Energy Intelligence

Libya: Divisions Stall Upstream Deals

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Libyan oil officials have expressed concerns over processes in the recent negotiation of a large potential gas deal, arguing that it should have involved an open tender.

Letters and documents from state National Oil Corp. (NOC), the Ministry of Oil & Gas and the Libya Audit Bureau obtained by Energy Intelligence show the ministry and bureau expressing frank concerns about talks related to the NC-7 permit conducted by NOC.

NOC responded by arguing that urgent action is needed to develop Libyan gas reserves to prevent a shortfall, given expected declines elsewhere.

The controversy centers on the NC-7 Hamada block in the gas-prolific western Ghadames Basin, which earlier this year appeared set to be awarded to a consortium led by Italy's Eni and including TotalEnergies, Abu Dhabi National Oil Co. and Turkish Energy Co., a unit of Turkish state TPAO.

The dispute over the best upstream approach to secure foreign investment comes amid growing political instability and divisions in Libya.

The country has two rival governments vying for legitimacy — Prime Minister Abdulhamid Dbeibeh's UN-backed administration, based in the capital Tripoli, and Osama Hamade's eastern government backed by Libya's parliament, the House of Representatives — with the country's oil sector often caught up in this division.

Stalled Deal

The NC-7 talks collapsed at an industry summit in Tripoli in January. NOC had offered a 40% share to the foreign consortium, documents show, but then-Oil Minister Mohamed Oun insisted that the investors receive a lower share given that the gas-prone fields are not complex to develop. His office had issued a statement on Dec. 15 describing the deal as a "violation of Libyan legislation on oil contracts."

Eni has yet to respond to a request for comment on the breakdown in talks or the current status of negotiations. Total has declined to comment on whether it is still interested in developing the NC-7 Hamada permit.

The Eni-led consortium first signed a "principles agreement" with NOC on Aug. 27 last year. The 30-year deal would involve NOC holding 60% and the consortium 40%, while costs would be split 50-50, documents detailing the proposed transaction show. The consortium would pay NOC $100 million for exploration work previously carried out by the state firm and would cover any new exploration expenses. In addition, it would pay a $50 million payment toward sustainable development and a $20 million signing bonus.

Political Divisions

Dbeibeh personally appointed NOC Chairman Farhat Bengdara to fast-track Libya's oil and gas production targets. He also appointed Oun, in a move seen as intended to placate eastern political groups.

Dbeibeh secured Bengdara's approval from Libyan Gen. Khalifa Haftar's Libyan National Army (LNA), which dominates the east and south of Libya in return for a revenue-sharing mechanism set up by the Tripoli-based Central Bank of Libya, which provides salaries to LNA troops.

Calls for a new unity government to replace Dbeibeh are growing. And in March, Libyan leaders under Egyptian mediation agreed to create a new administration to supervise long-delayed nationwide elections.

Prime Minister Dbeibeh has made the economy his priority and sought to attract foreign investors. Oun's concerns that Libya was offering too generous a share to international oil companies hampered these efforts, with the failure to sign the NC-7 Block the most recent example.

Oun was also a vocal critic of recent deals secured with Eni to develop the Bahr Essalam offshore gas fields and attempts by Waha Oil Co., a group involving TotalEnergies and ConocoPhillips, to push for improved upstream terms before committing to invest.

Dbeibeh replaced Oun as minister with the former Murzuq Oil Services head, Khalifa Abdulsadek, in late March, after Oun was temporarily suspended from work by the state Administrative

Control Authority, a body that has administrative control over executive agencies of the Libyan state and can investigate violations related to public office.

Direct Talks or Open Tender?

The ministry and audit bureau last year raised repeated concerns with NOC over the talks on NC-7, according to the documents. The bureau has independent oversight for financial control and accounting in Libya and reports to the parliament.

The bureau's main complaint is that the block was negotiated directly rather than presented in an open, public tender, and that this prevented Tripoli from comparing the consortium's offer with any alternatives.

It asked the state firm to urgently submit a report on all blocks "falling under the same classification as NC-7, which are explored and undeveloped," which the bureau believes number 41 across various basins.

Although the ministry and the bureau believe an open tender should have been the preferred approach for NC-7 and other blocks, direct negotiations between national oil companies and foreign investors are fairly common in the international oil industry.

In its defense, NOC Chairman Bengdara argued in a letter to the bureau and the ministry that an investment decision to develop the NC-7 gas fields was urgently needed to "counteract the expected deficit in gas supplies" from the Wafa and Bouri fields. Production there is expected to decline by 2025, leading to "a deficit in gas supplies necessary to cover the needs of the local market," he wrote.

Libya hopes to hold an upstream licensing round late this year or in early 2025, NOC stated in February.

The NC-7 documents were verified by Abdel Moneim Bazizi, director of the office of the president of the audit bureau. Energy Intelligence contacted the NOC chairman's office for comment but has yet to receive a response.

Other Questions

The ministry and the bureau have also raised questions over the role of a relatively unknown Libyan-registered firm, Esnad Oil Services Co., which is involved in contracts related to the development of the important Waha concession in the eastern Sirte Basin.

US services giant Halliburton has a contract to rehabilitate and develop Waha's Dahra fields, boosting output to 120,000 barrels per day.

In a letter to then-minister Oun on Feb. 21, Halliburton CEO Jeffrey Miller explained that the US firm has a "master service agreement" with Esnad to participate in the Dahra project. "Upon completion of the consulting services stage ... operational services will be delivered and performed in Libya with Esnad being a general contractor and Halliburton as a subcontractor," Miller wrote.

Halliburton declined to comment further on its commercial relationship with Esnad.

Topics: Upstream Licensing, Conventional Oil and Gas, Exploration, Policy and Regulation