

# CHAPTER ONE

## INTRODUCTION

### 1.1 **Introduction :**

Libya has registered a high rate of economic growth since 1969. These economic achievements are in part attributed to a fast growing Libyan economy which depends on oil.

The Libyan oil and natural gas industry is one of the most important industries. It contributed 72% of GNP, employed 10% of the working population in 1992 (The Middle East Review, 1995) and represent the backbone of the Libyan economy, which recorded rapid growth and development.

The role of the oil sector on the Libyan economy is significant in determining the development of the country. Oil production has expanded rapidly since the early sixties when oil was first discovered in the country. Production according to the EIU, has raised sharply to make Libya the fourth largest oil producer among Middle East and North Africa producer by 1972 ( EIU, 94-95 ).

Abolfathi (1985) has also stressed the importance of the oil sector particularly with regards to its effect and influence on other sectors. He maintains that despite a limited employment impact, petroleum dominated the Libyan economy since 1973. He further argues that agriculture, the biggest employer has a marginal impact on the Libyan economy in terms of its contribution to the country's GDP.

He also pointed out that like most OPEC countries, sectors such as services, transportation commerce, utilities, construction, and manufacturing by and large heavily rely on the flow of oil revenues and that these sectors would collapse if the oil revenue were to dry up.

Recognizing the great potentials of this sector, great efforts have been made to further develop this sector in order to enhance its current as well as future contribution to the economy in terms of employment creation, its multiplier effects on other sectors, etc.

Given the above, an attempt will be made in this dissertation to discuss the various strategies that have been adopted by the Libyan government in order to further develop this important sector.

First, I will make a brief introduction on the history of the Libyan economy both before and after 1969 to show the effect of oil revenue on the economy. This will be followed by discussing the development and growth of the Libyan oil industry. A systematized analysis of the exploration and production of oil in Libya will also be carried out to show the real impact of the oil sector on other sectors like agriculture, industry, electricity, and etc.

The dissertation will also attempt to show the contribution of the oil sector in the economic transformation of Libyan economy during 1969-1995. In the final parts of this dissertation, the trend in the domestic demand for Libyan oil as well as its marketing and distribution will be discussed.

## **1.2 Significant of the study:**

The importance of this study stems from the fact that no past studies, had tackled specific issues such as the impact of oil revenue on the development of the economy as whole. There were some studies during the past two decades but these were not discussed thoroughly in terms of the coverage of the issues raised in this study.

Some of these studies are as follows: Penrose,(1975), *The Middle East: Oil, politics and development*, Frank C. waddams (1980),*The Libyan oil industry*, Mohamed

Zayd,(1980) *The economic transformation in the Jamahiriya*, M.Elhesnawi(1981)  
*Economic of Libyan oil and gas.*

In the study of oil, politics and development edited by Penrose in 1975, he attempted to lay an important background against which the development of the oil industry in the Middle East and the consequent role of the international oil companies. The role of the oil industry in the Middle East countries including Libya has also been discussed. Initially, most of these host countries received only very small shares of the rewards from their oil, but their share grew rapidly as they became increasingly able to assert their views as regards how much of the oil flow were to be retained domestically.

The development of Libyan oil exploration and production differed significantly from most of the patterns followed by most of the oil producing countries. While Algerian oil had been largely in the hands of French companies, and was destined primarily for the French market, Libyan oil was in the hands of international companies, among which, the American companies were more dominant. Thus, the major companies were not in a position to control the development of oil in Libya as they had elsewhere in the Middle East .

The first Libyan oil law was drawn up in 1955 in collaboration with the interested companies and its terms were extremely favorable to them. In particular, taxes were based on prices actually realized from a company's sales instead of the higher posted prices elsewhere in the Middle East. These attractive terms were necessary at first to encourage rapid development, but as the extent and nature of Libya's oil resources became clearer, the government imposed increasingly stringent terms, which the foreign oil companies readily accepted until 1965. Therefore , the Libyan government decided to impose taxes on the basis of posted prices in

accordance with OPEC principles. In spite of these tax increases, Libya's oil was still attractive to oil companies, because of the country's close proximity to Europe, which gave her an edge over other sellers from the Gulf.

Waddam's book "*The Libyan oil industry*" provides a vivid description of the Libyan oil industry by providing a clear insight regarding the original state of this vital industry as well as its current status and role in the Libyan economy. It also gives a narrative and analysis of the economic consequences of the discovery and production of oil in Libya from the very beginning up to 1980. The book describes how, many oil companies, including all the majority internationals came to search for oil. As a consequence of increased production, the level of exports in 1961 reached well over 3 million barrels per day. The production however subsequently declined to below 1 million barrels per day in 1974/75 before recovering to two million barrels per day in 1980.

Waddam also discusses the reasons for the rapid rise, decline and subsequent stabilization of oil production. These different phases of the oil industry in Libya centered on three aspects: the roles of the Libyan government and of the concessionaire oil companies; the relationship between the Libyan government and the concessionaire and its impact of Libyan oil; and the impact of Libyan oil on the petroleum markets in Europe and the world, as well as the response of the Libyan economy to the development of its oil industry.

In Zayd's study, he discusses the economic conditions of Libya for the period 1970-1980. The achievements of the development plans for 1970-1980 are also presented and discussed. Zayd also covers the structural changes in the Libyan

economy during the above decade which were brought about by the oil industry by using some economic indicators.

Finally Elhesnawi's study looks at the development of the Libyan oil sector from the initial stages when oil was first drilled up to the end of 1980. In this article Elhesnawi analyzes and discusses the exploration, production, distribution and marketing of the Libyan oil. This study touched on the system of marketing of Libyan's oil both domestically and overseas. The study was however conducted well before Libya modernized and transformed its petro-chemical oil industry and such as much of the data he presents suffers from some serious defects in terms of accuracy.

However, the studies mentioned above have not provided a conclusive view on the contribution of the oil sector to the development of the Libyan economy, for one major reason: the approach adopted by them resorted to descriptive study covering period up to 1981 only. This study on the other hand, is an extension of those studies until 1995. In addition this study also provides more analysis of the economic indicators, using more recent and up-to-date data in an attempt to cover what previous literature did not cover adequately. This study will also show the structural changes during the most important stages of development in Libyan economy.

### **1.3 Field and aims of the study :**

The main objective of the study is to explore the contribution of the oil industry to the phenomenal growth of Libyan economy, highlighting improvements in revenue from oil as the major driving force in this endeavor.

The main objective of this research therefore is to study the development of the oil as well as the overall contribution it made toward the growth of the Libyan economy during the period 1969-1995 using time series data for this period

#### **1.4 Methodology :**

The study was based on qualitative evaluation of the policy variables adopted by the government between the period (1969-1995) and its impact on the economy. In this study indicators such as price ratios, production ratios and the development of oil concession with foreign company and shares contract, will be used to indicate the structural changes of the Libyan economies.

#### **1.5 Organization of the study :**

Chapter Two looks at the country background, the characteristics of both the oil sector and Libyan economy before and after 1969 and the influence of oil revenue on the Libyan economy during (1964-1969). Chapter Three focuses on the development of the oil industry in Libya. Chapter Four discusses the oil and gas Production. Chapter Five looks at the contribution of oil industry to the economy. It shows the effect of oil industry on the economic transformation in the Libyan Economy during (1970-1995). Chapter Six concentrates on the domestic demand for oil and Chapter Seven, marketing of the Libyan Oil during the period under study. Finally, Chapter eight summarizes and provides conclusion of the study.