

An update on recent developments at the Ministry of Petroleum and Mineral Resources: - First Somali Offshore Licensing Round

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1. Petroleum sector vision

- Somalia will exploit its petroleum resources effectively to achieve peace, stability and shared prosperity for all Somalis without damaging the environment. The principles of inclusiveness, equal opportunity, transparency and accountability will guide sustainable development of the petroleum sector.
- Somalia should use the inferred hydrocarbon resource in time before the world changes into renewable energy sources, accelerate exploration and production activities and promote direct foreign investments by increasing its competitiveness of its fiscal terms.

2. Petroleum policy:

- The 2008 Policy or Strategy document on petroleum exploration and production is outdated, though it is still used. The Petroleum Law and the other regulations are based on the 11 principles, stipulated in the Strategy.
- Currently, there are numerous policy elements scattered in the bills, regulations and Model PSA document
- The Ministry is working backward to draft a new Policy extracted from existing laws, regulations and procedures. Oil for Development programme of Norway is assisting the Ministry.
- The Ministry will first explore offshore and give time to the onshore so that it stabilises in terms of security.

3. Exploration history:

- Right after the 2nd World War, geological and petroleum exploration started in Somalia. Most of the work was on onshore, and the first well, Sagaleh-1 was drilled in what is now Puntland in 1956, near Bandar Beila.
- Sinclair (a consortium of Amerada, Marathon and Conoco) drilled more than 40 wells, mostly along the coastal stretch from Ras Kamponi to the far northeast of Somalia, from 1950s to the 1970s. Later Sinclair merged into Arco and continued exploration in Somalia in the 1980s. There were lots of gas and oil shows but no commercial discovery occurred.
- In the 1980s major international oil companies competed to have concessions in north and northeast of Somalia after oil was discovered in Yemen. Conoco, Chevron, Amoco, Agip, Pecten, Mobil and Exxon and others signed concession agreements with Siyad Barre Regime. There was a strong hope that Somalia will discover oil within the 1980s. However, violence erupted and Somalia slid into instability and anarchy.
- West of Mogadishu, Sinclair, and later Amoco discovered un-commercial oil in Afgoi/ Coriolei basin, in the Coastal Basin.
- From 1988 – 1990 Chevron, Conoco, Texaco Deuchland, Shell and Amoco were drilling and the hope for oil discovery was very high. All that hope dashed away in the political turmoil that followed. All the companies announced and invoked force majeure clauses.
- By 1988, Chevron was drilling at a well-site 33 miles south of Zeila after completing the geophysical surveys. A second well was in plan at near Lughaye six months after the first well.
- ConocoPhillips completed the geophysical work and began drilling Nugal-1, near Garowe; while Shell (Pecten) in 1989 was in the midst of transporting the rig to drill an offshore well-site, north-Hobyo waters.
- West of Mogadishu in Afgoye – Qoryoley area, Amoco (now British Petroleum) finalised its seismic surveys in 1989 and were planning to drill a well.
- All those exploration activities ceased abruptly and the companies had to evacuate Somalia and declared “Force Majeure”.

4. Hydrocarbon resource potential:

- Past exploration and drilling effort has indicated the existence of working petroleum systems in offshore and onshore sedimentary basins. These basins cover most of Somalia except the Golis Range Mountains and the Dooy Region.
- Some of the working petroleum systems have most of the essential elements:
 1. Mature source rocks (the rocks that generates oil or gas),
 2. Reservoir rocks (the rocks that the oil/gas deposits in);
 3. Trap: A geologic configuration where oil and gas is trapped beneath the earth's surface in a reservoir rock. The traps are either structural or stratigraphic.
 4. Seal rocks lie above the reservoir rocks and prevent oil and gas to leak away. Shales and salt rocks are examples of seal rocks.
 5. Overburden rocks provides the necessary pressure and temperature so that maturation of the organic matter takes place, and the system is in the oil window
 6. Some shows of oil and gas have been encountered, but all have been deemed non-commercial.
 7. Seeps were found in many places on onshore and offshore.
 8. The Afgoye gas discovery which was reported to have flowed natural gas from two zones at a combined rate of 13 million cubic feet per day, was found by Sinclair Oil.
 9. The potential is huge, based on the sedimentary cover, legacy drilling records, and the existence of reservoir rocks, source rocks, seals and traps with appropriate structures

Proving the petroleum working systems: The currently known petroleum systems require to be proven by drilling and having discoveries. This is what we need to do as quick as possible. Unless we do this, the resource potential is hypothetical.

5. Recent achievements in petroleum exploration

- **2014-2015:** Acquisition of offshore seismic data covering shallow and deep water of the southern Indian Ocean of Somalia by Soma Oil and Gas.
- **2015 – 2016:** The recently completed multi-client seismic surveys of the southern Indian Ocean carried out by Spectrum.
- **Ministry building:** The completion of the Ministry building and making it operational.
- **Data room:** Setting up the data room at the ministry to store and use the data.
- **Human resource:** Raising the capacity of the human resource through in-house and outside training.
- **Institutional development:** Establishing Somali National Oil Company (SONOC) and the Somali Petroleum Authority (SPA)

6. Developments in the legal and regulatory framework

- **Petroleum Bill 2017:** Amending the Petroleum Law 2008 became necessary due to the federalization of the country and the need for updating. Drafting is completed by the Working Group and two experts from the World Bank; the Ministry is seeking input from the Federal Member States, and other stakeholders.
- **The Petroleum Registry Regulation:** completion of the Petroleum Registry for legacy right holders and for new interested oil and services companies to work in Somalia
- **Somali Petroleum Authority (SPA) Regulation:** A new regulation has been drafted that launches SPA into operation.
- **Somali National Oil Company (SONOC):** This state-owned company participates in petroleum activities and transfers knowhow and technology to Somalia. The company regulation is already established.
- **Petroleum management and revenue sharing agreement:** The discussion and agreement on the management of petroleum and resource sharing of the upstream sector in Somalia between the Federal Member States and the Federal Government is drafted and agreed upon by Galmudug and South West states. For the other states, the discussion to agree on the document is an on-going process.
- **Production Sharing Agreement Model Somalia:** Somalia has developed its own unique production sharing agreement (PSA), that balances between the economic need of Somalia and the attractiveness of Somalia to investors and the International Oil Companies (IOCs). An important element in this document is the fiscal terms of Somalia: royalties, profit share percentages, corporate income tax, exploration and production periods, signature bonuses, local community development fees, training fees and corporate social responsibility and the local content. The document was developed by the Ministries of Petroleum and Minerals and the Ministry of Finance, together with the African Legal Support Facility of the African Development Bank and it was reviewed by the Financial Governance Committee (FGC).
- **The Petroleum Environmental Bill:** This bill protects the environment, whether onshore or offshore.
- **The Health and Safety Bill:** The bill protects the people and equipment.
- **The Downstream Bill:** This petroleum bill covers the transportation, storage and distribution of Petroleum products and its quality. A Somali standard has been introduced to safeguard the quality of imported petroleum.

7. Onshore data:

- **Legacy data holders: CGG and others**
- CGG – This company had an agreement with Somalia in 2014 to manage and broker the data on behalf of the Federal Government. The bulk of the legacy data is retained by them. The data consists of maps, seismic, magnetic, gravimetric, geological and field reports, and drilling and well logs. It is mostly on onshore though there is some on offshore.
- Schlumberger and TGS hold some legacy data in spite of not having a brokerage and management agreement with the Federal Government.

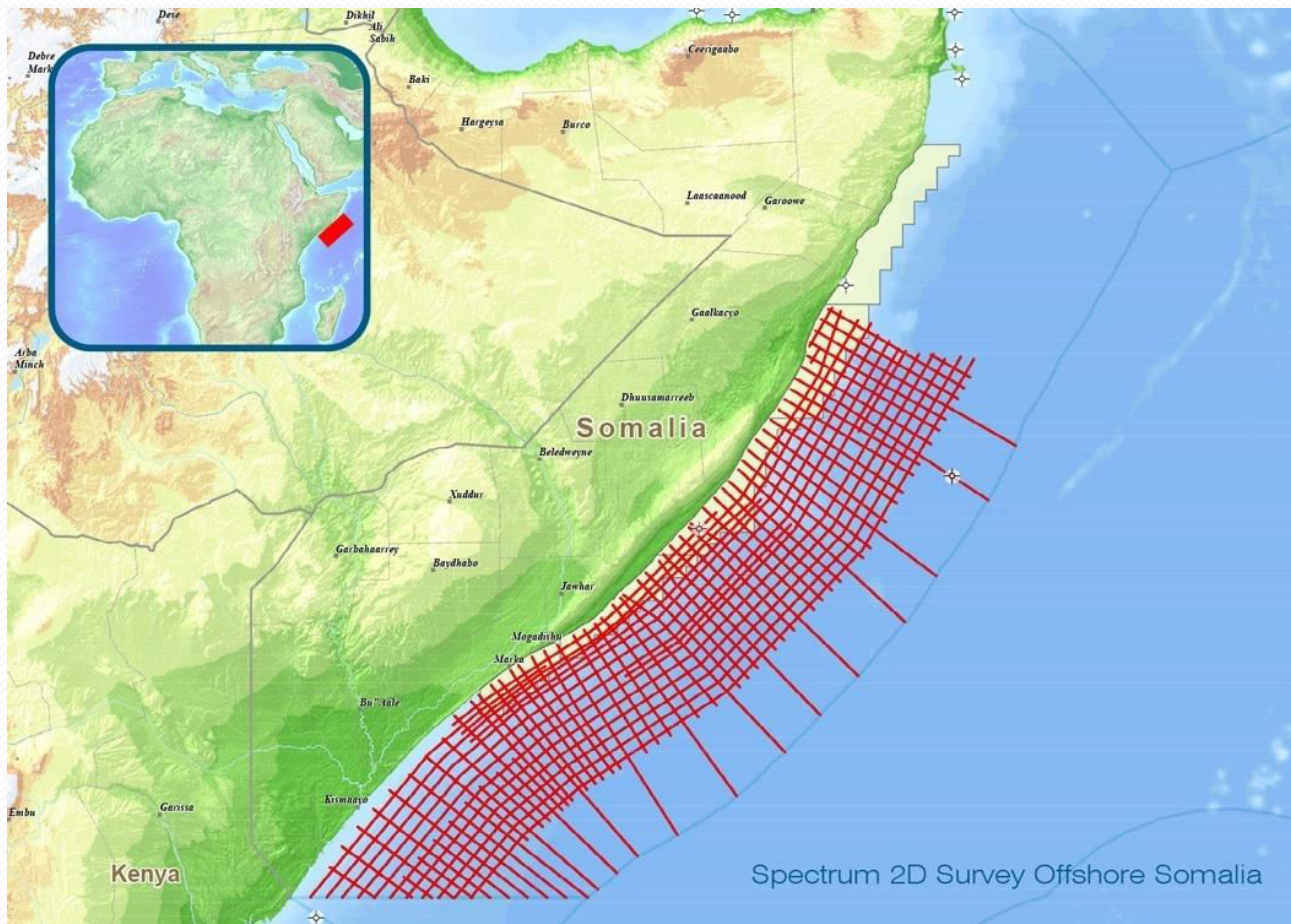
8. Offshore seismic data and a glance at its findings

- In 2014-2015, Soma Oil and Gas carried out 2-D seismic survey with some interesting findings: three new offshore basins in what is the last frontier region of the Indian Ocean. This data is managed and brokered by Spectrum after it was transferred to the Somali Federal Government.
- Spectrum has licensing agreements with the Federal Government of Somalia on the above data.
- The data has discovered three offshore basins: Juba Deep Basin, Mogadishu-Baraawe Deep Basin, also called Coriolei basin; and the Galmudug Deep Basin. The potential here is attracting many IOCs but obviously, it needs to be tested and proven with drilling.

9. The 2014- 2015 seismic acquisition



10. The multi-client seismic survey of Spectrum



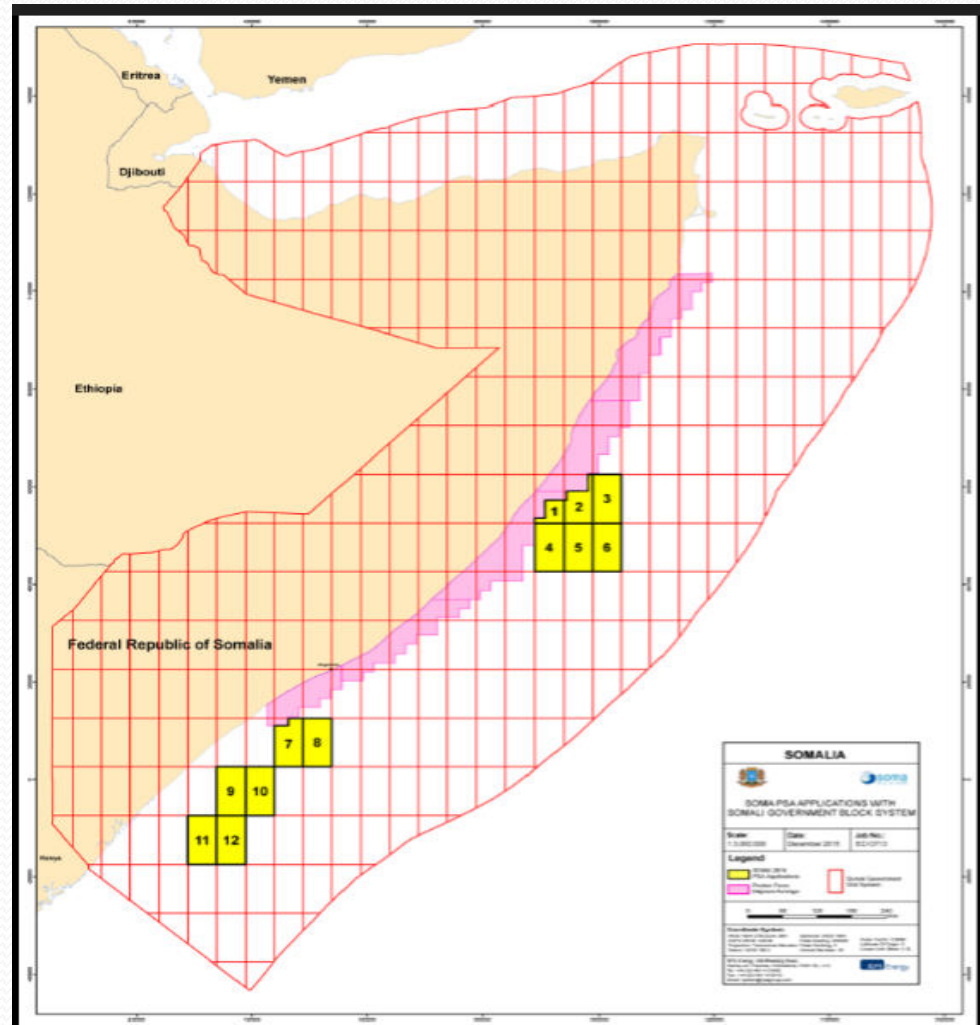
11. Bid rounds and direct negotiation for offshore blocks

- **2017 – 2018 Roadshows:** The Ministry and Spectrum will present presentations for roadshows to potential investors and IOCs in Houston, London, Cape Town and Dubai.
- **Bid Rounds:** The Ministry will prepare bid round documents and open some offshore blocks for licensing rounds in order to increase competitiveness
- **Direct negotiation:** The Ministry will go into direct negotiations with Shell/ExxonMobil and Soma Oil and Gas. The 1988 concession of Shell and ExxonMobil will be converted to the Somali PSA Model.
- **Increase transparency and accountability:** The ministry will increase transparency and accountability by working with the relevant civil society organisations such as EITI and Publish What You Pay and local ones.

Bid blocks

The blocks available for the bid round excludes the pink and the yellow blocks. We will define the number of blocks within the coming 1-2 months.

Opening Period: July –Oct



12. Petroleum management

- **The Council for Natural Resource management:**

This council's main task is to oversee the management and to resolve any conflict that may arise from the sharing of earnings from the natural resources. It is chaired by the Prime Minister and its members are the heads of the Federal Member States.

- **The Somali Petroleum Authority (SPA):**

The Allocation Agreement or the Petroleum Management and Revenue Sharing document establishes the Somali Petroleum Authority (SPA) in accordance to Article 8 of the Petroleum Law of Somalia. SPA is the competent authority that regulates upstream and midstream petroleum operations in Somalia by ensuring that all activities from exploration, production and marketing adhere to the requirements of the Petroleum Law. The authority will be headed by a board of directors consisting of the Federal Government and the Federal Member States and is managed by a CEO who is a member of the board.

- **Somali National Oil Company (SONOC):**

SONOC is a government owned company that is under creation now to represent the commercial interest of Somalia and to boost up the downstream activities .



Thank You