

## **LIBYA NEWS REPORT**



### **Need for power outweighs cost**

*Tripoli should be more concerned with meeting its citizens' power needs than with squeezing contractors' profit margins.*

Will Libya be able to convert its oil riches into a steady supply of power and water for its rapidly growing population?

The smallest of the five main North African countries by population can already produce 6,196MW of power and 190.000 cubic metres a day of desalinated water, but its people are increasingly moving to towns and cities, inevitably leading to an increase in their power and water consumption in the future.

Libya does not produce detailed forecasts for its citizens' power and water needs over the long term.

The General Electricity Company of Libya (Gacol) and the General Desalination Company have targets to build power and desalination plants but these appear to be based on broad assumptions of future needs rather than anything more sophisticated.

In addition, Libya's infrastructure projects have run into delays.

The problems have been especially severe at its Tripoli West power plant, which by itself was supposed to increase the country's power capacity by 1,400MW, a 23 per cent jump in its supply of electricity. Gasol wants the five international contractors that signed contracts to build Tripoli West back in December 2007 to submit new, lower prices for their work.

There is an element of wishful thinking to Gacol's logic. While the global

recession has brought down the price of raw materials, especially some key commodities, labour costs in Libya were already low. The downturn cannot bring down contractors' costs much more and Gecol's decision to ask for new prices has already been rejected by at least one of the five contractors.

Tripoli should be more concerned with meeting its citizens' power needs than with squeezing contractors' profit margins.

### **Gecol seeks to cut cost of Tripoli West**

The state run General Electricity Company of Libya (Gecol) is asking contractors on its planned 1,400MW Tripoli West power plant to submit lower prices for their work two years after they signed contracts to build the plant.

Five international firms signed the Tripoli West contracts in December 2007, Gecol has now requested contractors lower their prices to reflect the falling cost of labour and materials. Other utilities in the region have adopted a similar approach to lowering costs during the global economic downturn.

The plant was due to come on line in 2011, but because of delays to the scheme, it is now unlikely to be ready before 2013 putting it two years behind schedule.

Contractors on the Tripoli West scheme are not happy with the request for fresh prices and say the delay on the scheme has already had a direct impact on their balance sheets. "We cannot do it", says a source at one of the contractors.

"We are still in discussions with Gecol about the final price, including the cost impact caused by the delay of the project", says another Tripoli-based contractor.

"We have incurred severe costs".

South Korea's Daewoo Engineering & Construction is the civil works contractor on the project. Hyundai Engineering & Construction, also of South Korea, is responsible for the supply of steam turbines and electro mechanicals, and Doosan Heavy Engineering & Construction, another Korean firm, is the boiler contractor. Greece's Archirodon has the marine works contract.

Gecol has struggled to secure funding for the \$1,3bn plant and now plans to sell the asset to a private investor once it is built. This would make Tripoli West Libya's first ever independent power project (IPP).

Following construction, UAE based Oasis IP will take ownership of the plant and sell the power produced to Gecol under a power-purchase agreement. The Libyan Investment Authority, the country's sovereign wealth fund, and the Abu Dhabi government will finance the transaction.

Abu Dhabi's decision to fund the project follows a visit by Crown Prince Sheikh Mohammed bin Zayed al Nabyan to the country in July 2008.

Libya may convert other power projects, such as the 750MW Sebba power plant, into independent plants once contractors have finished building them.

"We heard some weeks ago that Gecol had submitted additional projects for approval as IPPs," says one power industry source.

**Source.: MEED 14-20/08/2009 No.33**

### **Sirte reviews gas plant upgrade after contractors cancel bids**

*"Sirte Oil left out a lot of scope in the bid document, and no one could really make sense of it" .*

The state-run Sirte Oil Company (SOC) has launched a fresh review of the first phase of its scheme to upgrade Libya's only liquefied natural gas (LNG) plant after several contractors cancelled their bids to build the facility.

In the first quarter, at least six companies bid for a contract to extend the life of the Marsa el Brega plant. SOC and the ULK/Dutch Shell Group are jointly developing the scheme.

The list of bidders included Spain's TR, France's Technip, UAE-based Petrofac International Germany's Man Ferrostaal, and Italy's Bonatti with Athens – based Joannou & Paraskevaides.

Sources close to the project say Petrofac is only company that has not withdrawn its bid for the scheme.

"SOC left out a lot of scope in the bid documents, and no one could really make any sense of it", says one potential bidder who declined to proceed.

A spokesman for SOC says the company is reviewing the project, but declined to say how many companies had bid for the contract. Shell was unavailable for comment.

The 12-18 month engineering, procurement and construction contract calls for the modernization of the plant, which operates at 25 per cent of its 700,000 tonne- a-year (t/y) capacity.

The project is the first of three expansion phases at the facility.

Phase two, estimated at \$300m-400m, will increase Marsa el Brega's capacity to about 3,2 million t/y.

The proposed third phase of the contract calls for the construction of a new LNG facility near the existing plant.

**Source.: MEED 14-20/08/2009 No.33**

### **Tripoli needs Western help**

*The state has been pushing for improved relations with the West since the UN Security Council voted to end sanctions in 2003.*

Behind the contrasting scenes of anger and jubilation surrounding the release of the convicted Lockerbie bomber Abdelbaset al Megrahi from jail in Scotland, Libya's rehabilitation into the international business community has been progressing quietly for years. Opponents of the release on compassionate grounds are keen to make the link between Al-Magrahi's release and the West's need for Libyan oil and gas. But it is Tripoli that has been pushing for improved relations with the West since the UN Security Council voted to end its sanctions regime in 2003.

The political impetus to modernize Libya has been at its most pronounced over the past two years in the run-up to the 40<sup>th</sup> anniversary of the socialist revolution in 1 September this year. Forty years after Libya's leader Muammar Gaddafi led the revolution that swept him to power, the country desperately needs international companies expertise to rebuild a crumbling infrastructure and boost oil production, which, at 1,7 million barrels a day, is half what it was in the late 1960s.

Given Libya's status as Africa's most oil rich nation, it is unsurprising that international oil companies were the first to enter the country after 2008, when Tripoli invited them to bid for oil and gas exploration licences. Construction companies and equipment providers followed, bidding for tenders on major engineering projects such as 12 desalination plants, a new airport and terminal buildings in Tripoli, and a network of 25 universities.

Without investment from experienced foreign companies, Libya would have

struggled even more to emerge from decades of economic isolation. The elaborate stage for the 40<sup>th</sup> anniversary celebrations in Tripoli's Green Square could not have been erected without the scores of foreign companies that have been building it in recent weeks.

**Source.: MEED 28/08-03/09/2009  
Issue No.35**