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Oil Drop Seen Limited as Libya Exports Struggle: Energy Markets
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(See EXTRA and MET for more on the regional turmoil.)

By Lananh Nguyen

Aug. 24 (Bloomberg) -- Crude exports from Libya are likely to remain limited regardless of how quickly the country's civil conflict ends, curbing declines in the price of Brent oil.

While the benchmark grade for more than 50 percent of the world's oil may fall below \$100 a barrel as output recovers, the decline will be short-lived, according to Barclays Plc. Wood Mackenzie Consultants Ltd. says it may take three years to return production to normal once the fighting stops. Seven out of 17 traders and analysts surveyed by Bloomberg News said Brent, after trading as low as \$105.15 on Aug. 22, will fail to reach \$100 in the next month.

Libyan rebels entered Tripoli on the weekend and had control today of Muammar Qaddafi's compound after six months of fighting that all but halted exports from a country with Africa's largest reserves. Brent gained 25 percent to \$126.65 a barrel in the first two months of the conflict. While it tumbled as much as 3.2 percent on Aug. 22 as anti-government forces declared an end to Qaddafi's 42-year rule, it has since rebounded 3.8 percent.

"No matter if the rebels gain control it will take some time to get production back on stream," Torbjorn Kjus, an oil-market analyst in Oslo at DnB NOR, Norway's biggest bank, said by e-mail. "I expect Brent to touch below \$100 a barrel in the coming month but not to stay below."

Brent-WTI Gap

Brent was down 0.2 percent at \$109.09 a barrel as of 10:39 a.m. on London's ICE Futures Europe Exchange today after trading as high as \$109.94. West Texas Intermediate oil, the U.S. benchmark grade that is less sensitive to overseas production, rose as much as 0.5 percent to \$85.89 in electronic trading on the New York Mercantile Exchange, based on the October contract.

North Sea Brent crude's premium to WTI reached a record \$26.21 a barrel before the weekend. The gap narrowed to as little as \$22.42 in intraday trading on Aug. 22 before widening to \$23.95 today.

Qaddafi vowed "martyrdom" and called on his supporters to "cleanse" Tripoli of "rats," al-Arabiya TV reported, citing a recording of comments broadcast early today by a local radio station. Anti-government forces broadened their hunt for the leader as fighting against regime loyalists flared around the southern city of Sabha today, officials said. Sabha is a regime stronghold that is home to a major military base.

Mahmoud Jebiril, a member of the National Transitional Council, called on Libyans today to unite and build a "modern nation" without acting on their own to settle scores.

Production Decline

"Security conditions on the ground need to be guaranteed before foreign and domestic personnel can return to production sites and resume operations," Harry Tchilinguirian, the London-based head of commodity-markets strategy at BNP Paribas SA, said in a note yesterday. "Even if damage were to be limited, we cannot foretell the political stability of the country in the aftermath of the demise of the current regime."

Libyan production slumped to 60,000 barrels a day in July, from 1.7 million in January, according to the Paris-based International Energy Agency. Rebel forces were able to arrange limited international sales at the height of the conflict, including a shipment of crude on the 1 million-barrel tanker Equator, which loaded in April at the Marsa al-Hariga terminal, before sailing to Singapore and Hawaii.

The rebels said yesterday they plan to resume oil output and start the Zawiya refinery, followed gradually by the country's four others, after assessing damage.

Stabilize Prices

"One of the major impacts of the rebels controlling Libya right now is we're going to see some stability in the oil market," said Anas F. Alhajji, chief economist for NGP Energy Capital Management LLC in Irving, Texas, which manages \$10 billion in assets. "We'll see more Libyan oil, the Saudis cutting production and larger spare capacity."

Oil production may take a year to reach the previous total of 1.5 million barrels a day, Ahmed Jehani, chairman of the rebels' stabilization team, told reporters yesterday in Dubai. He said later that production will resume "in a few weeks."

Shokri Ghanem, the top Libyan oil official who defected to the rebels in June, said it will take 18 months to reach pre-conflict levels, Al-Arabiya television said Aug. 22.

"The sudden takeover of the largely intact western fields increases the likelihood that production on a 12- to 18-month horizon might be closer to 585,000 barrels a day," Goldman Sachs Group Inc. said in an Aug. 22 note. It previously estimated 250,000 barrels a day for next year.

Resume Production

State-held Arabian Gulf Oil Co. can resume production at two of the country's biggest eastern oil fields, Messla and Sarir, within two weeks "as soon as we see things have calmed down," Hassan Bolifa, a member of the company's management committee, said in a phone interview from Benghazi on Aug. 22.

Agoco, as the company is known, sided with the rebels at the start of the conflict.

"While the extent of damage to the oil infrastructure is thought to be limited, restoring production from shut-in fields is a slow and costly undertaking," Cliff Kupchan, an analyst at New York-based researcher Eurasia Group, said in an Aug. 22 note. Output may rise to "no more than" 400,000 barrels a day by the end of the year, he said.

In March, rebels fled the Ras Lanuf oil hub on the Mediterranean coast as smoke billowed from a storage depot near the city. At the time, Libya asked Rome-based Eni SpA to help extinguish burning

kerosene tanks at the site, where the nation's biggest refinery is located, the Associated Press said, citing Ghanem.

'Never' Coming Back

Libya may "never" restore production to 1.6 to 1.7 million barrels a day, given the country's political insecurity, damage to facilities and possible renegotiation of upstream contracts, Amrita Sen, a commodities analyst at Barclays, said Aug. 22 in an interview with Maryam Nemazee on Bloomberg Television's "The Pulse." If Qaddafi is removed from power, Brent crude may decline by no more than \$10 a barrel and then rebound, Sen said.

The Organization of Petroleum Exporting Countries has no immediate plans to cut production and believes the market will easily absorb Libyan crude once shipments begin to flow, a Persian Gulf oil official said yesterday, declining to be identified because he isn't authorized to speak publicly on the matter.

Saudi Arabia, the world's largest crude exporter, boosted output unilaterally in June to compensate for lost Libyan exports after failing to convince fellow OPEC members to raise production at a meeting the same month. The kingdom also created new blends that it said were similar Libyan grades. Members of the International Energy Agency in June coordinated their first release of emergency oil stockpiles since 2005.

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