Libya: US Players Sweep the Board in First Libya Licensing Round

US majors have returned to Libya en masse in the first open bid licensing round, decisively putting an end to 18 years of unilateral sanctions, as Libya announced plans to launch another tender for 40 blocks next month to capitalise on current interest levels.

WMRC Perspective	
Significance	US majors were expected to bid high for Libya stakes after nearly 19 years of enforced absence and their aggressive play for new acreage kept European and existing players to the sidelines.
Implications	The licensing round increases exploration activity and puts Libya in a good position to locate new reserves and meet ambitious production targets in the medium term.
Outlook	Another licensing round is due to be launched on more acreage next month as Libya seeks to hold onto the investor focus and maximise its returns after the lifting of sanctions. This will help to sustain investor momentum in exploration, although in the longer term, development work and integrated projects are likely to be key targets.

Aggressive Play

US players, led by Occidental, took 11 out of 15 blocks at the first Libyan open bid licensing round this weekend, pushing European and existing Libyan players into the shade, as the companies sought to make up for over 18 years of enforced absence as a result of unilateral US sanctions.

US players were expected to be the prime movers in the round. Occidental, Amerada Hess and ChevronTexaco were just three of 120 outsiders who had registered interest in the first 15-block offer, which was later whittled down to 63 participants after the pre-qualification stage at the end of September.

Exact bid details have to be publicly announced, although Occidental is thought to have taken nine blocks (often in a consortium with UAE's Liwa and Australia's Woodside), while Amerada Hess and ChevronTexaco bagged one block apiece. Occidental already holds Libyan assets at NC-102 and NC-103 under an EPSA-1 contract - as well as exploration rights for a number of other blocks. These areas remain in Libyan hands under a standstill agreement negotiated during the sanctions period, although a settlement to return this acreage, and that held in trust for Oasis Group members - Amerada Hess, Marathon and ConocoPhillips - is expected to be ratified shortly

The remaining blocks were shared between Calgary-based Verenex Energy Inc. and PT Medco Energi Internasional of Indonesia, Brazil's Petrobras, Algeria's state energy company Sonatrach, Indian Oil Corp. (IOC) and Oil India Limited (OIL). This left European players, including BP, Shell and Statoil, firmly on the sidelines, while existing Libyan insiders Total, Eni, OMV/Repsol and Petro-Canada, kept a low profile.

However, the chairman of Libya's National Oil Company (NOC) Abdullah al-Badri, was quick to reassure the losers that the NOC would offer a further 40 blocks in a second licensing round next month. The NOC will also sustain this level in future licensing rounds, as Libya seeks to capitalise on current heightened interest, which has made it the 'must have' destination for the corporate E&P world.

Occidental Goes Oriental

When Occidental Chief Executive, Ray Irani, announced in 2004 that 'we regard Libya as one of our high-priority projects', nobody expected this kind of full-on charge into North Africa, as the company wolfed down new acreage in the Sirte onshore and offshore basins, Murzuq and Cyreneica, before official word came through on a return to its existing holdings.

The result marks a decisive shift in the balance of the company's overseas portfolio towards the Middle East and North Africa region and away from Latin America, where Ecuadorian production increases proved central to this year's record results alongside Oman. Libya is now expected to become the company's core overseas lifelong holding, with the expectation of further investment to come, in exploration, production and potentially, integrated ventures.

Notable in Occidental's new Libyan acquisitions is the large proportion of untested acreage, both offshore and onshore, in addition to prime real estate in Murzuq and Sirte, presumably bankrolled by the UAE's Liwa, which features in all Oxy's wins. This includes untested offshore blocks 35 and 36, which the NOC believes to be gas-prone, along with two more promising offshore areas (52 and 53) with their southern bases in the onshore Sirte basin (see table). Oxy-Liwa also took one sought-after 'frontier' area in Murzuq block 163, along with Murzuq Block 131 and Block 59 in Cyreneica/Batnan, which shares Egypt's Western desert basin. The most obvious coup was the capture of prime Sirte acreage in Blocks 106 and 124, where data room fees alone added up to nearly US$200,000.

First Open Bid Round Acreage					
Basin - Area Number	**Exploration history**	**Target**	**Notes**	**Potential Interested Parties**	**Winner**
West Sirte Basin - 086	8 wells drilled - some shows	oil	Near to well-established oil production areas including Mabrouk, Gsur, Facha fields. Shows in nearby wells as well. Lower Eocene, Palaeocene and Upper Cretaceous potential.	Total, Petro-Canada, Repsol, ChevronTexaco, ExxonMobil, ConocoPhillips, Shell, Occidental	Indian Oil Company and Oil India Limited
Middle Sirte Basin -	many wells drilled; two discoveries	oil	Near to well-established oil production areas	Data-room costs say it all; US super-	Occidental-Liwa

106	in the area		including Intisar A & D, Giolo, Amal and Nasser. Data room fees of US$129,565 represent substantial hurdle for smaller players and nearly twice the cost of other blocks.	majors	
South-East Sirte - 124	over 12 wells	oil	Near to well-established oil area - including giant fields such as Sarir and Messla.	ExxonMobil, ChevronTexaco, ConocoPhillips, Repsol, Total, BP, Shell, Occidental	Occidental-Liwa
North Ghadames - 47	6 wells - some shows	oil	Nearest fields are Tigi and Tlacsin. Devonian and Ordovician potential reservoirs.	Anadarko, Pioneer, Amerada Hess, Eni	Vernex and Medco
Ghadames - 65	4 wells - most have shows	oil	Smallest area on offer at 4,374 sq. km. Near well-established oil-producing areas including fields such as al-Kabir and al-Habba. Devonian and Ordovician potential reservoirs.	Anadarko, Pioneer, Amerada Hess, Eni	Sonatrach
Cyreneica/ Batnan - 59	1 well	oil and gas	Continuation of Egypt's Western desert. Minor discoveries in Libya in surrounding areas but some major discoveries from the same basin in Egypt. NOC says it requires intensive exploration and advanced technology.	Apache, Shell, other Egyptian Western Desert players.	Occidental-Liwa

Offshore - 18	3 wells - one hydrocarbon show	gas	Nearest oil and gas fields are giants, Bouri, al-Jurf, Bahr al-Salam. NOC says that the area features the same geological structure as offshore Tunisian finds. Relatively shallow at depth of 200m to 700m.	Eni, Total, Tunisian players, Repsol/OMV, Marathon, Statoil	Petrobras
Offshore - 35	no wells drilled	gas	Similar to block 36. Potential for finds in Upper Cretaceous, Lower Cretaceous, Eocene and Jurassic.	Eni, Repsol/OMV, Kerr-McGee	Occidental, Woodside and United Arab Emirates's Liwa
Offshore - 36	no wells drilled	gas	Similar to block 35. Potential for finds in Upper Cretaceous, Lower Cretaceous, Eocene and Jurassic.	Eni, Repsol/OMV, Kerr-McGee	Occidental, Woodside and United Arab Emirates's Liwa
Offshore - 52	2 wells - some shows in cretaceous layer	oil and gas	Continuation of influence of Sirte basin. Wide range of potential targets including Upper and Lower Cretaceous, Eocene and Palaeozoic sandstone.	Eni, Repsol/OMV, Statoil	Occidental, Woodside and United Arab Emirates's Liwa.
Offshore - 53	3 wells - all had oil and gas shows	oil and gas	Continuation of influence of Sirte basin, like 052. Wide range of potential targets Upper and Lower Cretaceous, Eocene and Palaeozoic sandstone.	Eni, Repsol/OMV, Marathon, Statoil	Occidental and Woodside
Offshore -	1 well - oil	oil and	Closer relation to	Eni,	Amerada Hess

54	and gas shows	gas	Benghazi basin though some continuation of Sirte influence in the south. Oil encountered from Albian and Tironium carbonates. Oil and gas in Basal sandstone and Upper Cretaceous.	Repsol/OMV, Statoil	
Murzuq - 131	4 wells drilled - 3 showed	oil	Number of small shows in the south of the area. Devonian and Ordovician potential reservoirs. Oil production to the west of the area.	Repsol, OMV, Total, Occidental, Shell	Occidental-Liwa
Murzuq - 163	no wells drilled	oil	NOC considers it a 'frontier area'. Ordovician potential. Relatively high data room fee of US$43,865.	Repsol, OMV, Total, Occidental, Shell	Occidental-Liwa
Murzuq - 177	no wells drilled	oil	NOC considers it a 'frontier area'. At 11,317 sq. km, it is the largest acreage on offer. Linking into Niger basin where Hunt Oil has made finds.	Repsol, OMV, Total, Occidental, Shell	ChevronTexaco

The Occidental sweep rather overshadowed other awards, although ChevronTexaco did book frontier Murzuq acreage, while Amerada Hess took an offshore block with a foot in both the Sirte and Benghazi basins. IOC managed to bag the least attractive Sirte acreage, although drilling has shown it to be oil-prone. It reported that it will get 18.4% share of any future production in the block with the remainder going to Libya's NOC. It reportedly offered no signature bonus for the block.

Meanwhile, Algeria's Sonatrach decided to use its experience of the Berkine/Ghadames basin from back home, to take on Block 65 on the Libyan side of the border. Exact terms of the deals were not released, although the NOC is expected to fund half the development and operational costs under the EPSA-IV licensing terms.

Look into My Eyes

With 120 would-be lead bidders (consortium partners did not have to pre-qualify) and only seven winners, the tender undoubtedly ended with a number of disappointed faces. The NOC moved quickly to console these with the announcement of a further licensing round to open in February, this time covering 40 blocks. Future licensing rounds will also take in this many blocks, according to the NOC's Abdullah al-Badri, who must have been loath to see so many open wallets turned away.

In this way, Libya hopes to keep up the exploration momentum and maximise its time in the limelight, as other would-be upstream rivals, including Iraq, remain off the mainstream investor agenda. Lack of exploration in Libya and the potential for elephant-scale prospects mean that the country has a good chance of holding that interest, particularly if development work and integrated projects are thrown into the mix.

Outlook and Implications

The NOC may have been overwhelmed by the initial interest in the first bidding round, delaying the tender by a fortnight, but in the end it proved equal to the task and is now set to push its sights higher with the launch of a second round for 40 exploration blocks in February.

In this way, the EPSA-IV licensing terms announced in August 2004 can be seen as a significant success, despite initial investor doubts, as it cut out the scope for bureaucratic stalling and administrative paralysis. Such drawbacks have seen other one-on-one negotiations drag on into years, including some acreage from the previous EPSA-III round that has still to be concluded. Under the EPSA-IV terms, bids were assessed on offers for cost oil alone, with a signature bonus as the secondary parameter in the event of a tie. This made it possible to review and award contracts in a day, and as a result, nearly double the number of Libyan upstream investors overnight.

Building and expanding this investor base further will be an important consideration if Libya is to meet long-term investment goals of US$30bn by 2010, an amount that it hopes will achieve production targets of 2 million bpd of oil by 2008 and potentially 3 million bpd in the 2010-15 period, from existing output of 1.6 million bpd. It is also looking at increasing its gas production, although success in this field has been more limited to date outside the Eni Green Stream project.

This brings us onto the role of existing investors who are unlikely to cede too much ground to the US newcomers, having built up their Libyan interests over the sanctions years and afterwards. They are likely to take a more active part in future licensing rounds now that the initial US stampede is over, although it is clear that a number of US players, including ExxonMobil, ConocoPhillips and ChevronTexaco, are still to make good on their Libya hopes, promising further intense competition for acreage offered in the February 2005 round.

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