

Rebuilding the poor oil-rich country of Libya

By [Kari Huus](#) Reporter

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Let's imagine that post-Gadhafi Libya avoids devolving into chaos. For the new leadership, there's good news and bad news. The good news is black gold. Libya has some of the finest oil in the world to generate revenue. The bad news: The economy is in a shambles and needs to be recreated from scratch.

After four decades under the corrupt and repressive leadership of Moammar Gadhafi, most of the **economy** is state-run — though poorly run — with little private enterprise to take up the slack. The leadership inherits a damaged infrastructure that was rickety even before the war, and it could take years to ramp up oil production to pre-war levels. To build a healthy, diverse economy will require an overhaul.

“It's going to be a tough economic situation,” says Mohsin Khan, a senior fellow at the Peterson Institute for International Economics. “The new Libyan government will have a choice to make — which way it wants to go. That's critical in determining how it rebounds.”

As it stands, Libya has a highly centralized economy that relies on oil exports for 95 percent of its revenues. About 70 percent of the population relies on government paychecks, many through money-losing state-owned companies.

Before the conflict, the country was able to produce 1.8 million barrels of sweet light crude oil a day, but billions in oil revenues were diverted into the pockets of the leadership or spent on the military. The country's schools, hospitals, roads, ports, sewer systems and other facilities have badly deteriorated.



Suhail Sakran / Reuters
An oil terminal at Zueltini, 528 miles east of Tripoli, photographed March 27 after it was retaken by rebels from Moammar Gaddafi's forces.

Next leaders face an economy in shambles

“To Libyans, it's shameful that many countries have developed in the last 20 to 30 years, and we are still backward,” says Idris Traina, a longtime opposition leader and president of the Libyan American Association of California. “They didn't spend enough on education or health. For any significant sickness, most (Libyans) go outside the country — to Tunisia, Europe, Jordan or Switzerland.”

Reward, amnesty offered for the killing or capture of Gadhafi

After a young Col. **Moammar Gadhafi** rose to power in 1969, he imposed his own brand of socialism, one

that morphed into a kleptocracy at the top. For many years, Libya was under international sanctions for its role in terrorist activities. Gadhafi began reopening the door to private enterprise only in 2003, when he was trying to revive relations with the world, but the private sector remains marginal.

“Despite modest improvements in the business climate, Libya's bureaucracy remains one of the world's most burdensome,” according to the conservative [Heritage Foundation](#). In the Washington think tank's 2011 ranking of economic freedom around the globe, Libya was 173rd, the lowest in the Middle East and North Africa region.

[Story: With Gadhafi out of power, oil prices should fall](#)

So far, the members of the National Transitional Council have largely been consumed by driving out Gadhafi and have given little hint of who or how they hope to manage the economy. Traina says his contacts in the council are leaning strongly in favor of a free market for Libya that taps into its citizens' latent potential. As it stands, many Libyans are unemployed or underemployed.

“Usually, people who live under dictatorship for a long time, they lose their creativity. I think if people are given the freedom and the corruption is minimized, I think Libya will be in very good shape,” he says, noting the immense enthusiasm he saw on a recent trip to rebel-held areas. “People are looking forward to working hard and changing the country.”

To move or dismantle Libya's socialist economy is likely to dislocate many people who have been working in Libya's state industries or simply warming chairs in its vast bureaucracy. Libyans talk about diversifying — into tourism or alternative energy, perhaps, but those industries don't yet exist to absorb workers.

“Gadhafi ran a very complicated patronage system that guaranteed people jobs,” says Khan. “That's why it worries me that the new council, when it takes over, will not want to upset the people (by) taking hard decisions of letting people go from government employment.”

Spending decisions will also be difficult.

Libyans “are concerned about food prices, jobs, subsidies, employment schemes. The new politicians coming in will be promising them that. As a result, spending can be fairly high right away,” says Khan. Unless they can be fiscally conservative, he says, they risk wiping out their existing national wealth.

Because the [oil industry](#) has been largely shut down during the fighting, Libya will need to rely initially on an estimated \$150 billion in assets that were stashed overseas and have been frozen by the international community, according to Khan. The process of unfreezing those funds for Libya's use is just beginning.

Before it runs out, it will be imperative to get the oil industry up and running again, since there's essentially no other source of government revenue. It could take many months — or years, depending on damage caused by the war — to make necessary repairs, get the oil engineers back in the country and ramp up production.

[Restoring Libyan oil output could take years](#)

“It's not as if they can just open the spigots and the money will come flowing in,” says Khan of the Peterson Institute.

Another legacy of the Gadhafi era is the corrosive force of corruption.

Traina, an optimist, believes most Libyans are fundamentally averse to corruption and hopes the new leadership will shun it.

Gamal Khalil, a Libyan-American scientist doing research at the University of Washington, says the problem has spread well beyond Gadhafi's inner circle. He says he's seen it even within his own family in Libya.

"It's becoming so that if you haven't got yourself a piece of the pie here, some people would call you a loser. There's so much money around, and you didn't take advantage of it," he says. "It's definitely a challenge."

One thing that everyone seems to agree on is that Libya's new leadership needs to tackle first is restoring basic infrastructure, which sustained \$15 billion in damage during the conflict, according to an estimate by Libya's Central Bank.

"It is in really poor shape," says Khalil, who spent part of his career teaching in Libya. "For that, a lot of well-established companies from the West and China will need to come forward. The money exists — that's the good news."

There's another reason for optimism about the economy, at least in immediate post-war period.

"The only good news about wars is the economic boom that follows," says Khan. "Rebuilding infrastructure creates jobs."

OPEC member Libya is the 17th largest producer in the world, third largest producer in Africa and holds the continent's largest crude oil reserves. It normally pumps around 1.6 million bpd, 85 percent of which is exported to Europe and its output is equivalent to about 2 percent of global oil consumption.



AP

Libya's place in the oil producing world

How the country measures up in crude supplies and production.

Exports

Before the war, Libya was a net exporter with domestic consumption estimated at only around 270,000 bpd.

Europe was most affected by Libyan oil export disruptions. About 28 percent of Libya's oil went to Italy,

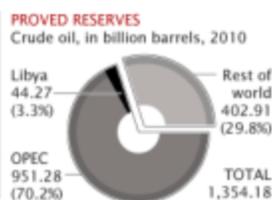
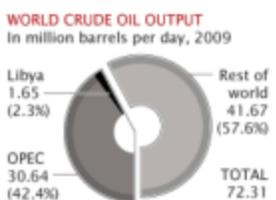
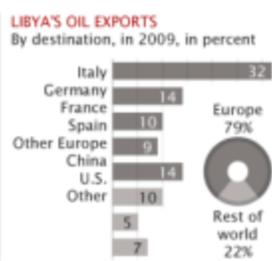
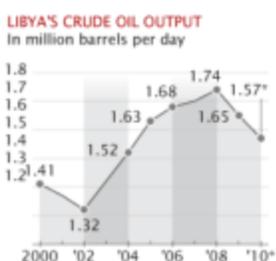
10 percent to Germany, 11 percent to China and France and 3 percent to the United States.

Libyan oil accounted for about 23 percent of Ireland's oil and about 22 percent of Italy's, according to the IEA.

Around 13 percent went east of the Suez Canal to Asia.

The shortfall from the loss of Libyan output was covered by alternative sources such as Nigeria and Azerbaijan, which produce similar light crude oils to Libyan oil.

Saudi Arabia also brought some of its spare capacity online, according to Saudi sources. The kingdom promised to fill any supply gap caused by the unrest in Libya although it produces heavier crude with higher sulfur content than Libya.



Note: Percentages may not add up to 100% due to rounding * Data from Reuters survey
SOURCES: World Energy Atlas, U.S. EA, Thomson Reuters Reuters

Infrastructure

Oil fields

Most of Libya's oil fields are located in and around the Sirte Basin, in the northeastern part of the country, which contains around 80 percent of the country's proven reserves.

Other key areas include the Ghadames Basin, about 240 miles south of Tripoli and Cyrenaica Basin in the northeast and the Murzuq oil field in the desert in the south of the country.

Libya has five domestic refineries with a combined capacity of 378,000 barrels a day:

Azzawiya Oil Refining Co Sarir Refining Sirte Oil Co Tobruk Refining Ras Lanuf Oil & Gas Processing Co

Ports

Libya exported various grades of light crude from six major terminals, five of which are located in the eastern part of the country, where protests erupted near the second city of Benghazi.

Following are the eastern terminals with pre- war loading volumes in January, 2011 provided by the IEA.

Es Sider 447,000 barrels per day
Marsa El Brega 51,000 bpd
Ras Lanuf 195,000 bpd
Tobruk 51,000 bpd
Zueitina 214,000 bpd
Zawiyah 199,000 bpd (January exports)
Other unspecified terminals 333,000 bpd

Companies

Libya's state company

Under the Gaddafi regime, Libya's oil industry was run by the state-owned National Oil Corporation (NOC), which was responsible for managing exploration and production sharing agreements with international oil companies. Along with smaller subsidiary companies, the NOC accounted for around 50 percent of the country's oil output.

Foreign players

Major oil companies operating in Libya include:

BP (Great Britain)
ConocoPhillips (United States)
Eni (Italy)
ExxonMobil (United States)
Hess Corp (United States)
Marathon (United States)
Occidental Petroleum (United States)
OMV (Austria)
Repsol (Spain)
Shell (United States)
Statoil (Norway)
Wintershall, a unit of BASF (Germany)

