Libyan oil and its future. Part 2

For a long time Libya did not enter into any new oil contracts with foreign investors, but it has not been without reason, as the country had to learn from previous forms of cooperation, and in the future it will be able to offer foreign companies a new model of cooperation, which will be more attractive than the previous ones. In order to do this, first and foremost, they must assess and minimize the risks for investors to make the prequalification process as affordable as possible, as well as review the previous forms of contracts for their effectiveness, transparency and deadlines. Do not rule out the possibility that the Libyan government will increase the contract period for exploration from the current three years to five years.

Indeed the question of the introduction of new tax breaks for foreign companies can be resolved positively with the participation of the Libyan oil ministry.

In addition to modernizing conditions for investors, the question of possible changes in the structure and function of the “National Petroleum Corporation” of Libya is also on the agenda. For example, the Libyan side recently suggested that the government might find it acceptable to transform the fully state-owned company into a commercial holding.

It seems that this scenario was intentionally voiced in order to attract international players to invest in the development of the Libyan economy. It is hard to imagine that the Libyans will voluntarily give away an inexhaustible source of regular income to the private sector, which for many years had a monopoly on oil production.

Yet despite the possibility of making attractive conditions for potential investors, fierce tribal conflict in Libya is capable of upsetting the hydrocarbon industry. There are well-founded doubts that the central government will be able to control all the major oil fields of the country.

A specific example of this is the main deposit of “black gold” located in Cyrenaica. The elders of the local tribes and warlords declared themselves autonomous and that they would independently manage energy resources in their territory. Radicals also try to intervene in “oil redistribution”, as their positions are strongest in this part of Libya.

There is not even agreement with local state companies. For example, a company based in Benghazi Agoco, producing about 25% of the government’s oil, is opposed to exporting oil via the “National Oil Corporation” as it did before the war. According to one of the company’s staff members, Agoco held consultations with some consumers of fuel about direct sales.

Chances for Russia

We should not forget that the Libyan reserves were once controlled by Russian companies, who are making efforts to regain the market and surpass competitors.

At the end of last year, “Gazprom Oil” sent Eni a notice of intent to exercise the option to acquire a stake in the project “Elephant”. Now they need to get official approval from Tripoli for the Russian country to enter the project. It will not be easy. The fact that the Libyan government is unlikely to be completely ready to forget the “double game” played by the Kremlin, which some time ago tried to enlist the support of both Muammar Gaddafi and his opponents. It is no accident, despite the work undertaken by the Energy Ministry for developing connections in oil and gas with
Libya, the country’s leadership stated that it has a number of outstanding issues with Moscow (including checking for corruption).

In addition to “Gazprom Oil”, “Tatneft” and “Gazprom Libya BV” also wish to return its assets to the Libyan oil field. Before the military coup “Tatneft” led the development of four blocks (in the Ghadames and Sirte basins) with a total area of 18 thousand square kilometers. At the time of the agreement it was assumed that the company would carry out project activities until 2035. “Gazprom Oil” received a license for the development of two potential sites (one on the shelf of the Mediterranean Sea, and the other on land, south of Tripoli), but was forced to suspend work due to the sharp deterioration of the situation in Libya.

Restoring the position Russian oil companies had previously will be problematic for two main reasons. First, the lack of special privileges, which is now enjoyed by many European companies, drastically lowering the chances of success. Second, even in the new bidding war that, according to Libya’s leadership, could be held within a year, the need will arise to find a common language with the local authorities as well as with the leading Western powers. For the latter, the dialogue with the Libyan side is likely to be more effective because of its high degree of confidence in the West, who supported the current rulers of the North African country.

Therefore the appearance of Russian firms is more realistic, for example, within the framework of a foreign consortia. Moreover, we should not exclude the possibility that, after returning, domestic companies will be missing previously existing assets.

If existing Russian contracts are assigned to the category of the “old regime” and acquire the right to conduct operations on them again, it will require an international bidding procedure, whose results are unlikely to mark a victory for Russian business.

_Eldar Kasaev, expert on energy investments in the Middle East and North Africa, especially for the online magazine “New Eastern Outlook”._