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Libya crisis: Big oil under pressure as Qadhafi's other children finally have their say

International oil companies and Libya's other commercial partners have been caught out by the extent of popular protest that has placed the regime in mortal peril. Even if the Brother Leader survives, Libya will be a very different place in which to do business. If Muammar Qadhafi falls, the shape of a successor regime is very unclear, given the dominance of the Colonel and his idiosyncratic form of government over the past 41 years. **John Hamilton** and **Jon Marks** take stock as the crisis unfolds. *African Energy* issue 204 will have much more to say on this

The spread of mass protests and violence from Benghazi and other eastern trouble spots to the rest of the country has taken the Libyan protest movement to a new level, placing in jeopardy a Qadhafi regime that was already in 'an undeclared state of emergency' (*AE 202/24*). An angry, youthful population has finally risen up against the Brother Leader's capricious style of government, and against governance abuses which range from the wilful under-development of eastern Libya (the economic expression of an old Qadhafi vendetta) to the rapacity of Qadhafi's children, who have built up huge business interests as well as sometimes competing political fiefs. These tensions were described in the recent *African Energy* special report *Libya's Energy Future*.

The authorities' violent response to protests in Tripoli's Green Square have effectively snuffed out the gains in international standing enjoyed by the regime since Muammar Qadhafi settled his differences with the West during the past decade. The rambling response to the crisis from the Leader and his son **Saif Al-Islam El Qadhafi** has torpedoed any credibility the family might have retained among its foreign friends.

With no **Saudi** refuge to turn to – the route taken by the now ailing **Tunisian** leader **Zine El Abidine Ben Ali** is blocked off as a result of Qadhafi's alleged plot against King **Abdullah** – only exile in a maverick state such as **Venezuela** seems possible should the Leader be forced to leave. But while his children may try to take the exile option, it remains highly unlikely that Colonel Qadhafi will go. In a system where Qadhafi has established a complex network of competing power centres, militias and

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Cross-border Information (*CbI*) and the *Royal Institute of International Affairs* are holding a seminar at Chatham House in London on 6 April (note the revised date) to launch a new report on Algerian politics and energy.

All delegates will receive a free copy of the report, which will be debated by experts under the Chatham House Rule.

For registration (priced £295), please contact: *jforsythe@chathamhouse.org.uk*. For report orders (pre-order at £250.75), contact: *nick@africa-energy.com*

African Energy view: Brave new world

Libya will never be the same again following the explosion of popular outrage at the **Qadhafi** regime's mismanagement of the economy and repression of communities that fell from the Brother Colonel's favour.

Muammar Qadhafi has seen off local opposition and international opprobrium before, but never to this extent. A deep crisis within the regime was apparent in rambling televised statements by the Brother Colonel – bizarrely clutching an umbrella as he sat in an old car sheltering from the rain on 22 February – and his prominent son **Saif Al-Islam** on 20 February. Saif's credentials as the face of the new Libya are in tatters, posing difficult questions for the swathes of international players who did business with him (*see Governance, below*).

It says much for the regime's lack of understanding that the Leader sent his long out-of-favour and volatile son **Saadi El Qadhafi** to talk down demonstrators following the 17 February protests. With Libyan soldiers and diplomats defecting to the opposition, and major tribal groups led by the powerful Werfalla voicing their dissent – posing a threat that Qadhafi will understand is game-changing in the Libyan context – only the *Jamahiriya*'s myriad security services and militias can save the regime.

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Libya crisis update

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political clans, the Leader will look to mobilise force to counter the challenge from below; this will involve everything from the ***Republican Guard*** under his younger son **Khemis El Qadhafi** (*see below*) to the shadowy 'African mercenaries' mobilised to attack protesters on 20 February.

A very bloody *dénouement* is more likely to follow in the Libyan crisis than in Tunisia or **Egypt** – or **Bahrain**, where the authorities have pulled back their attack dogs (see *African Energy*'s sister publication *Gulf States Newsletter* for more on this).

Friends in need

This places international oil companies (IOCs), other corporates and the governments that have done most to court Qadhafi (including **France**, **Italy** and the **United Kingdom**) under severe pressure to structure an immediate response, and to draw up a very different strategy for future dealings with Libya.

In the immediate crisis, IOCs, embassies and other international operations are pulling out staff and closing their Tripoli offices. Some IOCs are negotiating with ***National Oil Corporation*** (***NOC***) to shut down production for the duration. Despite NOC chief **Shukri Ghanem**'s claims that output has not been affected, Libyan sources have told *African Energy* that strike action and employee absenteeism is already impacting on output and exports – with the operation of terminals being threatened by industrial action. Details of IOCs' positions are reported in an article below.

Rock and a hard place

The long-term outlook is deeply uncertain. If Qadhafi succeeds in restoring order, IOCs are likely to come under intense pressure to justify the moral case for continuing to work with a regime with so much blood on its hands. If Qadhafi takes the last plane to Caracas, the legitimacy of the entire governing structure – including NOC – will be brought into question. Although exploration and production agreements have been signed under Libya's 1955 hydrocarbons law and approved by the ***General People's Committee***, Libya has no institutions that are sure to survive Qadhafi's rule. There is no certainty that a successor regime would honour past agreements and contracts.

If the Qadhafi regime survives, it can, at least, count on some very significant funds to help buy off popular discontent – even if Libya suffers a hiatus in export income. A recent ***International Monetary Fund*** mission reported that Libya had some $150bn-worth of foreign assets, including investments made by the ***Libyan Investment Authority*** sovereign wealth fund. This is equivalent to just over three years of import cover.

The impact of stopping oil production is, therefore, likely to be more political than economic, contributing to the impression of impotence which now hangs over Qadhafi's failing regime. It will, of course, have an impact on the global oil price.

OIL INDUSTRY

Immediate threat, IOCs' positions

There are three immediate threats to oil operations:

• EVACUATION – with so many key personnel being evacuated by IOCs and sub-contracting companies, some of the skilled technicians and managers responsible for output will no longer be in place;

• PROTEST – production infrastructure is located in the desert or offshore, where isolation can cushion the industry from the worst effects of the immediate crisis. This was the case in **Algeria** during the 1990s conflict between the state and radical Islamists. But there is a difference in Libya: this is a popular insurrection and, thus, while the violence which has gripped the main towns is far away from exploration and production operations and pipelines, output may be affected by strikes or tribal action. Workers have downed tools at ***Arabian Gulf Oil Company*** (*Agoco*)'s Nafoora-Augila field, where ***Occidental Petroleum Corporation*** is providing technical expertise. Output of about 80,000 b/d is exported from this field via Marsa Al-Brega.

• SHUT-INS – there is real potential for unrest at oil or gas terminals along the coast, which are closer to population centres. Media reports suggest that some terminals are suffering disruption, while some tankers have refused to dock at Libyan ports until the situation becomes clearer. Al-Zuwaya tribal leader Sheikh **Faraj Al-Zuway** – many of whose people live in the area south of Benghazi – told *Al-Jazeera* on 20 February that he would cut oil exports within 24 hours unless the authorities' "oppression of protesters" ceased.

IOCs pull back

Companies including ***Wintershall***, ***Statoil***, ***OMV***, ***BP*** and ***Royal Dutch Shell*** are among companies that have confirmed the closure of their Tripoli offices and the evacuation of all but core staff to maintain operations. ***Eni*** and ***Marathon Oil Corporation*** have flown out non-essential staff. BP has evacuated some staff and all dependents, and has suspended preparations for onshore drilling in the Ghadames Basin. Its offshore drilling is not due to begin until H2 2011. Shell has put in place "business continuity plans", closed its Tripoli office and evacuated dependents.

Repsol YPF on 22 February told *African Energy* that it had "today suspended all operations in Libya, including exploration and production". The **Spanish** firm's output stood at 34,777 b/d in 2009 – the latest figure available – 3.8% of its total output.

Among other European firms, Wintershall said that "in agreement with NOC preparations are currently being made to safely shut down oil production". OMV has withdrawn some staff but said that the situation did not have any impact on its operational activities. The **Austrian** firm produces about 317,000 b/d oil, accounting for approximately 9% of its total production.

Several companies have not made statements, but are believed to be planning temporary withdrawals. The *Financial Times* on 21 February reported that many executives were privately admitting they had plans to shut down production, but would not publicly admit this until the full evacuation of their staffs had been completed. "The last man will switch off the button," an executive told the *FT*.

Libya's oil and gas industry: key data

EXPORT TERMINALS

Terminal	Production (b/d)	Producing company
Mellitah	205,000	Mellitah Oil & Gas
Az-Zawia	309,000	Mabruk Oil Company, Akakus Oil Co
Sidrah	380,000	Waha Oil Company
Ras Lanuf	180,000	Harouge Oil Operations Wintershall, Arabian Gulf Oil Company
Marsa Al-Brega	155,000	Agoco, Sirte Oil Company
Zueitina	155,000	Zueitina Oil Company, MOG
Marsa Al-Harigh	220,000	Agoco
Total	**1,604,000**	

2009 AVERAGE DAILY OIL PRODUCTION

Joint ventures	Production (b/d)
Mabruk Oil Company	32,000
Zueitina Oil Company	50,000
Waha Oil Company	380,000
Akakus Oil Company	277,000
Mellitah Oil & Gas	298,000
Harouge Oil Operations	110,000
Wintershall	70,000
NOC operations	
Sirte Oil Company	150,000
Agoco	290,000
Total	**1,657,000**
Avge OPEC restricted output	**1,474,000**

GAS (mcf/d)

Mellitah Oil & Gas	1,193
SOC	456

Source: NOC, African Energy

… leaving questions about national output

It is unclear whether Libya's entire oil output will halt. Some IOCs say their production is unaffected. About one-third of Libyan production is produced by wholly owned NOC subsidiaries ***Agoco*** and ***Sirte Oil Company***, which may well continue to pump oil. Their output is heavily dependent on foreign engineers.

GOVERNANCE

Dealing with the Qadhafis leaves difficult legacy

The international companies that worked so hard to obtain major contracts from the Libyan regime, and their diplomatic backers and bankers, now find themselves confronted with an awkward situation. The unspoken rule of many transactions in recent years has been to find a member of the Qadhafi family – or more usually their representatives – to sponsor a deal through the *Jamahiriya* (State of the Masses) bureaucracy and power elite. It was no great secret that Libyan deciders – who could be relatively low-level officials as well as Qadhafi family grandees – were building up some very substantial fortunes.

The **United Kingdom**'s business dealings are coming under intense scrutiny – and not just from **US** lobbies that are still outraged by the Lockerbie deal. On 21 February, the UK ***Foreign & Commonwealth Office*** was obliged to revoke eight export licences for British-manufactured military equipment that could have been used against protesters. Media reports said the equipment in question may have included tear gas and armoured vehicles. In May 2008, ***General Dynamics UK*** signed a $165m contract to supply a C41 tactical communications and data system to the Libyan army's ***32nd Brigade***, commanded by **Muammar Qadhafi**'s fast-rising younger son **Khemis Al-Qadhafi** (whose men also trained in the UK).

The British government and UK-based companies potentially have a lot to lose if past deals are revisited. The close relationship that Whitehall developed with Tripoli has opened the door not just to large oil deals but also to arms sales, a large number of lucrative finance deals in the City of London and other business in sectors from education through to architectural design. As senior diplomats liked to put it, in Libya, British business has 'punched above its weight' since negotiating the Qadhafi regime's reintegration into the international community after 9/11 – notably, by playing a crucial role in restoring US-Libyan relations.

Italian companies from energy giant ***Eni*** down are heavily involved in the Libyan economy. In the same way that Colonel Qadhafi's good relationship with former prime minister **Tony Blair** opened the door to 'UK plc', so the Brother Leader's friendly dealings with Italian Prime Minister **Silvio Berlusconi** has achieved the same in Italy. The $5bn compensation for past colonial abuses, which Berlusconi committed Italy to pay, has been tied in to a lot of infrastructure projects that have come back to Italian firms.

Financial connections

A comprehensive programme of banking reform has seen a significant number of foreign investors participating in either new banking licences or taking stakes in existing state and private banks. ***HSBC*** is prominent among these. This programme was expected to be the foundation of a further liberalisation of the economy, which would be of benefit to the wider population (many of whom have been coming into the banking system for the first time).

The moral question of dealing with the Jamahiriya will affect many firms from the City of London, which was the first location outside Libya where the ***Libyan Investment Authority*** (*LIA*) sovereign wealth fund opened an office. A large number of City firms – not just banks and investment companies, but also consultants and advisers – have worked closely with Libyan institutions.

The embarrassment of organisations that have done business with elements of the Libyan state close to the Qadhafi family was expressed in a statement issued by the ***London School of Economics*** on 21 February. LSE said it was reconsidering its links with the country "as a matter of urgency" following the violence meted out to protestors. The statement said that LSE's commercial subsidiary, ***LSE Enterprise***, had completed a number of projects teaching and training officials from the ***Economic Development Board***, and had given advice to the LIA. LSE did not expect further receipts from this work. Additionally, **Saif Al-Islam El Qadhafi**'s ***Gaddafi International Charity and Development Foundation*** has funded a £1.5m grant to the LSE's ***Global Governance*** research centre. "In current difficult circumstances across the region, the School has decided to stop new activities under that programme. The Council of the School will keep the position under review."

If an institution as globally respected as LSE can find itself in such an embarrassing situation, imagine the reputational risk faced by companies and institutions with a more cut-throat approach to business.

African Energy view: Brave new world

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But can an ultra-repressive regime survive for long in a world that is fast remaking itself on the back of the **Tunisian** and **Egyptian** revolutions, and the wider shift in global economic balances?

The real balance of political and social forces is hard to understand in such a repressive environment. Saif Al-Islam may have been correct when he tried to build support by invoking the extent of radical Islamist opposition in eastern hot-spots such as Al-Baida and Derna. Regional differences could come into play as the historic Tripolitania/Cyrenaica fault lines re-emerge and Fezzan sees an opportunity to gain greater autonomy. There is a fear that competing political leaders will mobilise rival militias to shoot it out.

Removing the Colonel is a bigger challenge even than removing **Zine El Abidine Ben Ali** or **Hosni Mubarak**, who ultimately had to listen to their generals. The next regular issue of *African Energy* (204), to be published 4 March, will assess the alternatives.

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Cross-border Information Limited is a business intelligence company, providing political and commercial risk monitoring, analysis and research services focused on Africa and the Middle East.

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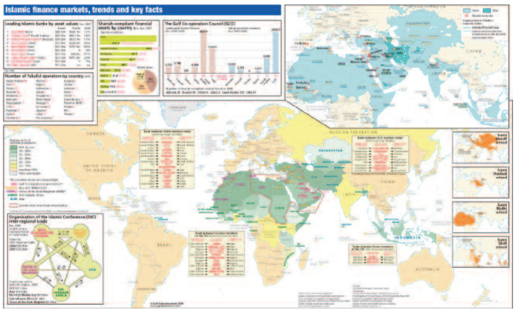

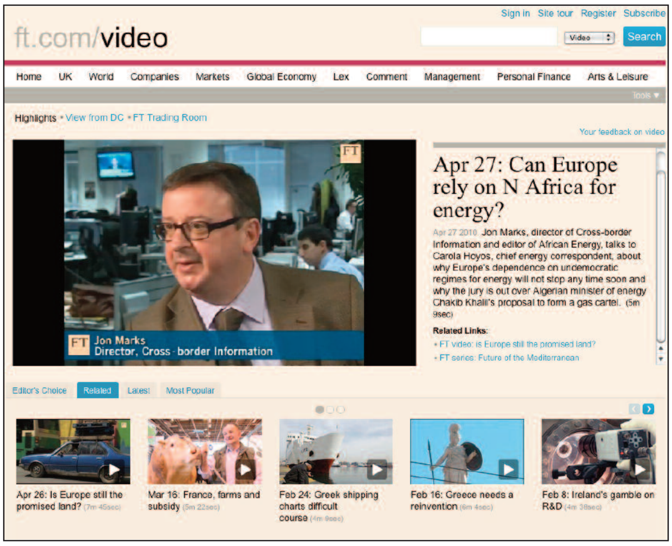

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