Adding Fuel to Fire: Why Somalia’s Oil Could Prove to Be a Curse

Early this month, dozens of people gathered outside the Claridge’s Hotel in central London to protest against the Federal Government of Somalia (FGS)’s decision to award oil exploration licences to foreign companies later this year. The hotel was the venue for the International Conference on Somalia Oil and Gas that was hosted by Spectrum, a leading seismic data processing company. The conference was aimed at showcasing possible locations in Somalia where crude oil reserves can be exploited.

Last year, the FGS announced a first round of bidding on 206 offshore oil blocks, mainly in southern Somalia. The decision by President Mohamed Abdullahi Farmajo’s government to put Somalia’s oil reserves on the predatory oil and extractive industries’ market is being viewed by many as a recipe for disaster in a country that has suffered from more than two decades of civil war and which has few or no regulatory frameworks or laws in place to manage its oil in the interest of the Somali state and its people.

Jamal Kassim Mursal, who was the permanent secretary in Somalia’s petroleum ministry until last month, when he resigned, told the Voice of America that Somalia was not yet ready for any oil exploration because “nothing has changed – petroleum law is not passed, tax law is not ready, capacity has not changed, institutions have not been built”.

> *The decision by President Mohamed Abdullahi Farmajo’s government to put Somalia’s oil reserves on the predatory oil and extractive industries’ market is being viewed by many as a recipe for disaster in a country that has suffered from*

> *more than two decades of civil war*

A study published in 2014 by the Mogadishu-based Heritage Institute of Policy Studies cautioned that it was still too early for Somalia to be venturing into the oil industry because the country faces a host of challenges and obstacles that need to be addressed before any viable oil exploration and production can start. These challenges and obstacles include scant infrastructure for the transport and processing of oil, political volatility, institutional fragility, physical insecurity and ambiguous property rights.

If not handled with caution, warned the report, Somalia's oil could prove to be a curse. Given the high levels corruption within the Somali government, and in light of the country's fledgling state institutions, the absence of checks and balances, as well as nascent democratic structures, the hydrocarbon sector's economic spoils are likely to also ruin politics, said the study's author Dominik Balthasar. Lack of oversight and transparency could lead to conflict as competing forces seek to control the lucrative, but highly opaque, sector. "The problem arises in light of the fact that Somalia not only needs to counter the standard challenges arising from the resource curse, but must do so in the context of fragility."

> *A study published in 2014 by the Mogadishu-based Heritage Institute of Policy Studies cautioned that it was still too early for Somalia to be venturing into the oil industry because the country faces a host of challenges and obstacles that need to be addressed before any viable oil exploration and production can start.*

In his book, *The Looting Machine: Warlords, Tycoons, Smugglers and the Systematic Theft of Africa's Wealth,* Tom Burgis describes how the discovery and exploitation of oil and other resources by foreign companies have left many African countries poorer and more conflict-ridden than they were before. From Nigeria to the Congo and South Sudan, the "resource curse" has left populations embroiled in violent conflicts and/or in debilitating poverty. Resources such as oil also distort economies, breed corruption and foster poor governance. Burgis explains:

> *"More often than not, some unpleasant things happen in countries where the extractive industries, as the oil and mining businesses are known, dominate the economy. The rest of the economy gets distorted, as dollars pour in to buy resources. The revenue that governments receive from their nations' resources is unearned: states simply license foreign companies to pump crude or dig up ores. This kind of income is called 'economic rent' and does not make for good management. It creates a pot of money at the disposal of those who control the state. At extreme levels the contract between the rulers and the ruled breaks down because the ruling class does not need to tax the people to fund the government – so it has no need for their consent."*

Burgis shows how resource-funded regimes are "hard-wired for corruption" and that an economy based on just one pot of resources leads to "Big Man" dictatorial politics, as has been witnessed in Equatorial Guinea and Cameroon. And whereas before, Africa's resources were often extracted at gunpoint or through violent colonisation, today "the looting machine has been modernized" through "phalanxes of lawyers representing oil and mineral companies" who "impose miserly terms on African governments and employ tax dodges to bleed profit from destitute nations".

> *In his book, The Looting Machine: Warlords, Tycoons, Smugglers and the Systematic Theft of Africa's Wealth, Tom Burgis describes how the discovery and exploitation of oil and other resources by foreign companies have left many African countries poorer and more conflict-ridden than they were before*

Dodgy deals

Mursal, the former petroleum permanent secretary, is also against an agreement that gives the first choice for exploration blocks to Soma Oil and Gas, one of the companies that has been embroiled in several controversies with regard to Somalia in the past. The agreement allegedly gives Soma Oil and Gas 12 blocks to conduct oil exploration.

The controversy around Soma Oil began around the tenure of Yussur Abrar, Somalia’s first female Central Bank Governor. Abrar resigned in November 2013 after just seven weeks in the job on the grounds that she was being continuously asked to sanction deals and transactions that violated her responsibilities as governor.

In her resignation letter, Abrar stated that she had “vehemently refused to sanction the contract with the law firm Schulman & Rogers regarding the recovery of the Somali financial institutions’ assets frozen since the fall of Siad Barre’s regime”. She said that the contract did not “serve the interest of the Somali nation” and “put the frozen assets at risk” while opening the door to corruption. She also stated that the Central Bank she had been assigned to manage was in a poor state, with payroll processing being the only semi-functioning unit.

Abrar’s woes also had something to do with the fact that the then President Hassan Sheikh Mohamud was at the time making secretive deals with foreign oil companies. Barely a year after President Mohamud took office, stories began to emerge that the FGS had entered into a deal with Soma Oil. Apparently the Somali government had also held talks with Shell, Exxon, Mobil Corp and BP to revive pre-1991 oil contracts that were put on hold when the civil war broke out and when the government of Siad Barre collapsed. Observers were surprised that President Mohamud in the first year of his term agreed to an oil exploration deal after having earlier expressed fears that the country was too fragile to risk further conflict. Many observers warned that these oil deals would ignite further divisions and civil strife in oil-producing regions of the country, especially in the absence of legislative and regulatory provisions.

There were also concerns that oil deals would pave the way for more corruption in a country that has already gained the reputation of being amongst the most corrupt countries in the world. These concerns were so widespread that in July 2015 the UK's Serious Fraud Office opened an investigation on Soma Oil's dealings with the Somali government. Soma Oil, which was chaired by the former Conservative Party leader Michael Howard, dismissed the investigation, claiming that the British company's conduct with the Somali government was "completely lawful and ethical". Through its PR agency FTI Consulting, Soma Oil insisted that "broad terms" of the deal had been made public. (Interestingly, FTI Consulting is the same firm that was given a contract to "unfreeze" Somali assets abroad, the very contract that led to the resignation of Abrar.)

UN monitors reported that the deal would give Soma Oil the right to apply for up to 12 oil licences, covering a maximum of 60,000 square kilometres. In May 2015, *Bloomberg Business* revealed a draft production-sharing agreement between Soma Oil & Gas and the Somali government that indicated that Somalia could end up paying up to 90 per cent of its oil revenue to the British company, thereby conferring unusually high benefits to the latter. Barnaby Pace, a campaigner with the watchdog Global Witness, described the agreement as a "terrible deal for the Somali people". In a private conversation with yours truly, a Somali MP asked, "How can you sign a deal with a patient who is in ICU? Does an ICU patient have the capacity to sign anything?"

Although there has been more funding in the recent years, from the World Bank and the European Union to introduce public finance reforms and to provide budget support to the FGS, these efforts have not yet borne fruit. The FGS still has little authority over large chunks of Somalia where clan-based fiefdoms and Al Shabaab rule with impunity and even collect “taxes” from the local population.

> *In May 2015, Bloomberg Business revealed a draft production-sharing agreement between Soma Oil & Gas and the Somali government that indicated that Somalia could end up paying up to 90 per cent of its oil revenue to the British company, thereby conferring unusually high benefits to the latter. Barnaby Pace, a campaigner with the watchdog Global Witness, described the agreement as a “terrible deal for the Somali people”*

And despite attempts by Kenyan columnists like Peter Kagwanja to depict Somalia as “the poster child of an ‘Africa rising from the ashes of civil war’”, most analysts would agree that the FGS is ill-equipped to govern and that most state institutions in the country are not only severely degraded, but in many cases are completely absent. The idea of a Somalia being run from the capital Mogadishu is a myth that only comforts the international community that created the FGS. The FGS simply does not have the capacity to manage the entire country or to enforce its will and laws on the various clan-based federal states and the majority of the Somali people.

> *The auctioning off of Somalia’s oil could also lead to feuds with neighbouring countries like Kenya, which has a dispute with Somalia over a maritime boundary along its border – a triangular chunk of sea in the Indian Ocean of about 100,000 square kilometres*

It is estimated that there could be as many as 110 billion barrels of oil and gas reserves in Somalia – equal to Kuwait’s reserves and nearly half of those of Saudi Arabia. It is no wonder that Britain, along with Norway, Australia, Qatar and Turkey, among other countries, have been eyeing Somalia’s oil and gas reserves for some time.

However, exploiting natural resources in an environment of fragility and near-anarchy can spell doom for a country that barely has functioning ministries and other public institutions and which does not have the regulatory frameworks that could protect the country from local and foreign predatory forces. In addition, the looting spree precipitated by oil could lead to further in-fighting between factions and clan-based rivalries and competition could be further aggravated in regions where oil reserves are found. Al Shabaab could also find another reason to rally its troops against the FGS in regions it controls.

The auctioning off of Somalia's oil could also lead to feuds with neighbouring countries like Kenya, which has a dispute with Somalia over a maritime boundary along its border – a triangular chunk of sea in the Indian Ocean of about 100,000 square kilometres. Kenya has already recalled its ambassador to Somalia because since the dispute remains unsettled at the International Court of Justice, Somalia has no right to auction off the territory, which is believed to have vast amounts of oil and gas reserves.

The heavy presence of oil exploration teams and infrastructure in the Indian Ocean could also lead to more piracy, especially if coastal communities feel disenfranchised and left out of the deal. This could reverse all the gains made by the international community in stopping piracy along Somalia's coastline, which at 3,300 kilometres, is the longest in Africa.

> *The heavy presence of oil exploration teams and infrastructure in the Indian Ocean could also lead to more piracy, especially if coastal communities feel disenfranchised and left out of the deal.*

Somalia is simply not ready to enter into any oil agreements with foreign companies; the costs are simply too great and any economic benefits derived will most likely accrue to individual politicians and businesspeople rather than to the majority of the Somali people who have suffered from poverty, underdevelopment, lack of basic services and poor governance for nearly thirty years.