Lost in Libya

Still Many Hurdles to Overcome

BY KERRY DIMMER

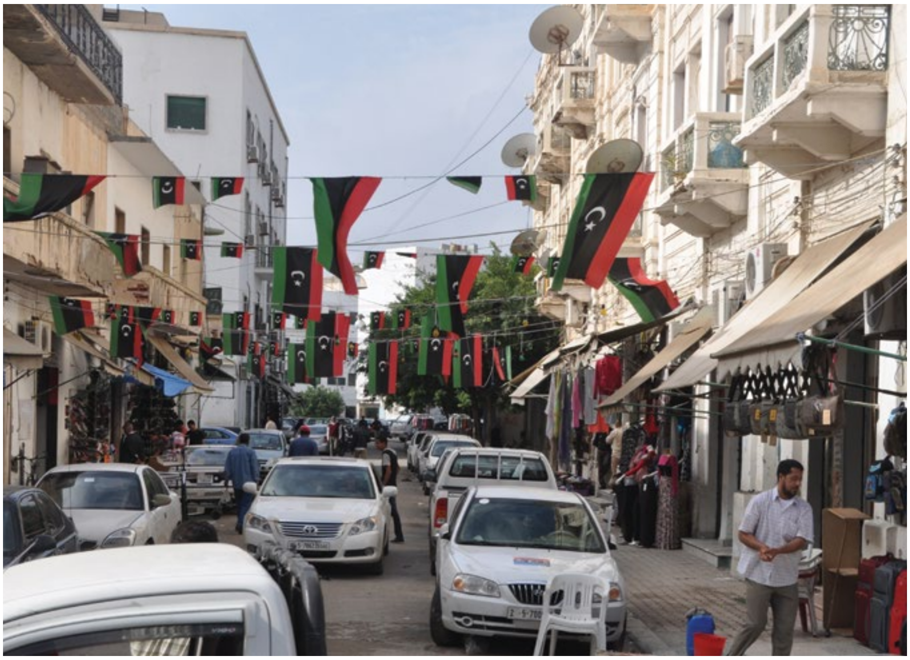
The reluctance and hesitation by global engineering, procurement and construction companies and industry thought leaders to talk about the state of Libya is suggestive of just how conflicted the country is.

On the one hand you have a deeply divided political environment; on the other, great potential for huge growth.

Libya's huge reserves of oil and gas are the largest in Africa, ninth globally, with crude oil reserves of 48 billion barrels. It is ranked fifth-highest in the world for recoverable shale oil reserves with estimates indicating some 26 billion barrels. It also has untapped mineral reserves of iron and gold. In fact, its development profile, from last year's figures, makes it look like a very viable investment destination for projects.

For the first time in four years, Libya in 2017 managed to export 1 million barrels per day of oil. Hard currency exports tripled to US$14 billion from US$4.8 billion in 2016. Shell and BP came back to the table, negotiating deals to buy Libyan crude. However, the outcome of those negotiations is very difficult to come by. The little that is broadcast is that Royal Dutch Shell Plc and BP Plc have agreed to buy Libyan crude, after a five-year absence from the country in Shell's case. Another that has returned to the Libyan fold, following in the wake of BP and Shell, is PetroChina Co, signing a similar deal.

Total, the French energy giant, has also lifted its profile in Libya this year, with a 16.3 percent stake in the Sirte Basin's Waha concessions in eastern Libya from Houston-based Marathon Oil. Total will, as a result, have access to reserves and resources in excess of 500 million barrels of oil equivalent.



People celebrate liberation from Moammar Gaddafi's rule in the streets of Tripoli in 2011.
CREDIT: RM / SHUTTERSTOCK

The strengthening of the Libyan dina – by more than 50 percent on the black market, helped by an influx from the Central Bank – aids the current attractiveness of the country.

STRONG FUNDAMENTALS

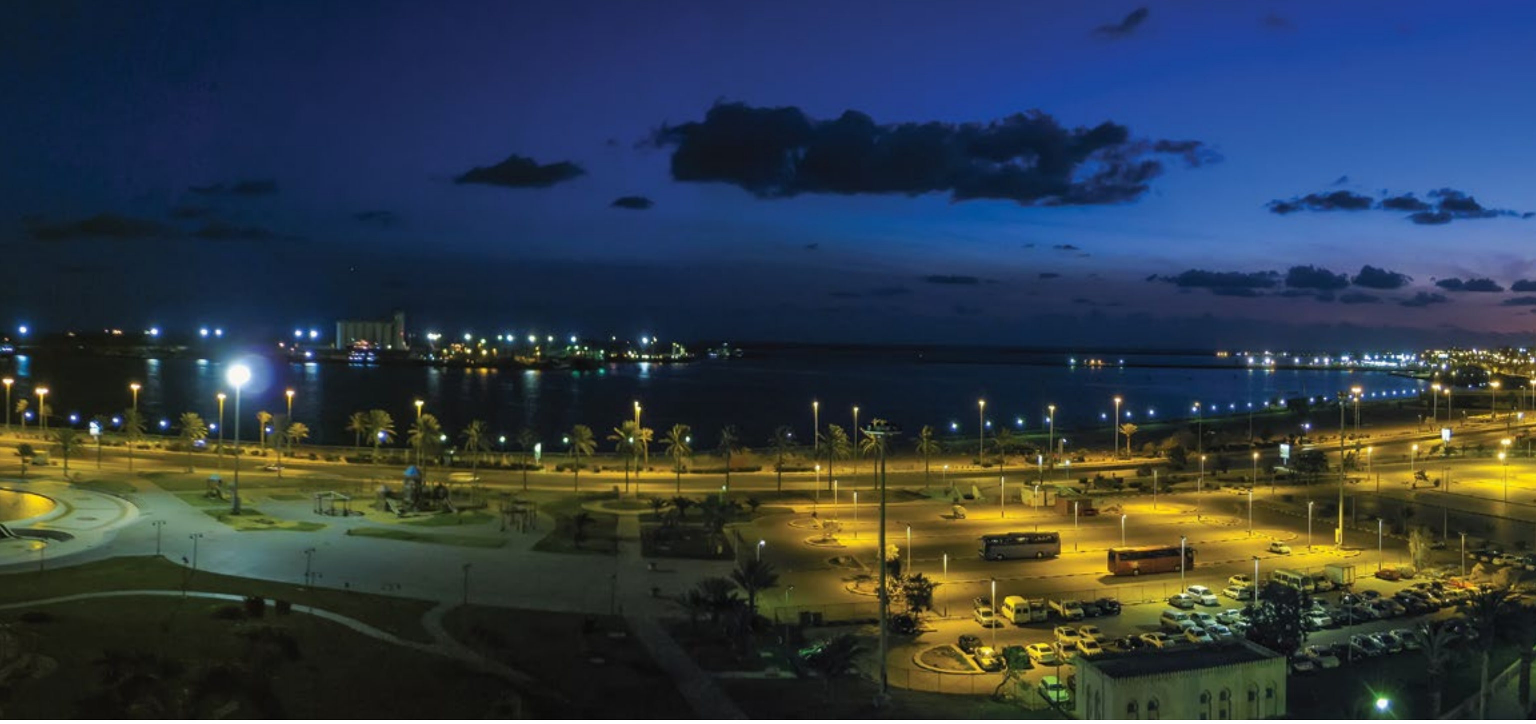
Guma el-Gamaty, a Libyan academic and politician, and leader of the Taghyeer Party, has been somewhat prolific in the media in extoling Libya's current value. He declined *Breakbulk's* request for an interview, but commented in regional press that the fundamentals of Libya's economy were strong, and the potential for achieving huge growth and high levels of prosperity were in place. El-Gamaty also mentioned that unlike other nearby countries that recorded billions of dollars worth of debt to international financial institutions last year – such as Egypt (US$67 billion), Morocco (US$47 billion) and Tunisia (US$28 billion) – Libya has virtually none.

Consideration must also be given to the US$67 billion invested in sovereign fund assets globally that have been frozen by the United Nations since 2011. But while on paper Libya's economic projections look solid, in reality there remains much to be cautious about.

Four years ago, a second civil war conflicted the country when two rival factions, the Tobruk government and the General National Congress, sought to control the territory and its oil, and, by implication, the wealth of Libya. Although the UN and a unity government formed in March 2016 brokered a cease-fire in 2015, there is still no permanent resolution to the dispute.

RISK ON THE GROUND

Libya Monitor's Theo Rossi provides some perspective of how that translates into risk on the ground, and the variables that justifiably make investors hesitant. "The security situation remains unstable. Oil field closures are still common and foreign firms are holding back from restarting stalled projects. Compounding



this is a continuing cash shortage crisis, which has forced commercial banks to limit withdrawals in many areas. The entire financial system is constrained by restrictions."

He continued that the decision-making process in government authorities is slow and opaque, and that state spending is still almost entirely focused on salaries and subsidies, rather than capital investment.

It is well-publicized that the Libyan economy has an undercurrent of corruption depleting government funds. Combine this with a lack of transparency and accountability and a feeble attempt to enforce good governance, and the result is wary speculation.

"With no single government authority in control of the country,

Dawn in Tripoli. / CREDIT: SHUTTERSTOCK

it's no wonder foreign oil and gas services firms remain reluctant to send specialist staff to work in Libya," Rossi said.

Where impacts are being most keenly felt is in the oil sector, where fields are frequently being closed, she confirms. "There is also a lack of funding related to maintenance particularly, as well as upgrades and other work necessary to maintain crude production. The risks are just far too high, especially from a security perspective, and it doesn't help that international air links are very limited given ongoing EU sanctions on Libyan carriers." Rossi doesn't expect this situation to change in the near future either.

But while the oil sector suffers, Rossi pointed out that other sectors offer project cargo potential, for example energy and power, which offer upside in terms of exploration of new fields and development or maintenance work on existing facilities, as well as upgrades. Construction and real estate also present opportunities, given the right climate, with vast amounts of redevelopment work required in many areas affected by conflict.

"Telecoms and IT also present much promise, given the state has historically prioritized spending in this sector," Rossi added.

OVERCOMING PORT PROBLEMS

But this potential is stymied by port constraints plaguing Libya. Many are regularly closed without warning, largely due to clashes between rival groups.

"A number of ports have changed hands several times in recent years," Rossi added. Benghazi is one, while the oil ports of Es Sidra and Ras Lanuf both changed hands twice in March 2017 alone.

Es Sidra and Ras Lanuf are crucial ports for Libya, as they account for 47 percent of the total Libyan capacity of onshore oil ports. When operating normally, Es Sider can export as much as 340,000 barrels per day, while Ras Lanuf can ship 220,000 barrels per day.

Other ports require repairs and maintenance, as well as the clearance of mines and debris from conflict. Sirte is one such example, which has recently undergone the first phase of cleanup of its basin.

This battleground over ports has manifested in a significant slump in Libya's external cargo trade since 2013. The Petroleum Facilities Guard, a state-funded militia, has been credited with a number of blockades and more recently strikes at ports, for example at Zawiya, where protests over salaries in March halted the loading of crude export from the El Sharara oil field.

"Trade has been severely disrupted by security problems at ports," Rossi confirmed. "There are also issues with overland transportation and the overall decline in the business environment and consumer confidence hasn't helped. Although major projects have theoretically been signed, for instance new power plants, most have actually failed to make real progress and remain in the planning stage."

For example, there has been no confirmed progress on the US$370-million deal that Libya's General Electricity Co. signed with Greek EPC Metka last September to develop a 740-megawatt power plant.

BUSINESS ENVIRONMENT

The World Bank's Ease of Doing Business Index for 2018 ranked Libya 185th out of 190 countries, which fails to inspire confidence.

Rossi warned that any company considering doing business in or with Libya must undertake comprehensive research, specifically related to a client's political affiliation and financial resources.

"There are overlapping and competing government entities so it is crucial to understand with whom you are dealing," she said. "The same goes for any local partners or private sector clients. The climate is currently not conducive for most companies to open offices in Libya, so it makes more commercial and practical sense to conduct business through local firms."

International EPCs and project cargo movers might do well to consider neighboring countries for access, as a number of countries benefit from business with Libya. One such example is Egypt, which was previously an important trade partner for Libya and a major source of employment for millions of Egyptian workers.

"Tunisia and Turkey are other key trade partners, and a pick-up in demand in Libya will boost exports from these two countries, which have declined in the past few years," Rossi concluded. BB

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