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C O N F I D E N T I A L SECTION 01 OF 04 MOGADISHU 02844

DEPT PASS BUREAU OF MINES AND AID/AFR

TREASURY FOR USED/IMF, USED/IBRD

PROPRIETARY INFORMATION

E.O. 12356:DECL:OADR

TAGS: EPET, EINV, PINS, EAIR, EFIN, EAID, PINR, KPRP, SO

SUBJECT: PETROLEUM EXPLORATION: CONOCO SEARCHES FOR

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OIL IN SOMALIA

REF: MOGADISHU 01502 (NOTAL)

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1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: CONOCO IS INVESTING IN OIL EXPLORATION IN SOMALIA ON A SCALE UNMATCHED BY ITS RIVALS, BUILDING ROADS AND AIRSTRIPS, CHARTERING ONE OF THE NATIONAL AIRLINE'S THREE PLANES FULL TIME, AND SENDING SEISMIC SURVEY TEAMS TO THE EDGE OF SNM-CONTROLLED TERRITORY. THEY HAVE RECRUITED A WELL ARMED FORCE OF OVER 100 POLICE TO PROVIDE SECURITY.

[REDACTED]

CONOCO SOMALIA'S PRESIDENT RAYMOND MARCHAND SEEMS UNDAUNTED BY SUCH PROBLEMS. HE LEADS HIS OPERATION FROM THE FRONT AND HAS BEEN HIGHLY SUCCESSFUL IN GETTING NEEDED SUPPORT FROM THE SOMALI GOVERNMENT (GSDR). PART OF THE "FULL STORY" WHICH HE EXPLAINS TO GSDR OFFICIALS IS THAT AN OIL STRIKE IN SOMALIA WOULD HAVE LITTLE OR NO VALUE UNLESS THE COUNTRY ACHIEVES INTERNAL PEACE.

AREA OF OPERATIONS, SECURITY

3. THE LARGEST AND MOST PURPOSEFUL ENTERPRISE GOING ON IN SOMALIA AT THE PRESENT TIME IS CONOCO'S QUEST FOR OIL. CONOCO SOMALIA LTD.'S PRESIDENT RAYMOND MARCHAND, A 50 YEAR OLD FRENCHMAN FROM ALGERIA, GETS THINGS DONE, LEADS CONFIDENTIAL

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FROM THE FRONT, AND GOES FIRST CLASS, PROVOKING NOT A LITTLE ENVY AMONG HIS COMPETITORS.

4. CONOCO HAS CONCESSIONS IN FIVE BLOCKS (27, 28 AND 29, ACQUIRED IN 1986 AND 33 AND 34, ACQUIRED IN 1989) COVERING MOST OF NORTHERN SOMALIA EAST OF BURAO. MARCHAND IS MATTER-OF-FACT ABOUT HOW SOMALIA'S CIVIL WAR AFFECTS HIS OPERATIONS: "BASICALLY WE ARE STAYING IN DOLBAHANTE TERRITORY, OR WARSANGELI TERRITORY (THE ERIGAVO REGION, NORTH OF DOLBAHANTE COUNTRY). IF YOU STAY EAST OF THE MOUNTAINS (THE COASTAL RANGE THAT TURNS SOUTHWARD AT ERIGAVO), YOU'RE OK." THE WESTERN HALF OF BLOCK 27 HAS BEEN A SCENE OF FREQUENT COMBAT SINCE 1988, AND AS A RESULT CONOCO HAS STOPPED WORK IN ALL OF BLOCK 27, BUT WITHOUT DECLARING FORCE MAJEURE (AS AMOCO DID IN BLOCK 35,

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NORTHWEST OF ERIGAVO, IN 1988). THE SOMALI GOVERNMENT (GSDR), APPRECIATIVE THAT CONOCO HAS AVOIDED STIRRING UP A FUSS, HAS REFRAINED FROM GRANTING THE CONCESSION TO SOMEONE ELSE. (ADMITTEDLY, IT IS HARD TO IMAGINE THAT ANY RIVAL OIL COMPANY WOULD BE INTERESTED IN OPERATING IN BLOCK 27 UNDER PRESENT CONDITIONS.)

5. DOLBAHANTE ELDERS ASSURED MARCHAND THAT THEY WOULD TAKE CARE OF CONOCO'S CREWS AND RIG. A FORCE OF 117 POLICEMEN (DHARWISHTA, THE CIVILIAN ARMED POLICE WHO WEAR BLUE BERETS) HAS BEEN DETAILED TO CONOCO. FOR FIREPOWER THEY RELY ON A TRUCK MOUNTED 37MM ANTI-AIRCRAFT CANNON, 12 CAL .50 MACHINE GUNS, AND NUMEROUS RPG7'S. INDIVIDUAL POLICE ARE ARMED WITH WEST GERMAN G-3 RIFLES ("EVEN BETTER THAN KALASHNIKOV'S"). CONOCO PAYS THE SALARIES AND PROVIDES FOOD FOR THIS FORCE. THUS FAR THEY HAVE NOT HAD TO USE THEIR WEAPONS; THE PURPOSE OF BEING SO HEAVILY ARMED IS DETERRENCE, AND IT IS WORKING.

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6. WESTERN GEOPHYSICAL IS PERFORMING SEISMIC SURVEYS FOR CONOCO IN THE SOUTH OF BLOCK 29, AND WILL BE MOVING FROM THERE INTO BLOCK 33. MARCHAND LED THE INITIAL EXPLORATORY PARTY (INCLUDING 10 POLICEMEN) INTO BLOCK 33, THROUGH THE DESERT FROM GHARDO IN THE GENERAL DIRECTION OF ERIGAVO. THEY CONFERRED WITH THE NOMADS ALONG THE WAY, AND WHEN THEY REACHED RANGELAND DEVOID OF CAMELS AND GOATS THEY KNEW TO TURN BACK, FOR THIS WAS THE BEGINNING OF NO-MAN'S LAND SEPARATING DOLBAHANTE FROM ISAAKS ADHERING TO THE SNM. THE SEISMIC CREW IS ACCOMPANIED BY 40 POLICEMEN, THUS FAR WITH LITTLE APPARENT RISK. THEY HAVE BASE CAMP WITH AN AIRSTRIP, AND LOGISTICS WHICH ARE INDEPENDENT OF THE CONOCO DRILLING SITE.

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LOGISTICS

7. CONOCO HAS CHARTERED ONE OF SOMALI AIRLINES' TWO

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DORNIER 228 TWIN-ENGINE, 19-PASSENGER TRANSPORT PLANES FULL TIME. (THE THIRD PLANE IN SOMALI AIRLINES' FLEET OF THREE IS THEIR AIRBUS 310 FOR INTERNATIONAL FLIGHTS.) THE DORNIER MAKES FIVE FLIGHTS PER WEEK: THREE TO THE RIG, AND TWO TO THE SEISMIC TEAM. FUEL IS STORED AT THE AIRSTRIPS TO ELIMINATE THE NEED TO FLY TO THE PORT OF BOSASSO TO REFUEL BEFORE RETURNING TO MOGADISHU. THE DORNIER HAS MADE 200 FLIGHTS SO FAR IN SUPPORT OF CONOCO AND ITS SUBCONTRACTORS. FOR THESE SERVICES CONOCO PAYS SOMALI AIRLINES USD 250,000 PER MONTH, AN INJECTION OF HARD CURRENCY SUFFICIENT TO PAY ONE THIRD OF SOMALI AIRLINES' DEBT SERVICE FOR THE AIRBUS.

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8. CONOCO BROUGHT ITS RIG OVERLAND FROM
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BOSASSO ON THE GULF OF ADEN, BUT MOST EQUIPMENT SUCH AS CASINGS THEY HAUL TO THE SITE FROM MOGADISHU, 780 MILES EACH WAY BY ROAD. INDEPENDENT TRUCKERS, HIRED TO HAUL A LOAD AT A TIME (AFTER WHICH THEY RETURN TO THE BACK OF THE QUEUE) HAVE HAULED OVER 200 LOADS THUS FAR.

9. CONOCO'S STAFF CONSISTS OF 10 EXPATRIATES IN THE MOGADISHU OFFICE, 23 ON THE RIG, AND 23 TO 25 ON THE SEISMIC TEAM. EXCEPT FOR THREE OR FOUR CONOCO DIRECT HIRES, MOST OF THESE ARE EMPLOYEES OF PARKER DRILLING, SCHLUMBERGER, EXLOG, OR WESTERN GEOPHYSICAL (WHICH IS DOING SEISMIC WORK FOR THE OTHER OIL COMPANIES GEARING UP FOR OPERATIONS IN SOMALIA, AMOCO AND PECTEN -- A U.S. SUBSIDIARY OF ROYAL DUTCH SHELL).

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10. THE SIZE OF CONOCO'S OPERATION IS SUCH THAT THEY NEED ADDITIONAL AIR SERVICE TO KENYA, A SIX-SEATER THAT FLIES TUESDAYS, THURSDAYS AND SATURDAYS. (REGULARLY SCHEDULED KENYA AND SOMALI AIRLINES FLY ON SUNDAYS AND WEDNESDAYS RESPECTIVELY.) MOST OF CONOCO'S DEALINGS WITH THE SOMALI BUREAUCRACY HAVE BEEN REMARKABLY TROUBLE FREE (MORE BELOW) BUT THE AIR CHARTER FROM KENYA WAS A PREDICTABLE EXCEPTION (COMPARE MOGADISHU 1578, 2123, ETC., NOTAL). A SPECIAL COMBINATION OF KENYAN REGISTRATION AND KENYAN-CITIZEN-ETHNIC-SOMALI OWNERSHIP WAS NECESSARY TO HAVE A CHANCE OF BREAKING THE RED TAPE. STILL, THE PLANE'S PILOT WAS ARRESTED ON THE MAIDEN FLIGHT INTO SOMALIA. MARCHAND, POINT MAN ON THIS AS OTHER OPERATIONS, WAS ON BOARD. POLITELY HUSTLED OFF THE PLANE AND OUT OF THE AIRPORT, HE WENT IMMEDIATELY TO HIGH LEVEL CONTACTS TO GET THE

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PILOT SPRUNG. HE HAD TO SEE PRESIDENT SIAD HIMSELF BEFORE GETTING DIRECTOR OF CIVIL AVIATION COL ALI GARAD TO CEASE HIS INTERFERENCE. SINCE DECEMBER 1989, THE THREE

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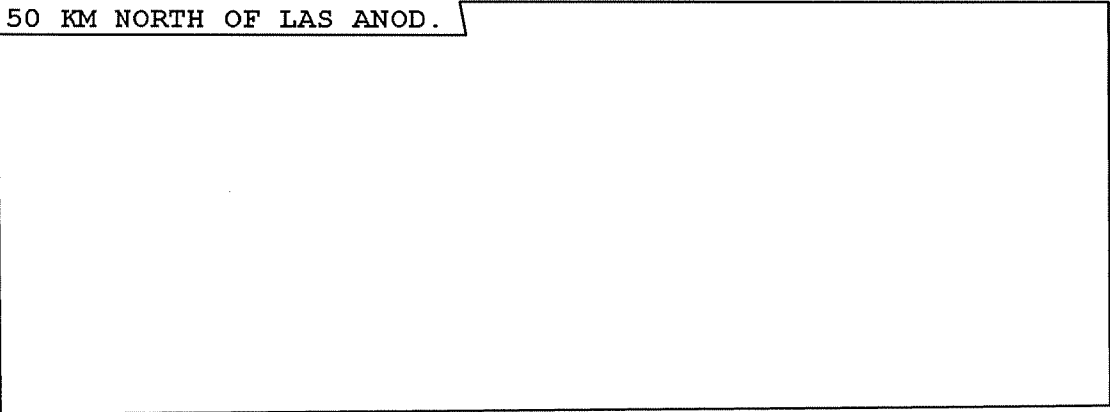
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FLIGHTS PER WEEK SCHEDULE HAS WORKED.

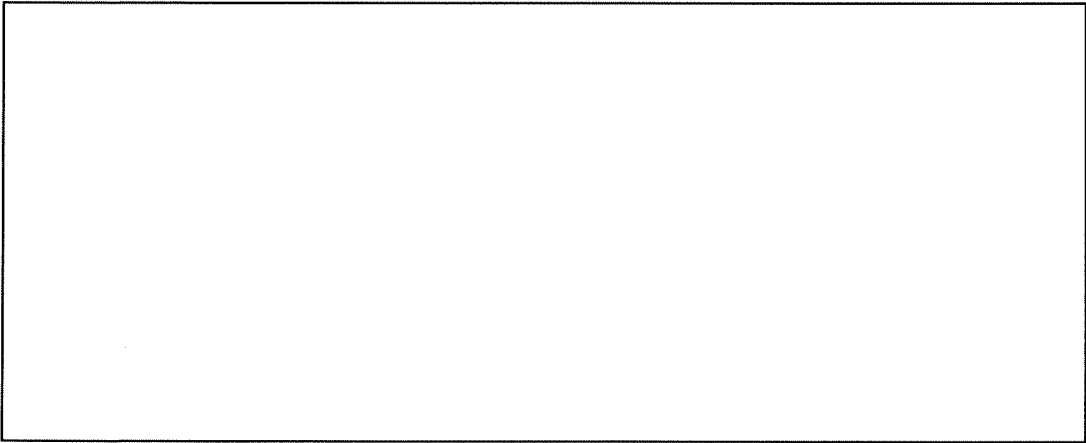
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THE DRILL SITE

11. CONOCO STARTED DRILLING ITS FIRST WELL, "NOGAL-1",
NOVEMBER 16, AT A SITE IN BLOCK 28, IN THE DESERT ABOUT
50 KM NORTH OF LAS ANOD.



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13. AROUND MID-APRIL, ACCORDING TO THE PRESENT SCHEDULE (WHICH WOULD CHANGE IF A COMMERCIAL-QUALITY DEPOSIT WERE FOUND), CONOCO SHOULD BEGIN REDEPLOYING THEIR RIG 170 KM EAST-NORTHEAST TO A SECOND DRILLING SITE NEAR GAROE. THE RAINS WILL START ABOUT THE SAME TIME, TURNING ROADS INTO MUD AND FURTHER COMPLICATING OPERATIONS. PERHAPS AS IMPORTANT AS THE PHYSICAL ENVIRONMENT, THE RIG WILL DEPART DOLBAHANTE COUNTRY AND ENTER AN AREA WHERE THE POPULATION IS PREDOMINANTLY MAJERTAIN. NEW SECURITY ARRANGEMENTS AND NEW RELATIONSHIPS OF PATRONAGE WILL HAVE TO BE ESTABLISHED.

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IMPACT ON THE ECONOMY, RELATIONS WITH THE GOVERNMENT

14. FOR AN ENTERPRISE IN SOMALIA TO BE SUCCESSFUL, OBTAINING THE COOPERATION OF THE GOVERNMENT IS ESSENTIAL. THE CONOCO OPERATION, BY ITS SIZE, DYNAMISM AND BOUNTIFUL EXPENDITURES, HAS OVERCOME THE SQUEEZE SYSTEM BY WHICH SOMALI BUREAUCRATS MAKE THEIR LIVING. THE BENEFITS TO ALL IF CONOCO FINDS OIL, AND THE IMMEDIATE BENEFITS TO THE ECONOMY OF CONOCO'S SPENDING, WHETHER OIL IS FOUND OR NOT, ARE SO APPARENT THAT NO ONE HAS TRIED TO KILL THIS GOOSE LAYING GOLDEN EGGS. WITH THE EXCEPTION OF THE NAIROBI-BASED CHARTER PLANE (PARA 10, ABOVE) GSDR COOPERATION HAS BEEN NO PROBLEM.

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15. OVER THE LONG TERM, HOWEVER, CONOCO MAY HAVE DIFFICULTY GETTING SENIOR GSDR LEADERS TO UNDERSTAND "THE WHOLE STORY." ALTHOUGH THE FORMATIONS LOOK PROMISING, THERE MAY BE NO OIL. GSDR OFFICIALS, HOWEVER, TEND TO BE FILLED WITH GIDDY OPTIMISM. A RECENT HYDROGEN SULFIDE SAFETY ALERT AT THE DRILLING SITE CONFUSED SOME PEOPLE INTO THINKING THAT CONOCO HAD STRUCK OIL. GETTING GSDR OFFICIALS TO ACCEPT BAD NEWS, SHOULD IT COME TO THAT, MAY NOT BE EASY. FORTUNATELY THE NEW MINISTER OF MINERAL AND WATER RESOURCES, ABDIRAZAK ALI ELMI, IS A GEOLOGIST WHO UNDERSTANDS WHAT IS REALLY HAPPENING. MARCHAND HAS ALSO MADE SURE TO KEEP FORMER INTERIOR MINISTER (AND NOW DEPUTY SECRETARY GENERAL OF THE PARTY) AHMED SULEIMAN ABDALLA, HIMSELF A DOLBAHANTE, BRIEFED ON THE PROGRESS OF OPERATIONS.

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AN INCENTIVE FOR ACHIEVING PEACE
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16. THE MOST IMPORTANT PART OF THE "WHOLE STORY", PERHAPS, IS THAT EVEN IF CONOCO FINDS OIL IN SIGNIFICANT AMOUNTS, THERE WILL HAVE TO BE ADDITIONAL STEPS AND MUCH MORE INVESTMENT BEFORE SOMALIA CAN BENEFIT. THE FIRST PREREQUISITE WILL BE THAT SOMALIA ACHIEVE INTERNAL PEACE. MARCHAND EXPLAINS TO GSDR OFFICIALS THAT IF THERE IS OIL BUT NO PEACE, THEN NEITHER CONOCO NOR ANYONE ELSE WILL BE ABLE TO GET THE OIL OUT. A PIPELINE, PUMPING STATION AND

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TERMINAL WOULD COST IN THE NEIGHBORHOOD OF USD 500 TO 800 MILLION. CHAD (WHERE MARCHAND WORKED WHEN OIL WAS DISCOVERED IN 1973) AND SUDAN ARE EXAMPLES OF COUNTRIES WHERE INTERNAL STRIFE HAS PREVENTED THE EXPLOITATION AND EXPORT OF ANY OIL. SOMALIA COULD FALL INTO THE SAME UNHAPPY CATEGORY. CRIGLER

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