

## Minnows see oil seeping out from fractured state

Even while Islamist militiamen are consolidating power having removed warlords from Mogadishu, intrepid explorationists are looking to prospective E&P permits in breakaway Somaliland and other parts of Somalia's fractured state, writes **Jon Marks**, with **Eleanor Gillespie**.

**E**ver heard of the *Republic of Puntland*? The chances are that this north-eastern region of Somalia will become much better known, at least among investors with a strong appetite for frontier resource plays, when Australian minnow *Range Resources* attempts to list in the coming months – on London's *Alternative Investment Market (AIM)*, of course, and probably the trendy **Dubai** market as well – to fund its Puntland play.

The unrecognised *Republic of Somaliland* is better known, with a history which offers up characteristics of statehood that means President **Dahir Rayale Kahin** or a successor (Somaliland, after all, boasts a vibrant democracy) could yet tread a wider international stage. A thought-provoking report issued by the Brussels-based *International Crisis Group (ICG)* on 23 May argued that Somaliland showed sufficient characteristics of a nascent sovereign state to suggest that the *African Union* and wider international community needed a more coherent approach to Somalia's northern flank.

Kahin submitted Somaliland's application for AU membership last December, and the question was discussed during the AU's recent Banjul summit.

Somaliland was an early focus area for *Ophir Energy Company*, the Perth-based E&P company led by former *Fusion Oil & Gas* founder **Alan Stein** and 50%-owned by **South African** black economic empowerment (BEE) magnate **Tokyo Sexwale's Mvelaphanda Holdings (AE 80/5)**.

*African Energy* has in recent weeks spoken to senior executives of Ophir, Range and other companies interested in the region. Their constant refrain is that the northern region at least is 'highly prospective' – it is seen as a continuation of the geology that made **Yemen** an established E&P play for smaller independents. Executives also argued that their area of operation benefited from a level of 'political stability' not apparent elsewhere in this chaotic country.

Somalia remains the model of a modern fractured state. The irony of the takeover of Mogadishu and an increasing amount of territory by the fundamentalist *Islamic Courts Union* that this group may have potential for uniting the country – the profound wish of a majority of Somalis, regional and western governments. History suggests that instability in Somalia could reach far beyond the borders of a fractured state that has festered since the death of dictator **Siad Barre** in 1991.

The **United States** government has identified the Islamic Courts and their leaders with *Al-Qaeda*; the Courts deny this. Washington was backing rival warlords and their militia to stop a deeply embarrassing Islamist takeover (although this is officially denied by the Bush administration), which shows

how far the chaotic situation has progressed since then president **Bill Clinton** ordered US forces to withdraw in 1993.

The process that led to the creation of Somalia's *Transitional Federal Government* was backed by the *United Nations*, but the international consensus has it that the TFG is too weak to mend the fractured state. This has added to the Somaliland and Puntland authorities' claims to statehood and full autonomy, respectively – helping their IOC partners to argue that often unrecognised claims have genuine political substance.

### Somaliland has potential

The Republic of Somaliland proclaimed its independence on 18 May 1991, and although its sovereignty is not recognised by any country, several governments have developed bilateral relations (with liaison offices in **Ethiopia** and **Djibouti**). The Somalilanders have shown an aptitude for self-government that has impressed many observers, including the ICG (whose recent report, *Somaliland: Time for African Union Leadership* can be consulted in the subscribers' online library at [www.africa-energy.com](http://www.africa-energy.com) or on the ICG website, [www.crisisgroup.org](http://www.crisisgroup.org)).

"Somaliland's moral, if not legal, case for recognition is lent additional weight by the territory's credentials as one of the most active democracies in the region," the ICG said. It also concluded that: "The idea of a sovereign Somaliland is no longer the political platform of an armed faction so much as it is the reflection of an incipient national identity."

While sharing profound ethnic, linguistic and other communal ties to greater Somalia, there is substance to Somaliland's independence claim, based on its colonial (**British** Somaliland Protectorate) and brief post-colonial existence as an entity independent of (**Italian**) Somalia. Its claims do not necessarily run contrary to the international legal concept of *uti possidetis juris*, which has dominated post-colonial independent Africa's jurisprudence and international relations.

The Hargeisa government's supporters argue it is backed by an unusually healthy democracy, an administration that has delivered a better life for Somalilanders than the Republic of Somalia could offer, and by an unusually strong historical claim to self-determination.

Ophir strongly advocates these ideas, arguing that the government is well able to steward the territory's minerals potential for the common good. Stein said, "we're comfortable with what we're seeing in the move towards sovereignty."

### Ophir wants to tap it

Ophir came into Somaliland via Mvelaphanda's partner, UK-based Dr **Andrew Chakravarty**, whose wife is a well-

connected Somali. Chakravarty's *Rova Energy Corporation* took over onshore (Blocks 35 and 36) and offshore (M-10 and M-10A) blocks earlier licensed to Uri Lawrence Skolnik's Canadian-registered *Equitable Life Investment Company* and its US-based partner *Somapetroleum*.

The Chakravartys first met up with Sexwale in 1999 and they remain involved in his Somaliland operation, while Ophir now has a 75% stake in Rova, after options inherited from Mvelaphanda's earlier dealings with it were exercised.

According to Stein, the Berbera PSA "was an asset hanging around Mvelaphanda – we didn't have to exercise the option." It was included in the Mvelaphanda portfolio when the powerful BEE company opened negotiations with the former Fusion management to create Ophir.

Stein denies Ophir succeeded in Somaliland due to South African political manoeuvrings and the 'Tokyo factor'. "There are no big political conspiracy theories... Tokyo came across an opportunity and took a snap decision." When Ophir was created, "we took [the acreage] on technical merit."

Stein sees potential in this "continuation of the Yemeni Jurassic rift basins" – he has signed contracts to shoot 2D seismic later this year.

Separately, *TGS-NOPEC* plans a non-exclusive aeromagnetic survey over Somaliland and will also shoot some onshore seismic under a contract with the government (*AE 99/25*).

Before Somalia collapsed, *World Bank*-funded seismic work was conducted by *Harms & Brady Geological Consultants*. A payments dispute ensued and Ophir has been seeking to get its hands on this data. A copy is believed to be lodged with *Robertson Research* in North Wales.

**Range at home in Puntland**

If Somaliland's claims to sovereignty and autonomy over its subsoil resources are strong but hotly contested – Somali nationalists claim the Somaliland government is little more than an 'Ethiopian front' – Puntland's position seems weaker.

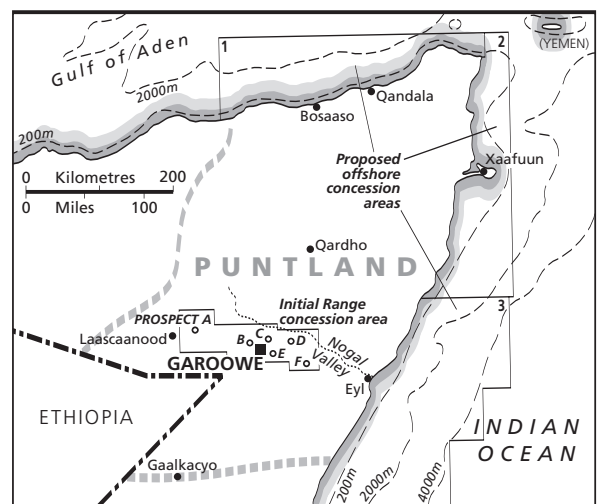
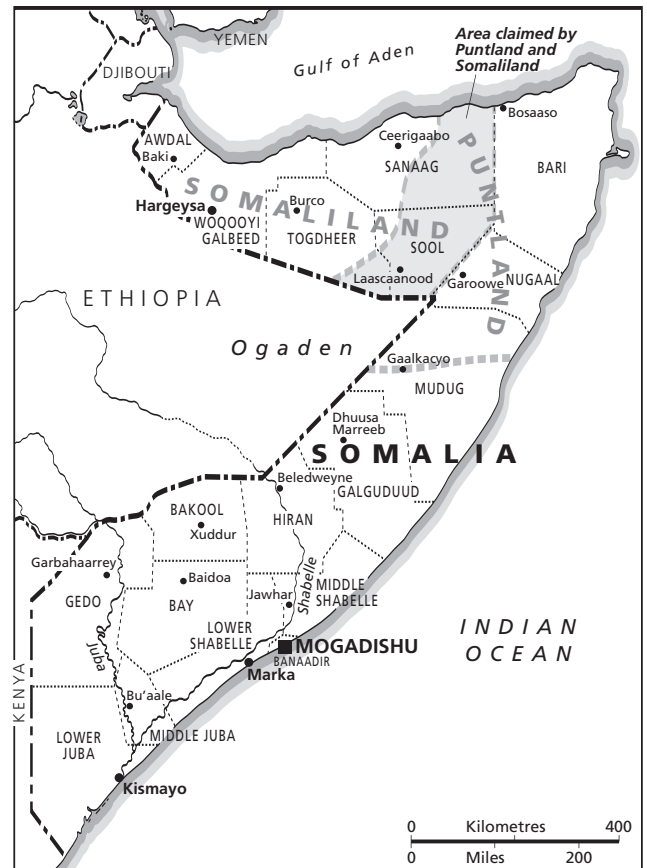
The Baidoa-based TFG, and other factions and clans want it to remain an integral part of the country.

When seeking to keep the TFG on board, the Puntland government has issued statements with wording that situates it as an integral, if autonomous, part of Somalia.

It shares and contests some borderland with Somaliland (as shown in *African Energy's Somalia's competing regions* map). Range Resources' chairman Mike Povey concedes that Puntland "would be stronger for a Somaliland link," but overall the political situation "has been stable for a decade", with an elected government and president. Puntland's political links are to the more southerly Somali world. Indeed, Povey observes that President **Mohamud Muse Hirse's** government in Garoowe is helping to prop up the TFG in Baidoa.

*Australian Stock Exchange*-listed miner Range came into this uncompromising environment on the back of an obscure *Maldives*-registered company called *Consort Private Ltd* – whose most prominent face (although not listed as a director by the Maldives Ministry of Trade and Industry's *Register of*

**Somalia's competing regions**



*Companies*) is lawyer **Anthony Black** – abetted by Western Australian charity worker and political activist **Terry Donnelly**, whose role remains somewhat obscure.

Hirse's government awarded Consort exclusive rights to exploit all of Puntland's subsoil resources in August 2005. In October, then Perth-based minerals exploration company Range (with mining projects also in **Peru** and Western

Australia) came in. Hirse said it beat off interest from “maybe more than 20 companies”.

In a classic minnow gambit, Range said it viewed Puntland as one of the last under-explored countries with “high potential for vast reserves of hydrocarbons”. It has since been seeking to persuade investors it has a bankable asset.

Speaking at length to *African Energy* in London on 19 June, Povey and company secretary **Peter Neil Landau** were keen to show that Puntland was a viable partner, that its geology suggested a highly prospective territory, and that its corporate governance and contractual arrangements were sound.

They insisted that their initial point of contact Donnelly had played only a peripheral role, putting people in touch with the opportunity back in Australia, having made a visit to deliver hospital equipment. “He had nothing to do with Consort – that was Tony Black,” Landau said.

With Povey now based in **Dubai** to handle logistics – Range, which earlier relocated from Perth to Melbourne, is moving its operations to the **United Arab Emirates** – and Landau is spending a period in London to help prepare for an AIM listing and find farm-in and other partners, the Range team were keen to emphasise that previous associates in the deal were pulling out – making Puntland a 100% Range play, until new investors, partners and IOCs come in.

A buy-out of Consort’s share is imminent. The technical services partner retained to show the territory’s prospectivity, **Ken Fellowes’** Dubai-based *Middle East Petroleum Services (MEPS)*, is also expected to be replaced, probably by a UK-based seismic firm and, hopefully, by a farm-in partner.

In February Range said Fellowes’ team was “firmly of the opinion that the company’s prospects in Puntland are directly analogous to the Yemen oil discoveries in the 1980s.” MEPS brought in veteran Yemeni oil man **Asker Ali Hussein Al-Thahir**, whose CV included encouraging *Hunt Oil’s* entry and heading the Sanaa government’s negotiations committees for oil concessions, negotiating 39 IOC permits.

### Building up an investment case

The Range team believe this helped to consolidate the Yemen link in investors’ minds. Adding to its attractions is the fact that IOCs were actively involved before Somalia collapsed. The Puntland and Somaliland regions were explored by *Conoco* (now *ConocoPhillips*), *Amoco* (now *BP*), and *Agip*, in Blocks 27, 28, 31, 32 and 35.

Range is focusing on the old Conoco Block 28, where well 28/A produced oil shows and Conoco was gearing up for a second well when force majeure was declared. Povey showed *African Energy* photos of the old well workings; rusting wellheads and Conoco’s seismic lines are still visible.

Conoco is no longer interested, he said – indeed, Povey saw no problems with companies which pulled out after declaring force majeure. These include **Swedish** indie *Lundin Petroleum* (whose operational overview no longer lists Somalia).

Povey says new 2D is needed. Range has been putting together what data remains from the ‘80s. “The Puntland

government had the right to [Conoco’s] data,” Povey said. Range had to track down the old Somali mining code to act as a basis for the new Puntland legislation. Soil sampling and other work is under way to feed into a new minerals data base.

Povey – who has a mining background – says Range is helping to set up a Puntland Mines Department.

There has already been IOC interest. On 21 April, Range entered into a letter of intent with *Korea National Oil Corporation (Knoc)* to take a 75% farm-in to former Blocks 28 and 29 for a \$10m sign-on fee and \$25m minimum two-year exploration investment. Further news is awaited.

When they talked to *African Energy* in June, Povey and Landau indicated that other companies would be involved. Market gossip says at least one AIM-listed indie is interested.

### Something for everyone

Range took over Consort’s concession, which gave it rights to 100% of Puntland territory, but Povey knows this deal as originally agreed is not sustainable. “We have a four-year deal, but we won’t go to the end of that – that’s why we pushed the government for a revised contract... we will give up exclusivity soon.”

The company will focus on target areas – it expects to retain concessions on around 100,000km<sup>2</sup> – while the rest of Puntland will be concessioned off by the government (which will retain Range as its consultant, according to Povey). Range’s 2005 contract was altered earlier this year – Povey says at its insistence – to include relinquishment. “We are better off pulling out before then, and helping evaluation for others.”

The move is expected to help overcome criticism that the Australians and Hirse had ‘carved up’ Puntland. Povey and Landau were both sensitive to criticism that has circulated on Somali expatriate websites – one of which, based in Manchester, Range has already taken action against.

Notable among these critics has been Australia-based exile **Ali Abdullah M Barkadle**, chief executive of the Victoria-based *Amsas Consulting* and linked to other IOCs.

The new concession proposals could allow the Range camp to overcome criticisms. Indeed, according to Amsas’ website: “In a closed door meeting [date not specified] between... President Hirse and... Dr Ali Abdullahi they came to the conclusion that new concession proposals will be passed to investors in the oil and gas sectors.” Amsas now sees a role for itself in these arrangements.

Somalia’s territories, competing clans and ‘governments’ continue to fashion new institutional arrangements where they can out of a very unpromising political situation.

With the UN and a range of powers deeply concerned at recent developments, and Somalia moving up the international news agenda for the first time in more than a decade, an already complex African tragedy is set to play out in ways that remain very difficult to predict.