TNG). The agreement reportedly granted TOTAL the right to explore in the Indian Ocean off southern Somalia (See Map 3), but also triggered more than a decade of disputes between various transitional federal governments and the provincial authorities regarding the rights to oil. In 2012, the TFG Minister for Petroleum, informed the oil companies who had claimed “force majeure” that their legacy concessions would remain effective if they were interested and encouraged them to return. The letter also specified that any permits or contracts acquired after 1991 were considered invalid. This also invalidated all licenses entered by smaller companies, some of whom have signed agreements with authorities in Somaliland, Puntland and Galmudug.
20. To date, only Shell/Exxon has actively claimed a continued interest and made an agreement with the Ministry of Petroleum; signed in June 2019, a settlement letter confirms their exclusive petroleum exploration and production rights over the offshore blocks in Somalia under a concession agreement that has been under force majeure since 1991 (see Map 2).²⁹ The letter enables a payment to be made for the renewal of the rights. In October 2019, Shell and Exxon reportedly paid USD 1.7 million in retrospective charges to the Government of Somalia to maintain this concession. BP (Amoco), CONOCO and ENI (Agip) had previously confirmed their interest in retaining their old concessions, but further developments are not yet clear.
21. The Oil Majors do not yet appear to have been playing any pro-active role in trying to re-activate their old concessions or pursue explorations in other areas of Somalia. This is due to the both the security risks and the unclear legal and institutional frameworks and where smaller companies are less restricted by these factors. The recent decline in oil prices associated with

²⁸ Oil Contracts: The deals and companies in Somalia, by T. Rooble, Goobjoog News, August 9, 2015. <http://goobjoog.com/english/oil-contracts-the-deals-and-companies-in-somalia/>

²⁹ Somalia says Shell, Exxon agree to pay \$1.7 million for oil blocks lease, Reuters, October 29, 2019. <https://www.reuters.com/article/us-somalia-oil/somalia-says-shell-exxon-agree-to-pay-17-million-for-oil-blocks-lease-idUSKBN1X70V9>

Covid-19 will add to this risk perception. Shell and Conoco have occasionally responded to some of the smaller companies when they have encroached on their concessions under force majeure to protect them.³⁰ But other than that, they have remained largely passive. However, this may change as the FGS intensifies its licencing.

22. Major oil companies are known to act in coordination with their respective national governments. While these relationships are opaque, it is possible and even likely that geopolitical and some commercial interests are part of the underlying international engagement in Somalia in this sector.
23. The oil and gas industry is also populated by smaller companies who either work on behalf of the oil majors or independently. These are companies with the risk appetite to operate in contexts which carry significant operational risks for the oil majors. Their strategy usually involves exploration and finding oil, in order that their interests are either bought out by oil majors, or so that they can partner with oil majors to co-develop finds. These companies are not able to raise the sizeable investments required to start oil production and are therefore not very useful partners if future oil extraction is to benefit development in Somalia.
24. Hence, while the Oil Majors have remained inactive since 1990, exploration activities have been driven by these smaller adventurous companies hoping to 'hit the jackpot'. Most of these companies have been brought in through connections made by Somali actors, particularly in Puntland, Somaliland and present-day Galmudug. There are many examples of companies who have been active in this small-scale exploration.³¹
25. In addition to these companies, Norwegian Spectrum Geo (now TGS) was contracted by the FGS to carry out seismic surveys in 2015.³² TGS (Spectrum) is a company who specialises in geo-surveys and makes money by selling their data to oil prospectors; they keep the rights to the data and speculate in getting their investment back by selling the data. TGS stand to gain from the auctioning of oil exploration licenses, as oil companies may be interested in purchasing their survey data and are therefore actively backing the Ministry of Petroleum in advancing the oil licencing round.³³

Foreign countries and external oil interests in Somalia

26. Many foreign countries will be aware of and interested in the potential oil and gas reserves in Somalia given both its potential geopolitical importance as well as commercial profits. The United Kingdom, Norway and the United States are three countries that stand out in this regard, but Qatar, UAE, Turkey, Kenya and Ethiopia are also amongst countries with interests in the Somali oil and gas sector.
27. The international donor countries, and the International Financial Institutions (IFIs), such as the World Bank and IMF, also eye future oil extraction as a major revenue that would enable Somalia to serve future development loans, which would become available once Somalia reaches the debt relief completion point.³⁴ Thus, debt relief and oil sector development are linked.
28. The UK's interest in this sector developed alongside its leadership of a renewed state-building programme under David Cameron's government. The controversial Soma Oil case illustrated

30 Shell clings firmly to its concession, Africa Intelligence, 01/03/2013, <https://www.africaintelligence.com/eastern-and-southern-africa-business/2013/03/01/shell-clings-firmly-to-its-concession,107947287-gra>

31 Such as Range Resources and Africa Oil Corp in Puntland, Liberty Petroleum in Galmudug, and Genel Energy and RAK Gas in Somaliland.

32 Kearns, H. Berryman, J. Hodgson, N. and Rodriguez, K. (2016) Offshore Somalia: East Africa's Oil Frontier, Spectrum, GeoExpro Magazine, Vol. 13, No. 2, 2016 <https://www.geoexpro.com/articles/2016/05/offshore-somalia-east-africa-s-oil-frontier>

33 Somalia to auction oil blocks starting August, Goobjoog News, May 13, 2020. <http://goobjoog.com/english/somalia-to-auction-oil-blocks-starting-august/>

34 See: See CRP memo on debt relief and the political marketplace: <https://www.lse.ac.uk/ideas/projects/conflict-research-programme/publications/memos>

this, which came under investigation by the Serious Fraud Office in 2015 but was ultimately dropped referencing insufficient evidence. Several analysts perceive UK Aid to be partially aligned with areas of high hydrocarbon potential, though it is worth noting that some of these areas are also areas with long-term vulnerable and marginalised populations.

29. Several interviewees suggest that US engagement in Somalia reflects an increasing awareness of the potential of hydrocarbon finds, following the more recent surveying. In 2017, the US Ambassador to Somalia encouraged American oil companies to consider investing in Somalia.³⁵ The US is likely interested in protecting the old legacy concessions (Exxon, Conoco, Chevron, Amoco), which involves a major part of the onshore deposits. The UK may be working to protect overlapping interests with the US with regards to the joint Shell/Exxon offshore concessions and the BP (former Amoco) legacy concessions. The US may also be interested in preventing global rivals such as China from accessing Somali oil and gas.
30. Furthermore, several analysts claim that both the US and UK have been deeply involved in the political disputes and government selection processes in the Federal Member States, in particular South-West State, Jubaland and Galmudug, with the main underlying rationale being influence over prospective oil resources.³⁶
31. Unlike the United States and United Kingdom, Norway does not have legacy concessions to protect, however, they gained an important entry point through ex-Prime Minister, Hassan Ali Khaire, a Norwegian citizen, who has a background in this sector through his association with Soma Oil.³⁷ Norway has been providing capacity building and technical support to the Ministry of Petroleum,³⁸ and Spectrum Geo (now merged with TGS) is a Norwegian company. Norway is of course an oil producer itself and can bring expertise and guidance to Somalia, but nevertheless can fall victim to the dynamics of the political marketplace.
32. Arab state rivalries have also been playing out in Somalia in recent years, reflecting tensions and conflict in the Gulf, as well as maritime competition and expanding trade opportunities.³⁹ The UAE and Turkey for example, are major investors in Somali ports, which will be key for any future oil operations. Turkey has been formally invited to become involved in offshore oil exploration, as part of an MoU signed in late 2019.⁴⁰
33. Neighbouring Kenya and Ethiopia are also highly relevant parties, in terms of trade relations as well as in relation to oil. As indicated earlier the maritime dispute with Kenya concerns hydrocarbon finds. Ethiopia's stance towards Somalia has changed considerably since the election of President Abiy Ahmed, and while it has its own oil extraction process underway in its Somali Regional State, being landlocked Ethiopia has potential interests in establishing oil pipelines to the Somali coast, such as through the seaport of Hobyo, which is relatively close to the major oil fields in the Somali region of Ethiopia.

35 See: <http://goobjoog.com/english/american-oil-exploration-invested-in-somalia-says-us-diplomat/>

36 Hussein Salah Kassim, Yet another British ploy in Somalia, April 02 2019, <https://hornpost.net/2019/04/02/yet-another-british-plot-in-somalia/>; Abdirahman Omar, The US Joins The Scramble Somalia's Oil, May 16 2019, <https://hornpost.net/2019/05/16/the-us-joins-the-scramble-somalias-oil/>; <http://goobjoog.com/english/american-oil-exploration-invested-in-somalia-says-us-diplomat/>.

37 <https://www.radiodalsan.com/en/2019/04/29/norways-oil-agenda-in-somalia/>

38 Email communication with NORAD.

39 <https://hornpost.net/2019/03/31/why-saudi-arabia-qatar-and-turkey-are-battling-over-somalia/>

40 <https://www.nordicmonitor.com/2020/02/turkey-set-up-mechanism-to-explore-oil-gas-and-mining-opportunities-in-somalia/>

Somali Actors and Dynamics around Oil Funds in the Political Marketplace

34. Until the recent withdrawal of Prime Minister Hassan Khaire, the ruling cabal in Mogadishu were commonly referred to as the FFK.⁴¹ This cabal represent a centralising 'turn' in Somalia's political evolution that has led to well documented tensions with the Federal Member States, evident in regional elections since 2018, as well as with opposition groups in the capital, Mogadishu. These individuals and networks represent political elites (and their various backers) vying for power, influence, and access to resources within Somalia's Federal system.
35. Control over the Ministry of Petroleum and the Somalia Petroleum Authority is of key interest in the political dynamics and positioning within the oil and gas sector, as these institutions will control oil and gas licensing and resources in the short run as well as in the long run as or if institutionalization of the Somali government develops. Until very recently, most of the post-civil war efforts at initiating oil extraction in Somalia had been based on personal and illicit deals, and/or by opaque contracts without any proper legal regulatory frameworks. The development of the Ministry of Petroleum and the SPA provide a structure through which control must now be established by interested and competing parties.
36. Research for this memo finds, unsurprisingly, that the Ministry of Petroleum appeared to be under the tight control of the (ex-) Prime Minister and the President respectively, who were at times collaborating and at other times competing for control. A political marketplace framework – and the opinion of many analysts – suggests that the short-term control over resources that is a principal goal in elite politics in Somalia, particularly in advance of an election. These resources concern a) potential payment of fees, rents, and other inducements (which have already been taking place over the years, at a small scale), and b) the sub-contracts that will materialise with exploration agreements. Positioning to benefit from this, through the appointments of key positions, is already part of the activities of this marketplace. The recent appointments of the Somalia Petroleum Authority (SPA) is an example of this kind of practice.
37. In terms of fees and payments, examples are already evident, such as with the US \$1.7m payments by Shell and Exxon and the earlier Soma Oil share allocation to ex-PM Hassan Khaire. The size of the political budgets in Somalia have been and still are relatively small compared to other similar countries. Usually the "winning" conglomerates are successful because they achieve control over the larger sources of funds to be used in political budgets. However, political conglomerates - or firms - in the Somali context are rarely very fixed blocks as individuals easily shift sides as opportunities arise. In other words, no individual actors or groups in Somalia's fragmented political scene can dominate others. However, although these funds are relatively modest, they can still play a significant role in paying off parliamentarians and other necessary political bribes in the political games associated with election periods, which may improve election (or re-election) chances.
38. The provision of logistics, security, accommodation and hospitality services are already well-established in Somalia, and have long been part of the political economy of aid, particularly in the humanitarian sector.⁴² Private Military and Security Companies (PMSCs), both international and Somali have been providing these services for many years, as a recent CRP memo discussed.⁴³ As, or if, commercially viable hydrocarbon deposits are identified, infrastructure will be required, such as roads, pipelines, storage facilities, port facilities and airstrips, which will provide further contracting opportunities. There are already Somali businessmen who were previously involved in food aid contracting and who have moved into

41FFK refers to President Mohamed Abdullahi Mohamed (Farmajo), (now ex-) Prime Minister Hassan Ali Khaire and the Director General of the National Intelligence and Security Agency, Fahad Yasin Dahir.

42 See: <http://eprints.lse.ac.uk/103138/>

43 See: <https://www.lse.ac.uk/ideas/Assets/Documents/Conflict-Research-Programme/crp-memos/Norman-private-military-mogadishu-final.pdf>

construction and down-stream petroleum services who are likely to be seeking contracts that may be derived from infrastructural projects and other investments related to development of the oil and gas sector.⁴⁴

39. The potential development of the oil and gas sector also sees an interesting connection with the debt relief process, as newly available loans and grants may provide the finance for infrastructure development to support oil exploration and extraction, and which would be paid back with revenues from this sector.⁴⁵
40. When considering the immediate returns as well as the medium to longer term returns, the stakes are high in the hydrocarbon sector in Somalia, for the Somali political (and business) elite. A key part of the dynamic of the political marketplace will be to ensure that one's 'own people' are firmly in control of all the key posts that control and regulate oil exploration licensing and production sharing agreements. Therefore, the rationale behind the political games concerning petroleum regulations and laws, and the resulting delays, in recent years, is essentially about securing 'your people' into key positions. The political game surrounding the controversial appointment of the SPA is an example of this. The FGS and foreign actors meddling in the power struggles over the selection of leadership in the FMS is another example; the FMS appoints most of the SPA members.
41. Furthermore, prior to 2012, oil funds and related revenue primarily played into regional actors' hands, and while payments to regional authorities did not necessarily amount to much, they would most likely have been influential in the local political marketplace. The Soma Oil arrangement in 2011/12 changed this dynamic with a major foreign government supporting a private 'oil' company in the complete absence of legislation and regulation.

Conclusions

42. This study has outlined the growing significance of hydrocarbons to Somalia's geopolitical position and in turn to the dynamics of the political marketplace. The establishment of the federal government in Mogadishu, in 2012, has changed the organisation of this sector bringing it under a central authority where for years previously arrangements were made with regional authorities; this development has inevitably caused or contributed to tensions between the FGS and the FMSs, evident since late 2018.
43. The development of the legislative and regulatory framework and agencies is still unfinished but now frames the operation of the political marketplace, with control over the Ministry of Petroleum and Somalia Petroleum Agency constituting the key motivations of political elites and associated bargaining. Control of these 'institutions' enables access to informal flows of money as well as allows control over the allocation of sub-contracts, which are likely to come from the various grants and loans that will become available through the debt relief process. Control over contracts is a major issue in Somalia's political economy and political marketplace.⁴⁶
44. As this memo illustrates for the oil and gas sector, the dynamics of the political marketplace involve speculation as to both short-term and long-term revenues; in the latter case the potential reserves in Somalia may ultimately not be commercially viable or accessible although they are clearly attracting the interest of many actors.
45. It is also important to note that 2020 has seen the swift - although controversial - passing of necessary legislation and the appointments of positions in key institutions, such as the Judicial Service Commission, Anti-Corruption Commission and the Somalia Petroleum Authority. The

44 See: <http://eprints.lse.ac.uk/103138/>

45 See CRP Debt Relief and the Political Marketplace memo: <https://www.lse.ac.uk/ideas/projects/conflict-research-programme/publications/memos>

46 See: <https://blogs.lse.ac.uk/africaatlse/2020/04/30/humanitarian-response-covid-19-somalia-capital-flight-debt-relief-violence/>

fact that these processes have taken place appears to reflect that a consolidation of power within the President's office has taken place.

46. The agreements with Soma Oil (Coastal Exploration) and TGS (Spectrum) were controversial and still cast a shadow over the Somali petroleum sector. Without the regulating effect of the Petroleum Law and the regulatory institutions in place, the Government did not have a legitimate right to enter contracts with foreign petroleum exploration companies in the first place. If credibility around the Somali petroleum sector is to be re-established, the FGS and the Ministry of Petroleum need to bring clarity and transparency to the current status of these contracts.
47. The recent low oil market and price, further reduced by the Covid-19 pandemic as well as the shift to green technologies in response to climate change, all raise questions as to the eventual viability of hydrocarbon extraction in Somalia. Nevertheless, the FGS's (assisted by TGS) push for exploration continues unabated, and with an apparent silent acceptance by the international community.

Annex I.

Outstanding legislative and regulatory issues:

- The Model PSA must be aligned with the requirements of the Procurement Act. All tendering and award of oil and gas concessions is governed by the provisions of both the 2016 Procurement Act and 2020 Petroleum Act.
- The fiscal terms of the Model PSA must be aligned with the Extractives Industries Income Tax (EIIT) Bill. Enactment of the EIIT Bill is a HIPC Completion Point benchmark.
- Other elements include the development of the capacities of accountability and oversight institutions, i.e. judiciary, parliamentary committees, constitutional court etc. For instance, there is also a need for establishing clarity on and strengthening the parliamentary and FMS oversight over MoPMR and SPA activities.
- The National Resources Council or Commission also need to be set up according to the Baidoa Agreement.
- Somaliland's (SL) claim for independence even though it lacks international recognition needs to be solved. Currently SL has issued its own licenses to Genel Energy & RAK Gas, and are pursuing their own Petroleum Law and PSAs.
- Some Federal Members States, Puntland in particular, has consistently not recognized the SPA nor the Petroleum Law, because they see their influence over oil exploration under their territory diminished and under centralized control. This questions the status of the SPA as well as the Petroleum Law given the spirit of federalism as set out in the provisional Constitution of Somalia
- The actual status and role of the existing agreements with Soma Oil (now Coastal Exploration) and TGS (Spectrum) and needs to be clarified and documented to the public.
- The Petroleum Law requires holders of legacy rights to convert them into PSAs by February 2021 or lose their rights. This could lead to another controversy given the deficiencies of the institutional and legal framework and the ongoing political election crisis.
- Finally, Somalia has not signed up for the Extractive Industries Transparency Initiative (EITI), which is the global standards for good governance of oil, gas and mineral resources management.



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