



**THE FEDERAL GOVERNMENT OF SOMALIA**

**MINISTRY OF PETROLEUM AND MINERAL  
RESOURCES**

**NATIONAL PETROLEUM POLICY**

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## Table of Contents

1	INTRDUCTION .....	3
2	GOAL AND MISSION .....	4
2.1	Goal.....	4
2.2	Mission.....	4
3	PETROLEUM POLICY OBJECTIVES .....	4
4	LEGAL AND REGULATORY FRAMEWORK.....	5
4.1	Background .....	5
4.2	Ownership of the Petroleum .....	5
4.2	Petroleum Operations.....	6
4.3	Regulatory Authority.....	7
4.4	Functions of the Ministry .....	7
4.5	Additional Functions .....	7
4.6	Somalia Petroleum Authority (SPA) .....	7
4.7	Somali National Oil Company (SONOC).....	7
5	PRIOR CONCESSIONS STRATEGY .....	7
6	CONSTITUTIONAL RESOLUTION .....	8
7	GOOD GOVERNANCE .....	9
8	PETROLEUM EXPLORATION AND DEVELOPMENT .....	9
8.1	Offshore Petroleum Prospects .....	9
8.2	Petroleum Value Chain .....	11
8.3	Upstream .....	11
8.4	Policies and Strategies .....	12
8.5	Midstream and Downstream Petroleum.....	13
8.6	Fuel Supply and Demand.....	13
8.7	Imported Fuels .....	13
8.8	Indigenous Fuels .....	14
8.9	Future Fuel Supplies.....	14
8.10	Fuel Demand and Consumption.....	14
8.11	Transport Infrastructure and Pipeline Capacity .....	15

8.12	Strategic Petroleum Reserves .....	15
8.13	Challenges in Mid and Downstream Petroleum .....	15
8.14	Policies and Strategies .....	16
9	LICESING AND CONTRACTING .....	17
10	REVENUE SHARING AGREEMENT (RSA) .....	18
11	ENVIRONMENTAL HEALTH AND SAFETY .....	18
12	INSTITUTIONAL FRAMEWORK.....	18
12.1	GENERAL .....	19
12.2	Government Ministries and Agencies .....	19
12.3	Government Agencies .....	19
12.4	Civil Society and Other Organizations .....	20
12.5	Oil Companies .....	20

## 1 INTRODUCTION

Oil exploration in Somalia started in the late forties and early fifties, an intense seismic geophysical prospecting was carried out on onshore Somalia. However, there were no discoveries of oil and gas with commercial viability.

After the previous central Government in 1991, Somalia experienced years of anarchy. And it was not until 2012, when a new internationally-backed government was established and the country began to enjoy a measure of stability once more.

Recently, the Federal Government of Somalia has renewed its interest of oil and gas exploration activities. Between 2014 and 2016, it carried out offshore seismic surveys in Southern Somalia. The aim was to define and delineate the geological structure of the Southern and Central Somalia offshore which lies near major discoveries of oil and gas on the East African margin.

The result of the seismic data on the coastal waters of Somalia has revealed the existence of huge offshore oil and gas basins similar to that of its neighbours in the East African Region. Consequently, the Ministry of Petroleum and Mineral Resources of the Federal Government of Somalia (MOPMR) has shown considerable interest to begin offshore oil and gas exploration acreage and development program. The Ministry has put in place all the necessary regulation framework required to initiate oil and gas exploration and development programs in the country and is ready to open oil and gas exploration and development licensing round to its waters in the near future.

A very large area within Somalia, almost half of its land area, is the subject of prior petroleum concessions made in the 1980s. These concessions continue in force by virtue of 'force majeure' provisions because the conflict in 1991 and subsequent difficulties made performance effectively impossible. Therefore, it was necessary for the Federal Government to develop a legally and commercially sound policy strategy in order for Somalia to honor prior concessions held by reputable companies while prompting those companies to recommence performance of those concessions or else relinquish them.

Prior to any anticipated discovery of oil and gas, the Federal Government of Somalia is determined to create a conducive investment environment for petroleum exploration and development to continue in the country. A model production sharing agreement (Model PSA) is adopted by the MOPMR as the platform document for international oil companies to start petroleum exploration and production activities in Somalia.

It is now apparent that petroleum exploration and development will commence in the country. This has occasioned the formulation of a National Oil and Gas Policy to address both general principles and important aspects of the different phases of the petroleum value chain including: Production Sharing Agreement, licensing strategy and licensing process, production termination and decommissioning, environmental health and safety management, management of petroleum revenue (Revenue Sharing Agreement) to avoid the resource curse and ensure that petroleum production generate substantial revenues for all of the Somali people.

This Policy preparation process started with the formation of Petroleum Policy Committee (PPC) comprising of members from the Ministry of Petroleum and Mineral Resources (MOPMR). During the drafting process, the Petroleum Policy Committee reviewed various policy documents related to petroleum including the petroleum policies of emerging petroleum producing countries (Uganda, Ghana, Sierra Leone, Pakistan, Ivory Coast and Kenya etc).

Oil and gas are non-renewable extractive resources which are therefore finite. Their exploitation and utilization shall therefore be undertaken in a manner that creates durable and sustainable social and economic capacity for the country. These resources have the potential to provide immense benefits to the country through creation of employment, generation of revenues, development of infrastructure, and subsequently fast-tracking social transformation of the country. Oil and gas resources and the revenues accruing from them can also pose both enormous environmental and social challenges of dire consequences if not well managed.

## **2 GOAL AND MISSION**

### **2.1 Goal**

The policy goal is to use the country's oil and gas resources to contribute to early achievement of poverty eradication and create lasting value to society.

### **2.2 Mission**

To effectively and prudently administer, monitor and regulate the petroleum sector.

## **3 PETROLEUM POLICY OBJECTIVES**

The overall objective of the petroleum policy is to ensure sustainable, adequate, affordable, competitive, secure and reliable supply of petroleum products to meet national needs at least cost, while protecting and conserving the environment. Specifically these are to:

- Utilize petroleum revenue as a tool to accelerate economic empowerment for the Federal and Federal Member State Governments as well as urban and rural development.
- Improve access to affordable, competitive, and reliable petroleum energy services.
- Provide an environment conducive for the development and provision of petroleum services.
- Prioritise and promote the development of local technologies in oil and gas exploration and development.
- Ensure that prudent environmental, social, health and safety considerations, as well as issues of climate change are factored in petroleum sector developments.
- Ensure that a comprehensive, integrated and well informed petroleum sector plan is put in place for effective development.
- Foster international co-operation in petroleum trade, investments and development.

- Promote capacity building in the sector through research, development and training. Also promote local manufacture of plant, equipment, appliances and materials.
- Promote appropriate standards, codes of practice and specifications for equipment, systems and processes in the sector.
- Promote diversification of energy supply sources to ensure security of supply.
- Promote cost effective and equitable pricing of petroleum products.
- Protect investor, producer, supplier, consumer and other stakeholder interests.
- Provide incentives for local and international investments in the petroleum sector.
- Ensure that investors and operators in the petroleum sector comply with local content requirements.
- Promote and develop government owned agencies in the development of petroleum resources.
- Promote an elaborate response strategy in the management of petroleum related disasters.
- Provide for the efficient and optimal distribution of functions between the Federal and Federal Member State Governments in the sector while fostering cooperation with relevant public institutions.

## 4 LEGAL AND REGULATORY FRAMEWORK

### 4.1 Background

Somalia's petroleum strategy recognizes that there need to be a set of rules which govern petroleum activities such as the:

- Constitution
- Petroleum Law
- Petroleum Regulations
- Somalia Federal Government Contracts (Reconnaissance, Production Sharing Agreement (PSA) and Surface Access Agreements)

### 4.2 Ownership of the Petroleum

Petroleum resource belongs to the people of Somalia. It will be protected and distributed by the Federal Government and its agencies in accordance with the laws of the Federal Republic of Somalia.

### 4.3 Policy Principles

- **Principle 1:** Somalia should undertake an effort to discover whether petroleum exists within its territory, so that the people of Somalia might benefit from it.
- **Principle 2:** Activities to explore for, (and if exploration results are successful) develop and produce petroleum in Somalia must not unduly adversely affect the Somali environment (air, water, land, flora and fauna).

- **Principle 3:** Suitably qualified foreign and local enterprises should be invited to explore for, develop and produce petroleum in Somalia.
- **Principle 4:** Somalia's financial, legal and regulatory regime should make it attractive to enterprises to explore, develop and produce petroleum in Somalia, and provide investors with assurance of stability.
- **Principle 5:** Somalia should adopt the Production Sharing Agreement as the principal form of host government contract to be used in Somalia.
- **Principle 6:** The grant of petroleum rights under a Production Sharing Agreement should involve a signature bonus, and a share of profits resulting from successful petroleum exploration.
- **Principle 7:** Somalia's share of profits from successful petroleum exploration should increase as the profitability of the venture increases, to ensure a fair share of profits and a durable fiscal structure.
- **Principle 8:** The state's share of the benefits of petroleum exploration should be equitably shared among all Somalis, federally, regionally and locally.
- **Principle 9:** Somalia should adopt principles of transparency in the conduct of petroleum operations to minimize the risks of the "resource curse".
- **Principle 10:** Somalia should establish a national oil company controlled by the state to participate in successful petroleum activities in Somalia.
- **Principle 11:** Petroleum operations in Somalia should involve the use of local goods and services and the employment of qualified Somali citizens to the greatest extent possible, and should ensure that Somali citizens receive training to enhance their skills.

These principles remain a sound basis for petroleum exploration and development in Somalia. However, they should be the subject of continuous review, and the Federal Government intends to do so.

## 4.2 Petroleum Operations

The law should give the Federal Government certain tools that will permit the Federal Government to pursue its petroleum strategic policy:

- a) Reconnaissance Authorizations (no right to exploit subsurface)
- b) Petroleum Contracts includes the right to exploit subsurface and to take the form of production sharing agreements (PSA)
- c) Surface Access Authorizations (no right to exploit subsurface)

With these tools in hand, the Federal Government can pursue a strategy for petroleum exploration and development in Somalia.

### 4.3 Regulatory Authority

The Ministry of Petroleum and Mineral Resources (MOPMR) of the Federal Government of Somalia is the Ministry responsible for the administration of oil and gas operations in the country.

### 4.4 Functions of the Ministry

The Ministry shall perform the following functions:

- make decisions on strategies, plans and policies for the development of the Petroleum industry;
- issue regulations with respect to the management of Petroleum Operations as recommended to the Ministry by the Somalia Petroleum Authority.
- make decisions on policies and forms of cooperation with foreign entities, and;
- manage the process of substituting Production Sharing Agreements for rights granted by the Somali Democratic Republic on or before 26 January , 1991.

### 4.5 Additional Functions

- The Government may confer on the Ministry such additional functions in relation to the regulation and monitoring of Petroleum Operations and where appropriate, associated matters connected with the functions for the time being of the Ministry as are appropriate.

### 4.6 Somalia Petroleum Authority (SPA)

### 4.7 Somali National Oil Company (SONOC)

## 5 PRIOR CONCESSIONS STRATEGY

The Federal Government's strategy: Be gentle but put firm pressure on prior International Oil Companies (IOCs) to recommence or relinquish their concessions.

A very large area within Somalia, almost half of its land area, is the subject of prior petroleum concessions made in the 1980s. These grants were made by the Somali Democratic Republic. The Federal Government of Somalia is the successor of the granting government. These concessions continue in force by virtue of **'force majeure'** provisions, because the conflict in 1991 and subsequent difficulties made performance effectively impossible, particularly in the absence of a recognized and empowered government in Somalia.

Some of the companies holding these grants are respectable and capable international oil companies, including **BP, Shell, ExxonMobil, ConocoPhillips, ChevronTexaco, ENI, Talisman, Murphy, Canadian Natural Resources and Neste (the "Prior IOCs")**.



The Federal Government has chosen as a key part of its strategy, to treat all of its contracts in a business like way. A legal analysis of the prior concessions has concluded that:

- The Prior IOCs have a valid right to claim that the contracts were in force majeure and,
- The concessions continue for as long as force majeure exists.

Therefore, it was necessary for the Federal Government to develop a legally and commercially sound policy in order for Somalia to:

- Honor prior concessions with reputable companies while,
- Prompting those companies to recommence performance of those concessions or else relinquish them.

The strategic policy that the Federal Government has developed and has commenced to pursue involves the following:

- Engage with Prior IOCs to discover their intentions with respect to recommencing operations
- If there is an intention to recommence operations, to define the timing and work programs for doing so
- If there is no intention to recommence operations, to request relinquishment of the concession
- If a Prior IOC is not prepared to do either (i.e it considers force majeure to continue to apply), then *if*
- Objective evidence exists that performance is possible, a force majeure termination notice will be served.

## 6 CONSTITUTIONAL RESOLUTION

The Federal Government recognizes and respects the need to resolve the constitutional jurisdiction over petroleum rights and revenue sharing that the Provisional Constitution defers for later resolution. It is the intention of the Federal Government to take a leading role in developing consensus on this matter.

Somalia's challenge is to develop consensus so that its resource endowment can be discovered, with the risk that a failure to achieve agreement may mean that the resources may never be found or developed. The Federal Government is ready to take up that challenge and create the necessary consensus.

Petroleum Management and Revenue Sharing Agreements are already underway between the Federal Government of Somalia and the Federal Member States. Once Petroleum Management and Revenue Sharing Agreement is finalized, the FGS and the FMS can then proceed to implement the agreement by joint cooperative arrangements with third parties in advance of achieving a country-wide constitutional consensus.

## 7 GOOD GOVERNANCE

Oil and gas deposits are finite and non renewable resources, nonetheless they have the potential to generate immense wealth overtime. Because of their finite nature, they must be managed carefully to ensure that the revenues generated continue to have an impact on the lives of people after the resources have been exhausted. Oil and gas mismanagement also has the potential to result in conflict that could ruin a nation, thus becoming a more of cursed resource than a blessing used to benefit the nation.

This is why it is of utmost important to have a strong system of transparency and accountability in place to prevent any more potential conflict in Somalia. The petroleum sector must be characterized by the principles of good governance which include transparency, accountability, access to information, respect for the rule of law and citizens participation. Therefore, the FGS shall manage the petroleum sector with:

Principal of good governance

Maximum transparency and accountability

Adhere to recognized principles of equality and gender balance.

Adhere to international standards of accountability and transparency.

## 8 PETROLEUM EXPLORATION AND DEVELOPMENT

Petroleum exploration is being undertaken both onshore and offshore in the country's major Sedimentary Basins. The Government has taken the initiative to spearhead primary technical data acquisition in the exploration blocks in order to make them attractive to oil and gas exploration and development companies.

The marked increase in petroleum exploration interest in Somalia is attributed to:

- The prevailing peace and security in the country
- Newly acquired offshore seismic data by the Government
- Major discoveries of commercial quantities of oil and gas offshore in the neighboring East African Countries which have similar geological setup as offshore Somalia
- Existence of an attractive legal and regulatory framework
- Intensive promotion activities by the Government
- Attractive licensing of petroleum blocks under the Production Sharing Agreement (PSA)

### 8.1 Onshore and offshore Petroleum Prospects

Prior to oil exploration, the geology of Somalia fascinated geologists due to the existence of thick sedimentary cover. In the late forties and early fifties, an intense geophysical prospecting was carried out

followed by seismic surveys on onshore Somalia. In the mid-fifties, Agip and Sinclair Corporation executed drilling exploratory oil wells in onshore Southern Somalia. The drilled wells were either dry or manifested gas or oil shows. There were no discoveries of oil and gas with commercial viability.

In late fifties and sixties, Somalia led in an exploration intensity in Africa. Amerada surveyed and drilled few wells in Northern Somalia. However, because of Somalia adopting socialism and joining the Soviet block, western companies stopped operating in Somalia in the seventies and came back again to do business in the 1980s and that is when Somalia started opening its market.

After the previous Central Government collapsed in 1991, Somalia experienced years of anarchy. And it was not until 2012, when a new internationally-backed government was established and the country began to enjoy a measure of stability once more.

Offshore drilling is a relatively new phenomenon for the East African countries. Not long ago, the crustal structure along the offshore Somalian margin was one of the least explored areas in Africa. The only offshore geological information that existed prior to 2014 was limited to regional scale correlation of out dated geological and geophysical data.

In 2014 and 2016, the Federal Government of Somalia carried out offshore seismic surveys in Southern Somalia. The aim was to define and delineate the geological structure of the southern Somalian offshore, which lies near major discoveries of oil and gas on the East African margin.

Explorers have been encouraged on by finds of offshore oil and gas in Tanzania and Mozambique and onshore oil in Kenya and Uganda. In 2015, Spectrum ASA undertook the acquisition of 2D seismic data offshore Southern Somalia. The total number of sail line acquired equates to 20,582.75 Km. The new acquisition has complemented 20,000 km of existing seismic data that was acquired by Soma Oil in 2014.

A group of researchers along with experts from the Ministry of Petroleum & Mineral Resources of the Federal Government of Somalia studied the newly acquired seismic data, previously drilled oil and gas wells, regional gravity and magnetic data as well as the findings from source rock thermal maturity. This type of information is important for delineating areas of petroleum generation and for assessing the undiscovered petroleum resources of the study area.

The results of the data collected and interpreted in the study area indicate the existence of three major and important offshore sedimentary basins, namely: Hobbia Basin in the North, Qorioley Basin in the Centre, and the Juba-Lamu Basin which extends southwards into Kenya. These sedimentary basins have sediment thicknesses in the range of 3-5 kilometres and contain good source rocks, reservoir rocks, seals and traps necessary for large volumes of oil and gas to deposit. These basins are similar in scale and formation to those in the Rovuma basin offshore Mozambique.

In the north ( Hobbia/Qorioley Basin), large tilted fault blocks and huge anticlinal folds of rock are seen to lie next to oil generative source kitchens. In the south (Juba-Lamu Basin), huge structures similar to those seen in the super giant Rovuma basin discoveries have been observed sitting over oil-prone rather than gas-prone kitchens. Additionally, large, well-defined fold belts are found in the near-shore section offering targets that are cheap to drill with very attractive potential.

The first drilling in these exciting basins is expected to occur as early as possible, and should open the door to this new oil province bringing much needed benefit to Somalia and a new economic stability to the region. Somalia exploration has been dormant for a generation. In those 25 years of sleep, the

international exploration industry has transformed the technology available for seismic acquisition, processing, interpretation, and drilling.

Now Somalian exploration awakens to a new world with incredible new technologies and the capability to reduce exploration risk and ensure early success. It awakens not only to a stable government with capability and intent to rapidly develop Somalian natural resources, but also to the recognition that this is the part of East Africa where hydrocarbon wealth will not just be defined by the development of long-term gas projects, but from the discovery of earth's richest natural resource prize – oil.

## **8.2 Petroleum Value Chain**

The petroleum industry is broadly divided into three categories namely: upstream (exploration and production), mid-stream (storage, refining and transportation) and down-stream (supply and distribution). Midstream and downstream operations are usually combined.

## **8.3 Upstream**

The upstream oil and gas sector is also commonly known as the exploration and production (E&P) sector includes searching for potential underground or underwater crude oil and natural gas fields, drilling exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and/or raw natural gas to the surface.

The upstream oil and gas exploration in the coastal waters of Somalia has revealed the existence of enormous and important geological structures similar to those found in the neighboring East African Region. It is believed that these structures have the potential to hold large quantities of oil and gas reservoirs. However, these positive developments are coupled with operational challenges facing the petroleum industry in the least developed countries which include:

- Attraction of capital for petroleum exploration and production activities, which are highly capital intensive
- High cost of acquisition of new technology
- Inadequate manpower, technical capacity and local content in oil and gas exploration and production activities
- Limited primary technical data in most of the country's exploration blocks
- Falling prices of crude oil
- Community awareness and participation
- Environmental protection, conservation and management
- Enforcement of upstream laws and regulations
- Sustainable utilization of petroleum revenue, its management and sharing of benefits between the Federal Government, Federal Member States and Local Community
- Flaring of gas from oil producing fields: a practice that is most often linked with the simultaneous production of oil and natural gas where there is no ready market for the gas. This is performed by safely burning off the associated gas. This approach was historically accepted as industry standard. However, the increasing focus on the impact of oil and gas production on the environment, combined with the increasing value of gas, makes indiscriminate flaring

untenable. Nonetheless, there are instances when it is necessary to flare associated gas. This is normally in relation to preventing excessive pipeline pressure and/or in response to a specific emergency (such as equipment failure)

## **8.4 Policies and Strategies**

### Upstream Petroleum

1. Establish a regulatory body for upstream petroleum operations
2. Undertake upstream petroleum operations through production sharing agreements and service contracts
3. Ensure that oil and gas resources are managed in line with the Constitution
4. Develop and enforce laws and regulations on flaring gas
5. Promote petroleum exploration and production activities through public private partnership (PPP)
6. Establish an Upstream Petroleum Data Center for the safe, secure custody and management of upstream data
7. Establish Upstream Petroleum Laboratory
8. Promote the establishment and growth of upstream petroleum services
9. Promote the acquisition and processing of data using advanced technologies to sustain and increase investment in petroleum exploration
10. Facilitate partnership in the exchange of data to minimize exploration cost
11. Coordinate capacity building in petroleum development
12. Sub-divide and create new petroleum exploration blocks, based on technical data and negotiate favorable work programs that will see investors with requisite capacity assist in data acquisition
13. Develop and enforce laws and regulations on upstream petroleum activities
14. Ensure transparency and accountability in petroleum upstream operations taking into account best industry practices and efforts shall be made to align them with existing legal framework
15. Develop systems that will enhance corporate governance in the government institutions charged with petroleum exploration and development
16. Support and fund government entities mandated to undertake upstream activities
17. Strengthen monetary and fiscal regimes to maximize the government stake on petroleum exploitation while taking into account the investors interests
18. Provide incentives for investments in marginal oil and gas discoveries that could have the potential to deliver much financial and socio-economic value
19. Develop a legal framework that ensures local content covering technology and knowledge transfer, capacity building of local industry and local employment opportunities in the petroleum sector
20. Ensure that petroleum exploration and production activities shall include technology transfer and development of local manpower including engaging qualified local personnel as a priority
21. Enhance manpower and technical capacity in petroleum exploration by establishing programs in conjunction with local industry associations, local training institutions and international institutions
22. Support local investors that have the capacity and interest to participate in and/or undertake petroleum exploration and production
23. Subject upstream petroleum activities to the Somalia Government Contracts and any relevant Income Tax Act

24. Develop and implement an oil and gas master plan taking into account mechanisms for commercialization, utilization and enhancement of local capacity, elements of supply chain, value, development, processing and the market for end products
25. Provide incentives to fast track discovery of commercial natural gas, coal bed methane (CBM) and shale gas
26. In the event of discovery of crude oil together with natural gas, the Government will ensure that oil exploration and production companies take measures to exhaustively produce both products from such wells
27. Develop an appropriate communication strategy to manage stakeholder expectations

## **8.5 Midstream and Downstream Petroleum**

Midstream and Downstream Activities involve the processes that Petroleum undergoes after exploration and production (i.e transportation, refining, storage, supply, distribution, and marketing) and the uses of its products.

Institutions responsible for monitoring and regulating these activities include MOPMR mandated to regulate both technical and economic activities and SONOC responsible for the establishment of technical standards for the quality of petroleum products, and petroleum infrastructure and installations, and transportation.

Somalia imports all of its petroleum products for industrial and domestic consumption. In case of petroleum discovery, petroleum Midstream and Downstream activities will play important roles for the earlier achievement of Somalia's developmental goals and agenda for poverty reduction.

## **8.6 Fuel Supply and Demand**

Fuel supplies in Somalia can be broadly divided into three categories:

- Imported Fuel Supplies
- Indigenous Fuel Supplies
- Future Fuel Supplies

## **8.7 Imported Fuels**

The low and fluctuant energy demand led to the current dominance of biomass in the country's energy mix. Additionally, imports remained rather low due to the difficulty of estimating demand in such unstable conditions. However, petroleum products are imported to some degree with 20% of the total amount being destined to electricity generation. Imported LPG is generally used for cooking in the urban areas for

both households and businesses. Kerosene usage for cooking is also being promoted in some regions of the country.

## **8.8 Indigenous Fuels**

Somali's energy mix is dominated by locally sourced charcoal and firewood. The two biomass products currently cover approximately 80 to 90 percent of the total energy demand of the country. Charcoal is mainly used in the urban centres while nomadic areas rely on firewood. Annual charcoal consumption is currently estimated at 4 million tons. An average household requires 1 to 2 sacks of charcoal per month. Besides the associated environmental and health concerns, over-exploitation of biomass is expected to lead to resources depletion.

## **8.9 Future Fuel Supplies**

The Federal Government of Somalia is doing great efforts to initiate domestic production of hydrocarbons and for this purpose it has finalized the legislative and regulatory mechanisms and incentives to attract IOCs for investment. In the near future, Somalia is expected to produce petroleum to meet its domestic fuel demand.

## **8.10 Fuel Demand and Consumption**

Somalia's energy sector is predominantly driven by private companies. The supply of electricity and fuels cannot meet the current demand of both the public and business. In addition, energy demand remains constrained and unevenly distributed among regions and population groups due to subdued development, sluggish economy and differentiated income levels.

Mogadishu represents the largest fuel consumer with demand for cooking, lighting and powering reported as very strong, but costly. Regional differences are prevalent with Kismayo residents being fully dependent on charcoal and Mogadishu consumers complementing their 87% usage of charcoal with a corresponding 13% LPG share. Hargeisa is the most diversified in terms of fuels, charcoal use is 66% while Kerosene and LPG use is 18% and 15% respectively. Bosaso use 70% charcoal, 23% kerosene and 7% LPG. Garowe uses only two types of fuel 60% charcoal and 40 LPG.

In the industrial sector, power companies use diesel for power generation and is the only alternative fuel source for power at the moment. Decades of neglect, coupled with a severe lack of investment led to the currently underdeveloped electricity infrastructure. Access to affordable and technologically advanced sources of energy is very limited. Power grids are rarely present and exists only in a few cities around the country. For all the other consumers, electricity is supplied in rudimentary way that is both inefficient and outdated. In terms of only lighting purposes, Somalia would require 180 MW installed capacity. Fuel demand in Somalia is currently restrained mostly because of lack of infrastructure but also due to the high

cost fuels and electricity. Both residents and businesses spend a considerable share of their income on energy and more often the energy provided is insufficient and filled with frequent blackouts.

### **8.11 Transport Infrastructure and Pipeline Capacity**

Sufficient and efficient infrastructural systems are key to ensuring adequate, reliable and cost effective supply of petroleum products. The increase in local and regional demand for petroleum products has not been matched by the development of the infrastructure to meet supply chain and market requirements.

In terms of oil and gas infrastructure no major progress has been made in improving and expanding the country's transport infrastructure and pipeline capacity. Somalia has a deteriorating infrastructure that has seen little improvement in the last decades. Road transport is used to move petroleum products from various depots that are located in the major port cities in Somalia to their environs and to other towns.

One paved road extends from Berbera in north through Mogadishu to Kismayo. Roads of all categories totalled 22,100 kilometers (13,733 miles) in 1996, of which 2,608 (1,621 miles) kilometers were paved. Many of the improved earth roads were frequently impassable in rainy seasons. Highway infrastructure is insufficient to open up isolated areas or to link the regions. The country has no railroads and pipeline network.

Somalia has 8 paved civilian airfields and fewer than 20 additional widely-scattered gravel airfields. The international airport is at Mogadishu.

There are 4 major ports—deepwater facilities at Berbera, Mogadishu, Bosaso and Kismayo and a lighterage (for transportation of goods on flat-bottomed barges) port at Marka—and a minor port at Maydh. A port modernization program that was launched in the latter half of 1980s with U.S. aid significantly improved cargo handling capabilities at Kismaayo and increased the number of berths and deepened the harbor at Berbera.

### **8.12 Strategic Petroleum Reserves**

Somalia has hitherto remained without strategic petroleum stocks which are critical in cushioning the country against supply chain disruptions and to provide supply security.

### **8.13 Challenges in Mid and Downstream Petroleum**



- Absence of an operational crude oil refinery
- Unreliable power supply
- Inadequate infrastructure for storage and evacuation of petroleum products
- High initial cost of acquiring the necessary infrastructure
- Inadequate incentives for infrastructure development
- Lack of proper planning, coordination and integration of petroleum infrastructure
- Lack of an oil and gas master plan
- Oligopolistic market
- Fluctuation of petroleum prices
- Adulteration and dumping of petroleum products
- Lack of compliance with waste management regulations on hazardous and noxious substances
- No LPG inland infrastructure for cylinder filling, storage and distribution
- Ineffective enforcement of laws and regulations governing mid and downstream petroleum activities
- Dilapidated highway networks

#### **8.14 Policies and Strategies**

##### Midstream and Downstream Petroleum

1. Liaise with the Ministries, regional and local authorities responsible to rehabilitate and improve the petroleum facilities and the transportation infrastructure of the country
2. Construct oil pipelines to enhance regional interconnections and construct common user truck loading facilities as necessary
3. Carry out detailed analysis of the viable options for building refinery facilities in the country
4. Facilitate Somali Petroleum Company's role of stabilizing the market by using appropriate measures including increased market presence in the country
5. Develop mechanisms and strategies to convert consumption of kerosene, firewood and charcoal to environmentally friendly and economic modern fuels such as Liquid Petroleum Gas (LPG)
6. Construct modern LPG import handling, storage and distribution facilities
7. Provide fiscal incentives on LPG and related appliances
8. Encourage private sector investment in additional capacity for handling and storage for LPG
9. Curb malpractices including illegal filling of cylinders
10. Enforce compliance with laws and regulations to eradicate malpractices in the petroleum industry such as adulteration, dumping and under dispensing through compliance monitoring and by enhancing penalties
11. Enforce standards, laws and regulations for construction and operation of retail and wholesale dispensing sites
12. Enforce compliance with regulations for operational stocks to enhance security of supply of petroleum products
13. Provide appropriate incentives to facilitate and support public and private investments in the development of petroleum infrastructure including petroleum jetties, gas filling terminals, loading, storage facilities, centralized gas reticulation systems and retail networks in all parts of the country

14. Enhance the Ministry's capacity to enforce regulations on the quality and standards of petroleum products
15. Spearhead the harmonization of regional standards for petroleum products
16. Provide adequate security for petroleum installations in the country
17. Ensure reliable power supply to support petroleum businesses
18. Assess the continuing feasibility of pump price regulation
19. Put in place strategies to encourage the growth of local Petroleum Management Companies (PMCs)
20. Enforce compliance with regulations for handling of hazardous and noxious substances
21. Develop port facilities capable of handling very large gas carrier (VLGC) and very large crude carrier (VLCC)
22. Develop oil and gas infrastructure such as crude oil pipelines and storage tanks, through PPP and joint venture (JV) arrangements where appropriate

## 9 LICENSING AND CONTRACTING

Petroleum licenses and contracts confer exclusive rights for the exploration of petroleum over a limited area and for a limited period. This policy sets out the basic criteria to be adopted for obtaining the rights to conduct petroleum activities in the country.

The following policies apply on petroleum licensing and contracting operations:

- All contracts entered by the MOPMR on behalf of the Federal Government of Somalia shall be in accordance with the Public Procurement Act.
- The award of a petroleum licenses and /or contracts shall be based on a transparent competitive bidding process aimed at getting the best returns for the country and attracting well qualified oil companies.
- The Ministry shall establish a reasonable time under which a bid winner can be allowed to continue negotiation for a contract.
- The Ministry shall consider a phased approach to the development of petroleum resources in order to maximize sustainable commercial benefits and avoid overstressing the Ministry's oversight capabilities.
- The Ministry shall require pre-qualification of bidders and shall publish the bid criteria.
- The Ministry's criteria for pre-qualification shall place emphasis on the financial and technical capacity to undertake petroleum activities.
- Award of blocks by direct negotiation shall be allowed where a competitive process has failed to attract bids that yield sufficient returns for the country. The reasons for resorting to direct negotiation in the event of failure of bid rounds shall be made public prior to commencement of such negotiation
- The government shall set criteria for transfer of licenses or contracts, ownership interests and operatorship.

## 10 PETROLEUM MANAGEMENT AND REVENUE SHARING AGREEMENT (PMRSA)

Petroleum Resources in Somalia are owned by the Somali people. On behalf of the people, the Federal Government will collect and disburse revenue and manage Petroleum Resources in a manner to be agreed upon by all parties. Any such revenues so collected shall immediately be remitted to the FGS for management and distribution in accordance with the terms of the PMRSA. The Federal Government of Somalia has formulated a PMRSA regulation and incorporated into the Petroleum Law of 2017.

The policy objective of PMRSA is for the FGS to effectively and efficiently use petroleum revenue as catalyst for the sustainable growth of the national economy of Somalia. The PMRSA policy states the FGS shall:

- Establish by law a Petroleum Revenue Fund(s) as means of effective petroleum revenue management.
- Ensure that the development of the petroleum sector and the use of revenues generated are closely linked with the country's National Development Plans (NDPs).
- Ensure that the Federal Member States and the local communities receive a fair share of benefit from revenues emanating from petroleum operations as stipulated in the Petroleum Law and the Provisional Constitution of Somalia.

## 11 ENVIRONMENTAL HEALTH AND SAFETY

Petroleum operations at all stages of the value chain may have negative environmental impact and may subsequently disrupt livelihoods and the functioning of the natural ecosystems if not managed properly. Aside from accidental spills, common environmental issues include operational discharges, emissions of pollutants into the air, noise and the use of hazardous chemicals and waste production. Although it is virtually impossible to eliminate all risks, Disaster Prevention and Response Plans (DRPs) and systems must be in place for reducing the risk of damages to life and property. To ensure that petroleum activities are performed in a safe and prudent manner that takes care of the natural and built environment. *The Government shall:*

- Ensure that petroleum operations are undertaken in a manner that complies with national and international environmental policies, regulations, and guidelines.
- Ensure sector specific environmental health and safety regulations and standards are established.
- Ensure that companies engaging in petroleum operations in the country have a management system that prevents accidents from happening and have a contingency and Response Plans for handling accidents.
- Ensure that petroleum companies assume full financial and operational responsibility for the decommissioning and abandonment of petroleum infrastructures.

## 12 INSTITUTIONAL FRAMEWORK

## **12.1 GENERAL**

This policy recognizes the need to enhance the current institutional framework which was set up to facilitate the promotion and exploration for oil and gas. There is need to enhance this framework with the view of enabling it to handle the continuing exploration effort together with the development and production of oil and gas. Establishment of an appropriate framework has to take into consideration the different roles of the Federal Government ministries, other stakeholders and those of the oil companies in the implementation of oil and gas activities.

The policy recognizes the following relevant government ministries, stakeholders and oil companies:

## **12.2 Government Ministries and Agencies**

- Ministry of Constitutional Affairs
- Ministry of Finance
- Ministry of Transportation and civil aviation
- Ministry of Energy and Water
- Ministry of Labour and Social Affairs
- Ministry of Education
- Ministry of Commerce and Industry
- Ministry of Foreign Affairs and International Cooperation
- Ministry of Internal Security
- Ministry of Information
- Ministry of Planning, Investment and Economic Development
- Ministry of Fishers and Marine Resources
- Ministry of Public Work
- Ministry of Justice
- Ministry of Health and social welfare

## **12.3 Government Agencies and Independent Commissions**

- The Central Bank of Somalia
- The Directorate of the Environment
- The Auditor General
- Attorney General
- State Attorney General
- Independent Borders Commission
- National procurement Board

## **12. Federal Member States**

### **12.4 Civil Society and Other Organizations**

- Cultural Institutions
- Non Governmental Organizations (NGOs)
- Development Partners
- Non state actors

### **12.5 Oil Companies**

- National and Local Oil Companies
- International Oil Companies