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# The Role of Oil in the Libyan Conflict

## An application of the Enlarged Security Perspective

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# The Role of Oil in the Libyan Conflict

## An application of the Enlarged Security Perspective

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**Abstract**: The paper examines the conflict in Libya in the period between the end of the 2011 uprising and the formation of the UN-backed Presidential Council in December 2015 by adopting the Enlarged Security (ES) perspective. The introductory part provides a theoretical overview of ES and outlines the research focus of the paper, namely the correlation between the country's hydrocarbon resources (especially oil) and the security situation. The main part is divided into three sections: the first outlines Libya's oil resources, the second deals with the issue of the economic institutions managing the oil-derived wealth, and the third one combines on results of the previous by focusing on the security implications of a possible financial collapse of the state. Finally, the conclusive part resumes the results of the research and provides a final overview of Libya's security problems under the ES perspective.

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## Introduction

The purpose of this paper is to analyse the conflict in Libya in the period between October 2011 and December 2015 by applying the Enlarged Security perspective. In particular, the focus will be on verifying and evaluating the linkage between Libya's energy resources (especially oil) and the security situation in the country.

In order to do so, it is first of all necessary to provide a brief overview of the theoretical framework that has been adopted[1]. Enlarged Security (ES) is a theoretical perspective included in the broader International Security Studies (ISS) discipline. Its main feature is that, as the name suggests, it enlarges the traditional security perspective. The latter rests upon on a military-based definition of security and is focused on examining the capacity of the state to exert an effective and undisputed control over its territory, notably thanks to a powerful and efficient military force. On the contrary, ES attempts to broaden this conception to include other causal variables that may affect the state's ability to actually grant law and order over its territory. Differently said, it takes into account other factors that may determine whether the state is capable to maintain an effective security apparatus and thus to control its territory and counter the threats to security.

It should be noted that ES is still focused on the state as the main actor and object of study, as well as on a traditional conceptualization of security. However, it introduces other variables to explain the state's performance in responding to security threats: in brief, the strength of the state and of its armed forces are no longer considered as the independent variable that determines the security outcome, but instead the ES perspective regards them as the dependent variables whose efficacy in granting security is to be explained by evaluating other factors, notably economic ones.

At this point it is possible to discuss the application of this theoretical framework to Libya's case, starting by defining the time frame and the object that have been examined.

For what concerns the first element, the period that will be analysed essentially spans from the fall of Gaddafi's regime (October 2011) in the wake of the civil war of that year until the establishment of the Presidential Council in December 2015 following the signing of a UN-supported peace deal between the two existing governments.

1 For more information about ISS, the Enlarged Security and other perspectives, see the books indicated in the bibliography (“general IR and ISS theory”).

The object to be studied, in accordance with the ES perspective, is the post-October 2011 Libyan state. However, given the fragmentation of power the country had to face during the time lapse to be considered, it is necessary to define what will "state" mean along this paper; in particular with regard to which government will be considered as the legitimate representative of Libya. Therefore, the "state" to be examined is essentially the government, administration and military forces under the authority of the House of Representatives[2] elected in June 2014 and endorsed by the international community. Consequently, the object of study will be the capacity of the HoR to establish an effective state apparatus able to control the country's territory and ultimately to grant security.

By having clarified these important points, it is possible to address the actual application of the ES perspective on the Libyan conflict. The basic security problem in the country is that there was no single authority, including the state, with the means to exert the monopoly of force on the territory; as image 1 (page 18) clearly shows. Beyond the fact that there were two rival governments both claiming the legitimate rule over the country (but both unable to effectively control the whole of it), there were also a number of armed groups on the ground, with different affiliations, resources, and objectives. As a result the country could be considered as a typical weak state, meaning it faced the risk to become a full failed one[3]. The government was thereby not able to establish an effective security apparatus capable of granting security in the country, and according to the ES perspective, the main reason underlying the state's inability to do so was that it had not the necessary financial resources.

This allows to define the causal variables to be examined. The main focus will be on the economic resources the Libyan state can employ to have its security apparatus working, in order to effectively exert its sovereignty and thereby to face security issues. Again, considering the peculiarities of Libya's situation, this means that the pre-eminent element to be considered is oil, as it represents the main (in fact, virtually the only) source of revenues for the state. It should also be noted that gas will be given a minor importance, not only due to its secondary economic role but also because most gas field and extraction facilities are located at sea, out of reach of armed groups; and as a consequence they are not object of struggles between them.

On the basis of these considerations, it is finally possible to outline the research question at the base of this paper. The aim will be to analyse Libya's security situation by verifying

2 As it will be explained later, Libya had two rival governments: one expressed by the House of Representatives (HoR) and the other by the General National Congress (GNC).

3 Nye, *Perspectives on International Relations*, p. 205 defines failed states as "states whose domestic institutions have collapsed".

whether there is a link between the control of oil revenues and the capacity of the Libyan state to grant security in the country; and thereby to evaluate the importance of the "oil factor" on the security situation. The hypothesis underlying the work will therefore be that the control of oil revenues is an essential factor in the ongoing Libyan conflict, because:

- The various involved factions are struggling to control it as a mean to sustain their respective armed apparatus.
- Oil-derived revenues are vital for the state to be capable of re-establishing its control on the country and consequently to restore security.

**Section I – Oil in Libya and its and its significance for the conflict**

At this point, it is possible to start examining Libya's security situation, starting with providing an overview of its oil resources.

Libya holds the largest oil reserves in the whole African continent, with a total proven reserve of 48 billion barrels in 2012[4]. Moreover, the oil extracted in the country is the so-called "sweet crude", whose chemical properties make it ideal for refining processes to produce fuel. As a consequence, Libyan superior-quality oil was sold at a higher price than the one produced by other countries[5]. It is here necessary to highlight that before the uprising and the outbreak of the civil war in 2011 oil revenues (mostly generated by exports to Europe) accounted for about 65% of the country's GDP[6] and 75% of the budget[7]. These figures alone are likely enough to show that Libya was a typical petro-state[8], but the issue will be addressed more in detail later.

Image 2 (page 18) depicts the geographical distribution of oil and gas. Roughly two-thirds of the produced hydrocarbons comes from the centre-east, about one-quarter arrives from the south-west and the rest is extracted offshore[9]. Not surprisingly, the two major pipelines are located in the first two areas. This has significant political and security implications, since the two most important oil-drilling areas are located in the territory under the control of the two rival governments that disputed the country since July 2014; and this is one of the most important factor to have caused the long-standing political stalemate.

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4 OECD, *An Atlas of the Sahara-Sahel*, p. 96. The same source reports that Libya also had 54,6 trillion cubic feet of natural gas.
5 Temehu, "Oil & Natural Gas" and ICG, *The Prize*, p. 2.
6 OECD, *An Atlas of the Sahara-Sahel*, p. 96.
7 ICG, *The Prize*, p. 2.
8 The term indicates a state whose main (if not only) source of revenues is oil.
9 ICG, *The Prize*, p. 3.

However, producing and distributing oil is not enough to obtain financial revenues from its exploitation. There is indeed another essential (though often neglected) element to be considered: the economic institutions that supervise drilling operations, manage oil wealth and interact with foreign partners. This is the other major issue at the base of the political stand-off. Libya's "oil institutions" are three, namely the National Oil Corporation (NOC), the Libyan Investment Authority (LIA) and the Central Bank of Libya (CBL)[10]. Again, their role and the problems surrounding their control will be detailed later.

After this general overview of the country's oil resources, it is possible to examine their role during Colonel Gaddafi's long rule. By doing so, it is possible to better understand the importance of oil in Libya's security situation and consequently the post-2011 events.

It can be stated that oil was one of the pre-eminent elements at the base of the regime's stability, if not its essential pillar. In fact, Gaddafi was able to maintain himself in power thanks to a careful combination of three elements: a centralised security apparatus, welfare policies and clientelism[11]. But in practice, the upkeep of all of the three ultimately relied on oil revenues. For what concerns the first, it is normal that an effective security force could be established only with significant financial resources, whose main origin was oil export. Even though the majority of Libya's security forces were poorly trained and equipped and kept under thigh control out of fear of an armed rebellion, it is also true there were elite units (recruited among tribes loyal to Gaddafi himself) that were kept efficient thanks to the country's oil wealth[12]. Secondly, oil extraction granted the regime a debt-free economy[13] and a good growth (4,3% or 2,9% in 2010[14]). In turn, this allowed the government to implement welfare policies to appease the population and keep civil strife under control. Finally, the wealth originated by hydrocarbon exploitation was the economic basis of the favouritism network that ensured the stability of the regime by linking it to the various tribes present on the territory.

Indeed, the loss of the oil-producing areas in the east was among the most important causes of the regime's collapse in 2011[15], since it was deprived of the economic basis that allowed the state to be kept in function. This is already a clear index of the importance of oil for security

10 ICG, *The Prize*, p. 18.
11 ICG, *The Prize*, p. 1 and F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 5-9 ("Domestic Level").
12 F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 5-9 ("Domestic Level").
13 ICG, *The Prize*, p. 2.
14 The figures are respectively taken from ICG, *The Prize*, p. 2 and F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 7.
15 F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 8.

and stability in Libya.

It is now possible to proceed with the examination of the post-2011 events and how they affected the production of oil and thereby Libya's economy. The period after the fall of Colonel Gaddafi's regime can be essentially divided in two phases[16]. The first spans from the beginning of 2012 to mid-2014, and was characterized by the seizure of oil infrastructure by workers demanding higher salaries and by armed groups attempting to obtain more autonomy from the central state. The second phase started with Operation Libya Dawn in July 2014, and saw the split of the country between two rival governments engaged in a struggle for political supremacy as well as for the control of oil revenues.

The first phase will be now examined[17].

When the regime collapsed following the 2011 uprising, the power vacuum derived from the sudden disappearance of the long-standing centralised control and of the patronage system caused local groups to start fighting for oil. Its production fell practically to zero during the civil war, but it recovered almost entirely during 2012. In the meantime, a new government backed by the newly elected legislative assembly (the General National Congress, or GNC) had been established.

However, the following year the tension started rising. At first, various groups organised sit-ins, strikes, demonstrations and similar forms of non-violent protest to achieve their objectives. During this initial period their demands were overall simple and mainly linked to more equitable work conditions, revenues distribution, rights protection and welfare policies. Consequently, the government was able to solve them quite easily by compromise. However, soon armed militias appeared and started to fight among themselves, largely because they could not be integrated in the regular armed forces.

Among the others, the case of the Petroleum Facilities Guard (PFG) is particularly significant. They had been sent by the government to secure some oil-producing facilities in the eastern region of Cyrenaica. However, they gained influence over time and ended up dominating the Ministry of Defence. The group started to become affiliated with Zintan-based militias, and later its members stormed the Ministry of Oil to have their salary paid. Amid rising tensions all over the country, involving a growing number of armed groups, the PFG seized the oil infrastructure in the east. The aim of the blockade was to damage other groups by denying

16 ICG, *The Prize*, p. 6.

17 The part about the first phase is largely based upon ICG, *The Prize*, section III-A, p. 6-16.

them access to oil revenues. Given the growing chaos in the country, groups membership and demands started to overlap more and more. It was by then clear that all these militias were fighting to establish a new patronage system favourable to their interests, to replace the old one which had crumbled after Gaddafi's fall. In this case, the PFG's demands superimposed with those of the regionalist movements demanding more autonomy for the east, out of the impression that their (oil) wealth was all flowing in the cashes of the government in Tripoli. The PFG occupied the port of Sidra (which accounted for one-third of the country's oil export alone) and other sites. At first, the government attempted to solve the issue by dialogue as it had done in similar cases before, but given the ineffectiveness of its efforts it started considering the use of force. Ultimately it went on with negotiations, but they failed[18]. At that point, the United States intervened to stop the rebel's attempts to export the oil they controlled by sending a SEAL unit[19] to seize a North Korean cargo that was transporting oil from east Libya abroad. This act was a clear signal that the US (and more in general the international community) were afraid a similar act would undermine the legitimacy of the GNC. However, the government understood there were no other means to reopen the eastern ports than to find a compromise with the PFG / federalist groups. In the end an agreement was reached in April 2014, but in the meanwhile the dispute had caused the loss of many billion dollars[20]. Moreover, even though the deal allowed "regular" export from the east to restart, the oil price on the international market had dropped so much that the restoration of the export from eastern Libya was not sufficient to grant the government with a sufficient flow of income.

Of course, this was just one of the many cases of turmoil that affected Libya at the time. Along with the rebellion in the east, the country was also subject to clashes between non-Arab ethnic groups[21] in the south-west, namely Tuareg and Tebu. It is interesting to note that the area is the other major oil-drilling zone in Libya, and in fact local tribes fought over the pipelines and oil fields in the area in order to use them to pursue their political objectives. Another remarkable struggle was that between the Misrata militias and the Zintani ones. These two rival groups clashed over the control of Tripoli's airport. This is important mostly because the fight between the two factions marked the beginning of the second civil war,

18 Someone claimed the so-called "federalist" groups were advancing unacceptable demands with the precise purpose of making the dialogue fail and consequently have an excuse to legitimate their control and start selling oil. See ICG, *The Prize*, p. 13.

19 The SEALs are the US Navy's Special Forces.

20 $30 billion according to ICG, *The Prize*, p. 15; $14 billion as reported by Global Security, "Libya - Oil and Gas".

21 With this term I refer to groups belonging to a different ethnicity than the dominant Arab one, and that are thereby characterized by a different language, culture, traditions, etc. Their origin goes back to the populations that inhabited North Africa before the Arab invasion in the 7th century AD.

which erupted following the legislative elections in summer 2014 and the subsequent two-government crisis. In brief, the elections had led to the formation of the new secularist HoR assembly to replace the old pro-Islamist GNC. The latter however did not accept the electoral outcome and refused to dismiss. At that point, Misrata forces loyal to the GNC launched operation Libya Dawn to push Zintan militias (pro-HoR) out of Tripoli's airport. The fierce battle resulted in the HoR fleeing the capital and establishing its seat in the eastern city of Tobruk, thus starting the problematic second phase of the post-Gaddafi era, characterized by the presence of two rival governments, each one supported by one of the existing legislative assemblies.

For what concerns the second phase[22], it inherited the very same oil problems of the previous one. Even before the events of summer 2014, many members of the Libyan establishment opposed the deal reached with the PFG / federalist forces, and after the formation of the two rival assemblies and governments the question re-emerged in a different form.

In fact, the clashes over the eastern oil zone kept on raging. But if before they saw government (GNC) units and affiliated militias fighting against PFG / federalist rebel forces, thereafter they opposed the troops of the two rival governments.

In December 2014, Misrata militias attacked the eastern oil fields still under the control of the PFG and federalist armed groups, but they did not succeed and were pushed back. However they kept on fighting around Sirte, and their focus on each other made them neglect other threats. This made the situation even more problematic and chaotic: the Jihadist group Islamic State (IS)[23] was able to advance on the city, which ultimately became its stronghold in Libya. In reality, the terrorist movement was not strong enough to control large portions of territory and therefore oil production. But it started hitting oil infrastructure to deprive the two governments of their main source revenues and consequently disrupt them and their western clients. IS was therefore  a serious threat, but neither of the two rival governments could (or wanted to) fight it, partly because they had been both weakened by the fight against each other. In fact, their focus remained on defeating the forces loyal to the other executive and on seizing power in the country. As before, they exploited pre-existing ethnic rivalries in their favour, with Tuareg tribes supporting the GNC against pro-Tobruk Tebu ones. Again, both

22 The reconstruction of the events of the second phase is mainly based on ICG, *The Prize*, section III-B, p. 16-17.

23 Jihadist groups can be defined as extremist religious groups who, on the base of a radical interpretation of Islam,  claim to fight the *Jihad* (the holy war against the infidels) in order to establish a state based on the *Sharia* (Islamic law). It should be noted that the IS is only one of them present in Libya; another important one is Ansar al-Sharia.

attempted to cut off the oil flow to turn the tide on their favour.
Since then, the stalemate persisted for the whole year 2015. However, the talks between the two governments under the supervision of the international community allowed them to reach a deal in December aimed at forming a Presidential Council charged with the task to form a new unity government, which was ultimately nominated in February 2016 and arrived in Tripoli in late March.

At this point, it is possible to rapidly assess the economic backlashes of the post-2011 instability, in particular how it affected oil production, export and the state income.
Image 3 (page 18) represents the variation of oil production output from 2011 to mid-2015. Just before the Arab Spring uprising in 2011, Libya produced about 1,6 million barrels per day (b/d)[24]. Oil export accounted for about 65-70% of the country's GDP[25] as well as for 96% of the government revenue[26]. When the civil war broke out, the whole oil industry crumbled; mainly because of infrastructure damage, human losses, capital flee, sanctions, frozen assets and the withdrawal of foreign companies. During that period, oil output dropped to practically zero. However, when the regime ultimately collapsed and the rebels took power, production was restored almost completely, reaching 1,5 million b/d in September 2012[27]. But the new turmoil in 2013 made it collapse once again: after May, it declined constantly and reached just 200.000 b/d at the end of the year[28]. It partially recovered during 2014, but then it fell again below 400.000 b/d and by the end of 2015 it had not yet been restored[29].
Naturally, this had a considerable impact on the country's economy and on the financial resources available for the state. The GDP contracted of 41,8% in 2011[30], and it continued on this negative trend in the following years[31]. According to a NOC estimate, since 2013 about $68 billion in oil revenues have been lost[32]. These figures make clear that the economic impact of the post-2011 clashes was indeed significant, and that oil played a major role in determining the stalemate that characterised Libya's political situation after July 2014. Had the HoR-backed government (or its rival) been able to control the whole oil production and export line, it would have probably had enough financial resources to establish an efficient

24 See ICG, *The Prize*, p. 2.; Armed Conflict Database, "Libya"; El Amrani Issandr, "Chaos in Libya".
25 F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 7; ICG, *The Prize*, p. 2.
26 El Amrani Issandr, "Chaos in Libya"; ICG, *The Prize*, p. 2.
27 Global Security, "Libya - Oil and Gas".
28 ICG, *The Prize*, p. 3 (see the graph).
29 ICG, *The Prize*, p. 3 (see the graph); Global Security, "Libya - Oil and Gas".
30 F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 7; ICG, *The Prize*, p. 7.
31 CIA World Factbook, "Libya". See the "economy" section for figures about the GDP.
32 Armed Conflict Database, "Libya". See the "political trends" page.

security apparatus and therefore to prevail in the conflict and restore law and order. However none of the two governments nor any other armed group was strong enough to keep under control the entire oil industry and benefit of its (total) revenues.
This can be seen by comparing the aforementioned images 1 and 2 (page 18).

As mentioned before, pro-HoR forces ruled the eastern part of the country, where flows the majority of Libya's oil. The north-west, from where the Greenstream undersea pipeline towards Italy starts, was controlled by GNC-affiliated units. Finally the south-west oil fields and pipelines were dominated by local tribes. Each faction had the control on just one part of the production line, and it is therefore clear that no one could benefit from oil revenues and consequently have the financial resources to definitively solve the conflict by building an armed force strong enough to break the power equilibrium and obtain a decisive victory, capable to allow it to extend its influence over the whole Libyan territory.
Here, it is necessary to highlight two important issues.
The first concerns the operative objectives of the groups involved in the war. As explained above, none of them was strong enough to prevail over the others and take control of the whole country. Knowing not to be strong enough to ultimately prevail, they all concentrated their efforts in attempting to avoid other forces to access oil revenues to a degree sufficient to obtain enough financial resources to achieve the final victory. In other words, the armed groups did not try to obtain the control of the whole oil industry and to win the war, but rather they attempted to deny others from reaching this objective by disrupting their access to hydrocarbon resources.
The second matter deals with the HoR and its (financial) capability to achieve the final victory. It may seem that by controlling the east with its rich oil fields and its important oil infrastructure (an area that, as noted above, accounts for two-thirds of the total export), they should thereby have had enough financial revenues to build an organised and well-equipped fighting force capable to grant the ultimate victory. However, this consideration neglects an important factor: the economic institutions that manage the financial aspects of the oil industry. As a matter of fact, extracting and transporting oil is not sufficient: there must also be institutions tasked with conducting the financial transitions necessary to sell it abroad and gain revenues from it. The problem for the HoR authorities is that they had not access to these institutions and their accounts, since they are all located in Tripoli, and therefore are under control of the GNC and its affiliates. This very fact is of paramount importance for the conflict, by the moment that the lack of control over the institutions was the decisive factor

that denied the HoR to access the financial resources to solve the war in its favour; and at the same time they represented the main asset that allowed the GNC to keep on fighting.

**Section II – The importance of the financial institutions and the legal dispute over them**

At this point, the matter of the economic institutions should be examined more in detail. As previously mentioned, Libya has three main financial institutions: the NOC, the CBL and the LIA; all of which play a significant role in the management of the country's oil-derived wealth. There was an ongoing legal and political dispute between the two rival governments over who had the formal authority over them and therefore access to their funds. On the one hand, the HoR claimed the elections in summer 2014 had given it the rightful authority over them. On the other hand the three institutions were *de facto* controlled by Tripoli-based GNC and were virtually held hostage by the armed groups ruling the city, and the only reason they were not overrun is that they kept on paying both governments (and their affiliated militias)[33]. The attempts by the HoR to create "parallel" institutions or to conduct financial transitions out of the ordinary channels all resulted in a failure. Someone asserted instead the three institutions should have been above politics (which was also the official position of Western countries)[34], but in practice the stalemate went on.

The first institution is the NOC (National Oil Corporation), which as the name suggest is the one more directly linked with the oil industry. In effect, it is the authority tasked with the operative aspects of oil exploitation. Its function is to supervise the drilling process, to sell oil abroad and to make deals with foreign firms interested in exploiting Libya's oil.

For what concerns the CBL, its importance lies in the fact that it holds the country's foreign currency reserves, which are essential for conducting the financial operations to sell and buy oil[35]. It is important to note that the reserves suffered a dramatic drop in just a few years: they consisted of $110 billion in 2013[36], but the last official report indicated they had fallen to $76 billion in March 2015, and estimates indicate they were around $70-60 billion or even less towards the end of the year[37]. This is a serious financial concern, since the exhaustion of the reserves would deprive Libya of the valuable currency necessary to operate on the international markets and to import essential basic goods, upon which the state is totally

33 El Amrani Issandr, "Chaos in Libya".
34 ICG, *The Prize*, p. 18.
35 Of course, the CBL is also essential for Libya's monetary policy.
36 El Amrani Issandr, "Chaos in Libya".
37 ICG, *The Prize*, p. 18; El Amrani Issandr, "Chaos in Libya" refers they even fell under $60 billion.

dependent[38].

Finally, the LIA is the sovereign wealth fund that employs oil revenues to buy and manage profitable assets abroad[39]. These were worth a total of $67 billion[40], mostly located in European countries. Therefore, the dispute surrounding it is a serious concern for the West as well. Its most important assets include: In Italy, it owns 1% of the energy giant ENI and holds $20 billion of its bonds; it also owns 2% of aerospace firm Finmeccanica; 7,5% of the financial group Unicredit; 2% of car-manufacturer FIAT and 7,5% of the football team Juventus. In the rest of Europe, LIA holds significant stakes in the British editorial group Pearson, in the Royal Bank of Scotland and in Russian aluminium colossus Rusal. However, most of LIA's assets abroad are frozen due to economic sanctions and the aforementioned legal dispute.

Having traced a general picture of the issue, it is possible to outline the major events linked to the legal dispute over the economic institutions[41].

Naturally, the matter went beyond the strict legal terms and was closely interlinked with the developments on the ground. When the two-government crisis began in summer 2014, the situation in Libya was quite chaotic, with various armed groups clashing with each other. As shown by the figures reported above, the economic situation was rapidly deteriorating: as a consequence, state revenues were falling while spending was rising. This meant both governments needed the three economic institutions to finance their apparatus and keep on fighting. Thereby, they had to cooperate, and at first they actually attempted to do so. The first problem to emerge concerned the head of the CBL, since the HoR decided to change it. However, the man they appointed had practically no power; and the matter was solved with reciprocal concessions between the two governments. It was decided that the CBL would pay both of them, including the virtually powerless Tobruk-based one, while the GNC obtained that the eastern ports remained open (thus allowing itself to gain from oil export). But the agreement did not last, and the HoR responded by establishing a parallel CBL as well as by changing the head of LIA, which had therefore two top officials (one in Tripoli, backed by the GNC; and the other in Malta supported by the HoR). This led to the legal dispute on the formal authority over Libya's rich sovereign fund, and consequently on the access to its assets

38 For example, some estimates indicate it imports up to 75% of its food. See F. M. Schauseil, *Conflict analysis of the Libyan civil war*, p. 8.

39 The paragraph about the LIA is essentially based on Braw Elisabeth, “Following the Money in Libya”.

40 The same figure is reported in ICG, *The Prize*, p. 18.

41 This part is based on ICG, *The Prize*, section IV, p. 18-24 and secondarily on Braw Elisabeth, “Following the Money in Libya”.

located abroad.

Another major event was the Supreme Court ruling of November 2014, which declared the elections that had taken place in summer were unconstitutional. This naturally meant that the legislative assembly that had been elected (namely the HoR) was illegitimate as well. Following the pronunciation, the GNC became more assertive in advancing its claims over the financial institutions.

As noted above, the legal / political dispute was intertwined with the military operations. The already mentioned offensive by Misrata's militias against the pro-Tobruk PFG in the east was launched after the HoR authorities tried to establish their own CBL and NOC.

Regarding the first, they accused the official CBL in Tripoli of not being neutral and to keep the war raging by paying both militias. Somehow paradoxically, the GNC advanced the same accusations against the Bank. It is interesting to note the political and even moral dilemma it had to deal with: on the one hand, it was meant to be an apolitical institution supposed to ignore the legitimacy dispute by keeping on paying both assemblies and their militias; but on the other by doing so it did not help to resolve the dispute and the war, and this also meant it protracted its own situation as a hostage of the armed groups in Tripoli.

For what concerns the second, the efforts by the HoR to establish its own equivalent of the NOC had to face the determined opposition of foreign firms. Considering the magnitude of their involvement in the country before the conflict, as shown by image 4 (page 18), this is not surprising. They refused to make deals with the HoR-supported institution claiming they had contractual obligations with the "old" Tripoli-based NOC, which, as a matter of fact, was the one with actual access to Libya's oil wealth. Even the United States, which normally supported the HoR, endorsed that position.

As a result, the HoR's efforts to create its own parallel institutions met little success. In reality, even inside the assembly itself that policy was not supported by everyone. The reason is that many were afraid it would be a significant step towards the *de facto* partition of Libya, whereas they wanted to ultimately come back to Tripoli and govern the whole country. The only significant success the HoR met was the recognition of its own CBL governor by the International Monetary Fund in July 2015. Even though he had no actual access to financial accounts, this formal recognition (apart from its symbolic meaning) was important because it might allow the Tobruk authorities to obtain emergency funds from the IMF. However, there were also potential drawbacks, since it might mean a continuation of the fight and maybe even the ultimate partition of Libya.

**Section III – The risk of financial collapse and its possible future implications**

Given the situation at the end of 2015, the Libyan state faces the serious risk of bankruptcy[42]. On the one hand, it had to face consistent expenditures not only to maintain itself, but also to import the essential basic goods upon which the country is totally dependent, as well as to sustain the war effort. On the other hand the income was dramatically reduced: oil production (the main source of revenues) has dropped and international oil prices became too low to allow the state to gain enough by exporting the little oil it produces; furthermore, most Libyan assets abroad were frozen and / or inaccessible due to the legal dispute between the two rival governments. Therefore, the state had serious difficulties in finding the financial resources to keep on working, and as a consequence there was the concrete possibility of a financial collapse.

Some figures help to better understand the magnitude of the situation. In 2014 Libya was running a deficit of $16,4 billion, corresponding to 44% of its GDP[43]. The balance of payment was also in deficit of $22 billion[44], a further proof of the country's low export of oil and as well as of its dependence on the import of basic goods. The CBL attempted to react to this worrisome situation by taking some emergency measures; such as cutting public wages, subsidies and funding for infrastructure building and development projects. Even though these solutions might be effective in pure accounting terms (and even have some real short-term effect), they are *de facto* inadequate for three reasons. First, in practice they can just slow down the financial disrupt, but are not enough to stop it; even because foreign currency reserves the CBL holds are necessary to stabilise Libya's national currency (the dinar) on the international monetary markets, which implies the nation would still need to spend significant amount of money. Second, they are politically costly, since cutting down public expenditures would probably create unrest among the population. Third, interrupting the funding of development projects would likely compromise the long-term economic recovery of the country.

The fact that there were no official data available for Libya's foreign currency reserves after the report of March 2015 is quite worrying. As already mentioned, estimates suggested they dropped to about $70-60 billion[45], which is a terrific drop since the levels of a few years before, and insufficient to sustain the economy for long. The disputes over the economic

42 This part is mainly based upon ICG, *The Prize*, section IV, p. 25-28.
43 ICG, *The Prize*, p. 25.
44 *Ibidem.*
45 See notes 36 and 37 for the source of the figures on Libya's foreign currency reserves.

institutions made the situation even more problematic. The one over LIA led to a poor management of the country's financial assets, and the one about the NOC prevented Libya's oil company from working properly and maintaining the complex (and ageing) oil infrastructure.

These considerations allow to draw some prospects on the possible evolution of the security situation in the country.
In the worst-case scenario the reserves were exhausted, the effect would be potentially devastating. Public wages would not be paid any more, making popular unrest to rise. Moreover the dinar would devaluate, thus making vital imports more expensive and further contributing to fuel civic strife. The combination of these factors would very likely result in a reprise of the insurgency and ultimately in the collapse of the state, with serious implications for the security. As a matter of fact, the resulting power vacuum would allow armed groups (including Jihadist ones such as the Islamic State) to proliferate and to establish strongholds in the country. The humanitarian situation would deteriorate as well, causing a consistent flow of migrants towards neighbouring countries and Europe, with sensible destabilizing effects on both. In the long term, this and the complete disruption of the economy would make the state rebuilding process even more difficult; causing serious concerns for the Libyans as well as for the international community. It is therefore in the interest of both to reach a widely-accepted and effective deal to form a single government capable of restoring the economy, which is considered the priority to solve the broader security situation[46]. The December 2015 agreement should have solved the issue, but it is still too early to evaluate its long-term effectiveness.

## Conclusion

At this point it is possible to recall the main points of the situation in Libya, in particular the state re-building process and the re-establishment of security.
At first, the country's energetic resources (especially oil) were examined. It resulted that Libya possesses the largest oil reserves in the whole African continent, that it is a high-quality variety of oil and that before the uprising that ultimately overthrew Gaddafi's regime in 2011 its exploitation was the main source of revenue for Libya. Oil is mainly extracted in the east and in the south-west and this has significant security implications: the loss of control on the

46 ICG, *The Prize*, p. 29.

eastern oil fields was among the major causes of the Gaddafi's fall; and the various factions involved in the civil war tried to occupy the oil-producing areas, partly to obtain revenues but more importantly to gain political leverage and to deny the access to this vital resource other groups. Naturally, oil output was not immune to the unrest that affected the country. On the contrary its production was heavily affected by the events: it crumbled to practically zero during the uprising that ended the *Jamahiriya*, it recovered almost completely in 2012 but then it dropped again to very low levels in the wake of the civil strife of the following year and then the two-government crisis after summer 2014. As shown, the virtually permanent status of conflict had a significant impact on the country's economy, causing the GDP to contract, the state's income to fall and the public expenditures to rise.

The next session focused on Libya's economic institutions, an essential but often neglected component of the north-African petro-state. In short, they manage the operative and financial aspects of oil extraction. It was shown that their activity has been hampered in recent years by the general turmoil and by the struggle between the two rival governments. Both of them have claimed the rightful control over the institutions; but in practice the HoR had at best a nominal influence over them, whereas the GNC had the effective access to their financial resources. This legal dispute has been far from being a purely abstract juridical matter. On the contrary, in combination with the geographical distribution of oil, it has significantly affected the situation on the ground: the resulting stalemate denied both authorities the capacity to ultimately prevail in the conflict, because Tripoli had no control over the rich oil fields in the east, while Tobruk had no access to the financial funds of the institutions.

Lastly, the practical risk of this complicated situation were examined. As seen the conflict, the need to import basic goods and the state re-building process have caused a rise of the state's expenditures. At the same time a combination of factors provoked a dramatic drop of the revenues. Firstly, the conflict disrupted oil production and export, which is the main (practically the only) activity in Libya's economy. Secondly, the decline of its price on the international markets made the little production insufficient to obtain the enough revenues. Thirdly, the freezing of financial assets abroad and the dispute over their legitimate property denied the country the access to the only other possible source of income. As a result of this combination of high expenditures and low income, Libya is threatened with the serious risk of a financial collapse; a scenario that would have significant security implications. If this were to actually happen, it is likely the whole fragile state apparatus would collapse, making of Libya a typical failed state. The government (be it the HoR or the GNC) would be unable to continue the public policies that have kept civil strife under relative control and it would no longer have the means to pay the armed groups that sustain it (resulting in a likely revolt of the militias and maybe even the overthrown of the government itself). Finally, the humanitarian situation would deteriorate; by the moment the state would no longer have the financial means to import all the basic goods, thus causing massive refugees flow towards other north-African countries and Europe. In brief, Libya would descend into chaos and the security situation would be severely compromised, making it even more difficult and causing serious concerns for both the population and the international community.

Finally, it is possible to conclude by making a final assessment of the correlation between oil and security in Libya and its consequences on the conflict resolution.

As shown, the conflict has a significant economic dimension that goes well beyond the purely military issues upon which Traditional Security is focused. Because of this, the Enlarged Security perspective is more suitable to highlight and comprehend the other factors influencing the security situation in the country; especially oil. Throughout the paper it has been demonstrated that this essential resource is the core of Libya's economy and the control over it is one of the most important factors to be considered in examining the post-2011 situation and in formulating possible conflict resolution measures. It is clear, in accordance with the ES perspective, that the state has to be rebuilt. The first step to do so must inevitably be the formation of a unitary legitimate government capable of solving the stand-off over the economic institutions and the oil industry. However, purely political measures would be insufficient, since without effective control over oil it would lack the financial resources to have the state apparatus working and to establish its authority over the whole Libyan territory. Instead, only if it ruled over the country's lucrative energy resources it would have the financial means to undertake the state rebuilding process. This would allow the state to regain access to its main source of revenues, thus allowing it to maintaining itself, to avoid the risk of a financial collapse and to build an effective security apparatus able to grant order and to restore the government's authority over the country. Ultimately this would avoid the worrisome scenario of a failed state in the heart of North Africa, which may destabilise the whole region by becoming a hub for armed groups and by further complicating the refugee crisis.

Of course this is a demanding effort, also because the “state” (identified with the HoR authorities) was just one of the various factions involved in the conflict over oil and ultimately over ruling Libya. It remains to be seen whether the new government formed in February 2016 will be able to succeed in establishing its authority over the country.

# Annexed images

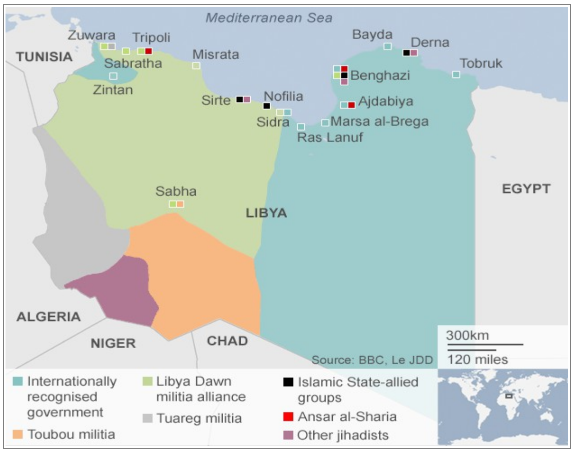


*Image 1 – Libya's fragmentation in August 2015*
(Source: http://www.bbc.com/news/world-middle-east-19744533)

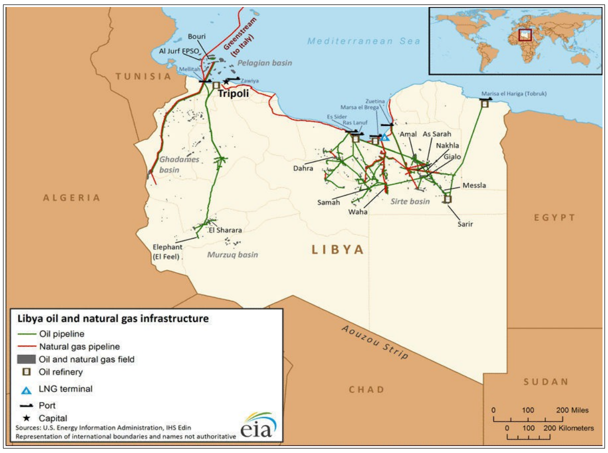


*Image 2 – Libya's hydrocarbon industry*
(Source: http://www.eia.gov/beta/international/analysis.cfm?iso=LBY)

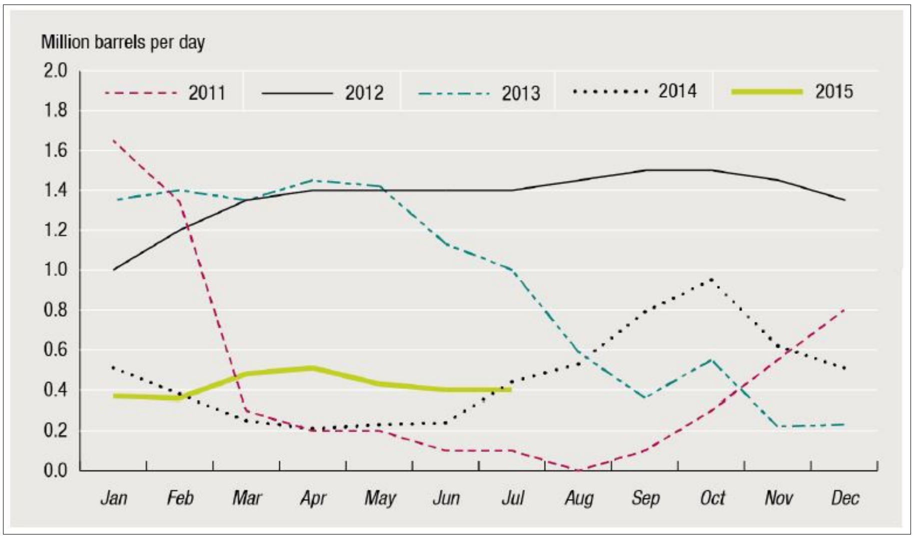


*Image 3 – Oil production in Libya from 2011 to mid-2015*
(Source: ICG, *The Prize*, p. 3; see the bibliography)

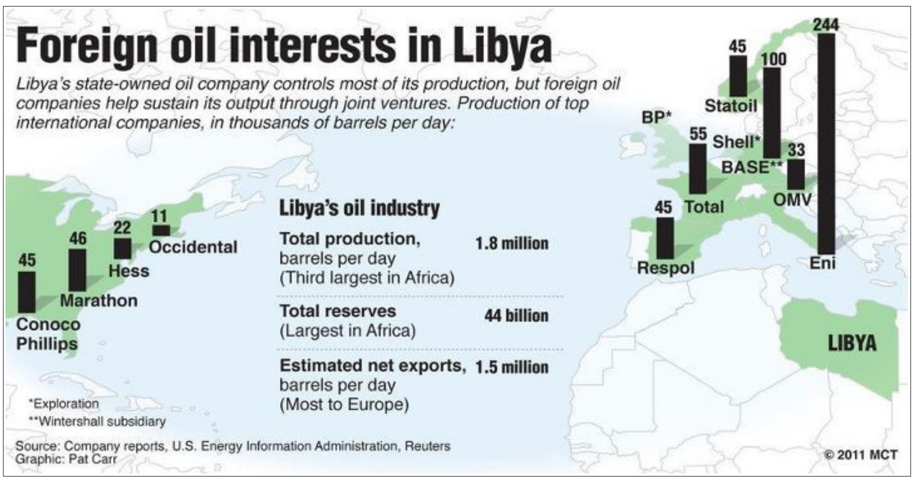


*Image 4 – The involvement of foreign firms in Libya in 2011.*
*(Source: http://www.fuelsnews.com/libyan-parliament-stormed-rebel-militia/)*

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