

# Oil production increases amid signs of political optimism in Libya

✘ Libya's elected parliament (there are technically two of them – the elected one operating from Tobruk and a competing one dominated by Islamist rebels in Tripoli) has a new government headed by Prime Minister al-Thani. It is a small bit of good news from Libya, which has struggled to reign in the chaos resulting from the end of the Qadhafi regime in 2011. The new government will have to confront the continuous clashes and violence but it will also ease the current oil export conditions, as the National Oil Company will resume its role as the sole legitimate oil trading agency. Meanwhile, in New York, on the sidelines of the UN summit, the General Assembly reiterated that there can be no “military solution” to the crisis in Libya, demanding an “immediate ceasefire”.

The successful formation of a new government, after an initial rejection, has raised optimism that institutional progress is possible and that dialogue to reach a political solution acceptable to all parties, or by all the tribes, is possible (if not probable in the short term). The most desirable outcome, under the present circumstances, is for the Libyan leadership to be able to find a peaceful solution that would allow a ceasefire and then the disarmament of militias and jihadist groups. In order for such a process to even begin, over the next few weeks, the official Parliament will have to absorb the old Parliament (heavily influenced by Qatar) in order to strengthen the institutions. It will not be easy and the chances of such a process succeeding will be tested next week.

The clash between Islamist militias and the “nationalists”

(the more secular and 'West' friendly groups) in Libya has shifted in favor of the latter thanks to the intervention of ethnic guerrillas from the Tubu tribe in the oil rich region of Kufra in the south. The Tubu have fought alongside the "Operation Dignity" forces, led by General Khakifa Haftar, as part of the effort to challenge the Ansar al-Sharia and other Islamist formations which have taken up strong positions in Benghazi, the regional capital. The Tubu's intervention is very important for Libya's oil production prospects as this tribe, rather discriminated during the Qadhafi years, controls an area which produces 65% of the country's oil. The Tuareg tribes present in southern Libya also control some important oil fields, such as those of Murzuq and Ghadames. The Tuareg have maintained their neutrality in the ongoing civil war in Libya. Despite efforts from the "Operation Libya Dawn" group, the Islamist coalition that has taken control of much of Tripoli, Libya's capital, to the contrary. Many of Libya's neighbors fear that finally Islamist groups who control Benghazi could proclaim a caliphate in imitation of what has happened northern Iraq and northern Nigeria (and Mali in 2012).

Libya needs stability in order to increase oil production, not to mention exploration, which has dropped to less than half the last levels recorded before the start of the civil war in 2011. There are still international oil companies operating in Libya, and even though most of them have sent their staff home, they have maintained a 'wait and see' attitude rather than outright abandonment. The oil companies with significant operations in Libya can be divided into two categories: those with sufficiently important stakes, forcing them to endure the political/anarchy crisis and those which could not sell their operations fast enough. Italy's Eni is the largest foreign investor in Libya's oil sector (planned investments of about USD\$ 8 billion over the next decade and Eni also operates the Greenstream pipeline line in western Libya that supplies gas to the Italian mainland).

Eni has not left and it is still producing at its key oil fields around Wafa in the southwest, which also supplies gas to the Green Stream pipeline and the 130,000 bpd Elephant field, which has recently resumed production. There is no risk of Eni leaving, considering that its Libyan oil & gas portfolio accounts for some 16% of the Company's total production. Similarly, Spain's Repsol has large enough ties with Libya that it cannot walk away despite the threat of another civil war. Repsol owns 10% of the el-Sharara field runs the El-Sharara field, which has interrupted and resumed activity various times during the past summer. The oil field is capable of delivering 150,000 bpd at the beginning of this year. Repsol has a 10% of El Sharara while the Austrian OMV, which has a market share of 7.5% in the sector, Libyan production is worth 10% of its nearly 300,000 barrels of oil equivalent per day.

The situation is different for oil companies from the United States (which acquired oil rights in Libya starting in 2004 at a high price) such as Hess, Marathon Oil and ConocoPhillips, all of which have investments they would prefer selling now – perhaps to Russian or Chinese companies. Meanwhile, the price of oil in New York ended lower Monday, in a market fearing over-production and an abundance of supply. A barrel of “light sweet crude” (WTI) for delivery in October, which was the last trading day fell to USD\$ 91.52 dollars/barrel on the New York Mercantile Exchange (Nymex). In London, the Brent barrel of North Sea crude for delivery in November stood at USD\$ 96.97/barrel, down 1.42 dollars compared with Friday's close. Libya's higher production potential has added to fears of lower demand from China, as investors worried that Beijing has done too little to stimulate the economy and also considering that it is the second largest oil consumer. Oil supplies from non-OPEC producers – including the United States – have been putting downward pressure on prices.

The United States produced an average 8.6 million barrels per

day in August, their highest monthly production since July 1986 and plan of achieving 9.5 MBD in 2015 – which would be the highest level since 1970. The Secretary General of OPEC, Abdullah El-Badri, spoke of a possible decline in year-end supplies, prompting a brief rebound in crude prices last week but news that Libya would resume production at its Sharara field by up to 250,000 barrels per day have added to the 'sell' pressure. It remains to be seen for how long the predictions about Libya's oil production prospects continue. The situation, while apparently improving, remains volatile as the militias have not agreed to any of the proposed compromises yet.