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The Libyan Crisis and its Regional Implications

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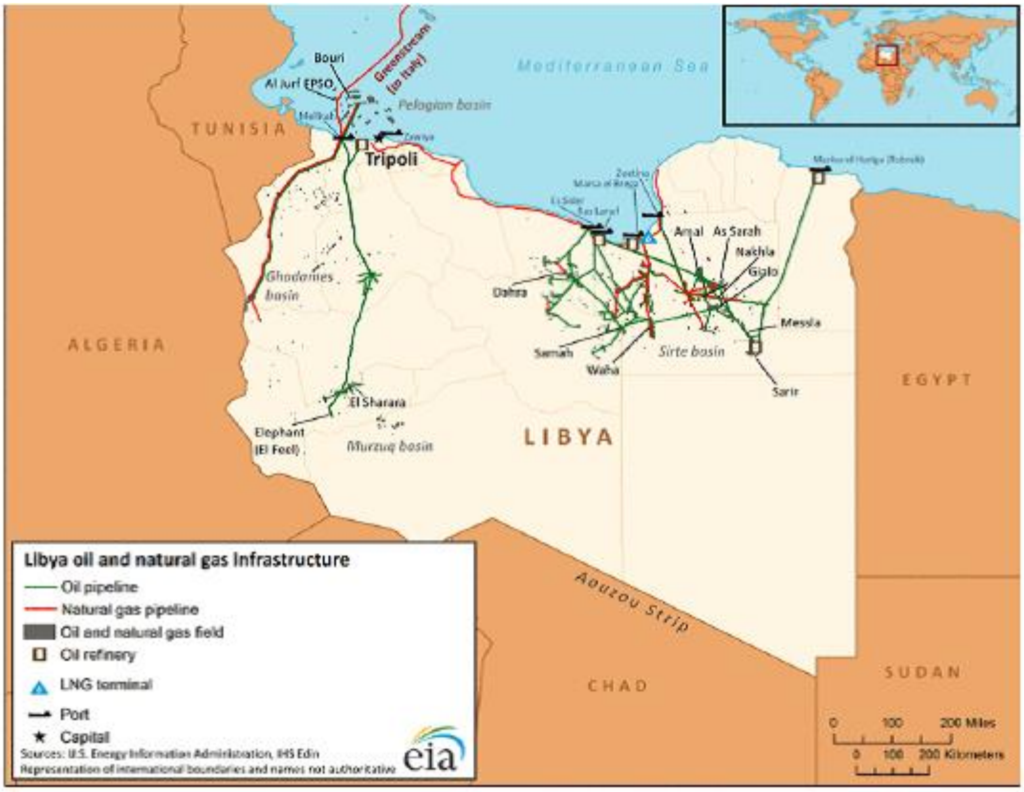
The conflict in Libya is having effects in Europe as well as in North Africa and the Middle East. Thousands have been killed and tens of thousands have been made homeless. The flow of migrants from and through Libya to Europe has increased and the flow of weapons to Egypt has contributed to an upsurge in terror attacks there.

On February 15, 2013, the Islamic State (IS) released a video showing the beheading of 21 Egyptian Coptic Christian fishermen on a Libyan beach. This act of barbarism drew attention to the deepening chaos in Libya. In 2014, a militia group in the east of the country declared its affiliation with IS. At the end of the year it took over the city of Derna and since then, people allied to the group have claimed responsibility for attacks across the country.

Prior to the emergence of IS affiliates, Libya was split between two warring camps: the so-called Operation Dignity, a coalition of eastern tribes, federalists, and disaffected military units; and Operation Dawn, an alliance of Islamist forces aligned with armed groups from Misrata. Each camp lays claim to governance and legitimacy, with its own parliament, army, and prime minister. As a result there are two rival governments. One is in Tripoli, where a coalition of armed groups from Misrata and other western towns, together with Islamists, seized the airport and ministries. The other is in Tobruk, where an elected Council of Representatives and a cabinet convened, dominated by General Khalifa Hiftar supporters and federalists. Libya's armed forces—both official and unofficial—are at war with one another, with each faction bolstered by a constellation of tribes and towns.

Outside powers have become involved in the conflict, with some taking sides, raising the threat of a proxy war between Arab states. Egypt and the United Arab Emirates have carried out airstrikes on behalf of the elected government (Dignity) against Islamist militants in the country, while of Turkey, Sudan, and Qatar are said to be backing Dawn. Egypt has also offered military training and support to pro-government forces. Algeria has developed a plan to solve the crisis through hosting a national dialogue between the rival parties. In October 2014, Egypt and Sudan pledged support for the Libyan military in its fight with armed militias.

Dignity is the largely secular and internationally recognized government headed by Prime Minister Abdullah al-Thani, who was elected in June 2014. In August 2014, al-Thani and his cohorts, including Libya’s House of Representatives, fled the capital city of Tripoli for Tobruk, some 780 miles away, as a rival group of Islamist politicians drove them out. Led by Omar al-Hassi, this group controls Tripoli and has chosen a new parliament. The source of their strength is an Islamist militia called Libya Dawn. The government in Tobruk is located closer to the large oil fields in the east of the country and the pipelines bringing oil to the coast. The rival government in Tripoli is located closer to the Western oilfields and pipelines. The two governments face other Islamist groups that are struggling to control the oil (Please see the map below).



[Source: U.S Energy Information: Country Analysis Brief: Libya]

There are a variety of other Islamist groups as well, from IS-connected organizations such as Ansar al-Sharia Derna in the city of Derna to another al-Qaʿida offshoot,al-Qaʿida in the Islamic Maghreb, which operates in the country's southwest. Ansar al-Sharia is another al-Qaʿida offshoot in Libya. That group dominates the city of Benghazi, controlling vast swaths of the city, despite frequent attempts by the Libyan national army to dislodge them.

Since the 2011 revolution, billions of dollars of oil revenues have flowed through Libya's Central Bank to a myriad of militias and criminal gangs, who consistently block efforts by Libya's popularly elected governments to impose central control. Victims of Libya's chaos include Algeria (where the attack on the In Amenas gas facility occurred in 2013), Mali (which was nearly overrun by al-Qaʿida-affiliates the same year, with weapons imported from Libya), Nigeria (where Boko Haram is undermining stability), and Niger (which has significant uranium deposits).

In Niger, southwest of Libya, similar groups have raided and threatened the government and flooded the area with guns, forcing France to step in to try to control the problem. The biggest fear is Egypt. Extremists and war profiteers in Libya have been successfully smuggling weapons across the border, especially into Sinai, where IS-linked rebels have attacked government forces and even launched cross-border attacks against Israel.

According to the Carnegie Endowment, the situation in Libya’s reflects patronage networks battling for economic resources and political power. This is occurring in a state affected by an institutional vacuum and the absence of a central arbiter with a preponderance of force. The country suffers from a balance of weakness among its political factions and armed groups: no single entity can compel others to act purely through coercion, but every entity is strong enough to veto the others.

Thousands have died in the conflict and the number of displaced persons and refugees has reached an estimated 400,000. Basic goods and fuel are in short supply; in some urban areas people no longer have reliable access to communications or electricity and are using fire wood for cooking.

Libya's economy is heavily dependent on hydrocarbon production. In 2012, oil and natural gas accounted for nearly 96 percent of government revenue and 98 percent of exports. Almost 90 percent of Libya's export revenue comes from crude oil exports.

In October 2014, the International Monetary Fund (IMF) reported that the blockade of Libya’s oil facilities by federalist and tribal militias had brought the country’s oil output to a stop, depressing GDP by an estimated 14 percent in 2013 and a projected 20 percent in 2014. The predominance of imports in the consumer basket helped to limit inflation. The large fiscal and trade balances of 2012 turned into deficits and the government was expected to post a deficit in excess of 50 percent of GDP in 2014 with the current account deficit exceeding 27 percent. The twin deficits sharply reduced officially-held foreign exchange reserves.

According to the U.S. Energy Information Administration, Libya's net oil export revenues totaled $4 billion during the first six months of 2014 as a result of the drop in oil export volumes. During the 2011 civil war, the fall in oil and natural gas production led to an economic collapse, and real gross domestic product (GDP) declined by 62 percent for the year. Libya's GDP growth rebounded in 2012, reflecting the relative stability of oil production, but it contracted again by almost 14 percent in 2013. All of this suggests that in 2015 the conflict has exacted an even higher toll on the Libyan economy.

Table 1 shows how economic growth has fluctuated sharply largely as a result of changes in the volume of oil and gas exports. The attempt to construct a more stable, non-oil sector was always limited and recent conflict has brought it to an end.

Table 1: The Libyan Economy: Main Indicators, 2011-2014

	GDP $ billions	GDP annual change %	GDP per capita ($)	Oil production (mb/d)	Gas sales (million cubic meters)
2011	41	-62.1	6,721	0.490	7,885
2012	84	104.5	13,658	1.450	18,118
2013	62	-13.6	10,000	0.993	18,463
2014	50	-19.8	8,000	0.480	

Sources: IMF, IEA and OPEC

Clashes between rival militias in the summer of 2014 cost hundreds of lives and displaced over 250,000 Libyans. The fall of Tripoli to militias, and the move of the elected parliament to Tobruk, left the country with two competing authorities. The Islamic State’s seizing control in part of the country has further complicated this. Fighting has caused widespread damage to public and private property and infrastructure and precipitated power, water, fuel and food shortages in Tripoli. Insecurity and lawlessness are hampering the delivery of cash to commercial banks across the country, further undermining economic activity. Outside the largest cities most affected by the fighting, the situation is marginally better. The end of the year-long blockade of oil facilities by federalist militias has allowed oil production to rise to a reported 840,000 barrels per day from a low of 240,000 barrels per day in June 2014.

Libya is now split between rival tribes and political factions with two governments vying for power. In the mean time, neither side has prepared a 2015 budget and both sides are trying to seize control of the country's diminishing oil revenues. The costs of not reaching an agreement are high, as oil production is less than 20 percent of its pre-crisis level. That, combined with falling oil prices have forced the government to dip into reserves that reached $100 billion in August 2014. These fell to $80 billion in January 2015 and, according to the World Bank, could be depleted in four years. The Libyan currency has been under severe pressure as a result of plunging oil prices and limited oil exports.

In 2011, 2013, and 2014 Libya had budget deficits. The recent decline in oil prices, combined with the limited volume of oil exports, will increase the deficit even further. Financing the fiscal gap will be difficult as oil exports are not expected to recover any time soon. The lion's share of Libya's budget is apportioned to energy subsidies and civil servants' wages. Salaries are a huge burden on the budget, as a quarter of the Libyans are on the payroll and public sector wages have been increased by some 250 percent since the 2011 revolution. Foreign reserves and Libya's currency will be under severe pressure unless there is a major policy change that lowers the wage bill and reduces large energy subsidies. The Tripoli-based rival parliament has recently announced that it was considering lifting fuel subsidies which stand at 20 percent of GDP. If implemented, this could increase government saving and reduce the fiscal gap.

The central bank in Tripoli is run by Saddek Omar El-Kaber, who was fired as governor in September 2014 by the internationally recognized parliament that fled to Tobruk. El-Kaber has continued to disburse state salaries and subsidies across Libya but has blocked other spending from the budget that was agreed before the government split. The Tobruk parliament appointed Ali Hibri, the former deputy bank governor, to replace El-Kaber, but Hibri lacks access to national financial assets, which are still managed in Tripoli, which is formally the capital.

The fall of Qaddafi has resulted in problems for Europe. He was, in effect, Europe's policeman, and his fall resulted in a large increase in the number of people attempting to migrate to Europe from and through Libya. UNHCR figures suggest that some 25,000 people fled to Italy from North Africa in 2005, up from 9,573 in 2009. In 2011, this figure rocketed to some 61,000, driven by the conflict in Libya which culminated in the downfall of Qaddafi. In 2014 the number exceeded 130,000.

In February 2015, the UNHCR reported that there were almost 37,000 refugees and asylum seekers in Libya, half of whom were Syrian. Just over 390,000 Libyans were classified as internally displaced, nearly half of whom were in the west and southwest of the country.

Europe's fuel supplies have also been affected by Libya's slide into chaos. In January 2014, Libya had proven crude oil reserves of 48 billion barrels, the largest in Africa, accounting for 38 percentof the continent’s total, and the ninth-largest amount globally.

Prior to the onset of hostilities in 2011, Libya had been producing an estimated 1.65 million b/d of mostly high-quality light, sweet crude oil. Libya's production had increased for most of the previous decade, from 1.4 million b/d in 2000 to 1.74 million b/d in 2008, but production remained well below peak levels of more than 3 million b/d achieved in the late 1960s. Oil production in Libya from the 1970s into the 2000s had been affected first by the partial nationalization of the industry and later by sanctions imposed by the United States and the UN that impeded the investment and equipment needed to sustain oil production at higher levels.

In 2013, Libya exported an average of 875,000 barrels a day (b/d) of crude oil, including condensate, compared with the 2012 level of almost 1.3 million b/d but higher than the 400,000 b/d of 2011. In 2013, exports were curtailed because of disruptions to oil production that escalated in mid-2013 and continued into 2014.

In recent years between 70 and 80 percent of Libya's crude oil was sold to European countries. In 2013, about 75 percent of Libya's crude exports went to Europe; the leading purchasers were Italy, Germany, and France. In 2012 it accounted for 8 percent of the EU's oil imports. The United States restarted oil imports from Libya in 2004, after sanctions were lifted but in 2013 it imported only 43,000 b/d of crude oil, representing only about 0.6 percent of total imports that year.

Libya's rank as a producer and reserve holder is less significant for natural gas than it is for oil. About half of its natural gas production is exported to Italy via the

Greenstream pipeline. On January 1, 2014, the *Oil and Gas Journal* estimated that Libya's proved natural gas reserves were almost 55 trillion cubic feet, the fifth-largest natural gas reserve holder in Africa. In 2012, Libya accounted for 2 percent of the EU's gas imports.

Finally, the effect of the conflict in Libya on Egypt should be mentioned. Weapons looted from army bases have found their way into the hands of terrorists fighting the Egyptian army in Sinai and elsewhere. In addition thousands of Egyptians have lost their jobs and have returned home, where unemployment is high. An estimated 200,000 Egyptian workers live in Libya compared with two million that reportedly used to work there before the 2011 uprising that led to the end of Muammar al-Qaddafi's rule.

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