

CHAPTER TWO

COUNTRY BACKGROUND

This chapter will discuss the overall significance of the oil sector to the Libyan economy and the oil strategy both before and after 1969. Prior to 1969, there was no oil strategy to safeguard the national wealth. This meant that the country's oil wealth did not benefit the country because of foreign ownership. After 1969 the government brought the oil sector under its direct and complete control in large part by the Libyanization policy of the government.

2.1 Country background :

Libya, is located in North Africa, comprising the former Italian colonies of Tripolitania, Cyrenaica and Fezzan. It enjoys a distinctive geographical position being the center of North Africa. It is bounded on the north by the Mediterranean sea, on the east by Egypt, on the southeast by the Sudan, on the south by Chad and Niger, on the west by Algeria and on the northwest by Tunisia. Libya, one of the largest countries in Africa has an area of 1,760,000 square kilometers. The population is about 5,248,401 (Department of statistics and census, 1995).

Libya has an important strategic position and is a link between Africa and Europe. Its harbors such as Benghazi, Tripoli and others are suitable for receiving ships all the year round and are good trade outlets for African Countries such as Niger, Chad and Mali. This location makes Libya an important link between different parts of the world and this important geographical fact makes the Libyan economy integrated with many countries. Because of this location, supplies from Libya to

European destinations have the advantage of being time and cost effective. Consequently, it plays effective role in economic activities of the world.

Libya is the biggest oil producer in North Africa and Europe's biggest North African oil supplier. In 1994, over 400,000 barrels a day of crude oil are destined for Italy alone (NOC, 1994). Accordingly, the Libyan oil and natural gas industry is one of the most important industries and represents the backbone of the nation's economy.

2.2 Discovery of oil :

Petroleum in Libya was first discovered in 1914 when a petroleum gas flow was found in Sidi El Masri-Tripoli at a depth of 160 meters, in Zaltan in 1928 and in Tagoura in 1934. In 1937 a group of sailors discovered traces of petroleum in a well which was 259 meters deep. Italians carried out exploration work in 1938 but were stopped by the Second World War. After the war international companies such as Esso, Mobil, Shell, Nelson Wenker and others, competed to explore petroleum in Libya (Elhesnawi, 1981).

When the French discovered petroleum at the Eastern borders of Algeria in 1954, ESSO quickly claimed the right of exploration in the Fezzan region. However, first the results were not encouraging because of the amount discovered was not commercially viable. In 1955, when the law on national petroleum No.25 / 55 was issued by Libyan government, ESSO and Nelson Wenker Hunt obtained the concession rights of exploration on November 20, 1955. Competition between companies became stronger when around 35 concession rights were given to 35 companies. These rights were increased to 87 given to 25 international Companies,

mainly American in 1963. Exploration work under these concessions covered 55 % of Libya's surface which represented about 87,153 km² of land and 28,138 km² of sea.

Libya's history as an oil producing country started on April 18, 1959 when Esso discovered the first oil well in Sirt with a production of 17,500 barrels a day in June 1959. Nine hundred and thirty wells were drilled between 1955 and at the end of October 1963 out of these, 410 wells produced oil, 518 were dry and two produced natural gas. At the end of October 1963 the total oil production in Libya was about 59,960 barrels / day, the deepest well was 15, 960 feet deep.

Oil extraction in Libya is cheap as the average depth of wells is between 2,000 and 10,000 feet (Elhesnawi, 1981) which means that the cost of drilling and exploration are not high whenever drilling is short .

2.3 Libyan economy and the importance of oil before 1969 :

Until 1961, Libya was one of the poorest countries in the world (Zaid, 1980). The average per capita income in the 1950s was about 12 Libyan Dinar and it doubled in 1958 to reach 44 Libyan Dinar (L D = \$.29 using 1958 prices). The per capita income however rose very quickly after petroleum was discovered and exported .Thus, the changes brought about by the discovery of petroleum were essential changes in economic and social terms. This was especially clear from the annual oil revenues of the government budget which is illustrated in Table (2-1). Revenue from oil contributed about 38% of total revenue in 1963/64, whereas oil revenue overall contribution reached about 63% in 1965/66 hence highlighting the increasing of oil to the national income (Elhesnawi, 1981).

Table (2-1)**Annual revenues during (1955-1970)**

Fiscal year	Oil revenue in LD ('000)	Total income in LD ('000)	%of oil revenues in total income
1955/56	51	13.331	0.38
1956/57	62	14.000	0.44
1957/58	77	15.900	0.48
1958/59	91	18.200	0.50
1959/60	97	20.100	0.48
1960/61	115	22.356	0.51
1961/62	1.992	25.703	7.75
1962/63	7.190	36.027	19.95
1963/64	23.840	63.369	37.62
1964/65	54.710	86.020	63.60
1965/66	93.618	133.453	62.66
1966/67	141.861	190.926	74.30
1967/68	170.000	224.000	75.89
1968/69	275.000	345.000	79.71
1969/70	303.000	426.310	71.08

Source :1-Ministry of petroleum affair.

2-Economic report, ministry of planning (various years).

Table (2-1) shows the growing importance of oil as a source of revenue for Libya for the period 1955 to 1970. From a modest contribution of LD 51,000 in 1955/56 for example, revenue from oil sales has been growing steadily up to 1959/60 when it added 97,000 LD to Libyan's total national income. However, in relative terms this was only a negligible 0.48% to the country's GDP. It is also apparent that the percentage contribution of oil to the government revenue averaged around 0.456% for the period from 1955/56 through to 1959/60.

The Table however reveals the increasing importance of oil as a source of national income. For instance, in the fiscal year 1961/62 oil contributed a 7.75% to total income. Thereafter, the table shows the continuing dominance of oil in the Libyan economy. Within the period from 1961/62 to 1969/70, the percentage contribution of

oil to Libya's GDP increased almost ten folds confirming the significant of oil as the backbone of the Libyan economy.

While the above rise in total oil revenue is impressive, without doubt it is generally argued that it has not trickled down enough to the general public in the form of enhanced earning power. This is because most of the oil revenue was never adequately utilized in implementing the national development plan.

According to Economic Report by Ministry of Planning (1971), other sectors of the economy such as agricultural did not make the anticipated impact. For example, the share of agricultural in total production in 1958 was 26.1%. It fell to 6.7% in 1964 and did not exceed 4.6% in 1966. The share of manufacturing industry was just 11.5% in 1958, fell to 3.4% and 2.6% in 1964 and 1966 respectively.

In the field of energy consumption, petroleum represented 20.2 % of the total domestic energy used in 1937, and natural gas contributed 5.8 %. In 1960, petroleum contributed 43.1 % and natural gas with 15.1 % (Ministry of Planning, 1970). The importance of petroleum and natural gas among energy resources went on increasing as a result of man's continuous progress.

According to the planning department reports between 1964 and 1971, Libyan economy entered a new phase of development. GDP growth in real terms in 1964 prices increased by a compound rate of growth of 14.2% from 364.6 million LD in 1964 to 926.5 million LD in 1971.

2.4 The effect of oil on the Libyan economy (1964 -1970) :

From Table (2-1), we notice a continuous increase in oil revenues had a very important impact on the government budget. While oil revenues represented only

0.51% of the total income in fiscal year 1960/61, they reached 275 million LD or 79.71% of the total income in 1968/69.

The effect of the increase of oil revenues was not limited to the increase of GDP. Other economic sectors were also influenced where all efforts were directed to those activities related to oil production, while other sectors were neglected, particularly by the government. The agricultural sector for example, which represented more than a quarter of GDP in 1958, contributed only with 5% while the contribution of manufacturing industries also fell from 3.2% to about 2.1%. The contribution of oil as indicated in Table (2-1) in 1968/1969 constituted 79.71% of the national income.

It is therefore, natural that Libya trade relations with other country changed and that its balance of payment is influenced by such development as Table (2-2) shows. The increasing need for machinery and equipment in the oil fields, together with the rising in purchasing capacity of the population made the volume of foreign trade in Libya increased from 11,198 million LD in 1954 to reach 104,379 million LD in 1964 (Ministry of Planning, 1970).

Libya's exports during the period (1954-1964), as seen in Table(2-2) show that exports increased from 3,668 million LD in 1954 to 253,100 in 1964, which continues to increase to 884,900 million LD in 1970. This was naturally, reflected on the trade balance which suffered a deficit from 7,360 million LD in 1952 to 22,980 million LD in 1962. However, it made a surplus of 49,575 million LD in 1963, 148,735 million LD in 1964, 170 million LD in 1965 and 624,9 million LD in 1970

Table (2-2) shows a large increase in exports in general as a result of the rising crude oil exports. The oil exports share in total exports rose from 0.51% in 1960 to 63.5% in 1961 and to 99.7% in 1969 (Ministry of Planning, 1972).

Table (2 - 2)**Libyan imports and exports during(1960-1970)**

Year	Imports (million LD)	Exports (million LD)	Crude oil exports (million LD)	Trade balance	Percentage of oil in total exports
1960	60.388	3.111	0.115	(57.277)	3.70
1961	53.274	6.519	4.138	(46.755)	63.48
1962	73.444	49.016	46.967	(24.428)	95.82
1963	85.277	133.535	131.823	48.258	98.72
1964	104.379	253.100	248.079	148.721	98.02
1965	114.416	284.500	280.326	170.084	98.53
1966	144.700	355.400	351.000	210.700	98.76
1967	170.100	420.700	416.400	250.600	98.98
1968	230.200	669.600	667.300	439.400	99.66
1969	230.300	774.000	771.900	543.700	99.73
1970	198.000	884.900	841.100	686.900	95.05

Source: - Ministry of planning, Economic growth between 1964-1970.

The balance of payment showed a deficit until 1963 when exports exceeded imports. Exports rose sharply afterwards to double the value of imports in 1965 and almost triple in 1969. Oil exports represented 99.7% of the total exports.

Until 1970, most of Libya's exports other than oil were agricultural products. The significant rise in the oil revenue has had its negative effect on agricultural, which declined as a result of the massive migration of people from the rural to urban area. The number of people working in agriculture, forestry and fisheries fell from 145.4 thousand in 1964 to 143.3 thousand in 1968. The percentage employment in non-oil industry activities fell gradually from 38% in 1964 to 30.1% in 1971 (Ministry of Planning, 1972).

Oil exports had also an important effect on the government budget. According to Table (2-1) income budget in 1955 was 13.331 million LD, increased in 1961/62 to 25.703 million LD. At the beginning of oil exports, the income budget increased from

65.1 million LD in 1963/64 to 86.020 million LD in 1964/65 and to 133.453, 190.926, 224.000, 345.000, 426.310 in 1965/66, 1966/67, 1967/68, 1968/69, and 1969/70 respectively. In spite of this huge increase in the contribution of the oil sector to the national budget, only 9 million LD were allocated for development purposes in fiscal year 1962/63 and 21.7 million LD in 1963/64, 32.55 million LD in 1964/65 and 90.9 million LD in 1966/67 (Ministry of Planning, 1972).

Table (2 - 3)

Growth rate of production sectors during(1964-1970)
(million LD)

Year	Agricultural forestry and fisheries		Manufacturing industries		Oil industry	
	Income	%	Income	%	Income	%
1964	16.7	4.5	11.5	3.2	195.7	53.7
1965	23.0	4.9	12.3	2.6	257.9	55.1
1966	21.9	3.9	13.9	2.5	317.0	56.9
1967	23.1	3.7	15.8	2.6	342.7	55.4
1968	22.0	2.6	18.9	2.3	517.4	61.9
1969	22.5	2.4	19.3	2.0	622.1	65.7
1970	17.2	1.7	20.5	2.1	659.3	66.4

Source: - Amanat Altakit, Economic growth between 1964-1971, structure of the national economy between 1964-1971.

Table (2-3) shows the percentage changes in the annual growth rate of three production sectors during (1964-1970), while agricultural share in GDP was 26.1% before 1964, it fell in 1964 to 4.5%, 3.9% in 1966 and continued to fall until it reached 1.7% in 1970. The same applies to manufacturing industries whose share in GDP fell from 3.2% in 1964 to 2.0% in 1969 and 2.1% in 1970. Oil industries share in GDP rose from 53.7% in 1964 (195.7 million LD) to 66.4% (659.3 million LD) in 1970

Table (2 - 4)

Change in the structure of GDP

(In million LD)

Year	Agricultural		Manufacturing industries		Petroleum		Total activities other than petroleum		Total distribution and service sectors	
	Monetary income	%	Monetary income	%	Monetary income	%	Monetary income	%	Monetary income	%
1964	11.7	4.5	11.5	3.2	195.7	53.7	364.6	46.3	116.9	32.0
1965	25.2	5.1	12.6	2.6	270.1	54.9	492.1	45.1	146.3	29.7
1966	27.3	4.3	14.4	2.3	265.1	56.1	634.9	43.9	118.1	29.6
1967	30.9	4.1	16.4	2.2	402.5	53.8	747.8	46.2	227.3	30.4
1968	33.4	3.1	20.0	1.9	648.6	60.0	1072.6	39.5	275.0	25.7
1969	37.4	3.1	20.8	1.7	754.7	61.7	1223.0	38.3	315.9	25.8
1970	33.1	2.6	22.5	1.7	818.6	63.5	1288.3	36.5	324.4	52.2
1971	32.9	2.2	25.0	1.7	920.5	62.2	1479.6	37.8	360.3	52.4

Source : - Amanath altaktit, Economic Development between 1964-1971.

Table (2-4) shows the structural changes which have taken place in the Libyan economy during 1964-1971. While monetary income from oil industries more than quadrupled over seven years; 195.8 million LD in 1964, 812.6 million LD in 1970 and 920.5 million LD in 1971. Other sectors contributed with 46.3% to the GDP in monetary terms in 1964 and with 36.5% in 1970 compared with 53.7% for oil industries in 1964 and 63.5% in 1970.

From Table (2-4), it is clear that both agricultural and manufacturing industries have experienced an increase in terms of the revenue, contributing towards Libya's growing GDP.

2.5 The oil strategy before 1969 :

Prior to 1969, the oil industry was under the control of foreign companies, which controlled various activities of exploration, production, refinement, processing

and marketing as well as maintenance and preparatory service that accompany these operations (Ministry of Oil, 1975).

Despite the rapid growth in oil production, no efforts were ever made even within the framework of oil industries laws, to safeguard national wealth and guarantee Libya to its oil revenues. For example, the national law NO. 25/55 states theoretically in its first part, paragraph 15, that Libya has a right to a secondary share in the oil's sale price quoted by the oil companies at the port. It also states that oil companies should produce all documents necessary to fix this share. But in practice, the Libyan government never claimed this right at that time. Oil companies took advantage of the lack of enforcement of this right, resulting high losses for Libya. The losses incurred from the beginning of crude oil exportation in September 1961 until the end of 1965, were 337 million American dollars, that is at 34 cents per barrel (Arabic petroleum & gas magazine, 1971).

In 1964, for example, it quoted the average price per barrel paid by the group of OCCI (the second largest oil company working in Libya after Esso) as being 55 cents as compared to 90 cents by ESSO. A German center Koeln-West Germany mentioned that OCCI posted prices were 70% lower than real prices. The loss in the average sales price of crude oil in Libya was about \$2.19 per barrel in 1961, \$ 2.01 per barrel in 1962, \$1.93 per barrel in 1963 and between 1.77-1.80\$ per barrel in 1964.

The average loss per barrel until the end of 1965 was around 34 cents, which means that oil companies working in Libya were actually plundering the Libyan wealth and natural resources with the knowledge of the Libyan government, and without taking any legal action to claim its right. The negligence of the government's right was clear in 1964 when it held back the new petroleum law which was in line with OPEC's

claims and which cost Libya a loss of 27 million LD in 1964 (NOC,1971, Amanita Alnafid ,1972).

So from the above, it is evident that the Libyan oil industry before 1969 was managed and wholly controlled by foreign monopolies companies, to the determination of the national interest.

2.6 The oil strategy after 1969 :

The oil and natural gas industry is one of the most important industries, and represent the backbone of the Libyan economy. Due to the great importance of oil and gas, the government after 1969, gave it utmost regard to acknowledging that it represented the major income for the nation's economy and consequently brought a complete control over the oil industry which was previously run by foreign companies. From its onset the government built up specific strategy for this industry developing its production capacity and diversifying its uses into a major source of industrialization programs. In addition a very large percentage of the oil and natural gas as semi-industrialized products or as final form of products or in a processed form were produced for export. This new strategy was aimed at reducing the amount of crude oil exports, while encouraging the export of processed oil.

The strategy which was adopted by the government after 1969 (Ministry of Planning,1973) was as follows:

- 1) Controlling the production of crude oil and modifying the production according to the country's economic needs;
- 2) Complete control by the nation over all aspects of petroleum production, exploration, marketing of the petroleum products, establishing national companies that enter the field of drilling, exploration and marketing. Furthermore, the

government took hold of all responsibilities previously run entirely by foreign companies;

3) Libyanizing the largest possible part of the workforce in this sector by training them professionally on a continuous basis. So that they can make a more effective participation in the oil sector;

4) Increasing the reserve of oil and natural gas through new exploration and by the application of the latest technology which help to increase the oil reserve;

5) Establishing a variety of petroleum industries leading to the foundation of varied national economy and independent from the control of the oil sector;

6) Increasing the local production of petroleum products for exporting as semi-industrialized products of primary stage to be further manufactured in their final form; and

7) Obtaining reasonable price for the Libyan oil and getting the highest benefit from the advantages the Libyan crude oil has.

Hence, it is possible to state that the policy in the oil sectors has, since the early stages, focussed all efforts on directing the oil-revolution according to the need and interest of the nation by having complete control over this sector. In the realization of these objectives, decisions were taken to provide the government with more control over this sector, and this achievement will be discussed in the next chapter .

2.7 Conclusion :

In this chapter, an attempt was made to present an overview of the Libyan economy and the important role played by the oil industry in transforming the economy. The Libyan economy before 1969 has also been examined in section 2.2 and it has been shown that oil played only a minimal role in the economic development of Libya

during this period. The chapter also discusses the consequence of the discovery of oil for the economy. The two different oil sector strategies i.e. both before and after 1969 have proved that the economic and social plans adopted before 1969 were complete failure.