

Libya: Business Prospects for Australia 2005 and Beyond

A presentation by Philip Eliason

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In today's talk we'll examine the current economic and business conditions in Libya and features of the relationship affecting our commercial contact at present and into the immediate future.

First, there are some quotations from leading Libyans which are illustrative of the current situation. The statements show how Libya is seeking to open its economy but equally how tentative these steps are.

QUOTES (sourced from FBIS)

17 Jun 05 p 6 [Interview with Libyan Secretary of the General People's Committee for Energy Ahmad Fathi Hamid ibn Shatwan in Vienna;

[Bongiorni] Why was the ENI [Italian National Hydrocarbons Agency] debarred from the first round (of oil lease deals)?

[Shatwan] It is necessary to compete. And it is not easy today. Now that sanctions have been lifted, there are many companies interested in investing: US, British, from all over the world. Whoever makes the best offer wins the block. The ENI is a great company and it has been working in Libya for a long time. I believe that it should make better offers than the others. Instead of investing elsewhere, it could focus on Libya. Italy has many chances of winning some of the competitions. We are your neighbors. Some 30 percent of our output is exported to Italy.

27 Apr 05 interview with Sayf al-Islam al-Qadhafi, head of the International Foundation for Charitable Societies and Libyan leader Mu'ammarr al-Qadhafi's son in Hanover, Germany

[Sulayman] You came to Germany to participate in an economic seminar on Libya held on the sidelines of the Hanover International Fair. Now that the economic sanctions on Libya have been lifted, where is its economy heading? What are the future prospects for the Libyan economy?

[Al-Qadhafi] When sanctions were imposed on Libya, US firms were absent and the Japanese and Canadians were hesitant. The Europeans were in complete control and monopoly of the Libyan market. The country was in a state of confrontation. It was under an embargo. All these things have now changed. The market is now open and competition is greater. The European monopoly has been broken. Accordingly, things have changed. This is in addition to the fact that the circumstances are now appropriate to develop the infrastructure, to strongly restore investment in Libyan projects, and adopt wiser and more efficient policies.

[Sulayman] Were the past policies not so efficient and wise?

[Al-Qadhafi] Perhaps so. I will give you a simple and quick example. In the past we used to believe that the state monopoly of all economic activities was in the interest of the citizens because we possessed our wealth. Actually, they were a group of technocrats and state employees who arbitrarily handled things and acted as if public

firms were their personal property. Accordingly, neither the Libyan state nor the Libyan people were in control. A group or class of technocrats and civil servants dominated the economy. They became the absolute master. This has now changed.

[Sulayman] Some fear the entry of foreign firms and investments and thus the benefit would be limited to foreigners.

[Al-Qadhafi] This, of course, will not happen. The Russian model will also not be followed because it consists of a group of persons who end up as winners and dominators of our economy. This will not happen as proven by the start of the process of privatization. This means the Libyan citizens are now able for the first time to own shares in companies through the market mechanism. Once this process is complete, the door will be open for foreigners. Priority goes to the Libyans.

[Sulayman] The numerous Arab projects, including the common Arab market and free zones, about which much has been said, remind us of the proverb which say much ado about nothing. In your capacity as an economist, I would like to ask you about the obstacles facing the implementation of these projects.

[Al-Qadhafi] we do not count much on joint Arab cooperation. This is no longer popular merchandise.

04 Apr 05 Tokyo, Prime Minister Junichiro Koizumi met with the second son of Libyan leader Muammar Gaddafi on Monday and pledged to support Libya's economic reforms following its 2003 decision to scrap its weapons of mass destruction [WMD]. "We are in real need of Japanese help" to modernize Libya's economy, Seif al-Islam Gaddafi, president of a Libyan charity fund, told reporters after meeting Koizumi.

No mistake, there is an air of a gold rush about trade development in Libya. Traders press for deals in Libya's capital Tripoli while buyers, knowing their worth, patiently negotiate.

This month's visit to North Africa by the Federal Parliament's Trade Sub-Committee follows its August hearings into trade development with the region's five countries- Morocco, Algeria, Tunisia, Libya and Egypt. Australia has had notable ties with Egypt for some time, growing interest in Algeria's gas resources but little to do with Morocco or the more European Union oriented Tunisia. Australia has previously opened and closed an Embassy in Algiers.

New frontier mixing trade and politics

The standout country in the region is Libya which has large, bankable, proven oil and gas deposits in a yet only partially prospected territory. Libya is the new frontier for hydrocarbon-based economic development. This is the black gold backing its trade and development prospects.

Eyes are focused on Libya's large proven reserves of oil (about 39 billion barrels) and gas (1.32 trillion cubic litres/52 Tcf by Oil and Gas Journal) and expectations that another 35 billion barrels of oil and large gas reserves will be proven by current and near-future exploration. Cash from energy sales to Europe, Asia and the US will fund Libya's physical and social recovery from years of international sanctions. Libya will likely spend USD30 billion on refitting or replacing its energy export infrastructure.

In Libya's state-based economy, trade and politics are inseparably bound together. A review of events in Libya indicates that the sooner Australia stakes its claim to a share of this potential export bonanza by opening a diplomatic mission in Tripoli the better. At present, bilateral official representation is unbalanced. The People's Bureau (embassy) in Canberra has seven Libya-based staff, most recently joined by a specialist commercial counsellor. As of early October, no Australian official is in Tripoli.

Our trade competitors are investing in the political-trade game. High level visitors stream through Tripoli. Senior US Departments of Commerce, State and Education visitors have reinforced America's preparedness to work again with Libya. The US is developing a 13 hectare embassy site in central Tripoli. Britain's Tony Blair, France's Jacques Chirac and Germany's Gerhard Schröder (late 2004) have visited Libya's increasingly African and less Arab oriented leader Muammar al-Gadhafi. The leading Asian economies of Japan, China, Korea and even Thailand are doing the same.

China, running a new initiative to improve relations with the Arab world sent its Assistant Foreign Minister Lu Guozeng to Tripoli in early August to discuss bilateral cooperation. Korea has achieved major engineering and construction deals, Greece has won tourism development projects and as a sign that politics always plays a part, Italy, a leading contender for oil prospecting leases, got nothing from a bidding round in early 2005 in a result seen to be linked to Rome's delay in concessionally financing a huge highway development.

Parliamentary, Ministerial and trade association programs show that those seeking to export to a Libya that is flush with funds from 2005 oil price hikes, understand that going to Tripoli and showing the respect a visit conveys helps smooth relations and prepare for the inevitably complex sales process.

Australia and Libya

Geophysical and climatic parallels were behind the growth of Australian-Libyan relations during the 1970s. Libya's hydrocarbon economy (developed from 1959 and in production in 1961) and national economic development plans instituted by its Revolutionary government after 1969 made agricultural technology transfer, training in the earth sciences and crop and pasture improvement techniques natural areas for co-operation throughout the 1970s and 1980s.

Continuing strong contact with Libya by the governments of Western Australia and South Australia through their agricultural and educational facilities reflect their early and formative relationship with counterpart bodies in Libya. Western Australia renewed and formalised its operational ties with Libya through its Memorandum of Understanding established in 2002 and has made efforts to grow its educational ties.

In the 1970s and up to 1987, when diplomatic relations were suspended, Libya regarded Australia as a prime source of training and education opportunity. Several hundred students were studying in Australia at any one time across disciplines from dryland farming technology and agricultural engineering to civil engineering. Many of these students now occupy significant positions in Libyan ministries and universities. Australia's "alumni" in Libya provide a ready and capable base for a broader development of relations in future. It is clear those who studied in Australia harbour positive views towards the prospect of more frequent contact.

Three Australian Ministers have visited Tripoli in the past three years; Trade Minister Vaile in October 2002; the Foreign Minister in May 2004 for political and oil talks and the Defence Minister in 2005 for an ANZAC Day trip which combined useful contacts with several Libyan counterparts. More can be done by way of investment in the relationship. State level visits are also helpful. Delegations from Western Australia, New South Wales and Queensland visited in 2003 and 2004. That the November Parliamentary Committee visit is private and not official will not be lost on Libya, more conscious as it is than we about status and messaging.

Contacts such as the May 2005 visit by the Council of Australian Arab Relations to Libya assist raise Australia's profile. The February 2005 visit to Australia by the Chairman of the Libyan National Football Federation Engineer Sa'adi al-Gadhafi (third son of Muammar al-Gadhafi) and the Libyan national football team generated substantial positive media attention and was augmented by courtesy calls by al-Gadhafi on the Ministers for Trade, Foreign Affairs and the Sports Minister.

Economic developments and privatisation

A leading proponent for economic reform is Muammar al-Gadhafi's eldest son, Saif al-Islam, who is a foreign trained economist and an increasingly visible diplomatic player for Libya. Libya has taken a range of steps to improve the prospects for its people. These include its major reorientation of foreign and economic policies towards diversified industrial growth and reallocation of Government spending away from the military pursuit of its territorial and political integrity and towards economic resilience as a means of ensuring security for the Libyan people in future.

The process of economic adjustment from a state-controlled economy through a mixed economy to a more market based system will take time just as it has in other countries. Signals are that the Libyan government is committed to this course of action.

It has decided to progress the market orientation of the economy by starting the privatisation of certain industries including banking, tourism, airlines. Two banks, the Sahari and Wahda, are being assessed and prepared for possible sale. Foreign banks are close to establishing a presence in Libya and domestic banks will need to adjust to address this competition. In October 2004, Prime Minister Ghanem indicated that Libyan Arab Airlines was a candidate for sale and noted that three private airlines were in operation in Libya: al-Bouraq, al-Ifriqiya and Libya Aviation.

Libya is establishing measures to facilitate and protect foreign investment in the economy, notably in the hydrocarbons sector but also in the housing, transport and tourism sectors. Early success of investment protection is visible in the health sector, where there are joint investment ventures at hospital level with Swiss and Maltese investors and medical experts. Reduction of taxes on building inputs, promotion of private sector employment, improved consumer protection arrangements show Libya using regulatory reform and institution building as stepping stones to greater individual participation in the economy.

The strength of Libya's energy export sector underpins the provision of safety net arrangements for the population while it undergoes adjustment pressures. These measures are required to keep the government stable. Libya's proven oil reserves at about 36 billion barrels make up approximately the ninth largest supply source available. The cheap extraction cost (between USD1-3.00 per barrel) and its high specific gravity and low sulphur content makes its "sweet crude" oil particularly attractive in the global market.

Revitalisation of the oil sector requires careful pacing so as not to destabilise global supply and demand factors currently at play in the oil market. In June 2005, the Secretary of the General People's Committee for Energy Ahmad Fathi Hamid ibn Shatwan announced that Libyan production had risen over the past two years from 1.3 to nearly 1.7 million barrels per day (mbpd) with a goal of 2.0 mbpd in early 2006 and 3.0 mbpd by 2010. (Other estimates see this realistically in 2015.) Extraction rates in July were earning the industry about USD654 million per week, and now considerably more. Oil production was vastly higher in 1970 at 3.32 mbpd before post-revolution pricing, taxes and profit policies cut between 1969-73 active rigs by 85%, completed wells by 78%, and crude oil production by 54%.

To better establish its energy prospects, enhance rates of petroleum recovery and extend the assessment of proven reserves, Libya has re-enlisted higher levels of foreign corporate participation in the energy sector.

Australia has done well with Woodside Petroleum and Oil Search winning business of notable value. Australian firms bring great experience to Libya's energy sector and, independently or in joint-ventures, there are further bidding prospects ahead. Libya in March 2005 opened a second round of bids for rights to explore and develop oil resources (under the "Exploration and Production Sharing Agreements-4" process). Australia's Santos is believed to be a bidder in this round. In the first round of tender bidding in January 2005, about 60 companies sought to participate in the market. Libya's acreage explored for oil stands at about 400,000 sq km with some 1.3 million sq km to explore. Energy Minister Shatwan foresees potential of 100 billion barrels in reserves. As yet, about 30 percent of Libya's onshore and offshore oil acreage is under licence to extract energy.

The development of oil reserves and modernisation of oil and gas plant and equipment for refining and transport of energy is a central feature of Libyan economic planning. One potential pathway of trade development between Australia and Libya lies in the idea of prime contractors facilitating the engagement of smaller exporters in the Libyan market.

To avoid the curse of oil, economic diversification is a key goal for Libya. It has established a national tourism plan involving the construction of tourism centres and hotels as well as amelioration and protection of Libya's coastline. The plan is worth approximately USD2.7 billion over five years and is hoped to create around 40,000 jobs. Greece recently agreed to assist preserve important sites of antiquity in Libya and other countries are to be involved in tourism development of Farwa Island, Elkhoms and in the environs of Tobruk. Libya sees its coastline, weather and history as the central tourism draw cards. Australia has worked diligently to protect its own tourism assets and prospects are good for professional exchange in this sector.

Libya notes the demand from Australian tourists to visit Libya. In 2004, Libya through its Peoples Bureau in Canberra, granted about 400 tourist visas while more than 1000 visas were issued via Libyan travel companies. In 2004, about 300 business visas for entry into Libya were issued in Canberra.

Steps forward

Our discussions with the Libyan government lead us to conclude the main tasks for the future enhancement of the bilateral relationship are the rapid opening of an Embassy in Tripoli staffed by experienced Arabists which will improve Australia's knowledge and understanding of Libya and its economic aspirations and needs. A main task will be to reduce the costs of commerce between Libya and Australia through reductions in trade regulation, a more secure legal environment and smoother, faster financial transactions and improved communications and transport links.

At a practical level, there can be an expansion of Libya's access to Australian education services. (There are at present about 80 fully Libyan Government funded under and post-graduate students in Australia. Companies such as Woodside are adding to this in-flow). We can create self sustaining organisations to facilitate contact. Libya is in the planning process to support establishment of an Australia Libya Friendship Association to assist general contacts.

Outside Government but helped by it there can be a growth in "people to people" links and a deliberate program of bilateral visits which in the short-term could ameliorate gaps in understanding and information about capacity and intention of our respective governments and, in the medium-term, add to the range of Australians and Libyans with direct experience of the other's country.

A direct and visible visits program between Australia and Libya would be well received in Tripoli. A program might usefully include senior experts in media, in particular journalists to see Australia and report in Libya and vice versa. Technical specialists from the building and construction of public infrastructure; environmental protection and resource management consultants for coastal zones, tourism, agriculture suit current interests. In the medium term there is place for global energy market analysts, agricultural production science advisers for seeds, reforestation, animal and plant breeding and GIS/remote sensing.

Libya, no longer a proliferation risk has a legitimate call on Australia's commercial and Government experts in defence equipment and training as well as engagement

with our Government on systems to develop e-commerce, computer records and methods to track and combat people smuggling which is grave concern to the EU.

At this stage in the relationship a major thrust of activity by both sides should be complementary exchange of visits to create a more information rich environment. Greater awareness and confidence-building through personal links among the two countries' political and business leaders are inexpensive steps which would inform and improve choices made by both sides concerning trade and economic exchange.