

## CHAPTER SEVEN

### MARKETING AND DISTRIBUTION OF OIL

This chapter looks at the marketing of oil both domestically and internationally. The local market conditions during 1951-1974 are presented and discussed in this chapter. The growing trend in the overseas marketing of refined and crude oil products is also shown. The chapter concludes by discussing the increasing efforts on the part of the Libyan government to increase its world market share.

#### **7.1 Local marketing during (1951-1974):**

The oil products are considered important factors for realizing economic growth, that is, the consumption increase in oil quantities is an indicator of the high standard of living of the society. The amount of consumption of oil products in Libya has doubled due to a structural change in the economy, following the enormous projects and other economic programs launched in Libya.

In 1951 alone, the overall figure of fuel sales and other relevant oil products reached approximately 67 million liters of diesel, normal benzene and jet fuel. Out of these sales, the consumption of diesel had recorded the highest percentage. The jet fuel had ranked second with a percentage of 28.4% and the normal benzene occupied the third place with only 13% of the total consumption ( Ministry of oil, *Libyan Oil during 1954-1971* ). In 1956, the supper benzene had been introduced to the local market followed by liquid gases which were introduced in late 1960. With reference to other products the consumption rate of such elements increased to 77 million liters in 1952 alone and continued rising to 89 million litter in 1953.

The rate of consumption of these elements had reached nearly 15.5% in year 1953. In other words the consumption rate in 1954 recorded 14% to reach 191 million liters because of the change in the social-economic situation in the country. A slight fall in the consumption rate of these elements was recorded in 1955; nonetheless the consumption rate increased in the following year 1956 to record 13% with an over all sales of 294 million liters.

In 1958, the amount of sales reached 344 million liters with a percentage increase of 17.1. Yet in 1959 a drop in the quantities consumed was recorded but it began to restore its normal consumption rate with the outset of the 1960s owing to the growing activities of foreign oil companies. Such activities have positively affected the average incomes and rate of expenditure in addition to the increase in oil exports and modernization of transportation throughout the country.

## **7.2 The growth in marketing of refined products :**

The consumption of oil products has vividly grown after the 1960s. This growth can be observed from Table (6-3) in Chapter six. However, the rate of such growth will be discussed as following in accordance with three development stages:

### **First stage:**

Marketing of Libyan oil products were restricted to the foreign companies, who had monopoly control in the marketing and distribution of the country oil activity in limited companies. The foreign companies were: Esso standard company, Holland shell company and Sale company. This stage was characterized by the profits gained by such firms at the expense of the country wealth. Such profitability was the result of the co-ordination policies between the marketing programs and competitiveness within the Libyan market. Another factor that contributed to such monopoly by foreign

companies was that Libya did not have oil refiners at the time, hence allowing companies like Esso, shell and sale to import oil products and market them freely (Ministry of Oil, 1972 ).

**Esso standard company** (ESC) was one of the prime companies involved in providing the local market with its needs of the refined oil products during this phase. Up to 1969 the company was responsible for supplying nearly 45%-47% of the local market requisition of heavy oils. For instance, in 1986 it supplied 82% vis-à-vis 36% in 1961. The company had relied mainly on importing these products from overseas and market them in Libya until Brega refinery was erected (NOC, Marketing section).

**Shell company**, the second company charged with distributing oil products during this phase was the shell company. It succeeded in providing 36% of benzene, 20.2% of kerosene, 22.6% of diesel and 12.4% of fuel oils (NOC, Marketing section).

**Sale company**, the third foreign company at this stage charged with the distribution of refined oil products inside the Libyan market. The Sale company began its marketing activities in 1957 and was able to satisfy the local market with its needs from diesel lubrication component, liquid gases and other oil by-products.

It is worthy of note that these companies had to import most of what the local market needed from abroad. Yet such imports were not subjected to any importing regulation until 1967 when an attempt to control oil imports was codified on May 18-1967, which coincided with the first operation tests of Brega refinery (NOC, Marketing Section).

The law mentioned above stipulated that no foreign company was allowed to import oil products but within the de facto needs of local markets, provided that each company must have received promotion with its share in marketing oil products from Al Brega refinery.

In spite of the emergence of this act, the process of importing oil products continued because the capacity of Brega refinery did not satisfy the requirement of local markets which were then on the rise. According to Brega petroleum marketing company, the production of Brega refinery was: 40% Benzene, 45% Diesel, 29% Kerosene and 188% Heavy fuel oil. These rates indicated that Brega refinery produces a surplus of heavy oil than the actual needs consumed by local markets and conversely the refinery has not produced enough jet fuels and natural gas. Based on this it was inevitable to import certain oil products in order to satisfy the market needs and bring about a balance in the surplus of particular elements and the shortage in others. The importation of oil was increasing whereby the value of imports of oil and other related products recorded a percentage of 3-4% of the total oil imports in 1965 which cost 7.41 million LD.

Following 1969, these figure was reduced to 6.30 million LD owing to the fact that the government adopted new policies aimed at the increase of production and the possible reduction of imports. Besides the government worked hard to reduce the cost of refined products following an agreement concluded with an Italian refinery to refine 2.200.000 ton of Libyan crude oil with reasonable prices and re-exported back to Libya. In the following years all oil quantities needed by the local market were handled and processed locally in the after math of the establishment of specialist refinery along the Libyan coast.

#### Second stage:

After the 1969 and the country dominance on its natural resources, it was necessary to libyanaize the marketing and distribution companies, namely:

1) Shell Libya ltd.

- 2) Sale company “a Libyan incorporated company”.
- 3) Petro-Libya incorporated company.
- 4) Esso standard-Libya incorporated ( Marketing section ).
- 5) Esso standard East ( Libya branch ).

In accordance with this act all distribution activities were run by specialize comities.

In this context the two companies of Esso standard near East and Esso standard marketing section were merged as one company under the name of Brega Petroleum Marketing company. In addition the Shall Libya LTD became to be known as AL-Sedra oil distribution company ( Amanita - Alnafid,1972 ).

### 7.3 **Act ( 74 ) :Brega petroleum marketing company:**

On October 2,1971 Act (74) was issued aimed at broadening the activities of Brega Petroleum Marketing company to export crude oil overseas. Such law was enacted at the recommendation of a scientific study conducted by a specialized world advisory body which focused on investigation the technical, financial, and administrative structures of the tripartite companies, i.e. **Albrega, Alwataniah, Alsedrah** .

On June 27,1976 Act (46) was issued regarding the licensing terms which Al-Brega Petroleum Marketing company to consider granting the establishment and direction of petrol stations. The Act laid down the bases for the specifications that should be accounted for while establishing petrol stations. It also stressed the necessity for building such stations in accordance with population density.

Since establishment of the Brega Marketing company, the rapid rise in local consumption has forced it to respond accordingly. This company accomplished seven times over the work that used to be done by the three foreign companies. It satisfies

the needs of the Libyan citizens for oil products throughout the country. These tasks are performed by the company through its ownership and operation of 890 petrol stations, 15 product storing facilities, 500 KM of pipeline and a fleet of approximately 2400 trucks (Brega Petroleum Marketing Company, 1994). The marketing and distribution activities are numerous and varied. According to Al-Brega Petroleum Marketing Company reports for various years, this period characterized by the following major achievements:

**Firstly**, the storage capacity of oil products has risen from 116,130 cm/year in 1970 to 1468,584 cm/year in 1988 by constructing eight new storage terminals in the cities of Tubrok, Benghazi, Misurata, Tripoli, Zawia and Sebha in order to provide sufficient reserve to meet the local demand. This is in addition to the high capacity of home gas filling facilities that these storage terminal provide to meet the need of all citizen. **Secondly**, the number of operating filling and service stations has risen from 321 tiny stations in 1970 with a total capacity of 20,000 CM to 890 exemplary stations in 1995 with a total capacity of 75,000 CM. These stations provide all kinds of fuel including home gas cylinders. **Thirdly**, the number of company owned transportation fleet has grown from 150 truck in 1970 to 2400 in 1995. **Fourthly**, the pier of Tubrok harbor was completely refurbished and two new piers were built in Tripoli and Benghazi in 1982.

#### **7.4 Overseas marketing :**

Oil production expanded rapidly in the 1960s to bring Libya into fourth place among Middle east and north African producers by 1973. During this period of development, we can divide the Libyan oil marketing into following stages:

**First stage:**

Ever since the first shipment of Libyan crude oil was exported in 1961, the oil exports increased year by year. For instance, the oil quantities exported in 1962 reached 5245 thousand barrels, yet in 1962 the oil exports recorded 65476 thousand barrels with an increase of 60231 thousand barrels. In 1963 alone these figure increased three times as much as the previous year, thus recording 167788 thousand barrels. With an increase 102312 thousand barrel. Such growth in oil exports went on unceasingly until it reached 1.120 million barrel in 1969.

This increase in oil exports of Libyan crude indicates that the total of exports between 1961-1968 recorded 3.195 million barrels with total of 9426 shipment and an average of 339 thousand barrel per shipment.

**Table ( 7-1 )**  
**Oil exports development during (1961-1968)**  
(by barrel a day)

Year	Quantity export	Number of Shipments
1961	5245	25
1962	65476	568
1963	67788	611
1964	313861	1039
1965	442695	1391
1966	627351	1569
1967	627138	1714
1968	945147	2509
Total	3194701	9426

Source: NOC, Marketing Section, 1970.

It will be noticed that this stage is characterized by an increase in both production and exports due to the policies pursued by the companies on the one hand and the absence of the country supervision on the other. Table ( 7-1 ) shows the increase of oil exports and the amount of shipments during 1961-1968.

**Table (7-2)**  
**Libyan oil Production, Consumption and exports during (1961-1995)**

Year	Production m/b	Consumption (refinery)	Exports	Percentage of Exports to Production
1961	0.0066	0.0018	0.0052	78.79 %
1962	0.0671	0.0020	0.0655	97.62 %
1963	0.1692	0.0023	0.1678	99.17 %
1964	0.3156	0.0027	0.3139	99.46 %
1965	0.4454	0.0029	0.4427	99.39 %
1966	0.5502	0.0037	0.5474	99.49 %
1967	0.6365	0.0046	0.6271	98.52 %
1968	0.9524	0.0054	0.9451	99.23 %
1969	1.1348	0.0075	1.1204	98.73 %
1970	3.3000	0.0085	1.2089	36.63 %
1971	2.8000	0.0112	1.0028	35.81 %
1972	2.3000	0.0164	0.9499	41.30 %
1973	2.2000	0.0189	1.1617	52.82 %
1974	1.5210	0.0226	1.3883	91.26 %
1975	1.4800	0.0356	1.1923	80.54 %
1976	1.9330	0.0481	1.7112	88.52 %
1977	2.0634	0.0630	2.0342	98.58 %
1978	1.9825	0.0698	1.9540	98.56 %
1979	2.0917	0.0803	2.0506	98 %
1980	1.8300	0.0895	1.7655	96.48 %
1981	1.2178	0.1097	1.1246	92.35 %
1982	1.1360	0.0987	1.0520	92.61 %
1983	1.1049	0.1040	1.0161	91.96 %
1984	1.0750	0.0900	0.9900	92 %
1985	0.9900	0.1050	0.8850	98.39 %
1986	0.9480	0.2000	0.7500	79 %
1987	0.9960	0.2000	0.7700	77.31 %
1988	1.0360	0.2000	0.8360	80.69 %
1989	1.1100	0.2200	0.8900	80.18 %
1990	1.3500	0.1500	1.1300	83.70 %
1991	1.5200	0.1550	1.3600	89.47 %
1992	1.4920	0.1550	1.3450	90.14 %
1993	1.4000	0.1600	1.2200	87.14 %
1994	1.3900	0.1580	1.2300	88.49 %
1995	1.4300	0.1610	1.2650	88.46 %

Source: 1-The Economist Intelligence Unit ( various years).2-NOC, Marketing  
Section.3-Brega Petroleum Marketing Company.



Table (7-2 ) also shows that the production rate against the amounts of exports between 1961-1995 has increased from 78.79 % in 1961 to 98.73% in 1969. It is worth noting also that the amount of Libyan exports from crude oil parallels that of the Libyan exports during 1961-1969. This is probably due to the fact that the country was dependent upon oil commodity without venturing to diversify income sources.

In general, we notice that during 1970-1995, both production and consumption increased sharply with annual average production rate of 1.2 million barrel a day and 105 thousand barrel a day for consumption. While the exports rate decreased to reach 88.46% by year 1995. This is because of the government policy for using oil revenue to enforce the other economic activities and create other income sources through the great economic growth in 1970-1995.

### **Second stage:**

Following 1969 and the country restoration of control upon its natural resources, crude oil exports has retreated vis-à-vis the rate of production thus reaching 80.54% in 1975 compared to 80.69% in 1988. The fall in the rate of exports was accompanied by the absolute decrease of production in 1975 which reached 540 thousand barrels compared to 1135 million barrels in 1969.

### **7.5 Libyan oil exports :**

Since 1961 crude oil is considered the main export commodity in the Libyan economy. Furthermore, Libya is considered as one of the major oil-producing countries because of its potentially vast production capacity and its proximity to European markets. In addition, its oil is also well known for its quantities (Manna Said Al-Otaiba, 1975. The Economist Intelligence Unit, 1989-1990). These give Libyan oil supplies destinations advantages, both in terms of time and cost effectiveness.

Table (7-2) shows the development of Libyan oil exports during 1961-1995. In 1970, the amount of oil exports reached 1.2089 million barrels with an increase of 88.500 thousand barrels compared to 1969. In line with the countries policies of not relying completely on petroleum as a main resource for national income, and in order to achieve the programmed goals of upgrading the capacity of national economy, the quantities of oil exports began to decrease in 1972 whereby it recorded 950 thousand barrels. At the same time, the Government adopted a policy of export contraction in times of low oil price and export expansion in times of high oil price. For example, in late 1975 the amount of Libyan crude oil exports decreased to reach 1.192 thousand barrel. For the period extending from 1961 up to 1975, a total of 17.88 billion barrel of crude oil was produced with 11.14 billion barrel for export. This constitutes 80.46% of total production.

Figure in Table (7-3 ) shows that the crude oil exports value had increased from 771.9 million LD in 1969 to 2388.3 million LD in the year 1974, an increase rate of around 309%. This increase in the exports value of crude oil is due to the increase in prices of oil. The Table also indicates the increase of oil exports value from 2388.3 million LD in 1974 to 6287 million LD in 1980, an increase rate of 263.2% and an annual average increase of 37.6%. As for the period 1980-1986, oil export achieved a varying development rate from one year to another. These rates are stated in accordance with the circumstances the world oil market had undergo.

In 1986, Libya in common with several other OPEC producers adopted net back system of selling crude. This method which prices the crude on the value of the product realizations, ensures a margin for the refiner and a market outlet for the producer.

Table (7-3)

Exports According to Classification of Commodities and their Growth rate during ( 1970-1986 ) ( in million LD)

Year	Product											
	Crude oil	growth rate	Oil by product	growth rate	Natural gas	growth rate	Natural liquefied gas	growth rate	Chemical products	growth rate	Petro-chemical products	growth rate
1970	841.8	+ 9	-	-	-	-	-	-	-	-	-	-
1971	956.9	+ 13.7	-	-	-	-	2.5	-	-	-	-	-
1972	949.2	- 0.8	2.5	-	1.8	-	10.6	+ 324.0	-	-	-	-
1973	1161.7	+ 22.4	14.9	+ 496.0	3.4	+ 88.9	13.7	+ 29.3	-	-	-	-
1974	2388.3	+ 105.6	32.4	+ 117.5	6.8	+ 100.0	17.0	+ 24.0	-	-	-	-
1975	1925.3	- 19.4	30.5	- 5.9	5.5	- 19.1	61.8	+ 263.5	-	-	-	-
1976	2711.2	+ 40.8	68.3	+ 123.9	5.7	+ 3.6	43.3	- 29.9	-	-	-	-
1977	3189.7	+ 17.7	117.8	+ 72.5	8.8	+ 54.4	61.8	+ 42.7	-	-	-	-
1978	2719.5	- 14.7	145.4	+ 23.4	7.8	- 11.4	48.4	- 21.7	8.2	-	-	-
1979	4419.2	+ 62.5	234.9	+ 61.6	17.2	+ 120.5	67.5	+ 39.5	20.5	+ 150.0	-	-
1980	6287.3	+ 42.3	187.2	- 20.3	11.9	- 30.8	-	-	-	-	-	-
1981	4384.3	- 30.3	199.1	+ 6.4	6.4	- 46.2	22.9	-	1.7	+ 84.1	17.6	-
1982	3718.0	- 15.2	112.9	- 43.3	7.0	+ 9.4	44.3	+ 93.4	16.0	+ 15.0	25.1	-
1983	3370.7	- 9.3	160.3	+ 41.9	7.8	+ 11.4	42.1	- 5.0	18.4	- 10.3	35.6	+ 42.6
1984	3020.8	- 10.4	172.7	+ 7.7	9.7	+ 24.4	54.8	+ 30.2	16.5	+ 34.6	31.3	+ 41.8
1985	3184.3	+ 5.4	356.6	+ 106.5	10.9	+ 12.4	51.2	- 6.6	22.2	+ 74.8	29.7	- 12.1
1986	1572.0	- 50.6	172.0	- 51.8	11.8	+ 8.3	55.0	+ 7.4	38.8			- 5.1

Notice: Figures given under " Natural liquefied gas" starting from 1982 indicate exports of natural gas and liquefied natural gas stored in ylinders.

Source: The Secretariat of the Central People's Committee, 1987.

Table ( 7-4 )

## Libyan oil exports by destination ( in thousand barrel a day )

Destination	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Western Europe:											
- Austria	7.8	30.0	31.6	32.0	20.0	25.6	10.0	18.5	16.0	23.5	20.4
-France	1.0	34.7	47.9	28.9	25.0	25.7	37.3	28.8	37.5	18.3	25.0
-Belgium	68.9	46.4	35.6	66.4	46.0	53.1	77.6	63.1	43.4	38.4	43.0
-Germany	110.0	95.0	128.5	202.0	217.0	225.0	247.7	233.0	232.2	236.7	234.0
-Italy	284.9	297.4	271.3	311.5	366.0	440.0	521.5	514.5	486.9	475.4	570.0
-Netherlands	60.1	35.0	15.6	7.2	12.0	6.5	9.1	8.6	1.7	-	5.0
-Spain	80.4	133.0	76.8	80.8	79.0	98.4	109.7	129.8	106.2	124.0	130.0
-Switzerland	15.0	14.0	31.1	26.9	9.0	21.0	38.0	32.2	28.1	37.8	30.0
-United Kingdom	9.2	6.0	1.4	-	-	4.7	-	-	8.2	10.1	32.0
<b>Total</b>	<b>637.3</b>	<b>691.5</b>	<b>639.8</b>	<b>755.7</b>	<b>774.0</b>	<b>900.0</b>	<b>1050.9</b>	<b>1028.5</b>	<b>960.2</b>	<b>964.2</b>	<b>1089.4</b>
Eastern Europe	55.0	48.0	52.0	50.0	28.0	85.0	50.0	45.0	35.0	15.0	30.0
Asia and Far East	19.0	15.0	3.0	3.0	2.0	6.0	20.0	20.0	15.0	20.0	15.0
Africa	6.2	6.0	4.0	4.0	2.0	5.0	20.0	20.0	15.0	20.0	22.0
Middle East	15.0	16.0	6.0	8.0	4.0	-	-	-	-	6.0	-
Latin America	7.0	5.0	-	-	-	-	-	-	-	-	-
North America	5.1	-	-	-	-	-	-	-	-	-	-
<b>Total World</b>	<b>744.6</b>	<b>781.5</b>	<b>704.8</b>	<b>820.7</b>	<b>810.0</b>	<b>996.0</b>	<b>1140.9</b>	<b>1113.5</b>	<b>1025.2</b>	<b>1025.2</b>	<b>1156.4</b>

Source: -Economist Intelligence ( various years ). - OPEC, Annual Statistical Bulletin, 1994.

Table (7-3) also shows that in the year export gas and oil by productions was started while it was limited to crude oil only before. The exports of oil by products increased from 2.5 million LD in 1972 to 30.5 million LD in 1975 and to 187.2 million in 1980, reaching an increase rate of about 613%. In general we can show a continuous development in the period under observation indicating an increase rate of 190% during the period 1980-1985.

The high quality of Libya's crude and the willingness to price it competitively have made it attractive to European buyers. Table(7-4) shows the Libyan oil by destination, the figures indicates that most of crude oil exports went to European countries. Despite of the United states of America pressure on the European countries to reduce imports of Libyan oil has been to no avail. European countries import crude oil with annual average 863,000 barrel a day during 1986-1995 Table 7-4.

In 1991, some of 65% of Libya's total crude oil exports went to its major European customers with Libya supplying around 28% and 18% respectively of Italy's and Germany's total domestic energy demand. In 1992, more than 63% of Libya's total crude exports went to its two major European customers, Italy 43.6% and Germany 19.8% respectively (*Economist Intelligence unit, 1989-1990 & 1992-1993*).

Among the whole range of exports natural liquidated gas comes third in importance, Table (7-5) shows the development of natural gas exports during 1974-1995. Its export increased from 2.5 million LD in 1971 to 67.5 million LD in 1979, which means a rate of 2700% in this period. In 1986, the natural liquefied gas exports reached 55 million LD. This value means an increase in the export of this commodity estimated at around 240% compared to the export figure of in 1981.

The petrochemical industry, which depends on the oil sector raw materials, has grown rapidly, with large-scale industrial complexes situated at Ras Lanuf and Bu Kammash.

**Table ( 7-5 )**

**The Development of Libyan Natural Gas exports during (1974-1995)**  
( in million cubic metric )

Year	Exports
1974	3.600
1975	3.330
1976	4.240
1977	4.100
1978	3.675
1979	3.626
1980	2.134
1981	.998
1982	1.103
1983	.770
1984	.970
1985	1.230
1986	.860
1987	.800
1988	1.060
1989	1.430
1990	1.240
1991	1.580
1992	1.840
1993	1.600
1994	1.480
1995	1.680

Source : Arab Oil and Gas. OPEC, Annual Statistical Bulletin, 1994.

**7.6 Conclusion:**

Thus, Libya has joined the field of exporting chemical products since 1987 achieving an annual increase rate average of 39% in exporting these products. In addition, Libya has become a source of petrochemical products since 1982, increasing the export of these products from 17.6 million LD in 1982 jumped in 1984 to 35.6 million LD and decreased to 29.7 million LD in 1986. This variation makes the exports of petrochemical products reach an annual average rate of 27.86 million LD (Table 7-3 ).

The marketing of the Libyan oil represents a key part of this dissertation. In this chapter, these marketing activities were divided into domestic and overseas. We can conclude that the marketing policy adopted by Libya to increase its overseas market share and oil prices are recognize as typical and successful policy.