Libyan unrest will force oil prices higher

Industrialized countries may be faced with the prospect of a shrinking oil supply and higher prices in the second half of the year unless a solution is found to increase production due to higher than expected demand. OPEC controls about 40% of world oil reserves and includes members such as Libya and Iraq, which have struggled to maintain their export output due to severe domestic instability and intensifiying political unrest in some non-OPEC countries such as Colombia and South Sudan, not to mention the tensions between Russia and Ukraine that had already served to raise oil prices in recent weeks. Chinese demand, despite rumors of a slowing economy, is having a significant impact on demand as imports have reached record levels of 6.8 million barrels a day (bpd) last April. China has actually been increasing strategic oil reserves and refining capacity as two new giant facilities have been built.

Brent crude actually shot up to above USD$ 109 in London in response to the rising uncertainty in Libya, where crude oil production has fallen to about 210,000 barrels per day, well below the pre-crisis levels of 1.4 million barrels, with the deposits of the western regions that remain idle. The resumption of heavy fighting using artillery and aircraft around the area of Benghazi is to blame. Indeed, the exacerbation of Libyan unrest and the prospect of a potential return of military dictatorship have effectively eroded any hope that the post-Qadhafi government, might yet survive much longer. The Libyan situation is made all the worse by the fact that the clashes in Tripoli and Benghazi have been far more complex than simply those between the good – non- Islamists – and the bad – the Islamists. The main rivalry is between the militias of the town of Zintan, who backed former Prime Minister Mahmoud Jibril – and then the anti-Islamist component of the National Congress general (GNC) – and the militia that prevails in the city of Misrata, in turn, generally associated with the political forces closer to the Islamist component.

The rivalry between these two groups dates back to the times of the revolution against the Qadhafi regime and all attempts so far exercised by politicians to find an agreement between these two actors have failed. Libya has also endured the collapse of public order and especially in the oil rich east of the country, where the weak security forces of the Libyan state have been repeatedly attacked by groups ranging from the simple to the more structured criminal organizations jihadist cells. In the past year, armed groups have occupied and blocked production at all major oil fields in eastern Libya, contributing to the paralysis of the State. It is against this sorted background that emerges General Khalifah Haftar. The man who could attempt to defeat the majority of the militias to form a military government, restoring order and stability. Haftar is controversial due to his role in the coup led by Qadhafi against King Idris in 1969 and his odd alliance with the CIA after a failed military mission in Chad, where he was a unit commander, in 1986.

Gen. Haftar and secular militias in the western part of Libya, Zintan, were very displeased by the appointment for new prime minister, Ahmed Maiteeq, whose ties – or alleged ties – to the pro-islamist parliament made him intolerable. Haftar is not alone in his battle against the Islamists and the government. The berber militias of Zintan, Saif al-Islam would be directly responsible for the attack on the Parliament. The government, while being unable to do anything, accused Haftar of wanting to stage a coup.

In the face of all this we can say that the already dramatic situation in Libya has worsened to the point where no return to stability is likely without radical changes of the status quo. A federal option was on the table a few months ago but this would still need a strong central government to implement. Moreover, since Qadhafi's demise, Libya has experienced a vast gap between poor and rich. The combination of tribal, religious and wealth struggles suggests that the situation is not likely to improve in the short term. In oil terms, after the first armed clashes of last week, mostly concentrated in Benghazi, the price of oil has increased by about USD$ 0.30 in a few hours, demonstrating the importance of Libyan production to the world market. Consequently, a new intensification of the Libyan conflict – unless resolved quickly and in such a way as to ensure stability rather than the more idealistic 'democracy' could damage the international oil market in general.

Libya's instability shoots 'own goal' against its oil industry to the rest of Africa's gain

Having lived in Libya, where I worked for the UN, during one of its toughest periods at the height of the sanctions period, I became rather terrified by Qadhafi's rule and Qadhafi's thuggish security forces (not the Libyan army mind you and far less the traffic police – I am far more terrified of Toronto's police force). Now, having followed the collapse of Qadhafi's Libya closely, I am very concerned for the country's survival. As noted on a few occasions here, the so-called 'Arab Spring' has not been kind to Libya and prompted many to regret the 'good old days' when the flamboyant dictator provided, at least, stability, if not the meaningless democratic pleasantries of today. Indeed, democracy and ‘freedom’ in Libya exist only on paper. Now, after having one of the lowest crime rates in Africa, Libya has endured an average of one political assassination every two weeks. Libya’s population has grown even more exasperated by the armed gangs that have taken over than they ever were by Qadhafi’s feared ‘mukahabarat’ secret police.

‘Democracy’ in Libya has brought more chaos and instability rather than freedom; it has also started to erode Libya’s wealth because the instability has led to a dramatic collapse in oil production, which accounted for some 95% of export revenues. Oil production actually fell by a dramatic 70% last July after a series of riots and strikes in Cyrenaica resulted in the closure of four out of five main oil export terminals after strikes by unpaid police and security officers who left the all-conquering militias to join a legitimate institutional force, only to suffer unpaid wages. The Minister for Oil, Abdelbari Arussi, confirmed the oil indsurty collapse when he formally decalred that Libya currently exports 330 thousand barrels per day (bpd) compared to an average of 1.4 million in recent months (production was at an average of 1.6-17 million bpd in the period preceding the 2011 revolution.

Libya’s main preoccupation was oil – some of the best quality sweet crude in the world. Its production was secure and reliable and several European oil majors endured sanctions and other risks to produce it even in the difficult decades of the 1980’s and 90’s. Libya was a bureaucratic mess wrapped in a totalitarian shell, but nothing stopped the oil from flowing. Now, there is a new Libya embroiled in political assassinations, riots, Islamism and anti-Islamism, which has caused the semi-buried separatism ambitions of some tribes in Cyrenaica to push for separatism.

It was in Cyrenaica of course that U.S. Ambassador Chris Stevens was murdered last September. Libya lives under the blackmail of the militias, which have been able to stop the flow of the country’s only resource. The risk that Libya, just a few hundred miles from western European shores, could implode in total anarchy a’ la Somalia has become ever more likely. That threat is all the more concrete, considering the instability that has been building at all of Libya’s borders: Egypt, Mali, Tunisia and Algeria all under threat from al-Qaida in the Islamic Maghreb (AQIM). Perhaps the same NATO that helped Libyans remove Qadhafi from power will have to step in to prevent total collapse and secure valuable oil and gas reserves that are key to the economies of southern Europe (and beyond).

One of the main consequences of the growing instability in Libya and North Africa has been a dramatic ‘transfer’ of exploration efforts toward emerging sub-Saharan Africa. Such companies as South Atlantic Petroleum Limited, Tullow Oil (OTCMKTS:TUWOY) Africa Oil (TSXV: AOI) and Alberta Oil Sands (TSXV AOS) have become very active in this region, which is fast becoming the newest oil and gas frontier. Indeed, the World Bank has committed a record $ 14.7 billion in fiscal 2013 (July 2012-June 2013) in order to support economic growth in Africa and contribute to the improvement of its development prospects because it claims “the region has shown remarkable resilience to the global recession and has experienced robust growth”.

As a further example, oil services giant, Schlumberger Limited (NYSE: SLB) on July 29 reported revenues of $ 11.18 billion for the second quarter of 2013 compared to USD 10.57 billion in the first quarter of 2013 and U.S. $ 10.34 billion in the second quarter of 2012. The company attributed the increase to growing exploration activities and cited sub-Saharan Africa as a fast growing new market. Even if African oil production has increased during the last twenty years – increased at about 2.5 times the world average – it is far from having reached its full potential: most of the deposits are still under-exploited and reserves remain to be discovered. But with rising oil prices, and to a lesser degree of other raw materials, oil companies have become even more eager to enter the region.