Libyan oil and its future. Part 1

Libyan oil has always been at the center of not only national interests, but also the interests of international oil companies and the various states attempting to take advantage of the political struggle and even revolutionary mood of the country. Though after the revolution Libya has witnessed tough economic times, it has nevertheless attracted large foreign companies, aimed at increasing oil production. Who among the international players is playing the role of first fiddle in the Libyan oil sector? What are the chances of Russian business returning to the market of the North African state and helping the Libyans achieve their goals?

The amount of oil produced in Libya, which leads the rest of Africa in the production of crude, does not exceed 1.4 million barrels per day. The Libyan leadership has requested an increase in the daily rate up to 1.7 million barrels per day by the end of this year. Yet this will be difficult to reach, even with the return of international companies in the region, represented by Eni, Wintershall, Total, OMV, and Occidental. Why is this?

First, there are still deadly clashes in the eastern part of the country, where the main oil fields are located, reducing the production levels of “black gold”. Hostility among the tribes from time to time makes it difficult to effectively manage the oil industry. For example, last year, several large oil storage tanks were damaged. As a result, exporters were missing out on 60-70 thousand barrels per day two months after the incident. Due to the attacks on oil facilities by protesters last January, production of crude amounted to only 1.34 million barrels per day, or 60 million barrels below the December figure.

Second, to get back to normal levels of oil production and large-scale exports of crude, Libya needs financial resources in order to restore production infrastructure, which was severely damaged during the war. Getting the right amount of funds from European investors is difficult because of the crisis, which is sharply felt by the economy of the Old World. As for the US, they too don’t have the funds available for risky foreign investments. The lion’s share of its investment goes to the development of its hydrocarbon industry, especially oil and gas production from shale.

Third, the county is not attractive to investors due to increased potential political, economic and legal risks. This is not the best way to bring about the return of international corporations, whose technological assistance is needed by the Libyan government to achieve its announced goals. Moreover, the Libyans don’t plan on compensating foreign oil companies for oilfield losses associated with damage to the equipment or property. And while many companies have already begun oil production at their own risk, reaching 70-80% of the previous figure, this is not sufficient.

Fourth, the return to normal production levels will be different at different sites. For example, in Sirte, the main gas basin, accounting for about two-thirds of production, is very complex and work there will require a longer period of time. In connection with this, it is important to remember that, based on the statements of the Libyan leadership, the government planned to return to prewar production levels by the end of 2011, and then by the middle of last year. As you can see, meeting the timeline was impossible. In trying to get out of this complicated situation, Tripoli has been forced to invite international players to increase production and the shipment of oil for export.

The main players

Last year, Libya supplied 379,500,000 barrels of oil to foreign markets. The main consumers have become Italy -
139.8 million barrels (36.8 % of total exports), China – 48.2 million barrels (12%) and France – 46.8 million barrels (11%). The main buyers of crude were Italian companies Eni and Saras, Swiss Glencore, Spanish Repsol, as well as Chinese Unipec.

The level of interest of American ConnocoPhillips, and Hess and Marathon, in working in Libya, is not very high. The supply of this North African country even before the outbreak of hostilities was fewer than 1% of total U.S. oil imports. While the European market is compensated for 10 % of its needs from Jamahiriya, exporting more than two thirds of its territory’s extracted fuel.

Yet American business does not exclude the possibility of cooperation with European corporations in order to increase production in the Libyan oil fields.

It is worth noting that the Libyan government, despite its need for foreign investment and advanced technologies for the recovery of its oil industry, does not intend to be a puppet of the West. Proof of this can be found in checking for corruption in the transactions executed by the former Libyan regime with large oil corporations.

A few assumptions can be made based on such checks. In particular, such checks may become a serious hurdle for foreign companies hoping to expand their business in Libya. This country accounts for about 14 % of the total production of Eni, and in the next 10 years, the company plans to double that amount by investing 30-35 billion dollars in the Libyan economy.

In addition, the checking of the European giants could play right into the hands of the United States, increasing the competitiveness of US oil producers, which could shift to Libya if difficulties arise in other markets.

Generally speaking, the work the Libyans are doing to attract foreign companies is being done successfully. In the autumn of 2012, a major industry event called “Oil, Gas and Sustainable Development” was held in Tripoli. Policy makers and representatives of business organizations were among the participants of the event. In his speech, Abdurrahim Bin Yazza, Libya's former oil minister, said that the return of high levels of production in such a short period of time was made possible due to unexpected efforts. Yet the country is not going to stop there, but instead seek to increase the available indicators to 2 million barrels per day by 2015.

A report by Berruyena Nuri, director of the “National Petroleum Corporation“ of Libya, pointed out that the country has huge reserves of hydrocarbons and will remain an exporter of oil for decades. In addition, he said that the government is planning to cooperate with international companies at the same high level of transparency as it is today.

However, the declaration of transparency was not taken positively by external partners. The Libyan side named oil buyers in 2012 and published official statistics on the volume and cost of supply, but later decided not to advertise the related data for the current year. In fairness, it should be noted that such secrecy is characteristic of countries that are in dire economic straits and trying to get out of it. For example, Iraq, long after the fall of Saddam Hussein, has not provided official statistics on its oil. Iran, in the midst of numerous sanctions, decided no longer to allow open access to data about operations of its “black gold.”

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