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The Economy

Libya

February 1974

NATIONAL INTELLIGENCE SURVEY

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LIBYA

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The Economy

A. Economic appraisal (C)

In little more than a decade, Libya has been propelled from a backward desert country dependent on primitive agriculture and Western foreign aid to an oil-rich country with impressive potential for development. During this short period of time, Libya has moved dramatically from a state of chronic deficit to recurrent surplus and from a position of an international borrower to one of an international lender. As of mid-1973, Libya's accumulated financial reserves totaled $3 billion, an amount sufficient to maintain present consumption and investment levels for well over a year.

Until the discovery of commercially exploitable oil in 1957, Libya's economic prospects were bleak. Subsequently, however, the country has experienced the most rapid growth of gross domestic product (GDP) of any Middle East or North African country. As can be seen in Figure 1, the sharp increase in GDP generated by oil output far exceeds the increase in consumer prices and payments made abroad as profits in the oil companies.

The spectacular rise in national product, from an extremely small base, has slowed down since the Revolutionary Command Council (RCC) came to power in September 1969. The key to the slowdown is the government's concern about oil reserves. Libya's proved reserves will last only 20 to 30 years at present rates of exploitation, and the government has instituted a series of controls over production. A second major factor affecting oil output, and hence GDP, is the RCC's erratic attitude toward the nationalization of foreign-owned oil properties, which has discouraged investment and exploration for new fields. Nonetheless, because international oil prices continue to soar, even a declining level of output could insure finances for the steadily increasing imports of consumer goods, machinery and equipment, and arms.

Unlike King Idris who was fearful of his more radical Egyptian neighbor and miserly by nature, Col. Mu'ammar al-Qadhafi has marshalled Libyan wealth to change the course of Arab affairs. Almost overnight Libya has become a major procurer of arms for the Arab cause and a potential source of financial support for any enemy of Israel. During the last several years, Libya has spent well over $1 billion to underwrite Arab goals. Even with its $3-billion nest egg, Qadhafi's government cannot continue to meet its growing commitments if oil output is interrupted for a prolonged period. Finally, Libya's accumulated wealth and current income would be readily expended

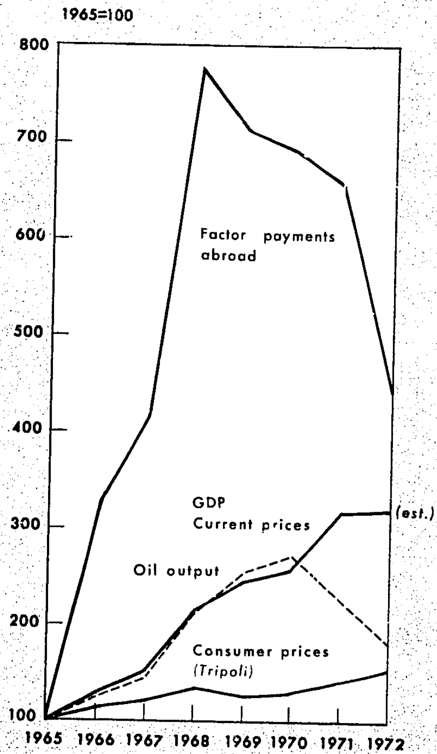

FIGURE 1. Economic indicators (C)

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by the profligate Egyptians if the proposed Egyptian-Libyan merger is consummated.

Lagging growth in the traditional sectors of the economy has effectively excluded most Libyans from the benefits of the oil boom. The heavily capitalized petroleum sector can, at most, employ only about 5% of the labor force. Nonetheless, the lure of the oil boom has inspired many rural families to abandon the certainty of a low income in the country for the hope of affluence in the city. These untrained and illiterate farmers rarely find steady employment in the oil sector or in the relatively sophisticated new commercial and construction enterprises. Meanwhile, deterioration of abandoned farms makes return to the countryside unlikely.

Under the RCC, benefits of Libya's great wealth have been distributed less unevenly. During the Idris monarchy, oil revenues gravitated primarily to an urban elite that included those few Libyans with tribal connections to the monarchy and members of the predominantly foreign business community. The RCC has equalized income levels somewhat by abolishing graft, dispossessing the wealthy elite, and increasing development spending in rural areas. The RCC does not favor the establishment of a welfare state, as in Kuwait, but rather relies on the ultimate integration of the traditional and modern sectors to distribute oil wealth more evenly. Efforts to assimilate the unskilled and illiterate local labor force into the modern economy have thus far borne little fruit.

The economy, like everything else in Libya, is dominated by the mercurial Colonel Qadhafi, who is prepared to sacrifice economic considerations to the goals of pan-Arabism and Muslim fundamentalism. Libyan society is not, however, a monolithic reflection of Qadhafi's wishes, as he faces a diversity of other interests—the international oil companies, the heavily Egyptian-manned bureaucracy, his colleagues on the RCC, his fellow Arab leaders, tribal leaders within Libya, and a phlegmatic population. The result, thus far, has been erratic progress and an eclectic economic order.

B. Structure of the economy

Oil clearly dominates the Libyan economy. In 1972, perhaps 60% of GDP originated in the oil sector, and crude petroleum constituted more than 90% of exports. In addition to the vast oil resources, Libya is beginning to exploit enormous reserves of gas. Associated natural gas, which in the past was burned at the well head, now is being piped to Marsa al Burayqah,[1] where a large liquefied natural gas plant is located. Shipments beginning in 1971 have placed Libya, along with neighboring Algeria, in the still exclusive ranks of liquefied natural gas exporters. (U/OU)

The government's efforts to develop other sectors of the economy have been hampered by shortages of natural resources and human skills. Only the construction industry has flourished, on the basis of oil company expenditures and government disbursements of oil revenues. The construction sector accounted for perhaps 8% of GDP in 1972. (U/OU)

Agricultural output has stagnated for years. Libya was once a rich agricultural land, contributing to the granaries of ancient Greece, Carthage, and Rome, but today it must import 60% of its food. War and waste have diminished agricultural resources and left only two arable areas around Tripoli and Banghazi. (U/OU)

Even though most Libyans are engaged in agriculture, less than 10% of GDP originates in that sector. Indeed, for GDP purposes, the economy might be viewed as a subsistence agricultural economy, where per capita income is, say, $40, on top of which is piled a massive oil sector, whose aggregate output is valued at 10 to 20 times the value of agricultural output. Complicating the picture is the fact that oil prices contain a huge element of taxes, royalties, and fees; i.e., only a fraction of oil prices represents productive economic activity. In sum, agriculture is the vital sector to the livelihood of most Libyans, but its importance is obscured by the prominence of the oil sector and its highly publicized dollar flows. (C)

With the production of oil limited, agriculture could begin to advance relatively in importance to the rest of the Libyan economy. The discovery of large quantities of underground water, the migration of the more skilled Egyptian peasants to Libya, and the forming of mechanized state farming corporations by the RCC, appear to have checked declining agricultural output. In the future, as such development efforts multiply, the greatest expansion in output could be in agriculture. (U/OU)

In addition to the oil, construction, and agricultural sectors, Libya has a minute manufacturing sector and a large government service sector, which embraces defense, public administration, finance, education, health, international trade, and public utilities. (U/OU)

[1]For diacritics on place names, see the list of names on the apron of the Summary Map in the Country Profile chapter, the map itself, and the map in this text.

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1. Agriculture, fisheries, and forestry (U/OU)

a. *Agriculture*

Libya is poorly endowed with agricultural resources. Only about 7% of the total land area is suitable for agriculture (Figure 2). Crops are grown on only about 2% of the total land area, primarily on the coastal plain (Figure 3). Even in these areas soils are alkaline, calcareous, generally low in organic content, deficient in nitrogen, and lacking in other necessary elements. Nonetheless, agriculture was the principal economic activity in Libya as recently as two decades ago. Even today farming and herding provide employment for about 50% of the labor force and subsistence for most of the rural population.

With the exception of the underground waters at Al Kufrah, Libyan agriculture depends mainly on erratic rainfall since there are no permanently flowing rivers in Libya and few irrigation projects. Even along the relatively moist coast, crops are imperiled by shifts of prevailing sea winds which spray salt water inland and by the dry winds, or *ghibli*, which sweep in from the desert. Because of these conditions agriculture provides a highly unreliable source of income and acute deprivation prevails in rural areas.

Progress in Libyan agriculture has been hampered by outmoded land tenure patterns which remain firmly entrenched. In areas where an independent peasantry has arisen, subdivision of land among heirs has reduced holdings to an uneconomic size. Where tribal tenure prevails, holdings also frequently are small. In addition, tenure in the tribes is insecure because individuals are subject to summary separation from the land by the tribal chief. Most large single holdings are the property of disinterested absentee landlords and are operated by tenants. Like other small farmers, the tenant or sharecropper has no surplus income to invest and has little or no recourse to credit facilities.

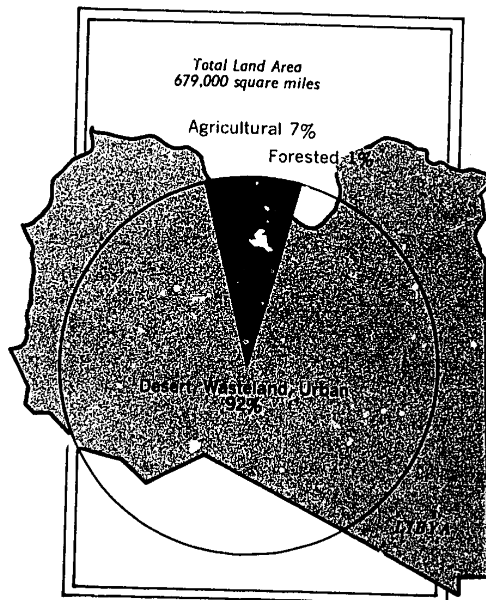

FIGURE 2. Estimated land use, 1972 (U/OU)

Over the years ignorance and persistent underinvestment have perpetuated primitive production techniques on most Libyan farms, especially the smaller ones. Wooden plows still serve in many areas; men and beasts continue to provide much of the energy required. Because little use is made of basic soil conservation techniques, soil fertility is depleted year after year. Insect damage continues to be a recurrent blight on crops, reflecting the cultivator's inability to purchase, unwillingness to use, or ignorance of insecticides.

(1) *Rural development*—During its last years the Idris regime made some half-hearted efforts to revitalize the Libyan rural sector. An agricultural extension program was initiated by the Ministry of Agriculture, modeled after the U.S. system and dependent at the outset on U.S.-trained individuals. Improved seeds, better fruit culture, and the use of commercial fertilizer were introduced successfully on a small scale. Like many other institutions in Libya, however, the extension service lacked an adequate number of skilled technicians. The Idris government also set up the National Agricultural Settlement Authority (NASA) for the primary purpose of reducing migration to the cities. This organization undertook the settlement of nomadic herdsmen and other landless people and the development and distribution of state-owned lands. By 1969 NASA had reconditioned and settled about 2,000 farms in Cyrenaica and had brought about settlements on a smaller scale in Tripolitania. Since January 1970, however, when NASA was placed under the Ministry of Agriculture, it has accomplished very little.

The most important and successful government institution supporting agriculture is the Agricultural Bank of Libya, organized in 1957 to provide financing for farmers and cooperatives. The bank purchases much of the agricultural machinery, feed, fertilizers, and seeds used by farmers and cooperatives, selling to the users at much less than cost—often half the original price. The bank also offers short-, medium-, and long-term loans, interest free, to farmers for

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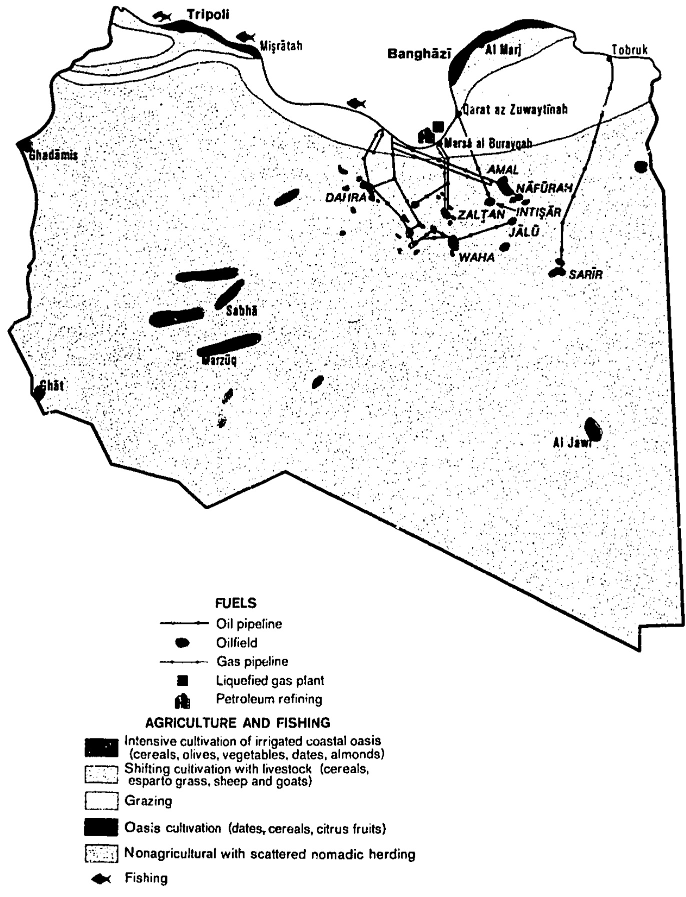

FIGURE 3. Economic activity (U/OU)

equipment purchases and for land improvement. For a time the bank maintained price supports for commodities, such as wheat, barley, olive oil, peanuts, and almonds, at levels substantially above world market prices. The RCC continues to operate the bank but some of its functions, notably commodity price support, have been transferred to the National Supply Organization, which was created in 1971.

Development efforts of the new revolutionary government appear to be concentrated on creating a new, modern agricultural sector alongside the deteriorating traditional rural order. Emphasis is placed on establishing modern farming centers, aimed in part at reducing migration to the cities. The reclamation of land by irrigation figures importantly in the plans (Figure 4). This approach probably was inspired by Egyptian agricultural technicians, who are heavily involved in Libyan planning and who are committed to reclaiming land as an agricultural expansion technique.

In developing the reclaimed land, the government is introducing highly mechanized techniques and/or imported labor, mainly from Tunisia or Egypt. These same measures have been used to resume production on lands confiscated from foreigners and from members of the former regime. Underutilized tribal lands, which the government is buying, also will be developed in this manner.

The main agricultural project of the RCC, as of the Idris government, is the development of Al Kufrah

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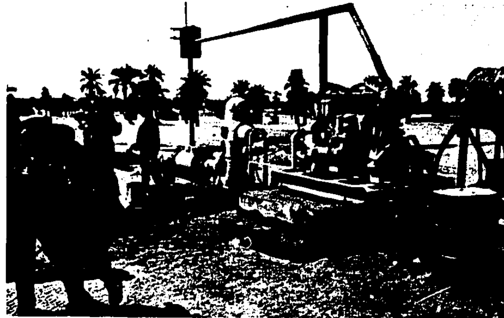

FIGURE 4. An oasis may be expanded by using diesel water pumps. Field experiments with wheat, barley, and clover irrigated by feeder pipes have proved successful. (U/OU)

oases. Discovered in March 1968 by the Occidental Petroleum Company, the subterranean lake near Al Kufrah is estimated to be several hundred square miles in area and at least 2,500 feet deep. In many places it is only about 300 feet below ground level. Early reports indicate that the find will enable Libya eventually to irrigate about 50,000 acres.

Initial development of Al Kufrah was financed by the Occidental Petroleum Company, which, under the Idris government, allocated 5% of its gross oil profits for Libyan agricultural development. The company's program included development of commercial farming and also of traditional farming. Irrigation was being provided for small farm plots, and farmers were being trained in the use of fertilizers and seeds. In addition, Occidental was involved in building a road north from Al Kufrah that would provide the only surface transportation to and from the oasis. Altogether about $10 million had been spent on Al Kufrah development by 1969; and the company planned further expenditures totaling $42 million over the next 5 years.

In the concession agreement which became effective in September 1970 the RCC removed Al Kufrah oases from Occidental control. A U.S.-trained agriculturist, formerly an Occidental employee, was put in charge of the project. Subsequently, Al Kufrah Agricultural Company was set up as a subsidiary of the Ministry of Agriculture to administer the project.

The RCC has concentrated considerable resources on rapid development of the area of Al Kufrah. The decision to accelerate development was based on a feasibility study conducted by a U.S. consulting firm, Tipton and Calmbach, which set to rest previous doubts about the economic feasibility of agricultural development in this remote oases region. By 1972 a herd of 10,000 sheep had been established and more than 2,000 areas were under cultivation. On about half of this area commercial production of grain and alfalfa were achieved. Efforts are in progress to expand the farmed area to about 25,000 acres over the next several years. The lack of economical transportation to coastal cities remains the chief impediment to rapid progress, and the government is investigating a number of alternative systems, including high-speed trains.

Outside Al Kufrah oases, especially in Al Jifarah plain, Al Jabal al Akhdar, Wadi as Sarir, and the Fezzan region, numerous other irrigation and reclamation projects have been initiated. These smaller projects rely on either subterranean water reserves, or impermanent rivers, which have been dammed. Sewage water has been used experimentally for irrigation, and nuclear desalination of sea water has been considered as a means of providing moisture for land. Work on these miscellaneous projects has been dominated by Egyptian firms.

(2) *Major crops*—The most varied agricultural production occurs near urban markets in the coastal plain, where annual rainfall ranges from 4 to 20 inches. The coastal plain supports the production of cereals, truck crops, grapes, olives, citrus fruit, and dates. Cereals and tree crops are produced in the hilly region, just south of the coastal plain, which receives an annual rainfall of about 10 to 20 inches. In the semidesert regions of northeast and northwest Libya, cropping is limited to shifting cereal culture where and when rainfall is sufficient. Small amounts of fruit and vegetables are grown around wells or in wadies. Most of Libya south of the hills and the Gulf of Sidra is desert. Production is confined to the oases where dates and small quantities of cereals and vegetables are grown for local consumption. Herding of sheep and goats by nomadic tribesmen is widespread throughout Libya, being most common around the oases.

Cereals remain Libya's most important crop (Figure 5), even though domestic production has provided a

FIGURE 5. Agricultural production, 1965–1971 (U/OU)
(Thousand metric tons)

CROPS	1965	1966	1967	1968	1969	1970	1971
Wheat	57	58	62	52	78	21	22
Barley	96	99	110	98	124	52	35
Citrus	13	14	15	23	22	20	24
Peanuts	11	12	13	13	10	11	12
Tomatoes	75	86	101	123	129	136	139
Olives	101	93	137	140	33	71	5
Dates	56	56	55	57	55	49	*na*

na Data not available.

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declining share of total consumption during the past decade. Rapid urbanization has cut the farm labor force and has brought about a change in preference from the traditional cereal food, barley, to wheat.

Production of nearly all other foodstuffs also has failed to keep pace with consumption. Olives are the major crop after cereals, but at least US$4 million worth of olive oil must be imported each year. The olive output, subject to considerable fluctuation, registered a sharp decline in 1971 in line with the crop-year cycle and adverse weather condition. Tomatoes and potatoes are the most important vegetables. Tomato production has been stimulated by the development of processing and canning facilities. Yet the domestic market has expanded so rapidly that Libyans rely on imports of tomato puree to meet the bulk of their requirements.

The area devoted to citrus has been expanded slowly by sporadic planting of trees, mostly on newly reclaimed land. Production seems to have kept pace with consumption. Domestic production of dates, an essential element of the Libyan diet, also is adequate at 40,000 metric tons annually. Peanuts are one of Libya's few agricultural export commodities.

Tobacco is Libya's only industrial crop of any importance. Its production and marketing is controlled by the State Tobacco Monopoly, which registers tobacco growers, regulates production, processes domestic tobacco, and controls imports and exports. Unlike almost all other agricultural commodities, tobacco output increased steadily during 1964-68. Data are not available for subsequent years.

(3) *Livestock*—Animal husbandry in Libya is primitive. Most animals still are owned by nomadic or seminomadic tribesmen who herd them in the traditional manner. The number of livestock exceeds range forage capacity and overgrazing is widespread. The quality of the meat is poor and the number of animals has remained constant over the years. Rising population and wealth have led to increased imports of animals, mostly for slaughter and consumption. The livestock population for 1971 is estimated at the following thousands of heads:

Sheep	2,500
Goats	1,300
Cows	110
Camels	130

The RCC has initiated a number of small programs to improve animal husbandry, including the import of breeding stock and the improvement of fodder. The greatest advances appear to be in dairying. At least one dairy cattle raising station has been established with Scandinavian stock, and several large dairy products plants have been purchased.

b. Fisheries

The contribution of the fishing industry to the Libyan economy is small. The government estimates that the annual catch, mostly tuna and sardines, is 3,000 tons. Only about 500 Libyans are engaged in coastal fishing. They probably are outnumbered by Greeks and other foreigners who are allowed to fish in Libyan waters.

The fishing fleet consists mainly of a few hundred small boats operated by individual fishermen. The one fishing corporation, financed jointly by the state and by private interests, has several tug boats and a dozen or so conventional fishing vessels. The equipment and techniques employed by the corporation are primitive by Western standards.

The Libyan Government has sought Tunisian aid in developing fishing. The two governments agreed in December 1972 to form a joint company for exploiting marine resources in adjacent waters, but the future of the company is uncertain for economic as well as political reasons. Experts doubt that sufficient resources exist to support any considerable expansion of the industry.

c. Forestry

Although Libya was endowed with an abundance of forests in Roman times, deforestation over the centuries has left the country almost barren except for scrubby bush. Less than 1% of total land area is forested, and no forest industry of consequence exists in Libya. In the recent past Libya produced and exported esparto grass (alfa), which is a source of cellulose growing in Tripolitania. Between 1965 and 1967, however, exports dwindled away because producers found more remunerative alternative employment.

Initial attempts at reforestation have failed because of salinity and shifting sand in the more moist coastal area which might otherwise accommodate young trees. In collaboration with oil companies, the Idris regime endeavored to anchor sand dunes by spraying them with a petroleum compound. The benefits were small, the cost enormous. The RCC has conducted reforestation mainly as an adjunct of irrigation and reclamation programs in the interior. The new government also has taken steps to protect existing stands and to encourage afforestation (natural regrowth). One of the most important measures has been to limit the number of goats and the extent of

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their grazing areas. Throughout the Middle East, goat herding has been one of the chief enemies of afforestation.

2. Fuels and power (C)

a. Petroleum

Less than a decade after oil was first produced, Libya ranked fifth among non-Communist petroleum producers. Since 1969, when the RCC came to power, the government has played a leading role among crude oil exporting countries, especially in production and pricing policies.

(1) *Production*—The first indication of the presence of hydrocarbons in Libya was the discovery of gas in 1914 in Tripoli. In 1937, at Al Mallahah (near Tripoli), traces of petroleum were discovered. On the basis of these indicators, Italy, the colonial power administering Libya at the time, made plans for further exploration, but World War II prevented implementation. After the war, Standard Oil of New Jersey (now Exxon) initiated explorations in Libya, followed by other U.S., French, Dutch, and British companies. The first petroleum discovery of commercial value was made by Jersey Standard in 1957 in the Sirte Basin. Production began in 1961.

By 1964, Libya surpassed Algeria in oil production and became Africa's leading producer of crude petroleum. In 1967, Libya passed Kuwait in crude petroleum production, despite a month-long closedown after the Arab-Israeli conflict. By the end of 1969, only the United States, Venezuela, Iran, and Saudi Arabia outranked Libya in non-Communist world petroleum production. The high quality of Libyan crude was partly responsible for extraordinarily rapid development of Libya's production. The high gravity and low sulfur content of typical Libyan crude are especially desirable characteristics in developed Western European nations. After June 1967, the convenient location and comparative security of Libya as a source of crude were even more important factors in the surge in output. Closure of the Suez Canal accentuated the cost advantage of the oil, and in 1968 output rose 50%. By the end of 1969, eight operating companies were producing an average of 3.3 million barrels per day (b.p.d.) from about 900 active wells.

The petroleum boom was deliberately halted by the RCC in 1970 for conservation reasons. For some months after the fall of Idris, output had continued to soar, reaching 3.7 million b.p.d. in the spring of 1970 (Figure 6). The RCC feared, with considerable justification, that production at this rate would damage producing fields and/or exhaust reserves before alternative sources of revenues and export earnings could be developed.[2] Accordingly, severe cutbacks were imposed on all major producers.

Other factors have contributed to the subsequent decline in petroleum output. In some of the older fields, notably those originally discovered by Jersey Standard, the maintenance of output levels became increasingly difficult. Continual government interference added to the decline. In 1972, output averaged 2.2 million b.p.d., one-third less than the 1970 peak.

Until 1973 Libyan crude oil production was dominated by U.S. concessionaires who control at least 90% of total output. Of the three top producers, Exxon and Occidental are totally U.S. owned, and U.S. interests control more than 80% of Oasis Oil Co.

Production of crude is centered in the north-central region near the Gulf of Sidra (Figure 3, above). Oil also has been found in western Libya, but so far the quantity is not sufficient to warrant the construction of a pipeline and an export terminal. All western wells are shut in, pending discovery of additional fields.

(2) *Marketing and distribution*—Most of Libya's petroleum output is exported. Accordingly, the volume of crude exports has paralleled crude oil production. Libyan crude is consumed mainly in Western Europe, with Italy, West Germany, and the United Kingdom the principal markets. During the first few years after the closure of the Suez Canal, almost one-fourth of all oil refined in Europe came from Libya. Reduced Libyan output and increased oil deliveries by supertanker from the Persian Gulf had cut Libya's share of the European market to 14% by 1972.

Libya's two small refineries, as of early 1973, produced less than half the refined petroleum products consumed domestically, the remainder being imported. A 2,400 b.p.d. refinery is operated by the Oasis Oil Company for its own use, and a 9,000 b.p.d. plant at Marsa al Burayqah is operated by Exxon Sirte. Since the start of operations in 1967, the Marsa al Burayqah refinery has been able to supply less than half of the approximately 20,000 b.p.d. of products consumed annually in Libya. The balance is supplied through the refining of Libyan crude by *Societe Industriale Catanese* (SINCAT) in Italy. This situation will be reversed in 1974 when the state oil

[2]Libyan proved oil reserves at the end of 1972 stood at 30 billion barrels, which would at best guarantee output at 3 million b.p.d. for less than 20 years.

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FIGURE 6. Crude oil production, by producing companies (U/OU)

PRODUCER	OWNERSHIP			DAILY PRODUCTION				
	Owners	Country	Percent	1968	1969	1970	1971	1972
				Thousand barrels				
Esso Standard*	Exxon (Standard Oil of New Jersey)	United States	*100.0*	740.6	746.2	692.0	445.6	354.0
Esso Sirte*	Exxon, Grace, Sinclair	*do*	*100.0*					
Oasis Group	Amerada/Shell, Continental, Marathon	*do*	*83.3*	686.0	789.7	948.6	826.9	798.8
		Netherlands	*10.0*					
		United Kingdom	*6.7*					
Mobil-Gelsenberg	Socony Mobil, Gelsenberg	United States	*65.0*	235.5	264.5	250.5	186.4	162.8
		West Germany	*35.0*					
Amoseas Group	Texaco and Chevron (Standard Oil of California).	United States	*100.0*	243.5	368.9	323.0	261.2	234.0
Phillips	Phillips Petroleum	*do*	*100.0*	7.4	6.0	0.0	0.0	0.0
Amoco**	American Oil Co	*do*	*100.0*	1.1	0.5	7.7	14.7	9.4
Arabian Gulf/Bunker Hunt***	Arabian Gulf Oil Co	Libya	*50.0*	304.1	321.3	413.0	419.5	187.6
	Nelson Bunker Hunt	United States	*50.0*					
Occidental	Occidental	*do*	*100.0*	381.6	608.1	659.6	586.7	424.0
Aquitaine Group	Aquitaine, ERAP/ELF, Hispanoil, Murphy.	France	*42.0*	0.0	5.5	20.1	17.0	16.3
		Kuwait	*21.0*					
		Spain	*21.0*					
		United States	*16.0*					
Arabian Gulf Oil Co	Libyan National Oil Co. (LINOCO)	Libya	*100.0*	0.0	0.0	4.2	3.9	†27.8
Total				2,599.8	3,110.7	3,321.3	2,761.9	2,214.7

*The names of the Standard Oil subsidiaries in Libya were not changed to Exxon.
**Name changed from Pan American to Amoco.
***Arabian Gulf Oil Co. assumed the share of British Petroleum (BP), which was nationalized in December 1971. Bunker Hunt was nationalized in June 1973.
†Includes 24.5 thousand barrels per day produced by ENI-Libya National Oil Co. in 1972.

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company's new refinery at Az Zewihah comes on stream. Designed by Egyptian technicians and constructed by Snam Progetti of Italy, the new refinery will have a 40,000 b.p.d. capacity. The Beirut-based British firm, Mothercat, was expected to complete an associated lube oil plant by 1974. These two installations will make Libya independent of imports of most refined products and will permit some product exports as well.

Internal marketing of refined products, once the domain of foreign oil companies, now is a state monopoly. Following the Algerian model, the RCC nationalized the four principal distributing companies, owned by *El-Seil*, Shell, Esso Standard, and Petrol Libya, in July 1970, less than a year after assuming power. By the end of 1971 the nationalized facilities had been merged into a single company, the Burayqah Company for Marketing Oil.

The internal transportation system for crude oil has changed little in recent years. All crude is transported by pipeline from the interior of Libya to company-operated oil exporting and processing terminals on the Mediterranean. Before production controls were imposed by the RCC about 1,900 miles of pipeline had been installed. Since 1970 much of this capacity has been underutilized, and little incentive has existed for expansion or improvement.

The first pipeline in Libya was completed by Exxon in October 1961, linking its Zaltan field to the terminal on the Gulf of Sidra at Marsa al Burayqah, a distance of 105 miles. It has a capacity of 800,000 b.p.d. The second major pipeline, a 680,000-b.p.d. facility, was installed by Oasis to link its Dahra field to the As Sidr terminal. The Ra's al Unuf pipeline, built in 1964 by Mobil/Gelsenberg and Amoseas, spans the north-central producing region and has a capacity of 500,000 b.p.d. The Tobruk system connects the Sarir field of BP/Hunt with the port of Marsa al Hariqah near Tobruk and has a capacity of 630,000 b.p.d. Occidental has constructed a line that connects its Intisar fields with the port of Qaryat az Zuwaytinah. It had an initial capacity of 400,000 b.p.d., which has been raised to 1.5 million b.p.d. In 1969 Oasis completed a second pipeline from Zaqqut oilfield to its As Sidr terminal with a capacity of 200,000 b.p.d.

(3) *Petroleum policy*—Since coming to power, the RCC has radically altered the course of Libyan petroleum policy. The 1955 petroleum law, the basic document governing petroleum production under King Idris, was designed specifically to maximize foreign investment and the rate of exploitation of petroleum deposits. The RCC has reversed these goals, turning away from the foreign concession as a means of financing exploration costs and seeking to conserve existing crude oil reserves. Two goals, however, have been shared by the divergent regimes: the establishment of a state oil company and an increase in Libya's share of oil export earnings.

Minor modifications of the 1955 petroleum law were made by the Idris regime in 1961 mainly to give Libyan concessionaires a price advantage in the European market. A more drastic change was made in 1965-66, when the entire pricing and taxation procedure was revamped to conform with guidelines of the newly formed Organization of Petroleum Exporting Countries (OPEC). This amendment provided that royalties be computed at 12.5% of posted prices and be treated as an expense in the calculation of income tax obligations rather than as an advance payment against the government's share of profits, as had formerly been the case. Marketing expenses were to be limited to US$0.005 per barrel, and the government's share in the profits was to be calculated at posted prices, less an allowance. By January 1966 all the oil concessionaires had accepted these amendments.

The only other important innovation under the Idris regime was the creation in the spring of 1968 of the Libyan General Petroleum Corporation (LIPETCO—later reconstituted by the RCC as the Libyan National Oil Company, or LINOCO). Ostensibly created to plan and implement national oil policy, LIPETCO served as an instrument for government participation in the operation of new concessions.

Immediately after its creation LIPETCO concluded its first joint concession agreement with the French state-owned *Enterprise de Recherche et d'Activites Petrolieres* (ERAP) and its affiliate *Societe Nationale des Petroles d'Aquitaine* (SNPA). The financial terms under this agreement were more favorable to Libya than those in earlier concession agreements and were expected to set the pattern for future accords. The French company was to bear all exploration costs, whether or not oil was found, and it agreed to spend a total of $22.5 million during the next 10-year period. Libya was to take a 25% share of all production up to 10 million tons per year, and a 50% share when production reaches 27.5 million tons annually.[3] Taxes were to be paid in accordance with existing regulations, but the French agreed to increase royalty payments up to 15% as production rose. The French also agreed to prepare feasibility studies for the eventual creation of a Libyan petrochemical industry and to create a petroleum institute for training Libyan personnel.

[3]The basic elements of the agreement were adopted from earlier agreements concluded by Tunisia and Egypt with ENI and several U.S. firms.

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The RCC duplicated many of the features of this agreement in an arrangement negotiated with the Italian state oil company, *Ente Nazionale Idrocarburi* (ENI), in 1972. Unlike ERAP, ENI had a prior concession agreement, but was not allowed to take oil until the 50/50 participation contract was signed. Moreover, the ENI arrangement is viewed by both parties as a joint venture rather than as a modification of the conventional concession agreement. LINOCO's share of eventual output could be sizable—possibly more than 100,000 b.p.d.

Despite these arrangements with other state firms, LINOCO remained a minor producer for several years. Until December 1972, LINOCO's producing assets consisted of a single small field relinquished by Phillips petroleum. In December 1972 British Petroleum's share of the BP/Bunker Hunt concession was nationalized in a purely political gesture. (Libya held the United Kingdom responsible for Iran's occupation of several Persian Gulf islands and acted in retaliation.) Then in June the U.S.-owned Bunker Hunt was nationalized. Thus far LINOCO has been unable to operate the BP field at much more than half of former output levels.

Between September 1970 and April 1972, the RCC has succeeded in sharply increasing revenues from foreign-owned oil companies. Through agreements concluded during this period, it obtained major concessions from oil companies and established itself as a formidable bargaining force. The first round of negotiations was conducted at a time of tanker shortages and sharply rising demand for oil in Western Europe. The RCC threatened to cut off Libyan exports and ordered selective production cutbacks, using as its primary target Occidental Petroleum, which had most of its producing assets in Libya. Occidental's output was reduced by 50% and further reductions were threatened. Unable to obtain either oil or financial support from other oil companies, Occidental acceded to most of the Libyan demands. Other companies soon followed suit. The second agreement was negotiated in the context of broader OPEC discussions in which Libya represented countries supplying oil directly to the Mediterranean. The two agreements increased the posted price from $2.210 to $3.447 a barrel and raised the tax rate from 50% to 55%. Government revenues were raised overall by about $.90 a barrel.

Late in 1971 the Libyan Government attempted to exact a sizable further adjustment in posted prices to compensate for the de facto August 1971 devaluation of the U.S. dollar, the currency in which oil prices are denominated and which is generally exchanged in Libya to pay oil company taxes. Libya was forced, however, to accept the terms that had been negotiated jointly by other OPEC members—an 8.49% increase in the posted price.

Libya, in 1973, was again seeking to establish a negotiating precedent—this time in the struggle for increased government participation in oil company operations. Persian Gulf oil producers had negotiated an agreement in 1973 which ceded, at an agreed price, 25% of oil company operations to the host government and provided for gradual acquisition of another 26% by 1982. The Libyan Government refused to concur in this arrangement, demanding immediate 50/50 participation from oil companies operating in Libya. During the ensuing months the demand rose for a 51% share for Libya. By mid-1973 the issue had not been settled, but a burgeoning seller's market for oil made it clear for the first time that Libya could wrest control away from the companies without seriously endangering its income flow from oil.

b. Natural gas

Natural gas constitutes one of Libya's largest and most underutilized resources. Reserves amount to about 20 trillion cubic feet, most of it in deposits with crude oil. Until recently most gas released in crude oil production has been flared at the well head.

Libya's first attempt to use natural gas dates back to 1966 when Exxon began construction of the world's largest natural gas liquefaction plant at Marsa al Burayqah (Figure 7). In addition to the liquefaction plant—representing about $85 million of Exxon's $350 million investment in natural gas—the project encompassed gas compression plants at the Ar Raqubah and Zaltan fields, new harbor facilities at the Marsa al Burayqah terminal, construction of four 35,000-ton methane tankers to be operated by Exxon, and a sulfur extraction plant with an annual capacity of 45,000 long tons.

The Marsa al Burayqah plant was completed on schedule at the end of 1968. It took 4 years for production to approach the rated capacity of 380 million cubic feet per day. Before the plant was completed, Exxon concluded a 15-year contract to supply 110 million cubic feet per day of gas to the Spanish firm Gas Natural S.A., a subsidiary of Catalana de Gas, and a 20-year contract to export 235 million cubic feet per day to Italy's SNAM, an affiliate of ENI. Initial experimental shipments to Spain were scheduled to begin in January 1969, but two serious explosions at the plant in January and June delayed shipments for months. Subsequently, the Libyan Government forbade Exxon to begin shipment

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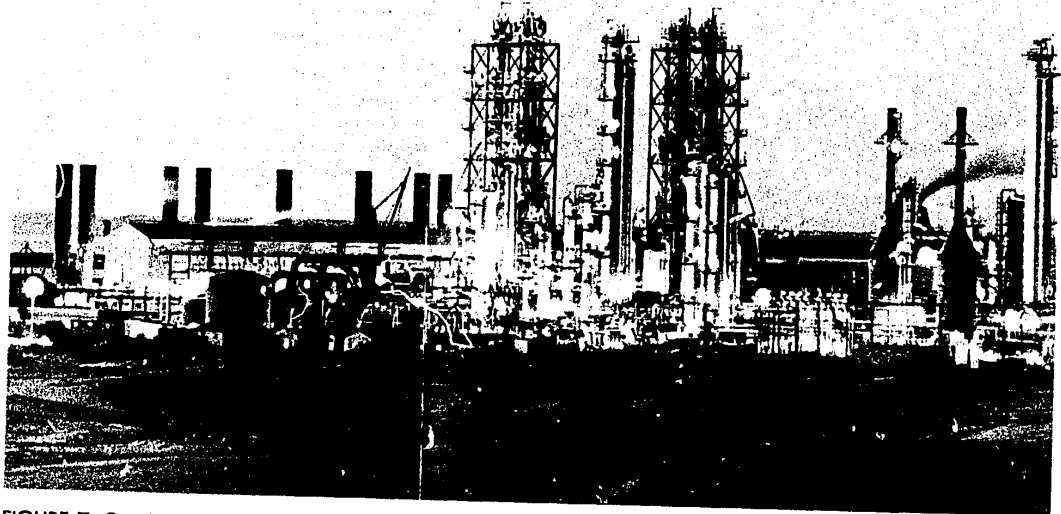

FIGURE 7. Gas liquefaction complex at Marsa al Burayqah (U/OU)

until the sales contracts were renegotiated at higher prices. By the time the first shipment left for Spain in April 1971, Exxon was encountering supply problems. Reduced oil output as a result of the conservation policy had automatically reduced associated gas output in Exxon's field, forcing the company to buy gas from other oil producers.

Libya's second major gas project was the Occidental Petroleum Company's reinjection and gas liquids extraction system, completed in January 1972. This system was designed to reinject about 450 million cubic feet of gas per day into Occidental's Idris A and D fields (renamed Intisar since the 1969 coup) as a conservation measure, increasing the amount of oil recoverable by preserving the gas pressure. Most of the gas comes from the A field. The first section of the three-unit reinjection system began operating early in 1970. Before being reinjected, the raw gas is processed in a gas liquids recovery plant, extracting propane, butane, and naphtha at a rate of about 65,000 b.p.d. These products are transported as liquefied petroleum gas and naphtha through a 140-mile, 20-inch pipeline and exported from facilities at Az Zuwaytinah. The principal customer is Japan.

Plants similar to the Occidental facility may become more common in Libya now that the government is preparing to forbid flaring of gas. Three smaller units already exist in other fields and others undoubtedly will be constructed. Plans for construction of petrochemical facilities using gas also are under consideration. One problem that must be resolved is the government's attitude about future levels of oil output, as most of the gas reserves are associated with petroleum reserves.

c. *Solid fuels*

In sharp contrast to reserves of crude petroleum and natural gas, Libyan supplies of solid fuels are negligible. Moreover, demand for traditional solid fuels is decreasing rapidly as consumers shift to petroleum products.

Libya produces no coal and must import all of its small and declining needs. Unexploited outcrops of lignite are known to exist, but none have been mined because of the poor quality and the absence of established markets.

Although fuelwood, gathered for household use from the sparse forested areas, is still a major source of solid fuels, its consumption too has been declining. Libya produces small quantities of charcoal by primitive methods for local use. Its only other solid fuel is animal dung, used in moderate amounts by nomads and seminomads.

d. *Electric power*

Electric generating capacity, even though small, is more than adequate for national needs. Estimated installed capacity at the end of 1972 was about

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280,000 kilowatts (kw.). Production during 1972 amounted to only 640 million kilowatt-hours (kw.-hr.), or slightly less than a third of the production capacity. Production per capita was 310 kw.-hr. Most electric power is produced and consumed in Tripoli and Banghazi. All electric power is produced by thermal units, there being no hydroelectric potential in the country.

Major electric power facilities are owned and operated by the government's Public Electricity Organization (PEO). The facilities include three formerly independent corporations: the Electricity Corporation for Western Provinces (Tripolitania and Fezzan), the Electricity Corporation for the Eastern Provinces (Cyrenaica), and the Electricity Corporation of Libya. Exxon and Oasis oil companies have built and continue to operate large private powerplants to service company requirements. Other businesses maintain small powerplants, particularly in Tripoli. In addition, an undetermined number of small diesel generating units are operated by individuals in Tripolitania. Altogether over 300 public and private powerplants operate in Libya.

Generating and transmitting facilities are concentrated in Tripoli and Banghazi; scattered facilities exist in towns along the Mediterranean Coast, in isolated interior towns, and at oil company installations. The majority of Libyan powerplants have a capacity of less than 100 kw. The bulk of the generating capacity is concentrated in a few large plants. Until 1971 the largest units in the system included the 32,000-kw. Marconi plant in Tripoli, the 9,000-kw. plant at Banghazi, and the 25,000-kw. gas turbine plant at Marsa al Burayqah that supplies power for the Exxon pumping operations. These facilities are now dwarfed by the expanded 130,000-kw. Al Firnaj plant, opened in September 1971.

There are no large transmission and distribution networks in the country. In the Tripoli area, the public supply is distributed on a system of 6, 10, and 30 kilovolt (kv.) lines. In the Banghazi area, the system is 6.6 and 11 kv. lines. A few smaller towns and villages have rudimentary distribution systems in their immediate areas, with up to 6 kv. lines. Consumer current is 1 and 3 phase, 50 cycles, at 127/220 volts for public use, and 230/400 volts for industrial use.

Projects scheduled for completion by 1976 will substantially increase Libya's generating capacity. The Banghazi thermal plant is to be expanded by 60,000 kw. In the Tripoli area the government plans to complete between 1973 and 1975 three new plants with a combined capacity of about 400,000 kw. Several small diesel powerplants are to be constructed along the Mediterranean coast and in a few isolated towns. The distribution systems also are to be expanded to connect all coastal cities, from Misratah to Al 'Uqaylah and from Banghazi to Darnah.

At the present time all power is generated by oil or gas fueled powerplants. Libya and Egypt have agreed to build a nuclear powerplant at a central location to serve both countries. The plant will have a two-fold purpose, to produce electricity and to desalinate sea water. In its first phase, to be completed by 1979, the project provides for a 400,000 kw. generating capacity. The second phase is scheduled for completion in the early 1980's.

3. Metals and minerals (C)

Except for hydrocarbons almost no minerals or metal ore deposits have been discovered in Libya. As in most desert regions, salt exists in abundance. Some gypsum also has been mined. All other minerals and metals are imported.

From time to time the Libyan Government has sponsored extensive exploration in the Sahara to locate mineral deposits. Recently a 3-year, $8-million contract was signed with a group of Western geophysical firms for further exploration. However, to judge from the results of past searches and of unsuccessful efforts by Egypt in adjacent desert areas, prospects are dim for a mining industry in Libya.

4. Manufacturing and construction (C)

a. Manufacturing

The RCC inherited a small but growing manufacturing sector from the Idris regime. A variety of factories were producing an increasing volume of goods to meet the demands of urban consumers, many of whose incomes were riding up on the oil boom. The processing of food and tobacco and preparation of beverages clearly were predominant (Figure 8). Most of the new manufacturing units contracted for since 1969 have been food processing plants, reinforcing the existing pattern.

The nonfood industries, particularly woodworking and textiles, involve a considerable amount of handicraft activity. Unlike other North African states, however, the Libyans have not tried to encourage or to preserve traditional handicrafts. The lure of cash wages, the modernization and urbanization of tastes, and the availability of cheap manufactured imports have combined to erode the importance of handicrafts.

The RCC has grandiose plans for attaining self-sufficiency in manufactured goods, but plans for the

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FIGURE 8. Gross value of output in major manufacturing establishments, 1970 (C)
*(Thousands of U.S. dollars)**

Food	25,104
Beverages	6,609
Tobacco	28,025
Textiles	5,299
Wood cork, etc	1,830
Furniture and fixtures	1,477
Printing, etc	2,541
Chemicals	14,610
Nonmetallic mineral products	462
Metal products	5,557
Electrical machinery	337
Miscellaneous	2,152
Total	94,003

*Converted at the rate of £L1 = US$3.04.

rapid expansion of local consumer goods industries almost certainly will be frustrated by labor shortages and by a preference for higher quality imported goods. The RCC also plans to create heavy industries and an export-oriented manufacturing sector. Several organizations, including at least two foreign oil companies, have been involved in planning a petrochemicals industry based on domestic petroleum and natural gas. By mid-1973, however, nothing had been done beyond the planning stage.

b. Construction

Before the 1969 coup, construction was Libya's second most important economic sector. Between 1965 and 1968 building activity increased at an average annual rate of 21%. During this period the construction sector absorbed more than half of gross investment and accounted for about 8% of GDP.

Both public and private expenditure contributed to the pre-1969 construction boom. Under the Idris government, more than two-thirds of state development budgets were devoted to construction of roads, schools, and housing projects. As urban incomes rose, demand for private housing also increased. The banking system, including the Industrial and Real Estate Bank, made credit readily available for construction projects.

Under the RCC government, construction activity plummeted. An initial downturn in construction starts probably reflected general apprehension on the part of investors. The decline was accelerated when the RCC suspended work on several large public construction projects that had been initiated by the Idris regime. Although most of these projects subsequently were resumed, other RCC actions continued to depress private construction activity. Chief among these was the curtailment of output in the oil sector, which formerly had provided close to half of all construction demand. Another important factor was the ouster of the Italian and other alien population and the dispossession of the affluent Libyan groups who had been responsible for most private housing starts.

Construction activity was partially revived after 1970. Increased government development expenditures added greatly to demand. Housing starts increased, largely because of government efforts to provide living accommodations for newly arrived Egyptian technicians and advisers.

Egyptian firms have always been heavily involved in the Libyan construction industry. Before the coup, large Egyptian construction firms held sizable contracts in public housing and in sanitary engineering. At least one company, Osman Ahmed Osman, was successful enough in Libya to justify the formation of a subsidiary, the Arab Construction Company. Since the coup, Egyptian firms have captured all construction contracts in public housing, about 20% of all sanitary engineering projects, and 8% of all road and bridge construction. The share of Egyptian firms in agricultural construction is thought to be high also, although data are not available.

Cement is the only construction material produced in appreciable quantities. Nonetheless, domestic output (about 2 million tons in 1970) has fallen well below demand, even during the post-1969 recession. Imports of cement make up the bulk of the total supply, and shortages are experienced frequently. Most other construction materials must be imported.

C. Economic policy and development (C)

1. Policy

The basic economic strategy of the RCC has not departed from that of the Idris regime, i.e., to use oil revenues to develop nonoil sectors of the economy. Both regimes have sought to integrate the backward Libyan population more fully into the modern sector of the economy. The two regimes have differed, however, in the tactics employed, in the energy devoted to the pursuit of goals, and in their views of the role of consumption in the newly affluent economy. The Idris regime allowed a high degree of personal and public extravagance, whereas Qadhafi has imposed an austere Muslim ethic. Welfare statism is shunned, ostentation is discouraged, and corruption has been purged from government operations.

"Libyanization" of the economic establishment was achieved to some extent under the Idris regime.

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Beginning shortly after oil was discovered, the monarchy promulgated a series of laws designed to increase Libyan involvement in the modern sector. Oil companies were required to train and employ an increased percentage of Libyan workers. In 1963 a law was passed requiring Libyanization of the foreign-dominated financial community. These and other laws, however, frequently could be circumvented by well-placed bribes.

The RCC has pursued Libyanization with xenophobic zeal. By the end of 1970 the RCC had expelled the Italian community that dominated commerce, had Libyanized 65% of the assets of insurance companies, and had ousted foreigners from Libyan banking. These actions followed hard on the issuance on 2 May 1970 of a general Libyanization decree which is far more stringent than previous measures. The law stipulated that, outside the oil sector, all partnerships and limited partnerships must be Libyan owned and that foreign ownership of any corporation must not exceed 49%. In all corporations, at least 75% of the employees must be Libyan nationals, who must receive at least 65% of the payroll. Branches of foreign firms are no longer permitted to operate in Libya except to provide technical or engineering services to the oil industry. The chief exception to these restrictions has been Egypt, which has been increasingly active in the Libyan economy.

An increased degree of state ownership resulted from the rapid "Libyanization." The RCC did not specifically espouse a socialist economic order, but it has had little choice given the concentration of available talent in the state bureaucracy and the distrust of foreigners. Libyanization has meant nationalization, in effect, with few assets subsequently being transferred to private individuals. The chief exceptions have been former Italian-owned agricultural lands and shops; these properties are now returning to the private sector, thanks largely to the acquisitive instincts of resident Egyptians, Palestinians, and some other Arabs, who are exempt from restrictions on foreign ownership.

Shortages of private capital and entrepreneurs have inspired the creation of a new state sector alongside older nationalized properties. A number of public corporations have been formed to participate in agricultural development, construction and maintenance of roads, civil engineering projects, and general construction, presumably in competition with foreign bidders. Most industrial projects now under construction will be operated by the state. In addition, highly mechanized state farms have been introduced in agriculture.

2. Development

Under the RCC, the approach to development has been changed, and development outlays have nearly doubled. Under the Idris regime, economic plans were poorly conceived and haphazardly implemented. During the First Five Year Development Plan (1963-68), $1,078 million was allocated for state investment, but only $880 million was spent. The bulk of this amount was devoted to public works and other infrastructure, creating underutilized public roads, unnecessary public buildings, and understaffed public schools. The Second Five Year Plan, scheduled to begin in 1968 but not launched until April 1969, again emphasized transportation, communications, and public works. When the RCC seized power 5 months later, little had been started under the Second Plan.

The RCC shifted state development spending to the more immediately productive sectors, allocating almost 30% of planned outlays through 1975 to agriculture and industry, primarily in order to free Libya from a total dependence on imports for essential goods (Figure 9). Agricultural development also is being pushed as a means of slowing rapid urbanization and blunting its concomitant social and economic problems. Another motive for rural spending is to prove that Arabs as well as Israelis can "make the desert bloom."

3. Manpower

An acute shortage of skilled and semiskilled manpower has been the chief impediment to Libyan

FIGURE 9. Distribution of economic development spending, the Idris regime and the RCC (C)

	FIVE YEAR PLAN, 1963–68 (ACTUAL)	THREE YEAR PLAN, 1973–75 (PLANNED)
Total (million U.S. dollars)*	880.5	3,541.0
Of which (percent):		
Agriculture	*17*	*14*
Industry	*5*	*15*
Petroleum	*Negl.*	*10*
Electricity	*Negl.*	*9*
Transportation and communication	*18*	*14*
Education	*9*	*9*
Health	*3*	*4*
Labor and social welfare	*na*	*Negl.*
Housing and utilities	*10*	*13*
Public works	*30*	*na*
Other	*8*	*12*

na Data not available.
*Converted at the rate of £L1 = US$3.04.

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economic development. Less than a generation ago most Libyans were peasant farmers or nomadic herdsmen. Urbanization has proceeded apace since the oil boom began in the 1960's, but the majority of the people still pursue traditional activities. Most of those who have drifted to the cities are untrained.

The rate of participation in the labor force is not high, and only about 500,000 Libyans are believed to be economically employed or seeking work. Despite the general shortage of labor, unemployment is a problem, largely because of lack of skills. It is estimated at between 7% and 10% of the labor force. Many of the remainder are underemployed, either in unproductive agricultural activities or in menial urban jobs.

Aliens constitute a sizable proportion of the skilled labor force. Some alien labor is transient, imported for a specific task by a foreign firm or contractor. Others, such as the alien employees of foreign oil companies, are semipermanent, remaining as residents for long periods but rarely settling permanently. A permanent alien labor force can be found in many of the nonoil sectors, particularly in commerce and the service industries.

The composition of the alien labor force has changed dramatically under RCC policies (Figure 10). Before the coup, Italians constituted a large group of resident aliens. The Italians have been replaced by Egyptians and, to a much smaller extent, by Maltese, Tunisian, and other nationalities. About 150,000 Egyptian professionals and laborers were employed in Libya in mid-1973. They make up about one-quarter of the total labor force and a far higher percentage of the employed urban population.

The influx of Egyptians stems from a number of factors. At the outset, large numbers were brought in by the RCC to staff the civil service and to supplement Libyan military and security forces. Additional Egyptian laborers were imported by Egyptian firms with contracts in Libya. An unknown number of Egyptians have come on their own, taking advantage of relaxed immigration regulations between the two countries to acquire properties abandoned by other aliens and to fill jobs for which most Libyans are unqualified.

FIGURE 10. Estimated labor force (C)

	1964–65*	1972
Total	400,000	660,000
Libyans	382,000	500,000
Aliens	18,000	160,000
Egyptians	4,500	150,000
Italian	3,000	*Negl.*
Others	10,500	10,000

*Including data from both years.

4. State finance

The funds available to the RCC have been far greater than those available to the monarchy. Total taxes and royalties from oil companies have averaged about $1.5 billion annually since 1969 as a result of increased per barrel receipts. In addition, the RCC inherited about $1 billion in accumulated reserves. Ordinary revenues, mostly from duties, provided no more than 15% of total state income in FY71[4] (Figure 11).

The RCC ostensibly is committed to state savings, as an anti-inflationary measure and as a hedge against future contingencies. The law requires that at least 15% of oil revenues be set aside as reserves each year. Of the remainder, 70% must be earmarked for development. Thus, only about 26% of oil revenue, in addition to local revenues, is available for the government operating budget.

Despite its reputation for austerity, the RCC has increased state spending substantially. Development expenditures have risen as a result of the emphasis on state investment in agriculture and industry. Military equipment purchases and Libyan foreign aid now total about $500 million annually, but these expenditures are covered only in part out of the annual budget. This fact suggests a liberal interpretation of the Libyan fiscal law requiring that budgeted reserves be used only for "emergencies" and setting a 10% limit on drawdowns in a single year. The overall budget surplus has been rapidly diminishing as oil

[4]The Libyan fiscal year extends from 1 April to 31 March of the designated year.

FIGURE 11. Libyan state budget (C)
(Millions of U.S. dollars)

	FY69	FY70	FY71*	FY72	FY73
Expenditures	1,150	947	1,034	1,523	**1,820
Ordinary	725	604	590	611	705
Development	425	343	444	912	1,115
Revenues	1,088	1,357	1,676	1,922	***1,800
Oil	849	1,103	1,425	1,702	1,600
Other	240	254	251	220	200
Balance	−62	+390	+642	+399	−20

*This year represents the first budget that was entirely that of the RCC. FY70 was a transitional year, and in FY69 King Idris was in control.

**Planned.

***Estimate.

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revenues are restricted by declining output and as expenditures are rapidly rising. Total financial reserves, which amounted to $3 billion in mid-1973, thus are not likely to grow under present RCC spending policy.

5. Banking

All commercial banking operations in Libya were conducted by branches of foreign banks until the mid-1960's. "Libyanization" of the financial sector was started in April 1963 when the Idris regime decreed that all banks in Libya must have at least 50% Libyan ownership. Implementation of the decree was slow. However, by mid-1969 the government had acquired 50% or 51% interest in the Libyan operations of all but four of the foreign banks—the *Banco di Roma*, the *Banco di Napoli*, Barclays Bank (of the United Kingdom), and the Beirut-based, Jordanian-owned Arab Bank. The first all-Libyan bank was created in August 1967.

The RCC greatly accelerated the pace of Libyanization. In November 1969, less than 2 months after assuming power, the new government ordered state acquisition of controlling shares in all remaining foreign banks. Barclays Bank withdrew immediately, leaving their assets to the state. Italian and U.S interests negotiated a partial transfer of assets, only to be nationalized outright a year later. By December 1970 all foreign banks had been acquired by the state.

The state subsequently amalgamated all commercial banking under five state-controlled institutions (Figure 12), four of which had been acquired piecemeal by Libyanization and nationalization. The fifth is the Unity (*Wahda*) Bank which was based on the only private Libyan bank, the National Qafilah Bank.

The Libyan Central Bank has evolved from the National Bank of Libya, the principal banking entity and the de facto central bank during the immediate postcolonial period. In 1963, when designated a central bank, it was empowered to set interest rates on deposits and loans and to regulate directly the reserves of commercial banks. As in most primitive, oil-producing countries, however, the monetary powers proved illusory because the chief spenders and borrowers, the oil companies and the central government, operated outside the bank's purview. Nonetheless, its nominal role was recognized by the RCC in August 1971, when it was renamed the Central Bank.

The Central Bank has played a considerable role in commercial banking. Just before the coup, its commercial department was handling the majority of total commercial banking business. The RCC used this commercial department as the basis for the all-state

FIGURE 12. Evolution of Libyan state commercial banks (U/OU)

BANK	COMPOSED OF:	ACQUIRED BY:
National Commercial Bank*	Commercial Department, Bank of Libya	...
	Masrah al-Urubah Bank (formerly the Jordanian Arab Bank).	Libyanization, November 1967. Nationalization, December 1970.
	Istiqlal Bank (formerly Italian *Banco di Napoli*).	Libyanization, November 1969. Nationalization, September 1970.
Unity (*Wahda*) Bank**	Bank of North Africa (formerly British Bank of Middle East and Morgan Guaranty Trust).	Libyanization, under Idris regime. Nationalization, December 1970.
	Commercial Bank (Libyan State and Charter and Eastern of United Kingdom).	Established as joint venture under Idris; nationalization, December 1970.
	Arab Renaissance Bank (*Al-Nakda al-'Arab*—formerly Egyptian Bank Misr).	Libyanization, under Idris regime. Nationalization, December 1970.
	Societe Africaine du Banque (French *Societe General du Banque*).	Libyanization, under Idris regime. Nationalization, December 1970.
	National Qafilah Bank (*Al-Qafilah al-Ahli*—private Libyan).	Founded August 1969.
Sahara Bank*	Sahara Bank (Libyan State, Bank of America and Bank of Sicily).	Set up as joint venture under Idris. Nationalization, December 1970 and September 1970.
Republic (*Jumhuriyah*) Bank*	Barclays Bank	Libyanization and withdrawal by Barclays, November 1969.
National (*Umma*) Bank*	*Banco di Roma*	Libyanization, November 1969. Nationalization, September 1970.

*Owned by the state and supervised by the Central Bank.
**Owned jointly by the state and private Libyan interest.

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National Commercial Bank, which the Central Bank now manages along with the state interest in all other commercial banks.

The Idris regime created two special banks: the National Agricultural Bank and the Industrial Real Estate Bank. The first was empowered to issue crop-year financing and other special loans to the local farmers, whereas the latter was to provide investment banking functions primarily for the fledgling nonoil industrial sector. The RCC continues to operate both banks, claiming that the volume of loans has increased under their direction.

The most novel financial creation of the RCC is the Libyan External Bank. Capitalized by the Central Bank, it was created to handle a variety of Libyan external financial affairs, especially those with political overtones. It is authorized, for example, to handle Libyan participation in such joint European-Arab banking consortia as the *Banque France-Arabe d'Investissements Internationaux* (FRAB). It has also been charged with establishing branches in developing countries, principally in Africa where Libya has an aid program and a growing political stake. The bank also has been used to put together multilateral or interbank loans for other states, thus freeing Libyan income and reserves from this drain.

The Libyan currency unit is the dinar, known under the monarchy as the pound. The value has changed several times, primarily in response to fluctuations in the value of the U.S. dollar. Formerly valued at $2.80, the dinar was revalued upward to $3.04 in the fall of 1971. A second revaluation, in February 1973, raised the value of the dinar to $3.38.

6. Domestic trade

The oil boom in Libya has widened the disparity between urban and rural trade. In the urban areas, rising incomes have created higher levels of demand for an expanding variety of goods and services. This thriving domestic market has enabled many merchants, who traditionally carried a broad assortment of goods, to seek greater economic specialization in fewer lines. By contrast, trade in the rural areas of Libya still retains much of its traditional character. Outside Tripoli and Banghazi, shops are small and nonspecialized, and barter trade still is common.

The quality of retail services has deteriorated sharply since the RCC came to power. Confiscation of Italian properties and the ouster of the Italian population eliminated the most experienced group among the urban mercantile classes as well as the most sophisticated customers. Subsequent Libyanization of other foreign-held retail outlets caused a further qualitative decline. The influx of Egyptians since 1970 has boosted demand for higher quality goods and services, but the Egyptians are far less discriminating than were their European predecessors. Moreover, the conservative Muslim prescriptions of the RCC have eliminated completely many categories of modern services. Among the victimized establishments are bars, cafes, and beauty parlors.

D. International economic relations (C)

Libyan external accounts have been in surplus for most of the decade since the oil boom began. Gross annual receipts from oil exportation in the 1960's rose rapidly, reaching nearly $3 billion in 1971. A sizable share of the receipts was transferred abroad as profits to the oil companies. Nonetheless, net receipts greatly exceeded Libya's capacity to absorb imported goods and services, and unspent income, accumulated as foreign exchange reserves, reached $3 billion in 1971.

During the first full year under the RCC, demand for imported goods and services dropped as a result of the dispossession of the more affluent classes, public austerity, and a mild recession. By 1971 imports had risen again in response to increased development spending and greater outlays on arms and foreign aid. Rising expenditures were more than offset by burgeoning oil exports and by the 1970 oil accords, which had increased the Libyan tax-take and reduced company profits. Almost $900 million was added to Libyan foreign exchange reserves in 1971 alone (Figure 13).

Reserve accumulation slackened considerably in 1972 largely because of reduced oil production and secondarily because of increased expenditures. Reserve accumulations almost certainly will drop further in 1973 and eventually will cease unless expenditures are curbed or oil output is boosted.

Libya has maintained a liberal import policy because large export earnings can support large-scale imports and because imports are necessary in the absence of domestic manufacturing capacity. The Idris regime imposed more easily collected customs duties instead of excise taxes for revenue purposes. The RCC introduced discriminatory import duties in an unsuccessful effort to divert trade away from the Western industrial nations and toward other developing countries, especially Arab suppliers. In neither case, however, have duties or other restrictions served as a barrier to imports.

The pattern of Libyan trade has remained stable despite great swings in the volume of trade and in the orientation of the government. On the export side,

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FIGURE 13. Balance of payments (C)
(Millions of U.S. dollars)

	1968*	1969*	1970*	1971**	1972** (ESTIMATED)
Trade balance	1,222	1,491	1,822	2,140	1,500
Exports	1,867	2,167	2,366	2,913	2,300
Imports	-645	-676	-544	-773	-800
Profits transferred abroad	-517	-456	-464	-440	-300
Other private transfers	-44	-44	-45	-47	-45
Net services	-322	-452	-368	-284	-300
Government transfers and unclassified expenditure***	-117	-283	-373	-548	-550
Capital (net)	-67	+120	+172	+44	0
Change in reserves	+155	+376	+657	+865	+300

*Converted at year end rate of £L1 = US$2.80.
**Converted at year end rate of £L1 = US$3.04.
***Mostly arms and aid.

preponderance of petroleum (more than 90% of exports) is a continuing feature (Figure 14). As for imports, a strong preference for European goods—especially Italian—has resisted government efforts to "Arabize" the consumption habits of the population.

The principal change in Libya's international economic relations has stemmed from Qadhafi's fanatic pan-Arabism. The Idris regime maintained a financially insular approach toward the outside world. Among Arabs, only Husayn of Jordan was aided willingly by Idris, who provided a $30-million annual subsidy, plus additional ad hoc assistance, to him. A $59-million annual subsidy to Egypt was granted only under duress in the wake of the June 1967 war. Qadhafi, on the other hand, has committed Libya's wealth to the general Arab cause. Outlays on aid and arms, mostly in support of the confrontation with Israel, were at least $500 million in 1971 and in 1972. The proposed union with Egypt threatens to expand Libya's financial obligations even further. Given Egypt's rising import needs and limited export capabilities, financial integration of the two countries would almost certainly result in a joint balance of payments deficit.

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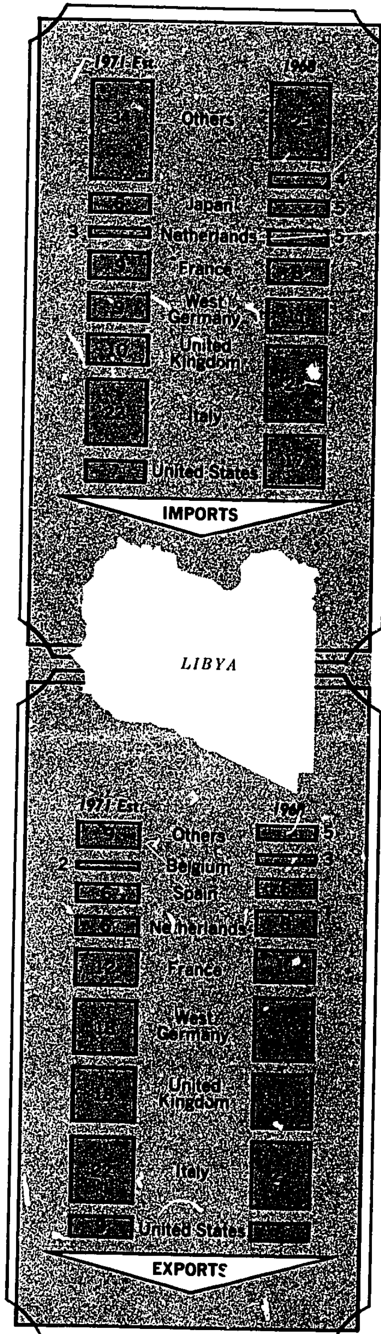

NOTE: *Spain and Belgium have been less than one percent in Imports for 1968 and 1971. Japan has less than one percent in Exports for 1968 and 1971.*

FIGURE 14. Direction of trade (U/OU)

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