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BULLETIN

August 31, 2011

RESTARTING LIBYAN PRODUCTION

Tomorrow, on what would have been the 42nd anniversary of Qaddafi's takeover of Libya, French President Nicolas Sarkozy and British Prime Minister David Cameron will co-host a "Friends of Libya" conference in Paris. Senior officials from around sixty countries will attend and welcome the two top leaders of the Transitional National Council, Mustafa Abdel Jalil and Mahmud Jibril, into the international fold.

Sarkozy had been hoping to host a big international conference in Paris for months, with his sights set earlier on a Mideast Peace Conference which he wanted to hold on September 2. Prior to meeting with the TNC's Jibril last Thursday, Sarkozy got President Obama to agree to the "Friends of Libya" conference and announced it during Jibril's visit. Sarkozy then mollified the peeved British Prime Minister by agreeing that Cameron would co-host the show.

Italy's Complaints

The Italians were livid at what they saw as an attempt by Sarkozy to relegate Italy to a "second row seat" at the conference. Italian Foreign Minister Franco Frattini had Rome's Ambassador in Paris, Giovanni Caracciolo di Vietri, complain to the Quai d'Orsay about France's failure to act collectively with its NATO allies. The Italians also asserted that they had the largest economic links with Libya and knew the new leaders much better than the French.

Italy's ENI SpA will likely be the first international company to work on the nuts and bolts of restarting oil and gas production in Libya, after its CEO, Paolo Scaroni signed a memorandum of understanding with TNC officials in Benghazi on August 29. Issues ENI may encounter at producing facilities may be different from those that the rebel-operated AGOCO may encounter in the east with the highly paraffinic crudes it produces.

New NOC Chairman

Nouri Berouin, the new chairman of Libya's National Oil Corporation, told *Reuters* yesterday that he has already met with international oil companies. "The first thing I told them was that we respect all contracts," he said, although not every company will welcome returning on the basis of existing commercial terms. Berouin insisted that

production could start within weeks, not months. He also said he expects full output to be reached in “less than fifteen months.” Little is known of Berouin’s background.

“Once our fields are secure we need to make sure we clear the mines. Building up output will require logistical support and we might need our foreign partners,” *Reuters* quoted Berouin. He added that he expected to represent Libya at the next OPEC meeting in December. Libya was represented at the June meeting by Omran Abukraa, who replaced the long-serving Shukri Ghanem after his defection in May. The TNC set up a rival National Oil Company in Benghazi in March, but with the EU now set to lift sanctions against Libyan ports and oil companies this week, the next government will presumably be able to operate through the established NOC and its subsidiaries.

Ali Tarhouni

Berouin’s comments to *Reuters* were echoed by the TNC’s Minister of Finance and Oil, Ali Tarhouni, in a later press conference in Tripoli. “I think we were surprisingly and pleasantly surprised that the damage, at least for key installations like Zawiyah refinery, there is no damage whatsoever,” Tarhouni said, adding that perhaps 10-15% of the facilities at Brega and at the Ras Lanuf terminal and refinery were damaged.

“The NOC’s initial estimate is that we can have about 500,000 to 600,000 b/d within two to three months. And then we ramp this up to the normal, which is about 1.6. My expectation is that this will be done within a year or so,” Tarhouni said. “The state of the oil fields is a lot better than expected. Overall if we want to put a number on it, the average is about 10% or so. Most of the fields are more than 90% fine.” Tarhouni again confirmed Libya will honor existing contracts: “We have contracts with most of the major companies. Wintershall, Shell, Repsol, Eni. We haven’t signed any new contracts,” he said. “These are pre-revolution contracts. We are going to continue those. We’re just going to put back things as they used to be. The NOC is the one that is practically running the oil industry. We will restructure that to make sure that it’s nimble.”

Tarhouni, 60, returned to Libya in March. He is a former economics instructor at the University of Washington. He had left Libya amid student protests in 1973 and was on Qaddafi’s list of “stray dogs” who should be killed. He was a high-profile figure in the small Libyan expatriate community in the Seattle area.

“Completely Unrealistic”

Some Western analysts were quick to call Tarhouni’s expectations “completely unrealistic.” Overly optimistic estimates “would suggest that there are people at the top of the oil organization who do not understand the industry. It does not bode well at a time when they need to get production up and running as quickly as possible,” IHS Energy’s Samuel Ciszuk, told the press. “If they start being unrealistic and can’t deliver on their promises, it’s worrying for future power struggles.”

Asked at his Tripoli press conference who would be running the oil industry for the foreseeable future until a general election, Tarhouni said: "I'm in charge until they decide to use somebody else." Tarhouni's son Adam, a Stanford University graduate in economics who spent June and July in Benghazi working with the TNC, says he doesn't believe his father has political ambitions. "I think if he would have his way, he would have a small house in Libya somewhere near the beach, and be able to sit out on the balcony and watch the waves roll in," he told the *Seattle Times* earlier this week.

Scaroni on Need for Expats

Interviewed in Benghazi by the Italian newspaper *La Repubblica*, ENI's Scaroni said the first order of business would be de-mining and establishing security, after which ENI would help the Libyans assess what work needs to be done. Scaroni insisted that ENI has always relied on a large supply of skilled local labor, but did admit that foreign workers would have to return also. He said specifically that foreign expats were needed to restart the large gas compressors at Mellitah, which in turn would require that security in the area be established.



Mellitah Gas Plant Complex

The compressors at the coastal town of Mellitah, 80 kilometers west of Tripoli, provide pressure at 150 bar (2175 psi) for the 520-km, 32" Greenstream gas pipeline which moves some 8 billion m³ from Mellitah to Sicily under water as deep as 1,127 meters. The pipeline was commissioned in 2004. The gas for Greenstream comes from the Wafa field, more than 500 km south of Tripoli, which has been producing on a limited basis to supply three power plants which serve Tripoli, and from two offshore fields, where security is not a problem even though some looting of offshore facilities has been reported. There would be no point in resuming gas production from these platforms until the compressor station and gas plant at Mellitah are restarted. Even if there was zero

damage at Mellitah, the restart would be complex. The Italian contractor, Group Bonnati, both built and provided general maintenance for the plant, employing 500 people at the site. It is not known how many expatriate workers were employed in maintenance and operations there.

Economic Disincentives for ENI

However, questions have also been raised about how much incentive ENI might have in restarting gas flows, at least before the end of this year. In a well-publicized research note in February, an analyst for Société Générale argued that ENI actually would benefit from the closure of Greenstream because its take-or-pay contracts with Russia's Gazprom have left it with large quantities of pre-paid Russian gas. With cheap Qatari LNG expected to increase further in 2011, SocGen estimated the amount of Russian gas that European companies could have to pay for without taking delivery could rise to 15 billion m³ by the end of 2011.

“If the closure [of Greenstream] lasts for six months, ENI could avoid having to honor any Russian take-or-pay obligations in 2011,” Thierry Bros, senior European gas and LNG analyst, wrote in the February SocGen research note. According to Bros, if Greenstream remained closed until the end of 2011, ENI could take delivery of about 3 BCM it has already paid Gazprom for but for which it deferred delivery. “We have long argued that Europe already has access to 10 BCM of ‘pre-paid’ Russian gas,” he wrote.

Other Commercial Factors

It is not clear whether the SocGen analysis takes into account other factors, including ENI's equity share of crude oil and NGLs produced in association with the natural gas. It has been reported that the entire Western Libya Gas Project (WGLP), of which Greenstream forms a part, was producing 60,000 b/d of crude oil, 39,000 b/d of condensates, 15,000 b/d of propane and 13,000 b/d of butane in early 2011. ENI is a 50-50 partner with NOC in the WGLP, acting through an AGIP subsidiary. ENI, as well as other international oil companies, will also have to weigh their overall relationships with the new Libyan government. While TNC officials have persistently said they would honor all existing oil and gas contracts, there has been speculation in the press that some of the companies would welcome a renegotiation of the contracts.

The last round of commercial terms imposed by the Qaddafi government, the so-called EPSA IV, were considered by some companies as overly aggressive. Combined with poor acreage, these terms were putting off foreign investors before the revolt. Repairing and restarting the facilities will add extra costs which will need to be recovered. It is not known how many experienced hands will remain at NOC should companies seek to renegotiate contract terms. Renegotiations could stretch out the schedule for a restart of Libyan production well beyond any timeframe that can be estimated for security to be established or for the actual work on the ground that needs to be done.