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## >>> Menas Libya Politics & Security

### 1.0. Executive Summary

#### Key News Items

- > *Central Bank of Libya* report indicates a decline in foreign currency hydrocarbon revenues
- > The global recession has had a deeper impact on Libya than was either expected or admitted
- > Very large sovereign wealth fund holdings remain a perfectly adequate cushion
- > Foreign labour is hired on the basis of bilateral state agreements but pruning of the migrant community continues
- > Relations with Iran could move closer following recent talks
- > Swiss nationals remain in the sanctuary of their embassy
- > Libya offers to help finance large refinery in Uganda
- > Routine high level talks take place with Malta
- > General apathy in debates over forthcoming *General People's Congress*
- > Welfare budget is already being overspent.

#### Comment and Analysis

- > **Colonel Qadhafi** accepts and wants change
- > Libya's foreign relations problems are being tidied up and local grievances are being bought off as usual
- > The pre-eminence of the Qadhafi family is protected
- > A draft constitution is awaited
- > The *Leader* exhorts change but remains conservative
- > US blocks the full normalisation of diplomatic relations
- > High-level international position continues to evade the *Leader* so he will remain involved in local leadership.

#### Security of Foreign Personnel and Assets

- > Iran probes the protection of foreign commercial interests
- > Negative impact of global recession makes its mark
- > Grandiose schemes in the economic development plan lead to competition for financial resources
- > Foreign companies will continue to find the Libyan market attractive because of its huge growth potential.

#### Flash Points to Monitor

- > **Osama Bin Laden** listed on frontier watch targets
- > Lack of pomp over **Saif al-Islam**'s new role.

## 2.0. Key News Items

- > In its latest report, the *Central Bank of Libya* has demonstrated the damage done to Libya's foreign currency revenue flows by the global recession. In the first eight months of 2009, the country received US\$22,400 million compared to US\$42,700 in the same period of 2008. The fall in the value of oil income was cited as the key factor in the decline, with hydrocarbon earnings falling from US\$21,200 million to US\$16,500 million in the same periods.
- > The deep impact of global economic recession was brushed aside in earlier assessments of the situation but it is now apparent that Libya has been caught in the swing from economic fortunes to misfortunes, just the same as all other trading countries. It is suffering from the devaluation of its currency, a strong swell of imported inflation and delays in paying debts.
- > Its insulation against the general woes lies in its considerable sovereign wealth fund overseas financial holdings. This should shelter it from politically dangerous recession in its economic growth providing the government can find a benign way of transmuting foreign exchange into domestic economic expansion and general prosperity.
- > The Libyan authorities have reportedly confirmed their intentions to recruit labourers through specific bilateral contracts signed at country level. This system is often used to reward the *Leader's* latest friends and punish his perceived enemies or those countries which have slighted him or his family in some way.
- > Among the latest agreement is an MoU with Bangladesh for training its work force for employment in Libya. Libyan regulations on the entry of foreign staff are, it is said, being relaxed to this end.
- > Some contradictory policies beset the labour sector. Libya renewed its official interest in Bangladesh as a supply source only days before the deportation of 50 Bangladeshis on charges of carrying false passports. Meanwhile, foreign companies have complained of significant shortages of technicians and skilled labourers.
- > Relations with Iran have developed sporadically, and principally through the visits and counter visits of official delegations.

Some economic agreements have been signed from time to time. The potential for the participation of Iranian state and private sector industrialists in Libyan economic development was explored during the visit of an Iranian team to Tripoli in mid-January.

- > The Libyan side was led by Prime Minister **Mahmoud al-Baghdadi**, and the Iranians by Foreign Minister **Manuchehr Mottaki**. Their joint deliberations produced an agenda for setting up legal foundations for the responsible conduct and financial management of any ventures.
- > The ostracism of both Libya and Iran by parts of the international community for their past behaviour and their shared anti-Western rhetoric gives the two countries a common denominator. At the same time, they are both deeply opposed to US interventions in the Arabian Peninsula. The two countries are, however, separated by a diversity of social and religious prejudices inherited from the past.
- > The Libyans are diametrically opposed on issues such as the 1978 disappearance and presumed death of *Imam Musa Sadr* on Libyan soil. *Imam Sadr* was born in Iran in 1929 but was a member of an important Lebanese family of *Shi'a* theologians. In addition, Iran's ambitions to impose itself as the arbiter in Middle East events inevitably leads Libyan sentiment to back the Arab cause.
- > The problems over the Swiss "*hostages*" still rumble on, with the latest attempt to convene a court hearing on the matter aborted by the refusal of the two hostages to leave the sanctuary of the Swiss embassy in Tripoli without a firm guarantee of their safe return.
- > The attempt by Libya to gain a foothold in Uganda's downstream oil business has been confirmed by the manager of *Oil Libya*, an affiliate of *African Investment Corporation*. On 17<sup>th</sup> January, a Libyan delegation was discussing a major new venture in refinery in participation with local Ugandan interests.
- > Relations with the UK are generally good. A delegation of senior Libyan academics visited in mid January to assess the possibility of joint action between higher education institutions in the two countries.
- > Malta and Libya remain engaged in discussions within the joint commission, led on the Libyan side by Foreign Minister **Musa**

**Kusa**, and his Maltese counterpart **Tonio Borg**. The commission is attempting to update regulations governing the migration of labour and, in particular, the reduced but still dangerous movement of migrants from North Africa to Europe.

- > Deliberations included search and rescue operations, visa and passport controls, with items of common interest such as education and training, and conservation of marine life. The commission's meetings are currently quarterly and are a means of maintaining contact between the two sides.
- > The regime has been caught out by the show of diffidence in the country towards the forthcoming *General People's Congress*. Local meetings have been very sparsely attended and debate of the current issues very limited.
- > The annual budget will be a main contender for attention with the forward planning of investments for the period to end of 2012. In 2010, oil income is estimated to reach LD40 billion (US\$32 billion) but if there is more robust growth, then all income above this sum will be put into a reserve fund.
- > There are sobering forecasts that the civil service will comprise 900,000- i.e. 14 per cent of the total population and a much larger proportion of the work-force - and that 30,000 of them will be unemployed.
- > Symptomatic of the backlog in the welfare sector, the government is promising that large outlays will be made for education where 3,500 up-grades and 3,000 new classrooms will be constructed. Some 27 new university campuses will be set up to take the number of higher education pupils to 450,000. In the health sector, the number of hospital beds will increase to 22,500 to give a total of 38 beds per 1,000 head of population.
- > Housing is to be an area of rapid change, with 291,000 units available through the government housing programme banks and a further 6,000 developed by co-operatives. Other ambitious schemes for improving the country's infrastructure - extending the rail system to serve the main cities, and construction of a coastal highway system are among the many medium to large schemes envisaged in the longer-term plan to 2012.
- > However, how much can be achieved during the current year, in view of the lack of real physical resources and limited human skills, remains to be seen.

### 3.0. Comment and Analysis

- > The *Leader* appears to be taking his involvement in the handover of power to Saif al-Islam with some panache, despite having been hesitant in the first place concerning the future of the country. It is as if he is attempting to smooth over rough edges of his past role in preparation for a departure, leaving his affairs in good order.
- > The various long-term problem areas both at home and abroad are being settled one by one. Importantly, the **Lockerbie** affair has ended in spite of rumbles of discontent still emanating from the US and UK. His various feuds at the international level, such as the personal confrontations with the rulers of Saudi Arabia, the *Shi'a* groups in the Lebanon, and his neighbours in Chad, have gradually been laid to rest.
- > Similarly, the grievances by those oppressed in the revolutionary period are being bought off, although difficulties have not been so easily surmounted in the cases of compensation for the victims of the *Abu Selim* prison massacre, and others who have wrongfully been deprived of family or assets.
- > The issue of political succession has moved rapidly, and now it appears that the *Leader* has decided on a course of action by nominating Saif al-Islam as his heir. This constitutional development has given the *Leader* an air of determination and clarity of vision in a political environment which is, in reality, unstable because of its reliance on one man. It will be an acid test of his skills if he can manage the family, tribal and regional pressures by ensuring that the Qadhafi family remains paramount and the *Qadhadhafah* strongly in support of his house.
- > The draft of a constitution which will formalise the organisation of government is being assembled in which legitimacy will be given to the leadership in the post-**Mu'ammarr Qadhafi** period. Among the many moves in generating support for a system for the regime to maintain its ascendancy is the encouragement of the old guard to play a supporting role, hand in hand with the *Social Leadership* and the mobilisation of long-standing political allies such as Musa Kusa and **Abdullah Sennusi** as Saif al-Islam's mentors.
- > There has always been a strong dynamic of change within the Qadhafi regime, including the period from the *coup d'état* in

1969 through the revolutionary years. The restless character of the *Leader* himself has always meant a level of uncertainty at government level, particularly affecting the heads of secretariats.

- > The efforts made by the Qadhafi family to establish a wider normalisation of relations with the US have been constrained by the lack of warmth in Washington. Libya is an area of minor importance on the US' Middle East agenda. It seems unlikely that this gap in the structure being set up by Colonel Qadhafi will be closed in the immediate future.
- > The enthusiasm of the *Leader* for a change has always been apparent, providing he is at the centre of operations. At the present time, it is difficult to determine whether he intends to entirely turn his back on national politics and retire to his estates in Egypt.
- > It has for some time been speculated that he was bored with the detailed day-to-day management of the country, although in fact, his entourage includes many who take the onus of the minutiae of government. It seems most improbable that he would abruptly leave his position of absolute power for a life anywhere else.
- > The most likely outcome is that he will not lose his appetite for specifying domestic policies, and will conduct the affairs of state under the guise of Saif al-Islam. Currently, the *Leader* has no strong reasons for expecting any honours and/or formal position with the **African Union**.
- > South Africa and Nigeria, among other AU members, are strongly minded to keep Libya on the fringe of deliberations. It is, therefore, unlikely that the *Leader* can satisfy his ambitions in that direction. Neither is the appeal of the **Arab League** so powerful as to provide a theatre to interest him. There would seem to be no likelihood of him taking up a role elsewhere, which will leave him inevitably more prone than ever to manipulate events inside Libya.

#### 4.0. Security of Foreign Personnel and Assets

- > The need for a serious set of laws to guarantee foreign investments was aptly illustrated by the agenda of a visiting delegation from Iran during the past week, when the Iranian side concentrated on elucidating the rules that would apply to an Iranian enterprise in Libya. Unfortunately, the Libyan

development of a rational legal formula to handle the treatment of overseas interests has still not reached a workable stage.

- > The negative impact of the international down-turn in economic activities is hitting Libyan foreign exchange earnings. These are down markedly on last year and will total perhaps US\$40,000 million, compared to US\$57,000 million in 2009. There should be minimal strain on the Libyan exchequer in the current year.
- > The approach to large-scale spending on development is still very conservative and is inhibited by Colonel Qadhafi's cautious protection of his financial strength. The competition for foreign exchange funds between domestic requirement for imports and the accumulating foreign assets is liable to persist. This will make withdrawals a slow business and, hopefully, put the bulk of resources out of the grasp of the corrupt members of the ruling group.
- > Multiple high cost projects will decline in favour of smaller-scale items which will come to the surface. There might be some deployment of well known devices, such as late payment to foreign contractors and offers of continuing work pending the final payment of the original bill.
- > In summation, those foreign companies already ensconced in Libya will be able to operate profitably, provided that they can comply with the regime's demands for more employment of Libyan staff, and with an uncertain tax system.

## 5.0. Flash Points to Monitor

- > The proposal to include Osama Bin Laden on the Libyan list of frontier watch individuals is slightly tongue in cheek but does demonstrate that Libya is taking security issues seriously. In practice, the operations of *al-Qa'ida in the Maghreb (AQIM)* – both led by Algerians and is based in that country - have been low key or negligible in the recent past. However, they could be important if the current rise in the reputation of *al-Qa'ida* in both Afghanistan and Pakistan continues to spill over into North Africa and southern Europe.
- > The playing through of the empowering of Saif al-Islam as the successor to the current *Leader* is being handled in an un-dramatic way, and there is no sense on the streets that change is in the offing or points of conflict are approaching.

- > The spectre of modernisation is still clearly apparent to those who, for ideological or pecuniary reasons, have no wish for a demolition of the *Jamahiriyah* system. They are immensely constrained in offering opposition of a damaging kind so, for the immediate future at least, serious flash points can be avoided.



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Staff and Consultants  
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Menas Associates Limited  
16/19 Southampton Place  
London WC1A 2AJ  
United Kingdom

+44 (0)20 7745 7190 Phone

[info@menas.co.uk](mailto:info@menas.co.uk)  
[www.menas.co.uk](http://www.menas.co.uk)

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