# Libya

# SPECIAL REPORT

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Special Report

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IN THIS SPECIAL REPORT...

## Optimism and obstacles

The challenges of working in the post-civil war Libya are substantial, but power and benefits are likely to be more diversified.

- **There are investment opportunities for foreign and local companies, according to a Barcah Group official.** *(Page 4)*

- **Power has become more diffuse, which will increase the complexity for investors, said a Maplecroft analyst.** *(Page 5)*

- **Opportunities in Libya include EOR, working over old finds and gas development, although new licence rounds will not happen in the short term, said an SEEC energy economist.** *(Page 7)*

- **Although some results may have been disappointing, persistence in exploration will pay off, a Fugro Rovtech official said.** *(Page 8)*

- **More clarity is needed on transparency issues and more should be done to foster local companies, said a Trans-Sahara official.** *(Page 9)*

For analysis and commentary see inside...




**www.newsbase.com** **Edited by Ed Reed**

# INTRODUCTION

# Picking up the pieces

## Following the tumultuous changes of 2011, Libya faces serious political challenges, but opportunities are notable

*By Ed Reed*

- **The country is one of the most prospective and under-explored African resource holders**
- **Ghadaffi-era contracts were tough and there is pressure for these to be eased**
- **Political and security concerns are the chief obstacles for Libya**

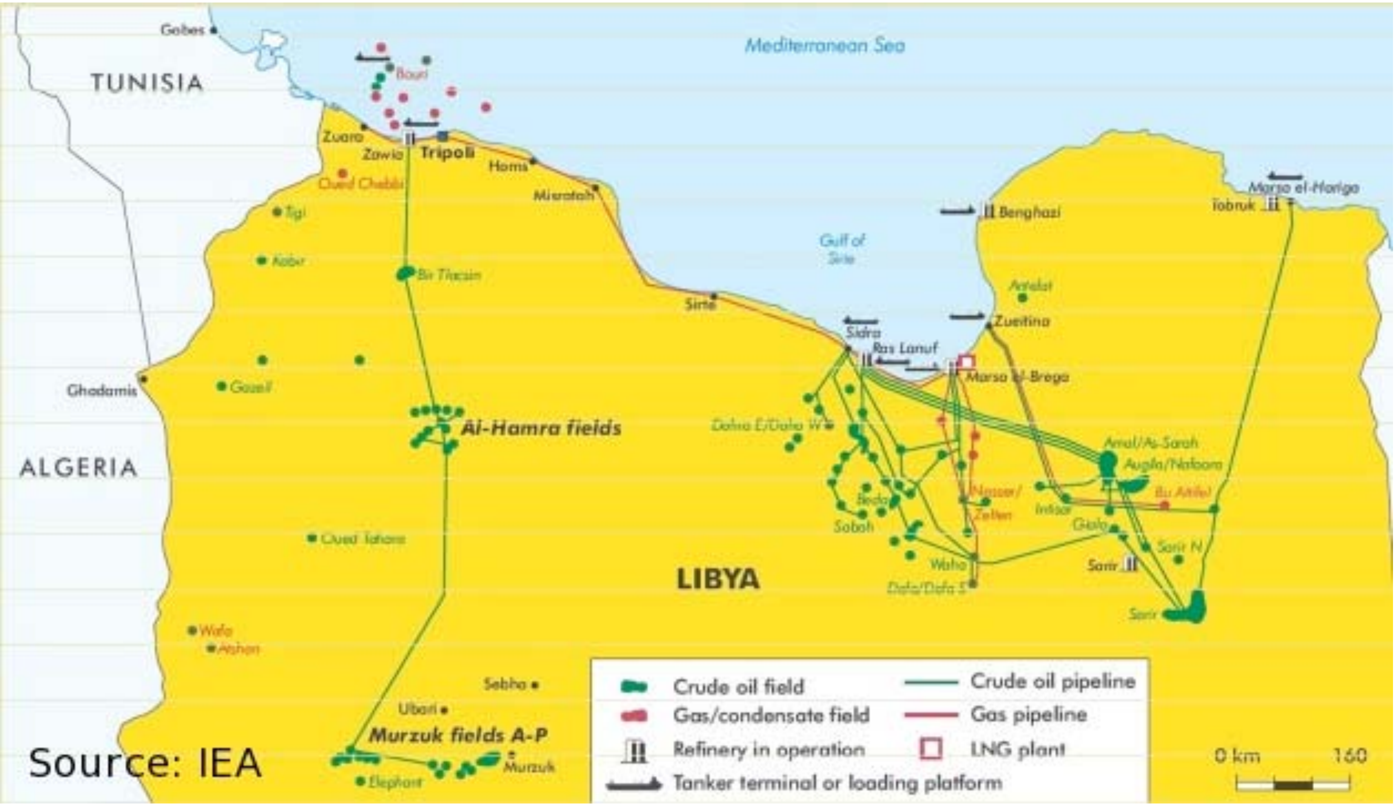
Libyan enthusiasm and pride are running high following the fall of Muammar Ghadaffi and his regime but there remains much uncertainty for the oil and gas industry, in addition to how the shift to democracy will be handled. Talking to industry representatives at the Oliver Kinross/International Research Network (IRN) Libya Oil & Gas Summit in Rome recently, the sense of opportunity and optimism was striking.

However, questions – on security, devolution and contract terms – were largely unanswered or, rather, met with a proliferation of opinions.

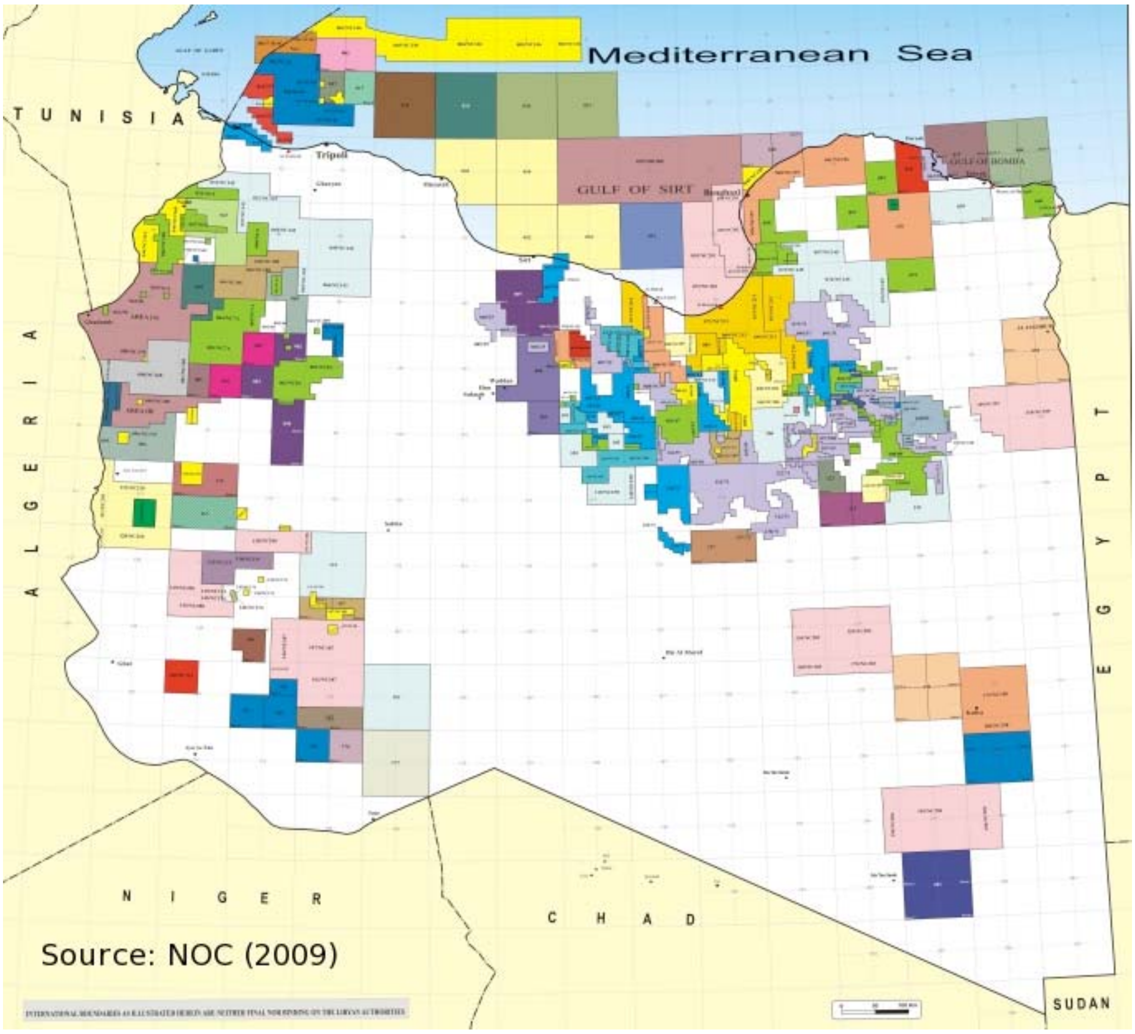
Will new contracts be signed under better terms and will there be space for renegotiating existing deals? Once elections have been held, will there be transparency and to what extent will National Oil Corporation (NOC) be reformed? To what extent will regions or tribes take a lead and how will this have an impact on companies operating in the different areas? When will security be improved – or be accepted as having recovered?

Libya holds the highest oil reserves of Africa, with 46.4 billion barrels, according to BP, accounting for 3.4% of the world's total. Production before the civil war of 2011 was around 1.6-1.7 million barrels per day and, as of mid-March, officials said it had reached 1.4 million bpd.

Gas production in 2010 was 15.8 billion cubic metres and Libyan officials say it has reached around two thirds of that, while the Greenstream pipeline to Italy is near capacity. Libya has 1.5 trillion cubic metres of gas reserves but there has been no exploration for this feedstock in the past and given its location between Algeria and Egypt, both gas heavyweights, there is a sense that there is more to be found. ⏩



# INTRODUCTION




The country also has five refineries, with a nameplate capacity of 380,000 bpd, although they are largely out of date. Local consumption of petroleum products was 6.1 million tonnes in 1990 and rose to 10.4 million tonnes in 2008.

Even before the civil war, the North African state needed substantial investment in its infrastructure. This was driven by Muammar Ghadaffi's nationalisation drive, in the 1970s, and was exacerbated by international sanctions, which followed a number of terrorist acts, including the Lockerbie bombing.

Evidence of the lack of investment can be seen in the country's declining production, which is down from 3 million bpd in the 1960s. Before the war, Tripoli had talked of reaching a similar level by 2016-17, although such increases would require a large-scale return and expansion of foreign investment.

### Tough talk

Following the repeal of sanctions in 2003, companies began returning to Libya with a number of auction rounds. New licences were signed under tough exploration and production-sharing agreement (EPSA-4) terms and were characterised by companies agreeing to extremely low profit shares and handing over large signature bonuses. US companies dominated the first EPSA-IV round, bidding aggressively, while the second round saw even tougher terms agreed, but from a wider number of countries.

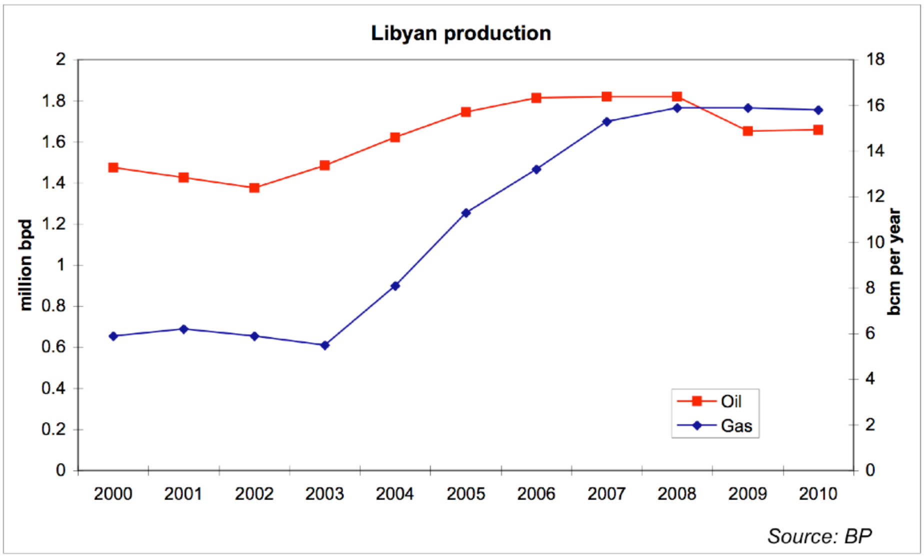
These terms would have proved challenging for any exploration work – even assuming large finds were made. Results, though, were disappointing and a number of companies relinquished their holdings. However, Libya's potential lies not just in exploration – although 70% of the country remains unexplored – but also in existing fields where work could improve output through enhanced oil recovery (EOR).

Bucking the lacklustre results offshore, Hess found hydrocarbons at Area 54 in 2008. Pessimism is quite high for the offshore but there is still much work to be done and it should not be written off. Once Tripoli fell to the TNC in August some international companies began to return, most notably Italy's Eni, with the war coming to a close with the death of Ghadaffi in October.

While some companies have returned, a number remain concerned about security and have held off from starting up operations, such as ExxonMobil, Royal Dutch Shell and BP.

Despite these concerns, though, the speed at which production has returned has surprised many observers. Output gains have been driven by local expertise, such as the Benghazi-based Arabian Gulf Oil Company (AGOCO). This company played an integral role during the civil war, sustaining some output while facing attacks on facilities from Ghadaffi's forces. During the civil war sanctions were imposed on most aspects of the Libyan regime – bar AGOCO. ⏩

# INTRODUCTION




### Independence

The eastern region of Libya, Cyrenaica, controversially declared a move towards semi-independence in early March. During the previous regime, power was concentrated in Tripoli with NOC. A move towards democracy – coupled with historical regional differences – is likely to add impetus to the move for more self-determination.

It should be reiterated that the TNC remains determined to maintain the same level of unity that existed in pre-civil war Libya, although there have been signs that NOC's subsidiaries will have more independence. While the government will continue to hold ultimate authority for oil and gas approvals, companies will likely have to pay more attention to local, tribal and regional desires.

Elections are scheduled to be held in June, which should provide an insight into the country's future, although it is unlikely to resolve many of the issues that are slowing development currently.

Voting must go ahead in order to demonstrate to those at home and abroad the commitment to a new Libya and for a government to have a mandate to make changes, although the process is likely to be imperfect.

Under Ghadaffi corruption was widely accepted and deals lacked transparency. The new government could – and should – provide much wider transparency and reform NOC, splitting off its role as regulator from industry participant.

Concerns over corruption also led to the cancellation, in early April, of a scheme to compensate former rebels.

Government-driven transparency would benefit firms, particularly those facing new domestic disclosure requirements, and also the citizens of the new free Libya.

On a practical level, opportunities for companies revolve around the provision of technical services in the short term. Infrastructure repairs and investments are the priority but will come to include EOR and the implementation of other technologies to develop finds that historically appeared non-commercial.

In the longer term, new licences are likely to be awarded but this will require an elected government and some regulatory changes, although the EPSA model is unlikely to be substantially altered. Gas may also be an opportunity. However, this would require new export capacity – probably a pipeline to Europe, although the country's LNG terminal should also be rehabilitated. ■

# PERFORMANCE

# Prospects abound for Libya

## The new Libya requires a wide range of assistance, with opportunities for local and international companies

Libya's civil war brought great change to the country and has led to many challenges. The sense of optimism is notable, though, both in terms of people's hopes for the future and in opportunities for business.

"We are so upbeat, it was a gift from the Lord, we are so happy," a Barcah Gruppo director, Hany Soufrakis, said. "We have paid a dear price … [but] there is a lot to be done and not only by us, [but] by the whole world. Please come in, join in. The opportunities are there and not only financial, there are also social opportunities."

Barcah was established about five years ago, Soufrakis told *AfrOil*, initially focusing on construction but engaging in architecture and engineering. Following the revolution, the company moved into the provision of medical services. ⏩

## PERFORMANCE

"Health management and then education and training," he said, saying that work on these two sectors was badly needed in Libya.

The Transitional National Council (TNC) is under "a lot of pressure. We wanted to help them out by creating solutions to their problems." The TNC has "done a good job, even though we have some reservations," he said, although reiterating the pressure on the government.

The challenges facing Libya are widespread and date back further than damage inflicted during the civil war. "There has been no progress since 1969," Soufrakis said. "We feel there is an opportunity for people like myself and younger to start to be part of this building process."

The country's infrastructure will require investment, but the "damage was there before the war." Soufrakis went on to say conditions were difficult, outside a few areas such as Tripoli. "There's no education, there's no health [care] – basic things are not there. The war just added to this misery."

He went on to sound an optimistic note, saying: "I am a great believer in starting from scratch and Libya is a clean sheet of paper."

Such construction work will also involve assistance from international companies, although with the proviso that locals should be employed "in order to start developing what has been lost over all these years." Local participation should not be mandated, or at least, not in the short term. Instead, there "is the unwritten law" in which companies should demonstrate that they are not "taking advantage of the situation." Ultimately, the most important thing is that the country benefits, Soufrakis said, and that the benefits are shared.

There are problems at the moment, but the Barcah official said investors needed to be patient, saying companies should be "very focused, very transparent and [also] have the right local partner." The question of local partnership was "very important," he said, "and no international company can come into Libya without Libyan representation. We think it's a good thing, for the moment at least."

Tying into questions of increased local power, Soufrakis, emphasising that it was his own view, said there "should be an end to centralisation. Enough of the days where 'Big Brother' is watching."

On the topic of security, the director conceded: "not everything is rosy," but said the country was "reasonably safe."

### Environmental concerns

During the previous regime, the imposition of environmental standards was haphazard and a number of observers noted there had been poor operating standards. Libya presents a number of challenges, in that the desert has high temperatures, poor infrastructure and sporadic sandstorms.

Walda Environmental Consultancy's director, Walid Walda, noted that that dumping was commonplace there, with surface pits holding produced water and oil, in addition to other substances such as radium, salts and heavy metals.

ConocoPhillips' vice president for the Middle East and North Africa, Fareed Salem, also picked up on environmental worries. "In terms of developing Libya's oil and gas resources, I cannot really say [this was] done in a balanced or sustainable way," concerns that spread across environmental management into social aspects. An area in which the new government is working is tackling the problem of "produced water lakes." Salem said he was "appalled by this practice in 2005 and it remains a great concern on how this is continuing."

ConocoPhillips recognised this problem "many years back," he said. "One of the refreshing things now is that this is an area of focus, for the new leadership in the country and the National Oil Corporation [NOC]. I think we will see a new – more sustainable – Libya." ■

# The federalism challenge

Power was closely guarded under the previous regime and the transition to a democracy poses challenges

- **Power has already devolved to local committees and will make operations more complex**
- **Pressure is on to tackle corruption but investment must also be secured**

Libya faces a wide range of uncertainties as its people try to come to terms with their new freedom. During his rule, Muammar Ghadaffi espoused a philosophy of reliance on local committees – although did not devolve any power to them. With his death, Ghadaffi's dream of local power has gained traction but this presents a number of difficulties and uncertainties for those working in the country, a Maplecroft senior analyst focused on the region, Jonathan Terry, said.

The diffusion of power is the top issue facing the North African state following the fall of the Ghadaffi regime and rise of the Transitional National Council (TNC). This devolution of power has already taken hold, with local committees effectively administering areas and militias controlling security, Terry said, going on to note this has created additional complexity. ▸▸

# PERFORMANCE

"Libya has struggled with the problem of the unitary state since monarchical times," Terry told *AfrOil*. "It's fundamentally about power. It was centralised in Tripoli [under Ghadaffi] but with much of Libya's oil in the east, Benghazi will become more of an economic hub. The future will be increasingly complicated in terms of negotiating deals."

The TNC is working to ensure the state continues in its pre-civil war form and Tripoli is resistant to eastern autonomy. The matter is not clear-cut, though, Terry noted, with demonstrations on both sides of the political divide being seen in Benghazi.

The question of devolved power will also have some bearing on National Oil Corporation's (NOC) subsidiaries. These companies, such as Arabian Gulf Oil Company (AGOCO) and Sirte Oil Company (SOC), do "not want to separate from NOC but they do want the ability to define local strategies more clearly."

The March 6 declaration of semi-autonomy for the eastern region of Cyrenaica highlighted some of the higher level concerns about Libya's unity. The fractured sense of unity in Libya should also be acknowledged when foreign companies hire local workers.

Planned elections in June should provide an insight into the country's future, with the potential for a shift towards greater stability – or instability, he said.

## Security

Although TNC officials deny problems exist with security, a number of companies remain sceptical about returning their workers. Militia conflict is a key concern, with sporadic outbreaks of violence.

This has occurred in both remote areas – such as Sabha, in southern Libya, where fighting between the Toubou tribe and a militia led to at least 70 deaths recently – and in Tripoli's high-profile Rixos hotel, where a Zintan militia commander objected to paying a bill and abducted the manager.

The recent coup in Mali was driven by increased insurgency in the country's north, where Tuaregs have returned from Libya with additional weaponry and training. It is also not inconceivable that a renewed push from Mali's army "could drive the Tuaregs back into southern Libya – there's a wider Sahelian dynamic that has been largely ignored."

In addition to tribal differences, there is the potential for an Islamist terrorist

***Although TNC officials deny problems exist with security, a number of companies remain sceptical about returning their workers***

group – such as al-Qaeda in the Islamic Maghreb (AQIM) – to strike energy infrastructure.

## Investments

During the civil war of 2011, TNC officials made a number of statements pledging preferential treatment for those countries that had supported it.

In fact, the TNC has taken a pragmatic approach to foreign investment and has made recent moves to rekindle support from Russia, Terry said. China may face greater difficulties, but, he continued, given Beijing's substantial cash reserves, its ability to provide cheap goods and desire for energy, problems will likely be overcome.

Russian and Chinese companies may also be more willing to take on political and security risks than Western super-majors such as ExxonMobil, Royal Dutch Shell and BP.

One of the additional complexities for companies already working in Libya is the extent to which contracts may be reviewed and renegotiated. The TNC "needs to balance its needs to secure foreign investment with the people's desire to tackle corruption," Terry said.

On March 23, Norway's Yara International said it had uncovered evidence of "unacceptable payments" during the establishment of the Libyan Norwegian Fertilizer Company (Lifeco) joint venture, which operates an ammonia-urea plant in Marsa el-Brega.

"Contract review is an emotive issue and corruption appears to have worsened since the uprising," Terry said. The Maplecroft analyst went on to note reports that only 10-15% of US$800 million spent on medical treatment for fighters hurt in the civil war might be legitimate.

Another potentially complicating factor flagged by Terry was the possibility of a new commercial code, which would change relations with foreign companies and seek to empower local businesses. However, the timescale for such changes remains unclear and will likely not emerge until after the dust has settled on the June elections.

The upstream energy industry is a capital-intensive, rather than labour-intensive, business. The new Libya needs to encourage industry outside the oil and gas sector in areas such as construction, although there are additional complicating factors such as a lack of clarity on land rights following Ghadaffi-era expropriations.

"There is not a quick fix for Libya, it will take years," Terry said. "The return of oil production is not a sign of normality returning – the energy business is separate from the rest of the economy. Oil is, and will continue to be, the lifeblood of the Libyan recovery but it cannot support the employment increase the country needs." ■

POLICY

# Opportunities arising

Libya's potential is substantial and has attracted interest from all around the world, as can be seen by the almost too effective bid rounds

- **Persistence and greater competition should drive exploration in Libya**
- **Contracts will remain largely the same, although more focus should be put on transparency**

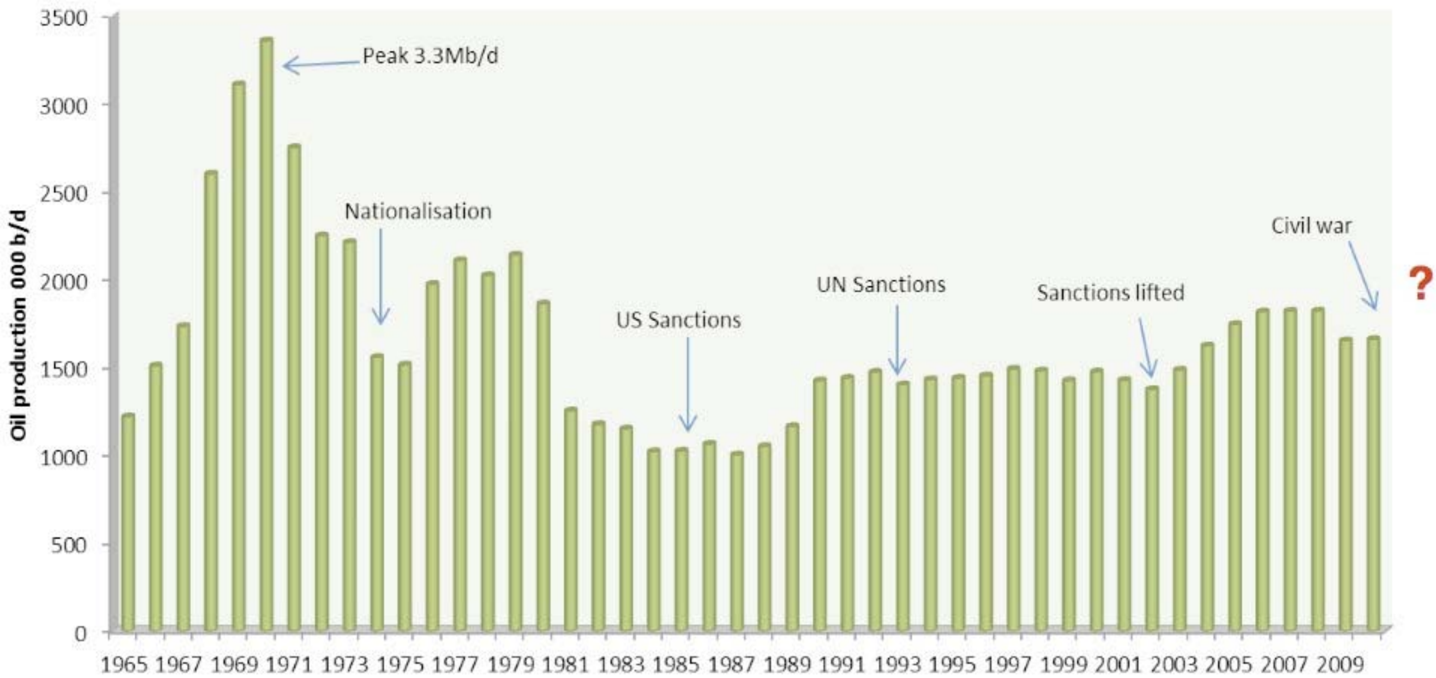
In much of the discussion around Libya, the focus is on the challenges the country faces in recovering international confidence and securing a viable unitary future. However, it does also hold a substantial amount of potential that should not be ignored. "If you look at the various stages of development, at the exploration stage Libya remains very unexplored – only 30% of the country has been allocated in terms of exploration contracts, so it leaves a lot of room," said Surrey Energy Economics Centre's (SEEC) associate, Carole Nakhle.

Even the parts of Libya that have been awarded, where large blocks have been handed out, some companies have made little progress in exploring. "In future, it would be wiser to divide those blocks into smaller blocks and bring in companies with the right qualifications that are going to invest in more drilling works – this is how [Libya] can make discoveries," Nakhle said, saying this applied both on- and offshore, to oil and gas.

"In terms of production, there are many existing fields that need substantial investment to enhance production, because it has been in decline and that was a priority for the [Muammar Ghadaffi] government," she told *AfrOil*. The previous regime made working over existing fields a top priority, in order to reclaim past production goals of 3 million barrels per day.

"There are also opportunities to develop discovered fields. There are all these opportunities – whether fields in production, new exploration or developing existing fields – which offer opportunities to big and small players and this is just in the upstream," the SEEC expert said, who also spoke at the Rome conference.

Other options are in the development of the "service sector, building more pipelines, expanding infrastructure, processing facilities – there's a lot of potential in Libya," although allowing that there was also political uncertainty, security problems and vagueness on the laws and existing contracts. Given the state of the industry in Libya, the role of service companies will be particularly important. There is local expertise, Nakhle said, but to expand the country's production in the way Libya hopes, it will need to bring in foreign expertise.




Source: SEEC with BP Statistical Review of World Energy 2011

# POLICY

Requirements for local content would cause "problems and [it would] induce cost inflation. [Foreign] competition would be good, because competition is healthy, and there would be a role to allow the transfer of technology to local workers."

### Persistence

Despite disappointing results offshore Libya, Nakhle argued that the area should not be written off, as it was still largely unexplored. Norway in 2011 made "one of the biggest oil discoveries" in an area that was considered to be mature and in decline, she said.

"That discovery was missed maybe 10-20 years ago only by a couple of metres. A well was being drilled and it was stopped just three to four metres short. Later, when technology had improved they were able to make this big discovery."

Technology improvements and better seismic provides operators with a better understanding of geology. "When you allow more competition it will attract aggressive drillers who really want to look for oil," she continued, giving the example of Anadarko Petroleum, which has played a pivotal role in opening up overlooked areas in Africa. The US company's persistence has paid off, Nakhle said. "Bring in more companies, allow companies who are really serious in their drilling strategy and this will increase the chances of discoveries."

### Regulatory demands

One factor that has slowed development is the tough exploration and production-sharing agreements (EPSA-IV), to which companies agreed. Under these licences, firms agreed to hand over substantial amounts of profit to the government – often around 90%.

The tough terms, though, were largely self-imposed. "The companies shot themselves in the foot – as they did in Iraq. It worked for some fields in Libya because they were pretty big but other companies are thinking about destroying their contracts because they bid too aggressively, just to gain a foot in the country." There has been talk of how the new Libyan government may handle the next bid round. Nakhle, for one, predicts there will not be substantial changes.

"I don't think [Libya] will introduce a completely new system. It would pose a heavy administrative burden on the new team, [so] it would be better just to build on the existing system," she said. The existing scheme is not bad but it will need some refinements.

Tweaks to the EPSA system should probably include increased transparency in how contracts are allocated, she said, and how the negotiations take place. "Many of the contracts were negotiated in a non-transparent way. Most important is that [changes] are set in law and applications are made transparent."

Furthermore, Nakhle said contracts should differentiate between the terms offered for gas and oil. "Gas comes with more complexities, so [around the world] we tend to find more lenient terms" for the feedstock.

"People haven't really looked for gas in Libya. The focus has been so far on oil, but Libya, given its strategic location – it's close to Europe, it's between Algeria and Egypt – has potential, but we haven't seen any serious exploration," she said.

Another important reform would be to provide more clarity on National Oil Corporation's (NOC) role. "I think there should be clear separation between the regulator and operator," Nakhle said. ■

# Seismic shifts in Libya for upbeat Fugro

Fugro is set to restart operations in the country, with confidence high on the offshore

- **Fugro is upbeat on resuming seismic work on Libya's offshore**
- **Local content should play a role but the new government will set out the details**

Libya has substantial known reserves but experts are upbeat about prospects for further exploration, both on- and offshore. One company participating in this drive is Fugro, a leading data provider.

"We set up an office in Libya in 2005," Fugro Rovtech's Libya manager, Abdulaadem Alkhazmi, told *AfrOil*, saying the company had strong experience in the country and was "working for most of the international companies." Fugro not only offers seismic services to companies working in the country but also field development planning.

"We have ongoing contracts, we have some revenue in Libya, but largely Fugro's revenue comes from exploration support – such as seismic acquisition or other surveys," and this has not yet restarted. ▸▸

# POLICY

### Offshore

Fugro won "one of the biggest contracts [in 2011] before the revolution and we have been in communication with the maritime authority. The bid bond is still valid and we hope that they will credit this contract, which is for the entire offshore of Libya, from the Tunisian border to the Egyptian border," Alkhazmi said.

Some results from offshore Libya have been disappointing and some companies have relinquished acreage. The Fugro Rovtech official noted that persistence often paid off and that it would be wrong to jump to conclusions. "Sometimes one or two companies can work on a concession and find nothing but the third will find [oil or gas]," he said. "The coast of Libya is around 1,900 km, there have been is some oil discoveries and Hess has had success there. We are definitely optimistic."

Hess drilled the A1-54/01 well in 855 metres of water offshore Libya in 2008, in Area 54, testing it in 2009. The well found a gross section of 152 metres, with a limited test flowing at 765,000 cubic metres per day of gas and 533 barrels per day of condensate.

Other companies, though, were less successful. Petrobras drilled a well in Area 18 in 2009 but this was plugged and abandoned. Australia's Woodside Petroleum drilled a dry hole in 2007, while a 2009 well by ExxonMobil was "not commercially viable."

Despite this, companies are still interested in acquiring acreage and carrying out exploration in the country's offshore, Alkhazmi said. "Libya is one of the most interesting places to work."

### Political challenges

In early March a resolution was passed by the eastern part of the country declaring a move towards semi-autonomy, but Alkhazmi said concerns on what this might mean for the industry had been overblown. "It has been exaggerated greatly," he said.

"Maybe 2,000 people backed this declaration, perhaps out of some personal interest. Libya is unified, it will never split, [the declaration] doesn't concern me at all because [independence] will never happen."

The drive for employment in Libya is likely to play a strong role in a new government's priorities and there is likely to be pressure to ramp up the level of local involvement in the energy industry.

"Any patriotic person would hope for local content," the Fugro official said, but the previous regime "destroyed all private business in Libya in 1980." In addition to the nationalisation drive, the culture deterred the expansion of local expertise, with Alkhazmi noting the strong impetus for emigration during those years.

Many of those expatriates with international experience will return and "do the right thing for Libya." Foreign companies should work with local companies and this should be encouraged, Alkhazmi said, although much will depend on the new government.

After June, when the elections are held, "things will improve, definitely. All we need is a strong government – not another dictator – but a government that applies the law equally." ■

# Transparency challenge for the new government

Libya must establish clear rules to develop local industry and demonstrate transparency in contract awards

- **The transition to a radically different style of government has thrown up transparency challenges**
- **Elections must happen on time, but are unlikely to be flawless given registration difficulties**
- **Local content should play a mandated role in foreign investment in Libya**

Libya's violent struggle of 2011 has passed and the new government must focus on stimulating the country's economy, which should be achieved by increasing transparency and stimulating local investment. Transparency, Trans-Sahara Group's Naaman Elbouri said, "is the biggest challenge" for Libya, although he was optimistic about the future.

Speaking to *AfrOil* on the sidelines of the conference in Rome, Elbouri raised concerns about the Transitional National Council's (TNC) recent approval of a 68.5 billion dinar (US$55.1 billion) budget in mid-March.

"On what basis was that budget calculated?" Elbouri asked. "How did we come up with that number? How are we going to spend it? How are we going to monitor it? It's easy to put out numbers, but the mechanism, the checks and balances are not there. Unfortunately, today [there is] massive corruption going on."

MEC International's chairman, Oliver Miles, quoted a government spokesman as saying the budget was divided into four parts. ▸▸

# POLICY

Wages and salaries accounted for 27% of the budget; subsidies and price stabilisation fund 21%; operational and running costs were 18%; while project development and reconstruction spending was 28%.

"Public-sector employment in Libya has been grossly inflated and will be a problem for some years to come," Miles said. He also noted the budget was based on an assumed oil price for the year of US$100 per barrel.

### Election issues

To tackle corruption, the most important step forward will be the election of a capable government that has the authority to pass such regulations. Libya is due to go to the polls in June but Elbouri expressed concerns that this might not happen on schedule.

"The election is in two months time. No electoral cards have been issued. We don't know where the [voting stations] will be, or what system will be used. None of this has been announced. Libya is a vast country and only 60% of Libyans are registered," he said, going on to predict registration could take six months. "We don't have six months. Either we will not have elections on time, and I hope this will not happen because this could trigger another revolution," or it will not meet the desired standards.

One place in which Elbouri was optimistic was the question of security. "There is no issue with security. [That] people are armed is a blessing – because everybody's armed. Nobody dares to step on someone else's foot because the other person is armed," he said.

### Old problems continued

However, the Trans-Sahara official noted, there are illegal activities going on that are a concern.

"There is a huge [amount of] smuggling taking place and it has always taken place, it's not just a recent development. We're following the same path that we inherited."

Smuggling is, in part, a symptom of subsidies in one country making products cheaper than those in its neighbours. As such, Elbouri said it would be easy to tackle this issue, by replacing subsidised goods with direct cash transfers.

"[The TNC] does not like to hear the figures but these are the real figures." The price tag for Libya is as much as "US$8 billion per year."

Another element of the old regime that should be changed is the way in which tenders were awarded, the official said. "In the past, the government would issue a 300-page tender with a one week deadline," Elbouri said, which imposes impossible constraints and, in fact, did not matter because the awards "were allocated before they were published."

### Local gains

Libya's rulers must focus on creating employment, taking advantage of the amount of cash coming into the country from its energy wealth.

That money must be invested wisely, said Elbouri. "In the past, the [National Oil Corporation] NOC forced oil companies to employ [local] youths. So they employed the youths, they paid them peanuts and asked them to stay at home, not even to show up," he continued. The energy sector does not require large-scale employment, meaning that its ability to have a direct influence on sustainable business is minimal.

"Instead of imposing Libyans [on the companies]," Elbour said, the government would do better to require "a certain percentage of their return" be invested "into education, agriculture and so on," as other sectors are better able to generate employment.

There should also be work to boost the role of local firms in the service sector, the official continued. Foreign companies will not be required to do this, TNC officials have said, a point with which Elbouri disagrees.

"We would call for the new government to ensure that no foreign company can operate in Libya without having a genuine Libyan partner," going to affirm that such co-operation should be genuine, rather than as a figurehead.

Companies bidding for work "should need to demonstrate that [they] have got the local set-up and the local staff, [rather than] just somebody sitting in Malta and a Libyan fronting for [them]. That's what we hope will not exist in the new Libya." The country is "full of capable people," he said, denying that there would be difficulties in drumming up local capacity.

The opportunities for service companies as a whole "are immense," he said, as long as the environment is conducive to investments. ■

PROJECTS & COMPANIES

# Making waves in Murzuq

## TPOC took part in the tough bid round in 2005 and has made some promising finds

Exploration success has been thin on the ground in Libya under the recent licence rounds but one company that has made some progress is Turkish Petroleum Corporation (TPOC). The company's general manager for Libya, Ahmet Tandircioglu, told the recent Libya Oil & Gas Congress that TPOC had won Blocks 3 and 4 in Area 147 in the 2005 bid round. TPOC agreed to accept just 9.7% of profits from the concession, passing 90.3% to Libya's National Oil Corporation (NOC). Although this was a tough offer it was not the least generous of the round, Tandircioglu said, citing Japan Petroleum Exploration's bid of 6.8%. He said the next bidder on 147/3-4 had offered around 11%.

Pressed on whether TPOC had retained a sufficient share in the block, the official said the company was in a stronger position than others but "in my personal opinion, it could be better. We bid for this figure and signed the contract. It depends on NOC's plans for the future in Libya."

Tandircioglu went on to say there was a widespread sense that Libya should make its terms more attractive in order to secure investment.

TPOC's block was acquired during the second bid round. The first set a precedent, the official said, of companies pitching for extremely low shares. Occidental Petroleum "was the first one that bid very low numbers and all the companies after that followed."

The US company took a large number of blocks in the first round, with tough bids, "but unfortunately [Occidental], as far as I know, did not have any discoveries."

### Finds

"TPOC is the only company to have made oil discoveries in the Murzuq Basin," the official said, in the western part of the concession, in Block 3.

The first phase ran for five years, from December 2005, but the company secured an 18-month extension from NOC, which had just begun when the civil war made operations impossible. During the additional time, the company had planned to shoot more seismic and drilling new exploration wells. "Our exploration commitment under the original EPSA was for two wells plus 300 square km of 3-D and 500 km of 2-D seismic. For the extension period, we committed to drill one exploration well and shoot 300 square km of 3-D," Tandircioglu said.

TPOC has made seven discoveries in its Murzuq block, although the D1 well did not flow during testing "because of reservoir problems." The last well, drilled "towards the end of 2010," was the I1 well and was a discovery. Tandircioglu said the basin's main source rock was Silurian hot shale.

The best result was recorded at the C1 well, which flowed at 1,845 barrels per day of oil, Tandircioglu said, with the six flow tests cumulatively reaching 7,227 bpd, with APIs of 31 to 37 degrees. He declined to provide projected resource estimates, citing confidentiality and the need for NOC approval. Noting that exploration drilling gave "only initial results," Tandircioglu was also reluctant to give details about expected production levels.

Two dry holes were also drilled in the eastern part of the company's area. TPOC considers that part to be high-risk, because of concerns over the source rock, although there are prospects. The west, meanwhile, has proven source rock and reservoir.

"The Murzuq Basin has significant potential as shown by our discoveries. The primary reservoir target is Ordovician sandstone, in addition, I think, we are the only company in the Murzuq Basin to have tested significant amounts of oil from the Devonian as well," he said. "The problem with Devonian is that there needs to be communication between the reservoir and the source rock. The main exploration risk is hot shales. You need to use all the tools available to determine this and find the priority areas for exploration drilling."

In terms of exporting production from the area, Tandircioglu said there were two options. The first would be to build a pipeline to Eni's Elephant (El Feel) field or to the Sharara field, with the latter being "the better option." It would take around 100-120 km of pipeline to reach Sharara and discussions are being held with NOC.

### Resuming work

TPOC intends to continue "aggressive" exploration in the area. "We're in force majeure at the moment but we're going to lift it as soon as possible and start seismic acquisition and drilling."

Tandircioglu returned to Libya for the first time after the civil war in October and is living in Tripoli at the moment. "The conditions in Libya are improving every day," he said.

"I am optimistic that things will become normal soon. In [Murzuq] we hope to start seismic acquisition." TPOC had carried out a tender for seismic acquisition just before the civil war and China's BGP won. The Chinese company "suffered a lot of damage," he said, saying that patience was needed "so contractors can recover," predicting it might take a few months before operations restart.

TPOC was "one of the luckiest companies" in Libya as it suffered very little destruction during the conflict. The Turkish company has a yard in Tripoli but this was undamaged during 2011. ■

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