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Libya:
Oil Policy Crossroads [redacted]

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An Intelligence Assessment

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Libya: Oil Policy Crossroads [redacted] 25X1

An Intelligence Assessment

Information available as of 10 June 1982 has been used in the preparation of this report.

This paper was prepared by [redacted] Office of Near East–South Asia Analysis. It was coordinated with the Directorate of Operations and the National Intelligence Council. Comments and queries are welcome and may be directed to the Chief, South Asia Division, NESA, [redacted] 25X1

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July 1982

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Libya: Oil Policy Crossroads [redacted] 25X1

Key Judgments

The soft oil market has caused the most severe problems for the Libyan economy since Muammar al-Qadhafi took power in 1969. Qadhafi's pursuit of price maximization has reduced sales to a level that is insufficient to cover the country's imports. Erratic dealings with foreign oil companies have inhibited an effective maintenance and development program and caused an overall deterioration in the oil industry's capacity and facilities. [redacted] 25X1

Luxury imports have been cut back and payments to foreign contractors delayed to close the gap between income and expenditures. If imports are not further reduced this year, Tripoli will have to finance a large current account deficit either by drawing down foreign exchange reserves or borrowing. By the end of 1982 cuts in development projects and military procurement, both of which could be made without significant short-term economic or political repercussions, may be necessary. [redacted] 25X1

By next year Qadhafi may have to make some tougher decisions in his oil management policies, particularly if the market situation does not improve. A hardline nationalistic approach toward oil companies would cause marketing difficulties and shortages of foreign exchange and lead to a longer term erosion in oil productive capacity and reserves. In a few years the financial shortfalls could undermine domestic political stability by forcing cutbacks in social programs and consumer imports and also hinder Qadhafi's international ambitions. A position that is more accommodating to the oil companies would increase marketing of Libyan crude and long-term investment by the companies. With the proper operating environment and financial incentives, the companies could ensure Libya a larger share in a soft oil market as well as a longer term resurgence for the industry.
[redacted] 25X1

Qadhafi, who has consistently resorted to brinkmanship in his dealings with the oil companies, is likely to compromise just enough to keep them in the country. The recent appointment as Oil Minister of Kamal Maqhur, who is experienced in negotiating with the companies, may indicate

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Qadhafi's willingness to accommodate their interests. As long as Qadhafi is around, however, constraints on company operations are likely to preclude a major resurgence in exploration and development. 25X1

In the short run we expect the oil industry to provide Qadhafi with sufficient funds to limit domestic discontent by maintaining adequate supplies of consumer goods as well as to continue his support to foreign governments and revolutionary groups. If oil sales do not rebound dramatically by next year, however, the government may be forced to cut back social programs and consumer imports, thereby heightening domestic criticism. 25X1

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Libya: Oil Policy Crossroads [redacted]

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A continued drain on the Libyan treasury will force Qadhafi to make some hard decisions on spending priorities over the next year or so. Until mid-1981 sustained high oil production combined with high oil prices on the international market enabled Qadhafi to pursue both domestic and international objectives. Domestically, he narrowed the gap between rich and poor and raised the standard of living for the masses. On the international scene he worked toward Arab unity, exported his revolutionary philosophy to both Arab and non-Arab developing countries, and provided arms and training to diverse revolutionary groups. Limited successes on both domestic and international fronts, however, are threatened by a soft oil market and reduced oil prices. Lower revenues brought about by these developments are already hurting Qadhafi's domestic and international programs. Economic development projects have been stopped or delayed, and Libya's ability to provide financial support to other countries has been limited. [redacted]

Qadhafi has a range of policy options. He can maintain the highest possible oil prices, continue to restrict the profitability of the foreign oil companies that produce two-thirds of the country's oil, and continue to pursue a hardline "Libyanization" program. On the other hand he can soften his oil pricing position and make it more profitable for Western companies to invest time and resources in the oil industry. The hardline approach would almost certainly lead to low oil production and slashed revenues for domestic programs and international adventurism, a lower level of oil production capacity, and a reduced maintenance and exploration program. A more accommodating approach would probably induce the Western companies to increase their near-term liftings and improve the long-term prognosis for investment in the industry. A resurgence in the industry would provide Qadhafi with the funds to pursue both his domestic and international ambitions. [redacted]

Libya's Oil Policies: The Road to Ruin

Qadhafi no longer can exert a major impact on the international energy market as he did in the seller's market of the 1970s. (See annex for a discussion of Libya's role in the oil industry.) Libya now accounts for only about 3 percent of oil output in the non-Communist world (down from 9 percent in 1970), and other suppliers could readily take up the slack if it reduced its exports. Although it is one of the most unrelenting price hawks in OPEC, Tripoli accepts OPEC pricing decisions and focuses on maximizing revenues within the OPEC pricing framework.[1] [redacted]

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Libya has itself to blame for its present bind. To take advantage of potential worldwide shortages, it priced its oil at the maximum set by OPEC following the curtailment of exports from Iran and Iraq after their border war erupted in September 1980. A combination of high stocks, increased output by Saudi Arabia, conservation in the industralized countries, and a worldwide recession dampened the oil market allowing an orderly adjustment to the loss of supplies from Iran and Iraq. Libya's refusal to reduce its prices led to a decline in production from more than 1.6 million barrels per day (b/d) in early 1981 to 600,000 b/d by mid-1981. Despite minor price reductions and marketing incentives such as substantial discounts for barter and processing deals, a modest recovery in output in late 1981 reversed itself in the first quarter of this year. [redacted]

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A combination of erratic policies and poor profit margins during the soft market has affected company operations. From the beginning the Qadhafi regime labeled the foreign oil companies as enemies of the state and threatened nationalization. The lack of

[1] Libya has a greater degree of pricing flexibility than most other producers because its oil is of higher quality and is closer to major markets. There is a certain amount of latitude in OPEC for price adjustments to accommodate these factors as long as the oil is not sold below the price set by OPEC for benchmark crude. [redacted]

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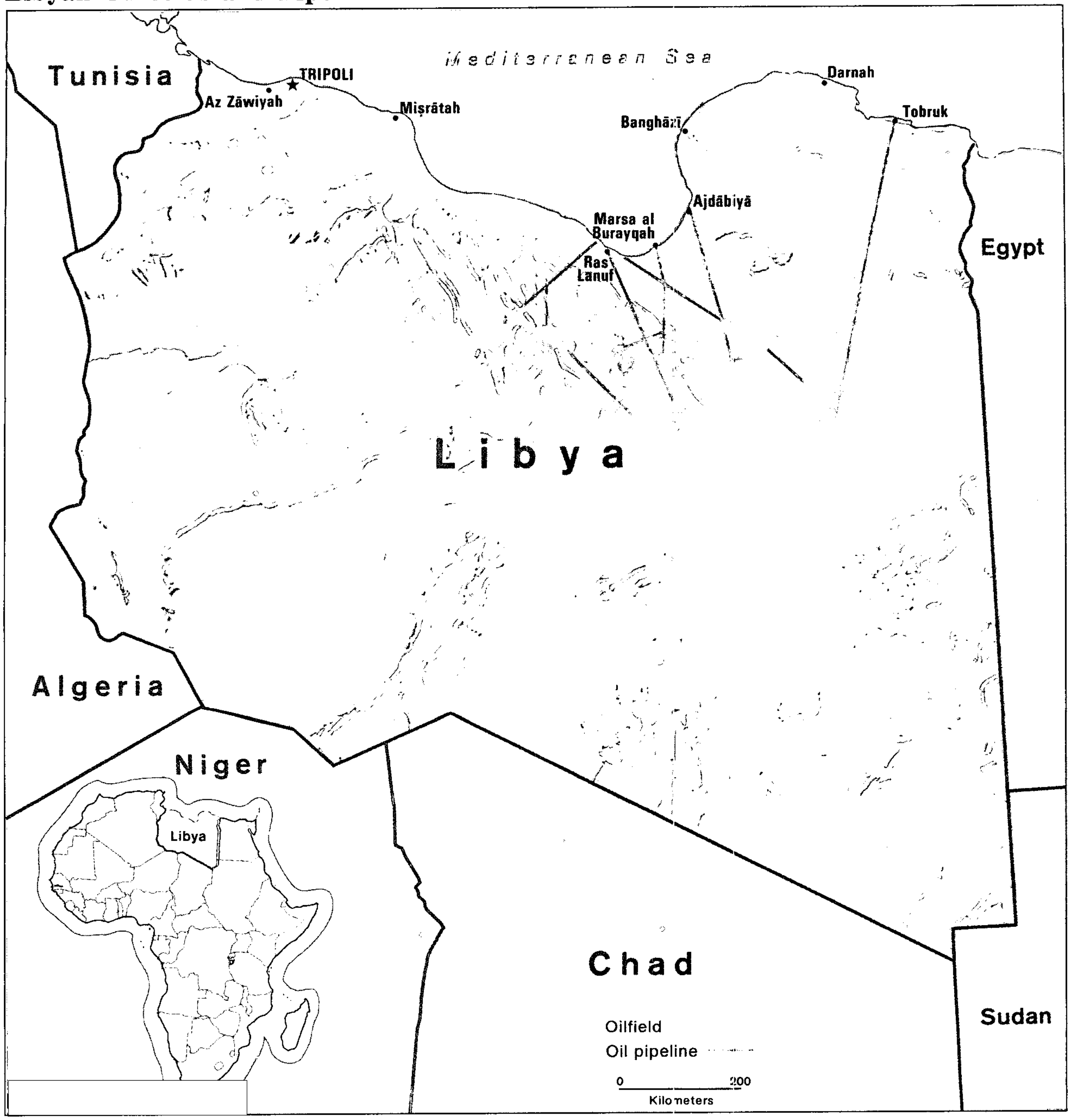
Figure 1
Libyan Oilfields and Pipelines



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reasonable assurances that they would get an adequate return on major new investments has dampened some foreign operators' enthusiasm for maintaining facilities and searching for new deposits. Government-imposed oil production quotas left the companies with more capacity than they were allowed to use. Large tax payments and the high price of Libyan oil limited the companies' profits.

Even though Libya permits greater foreign ownership in the industry than most other OPEC producers, the unstable political environment and production restrictions have kept the companies cautious in their operations. As a result of a lack of investment in upgraded facilities and in exploration and development of new fields, total capacity has fallen to about 2 million b/d from a peak of 3.5 million b/d in 1970. Further declines in capacity are likely if Libya fails to encourage investment in secondary and tertiary recovery techniques at the older, more mature fields or to develop new fields.

To offset these declines Libya has pressed the operators—with veiled threats and some incentives such as production-sharing arrangements—to pursue active exploration and development programs and to maintain and upgrade facilities. Encouraged by such incentives, companies that have a greater need for access to Libyan crude have made large investments in maintaining facilities and in exploration. 25X1

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Oil deposits discovered in western Libya by the foreign oil companies in the 1950s and 1960s are being developed by the Libyan National Oil Company 25X1

[redacted]

Exxon's Departure. Companies that have more profitable operations elsewhere and have adequate access to crude oil from other sources are not so willing to be pressed by the Libyans. Exxon's decision last November to cease operations illustrates one oil company's frustration in battling Libya's oil management policies. [redacted]

The company found it unprofitable to continue operations, and in its view conditions were not likely to improve. Its LNG plant needed extensive repairs to return to design capacity, and promising exploration sites were in expensive offshore areas. [redacted]

Despite policies that discourage Exxon and other foreign companies, Qadhafi recognizes Libya's need for the continued presence of the companies to retain the skills of company personnel, their ready access to technology, and the services of their parent firms. [redacted]

[redacted] 25X1

Mobil also has been negotiating to pull out of Libya. In early June it announced it will withdraw on 13 July even if no agreement is reached on compensation but will continue negotiations. [redacted] We believe that Libya's financial difficulties and its deteriorating political relationship with the United States have made it less accommodating with other companies attempting to leave. [redacted]

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The Foreign Workers. Reliance on expatriate workers in both technical and semiskilled positions is a major constraint in the formulation of Libya's oil management policies. Over half of the approximately 13,000 technical supervisors and workers in the Libyan oil industry are expatriates, and even an accelerated training program for Libyans is unlikely to reduce that figure much over the next few years. (Of the total Libyan work force of 900,000 to 1 million, about half are foreigners.) [redacted]

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The longer term objective of "Libyanization" of all technical positions is still a long way off. The original contracts between the government and the oil companies stipulated that after 10 years of operation concession holders should employ Libyans in 75 percent of the jobs if adequate skills were available. Each company was required to set aside specific funds for training once commercial exports commenced. Throughout the 1960s, however, few Libyans were effectively employed in management or technical positions even though training programs were undertaken. "Libyanization" of senior posts and more intensive training of Libyans were accelerated after

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the revolution of 1969. Libyans now occupy almost all of the administrative positions and also have a large number on the boards of directors of the oil companies. [redacted] 25X1

The US oil firms provide the largest number of foreign personnel; most of the technical supervisors and workers are from Western Europe and Canada. In most cases Libyan personnel back up the staff. [redacted] 25X1

Even the LNOC, one of the largest operations in the country with operating oilfields with a capacity of roughly 500,000 b/d, must rely on foreign personnel for actual operations and exploration and development work. To remedy this shortcoming, the state oil company is being restructured and strengthened by increasing the number of skilled personnel. Most of the recruited personnel will still be expatriates. [redacted] 25X1

Table 2 Billion US $

Libya: Oil Revenues and Financial Reserves

	Value of Oil Exports	Financial Reserves[a]
1970	2.9	1.5
1971	3.2	2.6
1972	2.7	2.8
1973	3.5	2.0
1974	6.9	3.5
1975	6.1	2.1
1976	8.7	3.1
1977	10.3	4.8
1978	9.7	4.1
1979	15.3	6.3
1980	22.8	13.1
1981	15.7	9.0

[a] End of year, excludes gold and other assets equivalent to about $3 billion in 1981.

[redacted] 25X1

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The Prosperous Years: Easy Come, Easy Go

The oil industry catapulted Libya into a rapidly developing country with financial reserves of about $13 billion at the end of 1980. Earnings from oil exports soared to nearly $23 billion in 1980. Revenues from oil production provide virtually all of Libya's export earnings, two-thirds of gross domestic product, and most government income. [redacted]

Personal Prosperity. Oil earnings have enabled the government to provide most Libyans with an impressive standard of living. In less than a decade the people have progressed from almost universal illiteracy and poverty to widespread prosperity [redacted] the people have come to expect relatively high salaries and wages; imported luxury goods; social services that are both free and extensive, including secondary and university education at home or abroad; care of the old; and comprehensive medical services. Libya has developed a spending appetite that dwarfs the early 1970s. A continued flow of revenues from the oil industry is necessary for Qadhafi's government to pursue its political and economic ambitions. Adequate funds also are important to prevent unmet expectations among the population from evolving into widespread dissatisfaction with Qadhafi's policies. [redacted] 25X1

The Development Plans. Economic development, which has been pushed to create a base for a postoil economy, has been the kingpin of Libya's five-year development plans. The 1976-80 plan was aimed at building an industrial base to provide Libya with an alternative income and facilitate income substitution; creating transportation and communication links that had long been neglected; and reducing Libya's dependence on food imports. The 1981-85 development plan, budgeted at about $60 billion, is double the size of the previous one and has the same priorities. [redacted]

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Many of the projects are large-scale prestige items, including an iron and steel works at Misratah, a petrochemical complex at Ras Lanuf, and an aluminum smelter at Zawiyah. Such projects require imported equipment and manpower and, except for

Table 3 Billion US $

Libya: Development Plans

	1976-80	1981-85
Total	**33**	**62.5**
	Percent	Percent
Producing sectors	**40**	**38**
Agriculture	19	17
Industry	21	21
Economic infrastructure	**42** [a]	**52**
Electricity	10	13
Housing	11	15
Municipal projects	7	6
Transportation and communication	13	18
Social infrastructure	**11**	**9**
Education	7	6
Health	4	3
Other	**7**	**1**

[a] Because of rounding components may not add to totals shown.

[redacted]

petrochemicals, imported raw materials as well. Much of the $10 billion allocated to agriculture will fund large-scale land reclamation projects requiring irrigation and mechanized farming equipment. Although Libyan planners acknowledge that it costs less to import food than to expand domestic output—the cost of producing grain is conservatively estimated by agriculturalists at five to six times the world price—they have been willing to pay this cost to reduce Libya's dependence on imported food. [redacted]

The Finances of Foreign Policy

Qadhafi has allocated funds to support "national liberation movements" in an estimated 45 countries, backing groups ranging from the Palestine Liberation Organization to the Irish Republican Army, from Muslim rebels in Ethiopia to black Muslims in Chicago. His army occupied Chad and threatens the Sudan and other countries in northern and central Africa. Qadhafi has also attempted to buy directly the support of other Arab and non-Arab LDCs with financial aid and military support. He has wooed such African states as Benin and Ghana but has alienated others by meddling in their internal affairs. His offer to act as host to and to finance the annual Organization for African Unity meeting is an attempt to buy himself the chairmanship of the organization and to enhance his credibility as an international statesman and pan-Arab leader. Recent meetings have cost from $15 million to more than $100 million depending on the adequacy of local facilities. [redacted] 25X1

[redacted] 25X1 since the beginning of 1979, Libya has provided grants totaling about $900 million for arms deliveries and economic assistance to governments and dissident groups in the Third World. Although this figure in itself amounts to only about 2 percent of oil revenues over this period, the total cost of Qadhafi's activist foreign policy is much higher. It includes additional costs hidden in the defense budget such as payments to terrorist groups, terrorist training, and arms stockpiling for eventual disbursement abroad. [redacted] 25X1

Libya has used a large portion of its oil wealth on arms purchases. Following the Middle East war in 1973, Libya went on an arms buying spree to build up domestic defenses, to prepare for foreign operations, and to stockpile weapons for delivery to other nations. [redacted] Libyan arms purchase agreements reached a record in 1980 of about $10 billion, boosting the value of orders placed since 1973 to almost $21 billion. The agreement with the Soviet Union alone is valued at an estimated $8 billion. Libya now heads Moscow's list of arms clients and ranks second behind Saudi Arabia among active arms buyers in the Third World. [redacted]

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The rapid accumulation of a major modern arsenal has been accompanied by an increase in spending on military services and support. Almost all military training and maintenance functions are performed by well-paid foreign nationals—mostly Soviet and East European. Annual outlays for foreign technical support climbed to an estimated $750 million in 1980 and were expected to approach $1 billion by 1983. [redacted] 25X1

The Current Situation: Libya Bites the Bullet

Economic Realities. Reduced oil production in 1981 cut revenues to about $15 billion and prompted a cutback in imports and in the 1980-85 development plan. Despite attempts at austerity, Libya had to draw down its financial reserves by roughly $4 billion to an estimated $9 billion in the last six months of 1981. Those reserves were equivalent to about seven months of imports at the 1981 rate. This dramatic reduction of reserves has prompted the government to establish a financial oversight committee to review government expenditures. [redacted] ministries will no longer be permitted to disburse new funds without obtaining the committee's approval. Large financial resources built up over the past two years nevertheless continue to erode rapidly, possibly at a rate as high as $1 billion per month. This year's projected shortfalls of a minimum $6-7 billion, however, can be met by drawing down foreign reserves, borrowing, or cutting imports. [redacted]

Government attempts to save on hard currency expenditures already are evident. Late last year it published a list of goods that may not be imported. While the list deals primarily with luxury goods, as the financial situation worsens the number of prohibited items could be expanded. Libya also has delayed payments to foreign construction firms for projects that are under way and continues to press trading partners to accept payment in oil. One of the largest projects to be shelved indefinitely is the partly constructed Ras Lanuf petrochemical complex. [redacted] Libya has begun to expel foreign workers as a means to economize, and this could trigger more stoppages in the construction sector. [redacted]

Political Implications. If Libya's financial situation does not improve significantly by the end of the year, the government will have to examine its spending priorities. A continuation of revenue shortfalls into 1983 almost certainly would require Qadhafi to make some tough decisions on allocation of limited funds among welfare programs, imports of consumer goods and military hardware, development projects, and financial aid to other countries and revolutionary groups. Those decisions would directly affect both domestic political stability and foreign policy options. [redacted] 25X1

We believe deep cuts in social programs or consumer imports could erode Qadhafi's vital support among the lower classes. Most Libyans are accustomed to periodic shortages of consumer goods, but recent restrictions designed to reduce the import bill have significantly worsened the situation and, [redacted] have increased urban unrest. [redacted] 25X1 25X1 25X1 25X1

Although criticism prompted by the recent economic austerity measures, in our view, does not threaten the regime, consumer shortages—together with compulsory military service, heavy casualties in Chad, and Qadhafi's militant brand of Islam that offends traditional Muslim mores—have further eroded Qadhafi's domestic support, particularly among the lower classes. [redacted] We believe that Qadhafi will consider this discontent when planning spending allocations and oil policies. [redacted] 25X1 25X1 25X1 25X1

Oil Policy Options

The loss in revenues brought about by the weak international oil market has posed a dilemma for Qadhafi as to how best to maximize oil revenues while limiting the role of the foreign oil companies. On the one hand, he can adopt a hardline policy pointing to a complete nationalization of the oil industry. On the other, he can espouse a policy of accommodation toward the companies that will encourage stepped up investment and commitment by them. For the sake of simplicity, we describe only the two extremes of the options open to Qadhafi. [redacted] 25X1 25X1 25X1 25X1 25X1

Hardline. Under a hardline option Qadhafi would push for the highest possible oil prices and increase constraints on the operation of foreign oil companies in the country. Hardline proponents, who have often put revolutionary politics above efficient operation of the industry, are dedicated to a complete "Libyanization" of the oil industry and to eventual nationalization—even though they admit that Libya is not ready to manage a totally nationalized industry. The hardliners had been led by recently replaced Oil Minister Zagar and received much of their support from labor. [redacted]

Under a hardline option, near-term technical problems that Libya might have in producing oil and maintaining facilities would probably be overshadowed or masked by difficulties in selling the oil in a buyer's market. In the long term a hardline policy would result in degradation of oil production capacity and reduced efficiency. [redacted]

The resulting further deterioration of the industry would create more financial shortfalls and eventually require a further budget retrenchment. The five-year development plan would be a likely area for cuts. The 1982 budget calls for about $6 billion for projects to be awarded and started this year, only part of which requires foreign exchange. Most of the industrialization schemes, both under way and on the books, are largely irrelevant to the average Libyan. Since much of the work is performed by imported labor, the impact on domestic employment would be minimal. A cutback, however, could be painful for Qadhafi because it would hinder the implementation of his domestic economic ambitions and damage his credibility. [redacted]

Another likely candidate for a major cut would be purchases of sophisticated military equipment. Most of the $8 billion in equipment scheduled for purchase under the 1980 agreement with the Soviets and $650 million worth of equipment under 1981 agreements with the East Europeans has not been delivered. Much of this is high cost advanced weaponry beyond the needs of local commanders; a cutback or delay in deliveries would not have a significant impact on the military establishment. [redacted]

[redacted]

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Softline. Implementation of a softline, accommodating policy toward the oil companies, as urged by many senior government officials, would restore the confidence of international investors. [redacted]

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If Qadhafi adopts a policy of reconciliation, the prognosis for future growth in the oil industry is good. Those Western oil companies currently operating in Libya have already withstood years of government constraints on their operations but, with the exception of Mobil, have indicated a willingness to stay—even with only minor government concessions. Sufficient oil reserves exist in Libya to encourage foreign oil companies to search for oil if the government adopts a more accommodating line. Libya can maintain crude oil production near the 2 million b/d level beyond the year 2000 if it employs a rational development plan and sound reservoir management practices. Although proved oil reserves have declined during most of the last decade, substantial offshore discoveries in the past few years have temporarily reversed this trend. Future additions to proved reserves are possible through major investment in enhanced recovery and from remaining unexplored areas. Given the difficulty and expense of offshore oil recovery and the high technology required for enhanced recovery, however, the government will have to improve the investment climate significantly before the necessary commitments will be made. [redacted]

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Although reconciliation with the foreign oil companies would not alleviate the current soft market, it would help assure Libya at least the minimum allocated to them under OPEC prorating schemes. In a friendlier operating environment that includes adequate pricing or other financial incentives, the foreign oil companies would find it in their best interest to find a market for Libyan oil. In any case, the current financial shortfalls would be only temporary if the government pursued a more accommodating approach to the oil industry. [redacted]

A turnaround in the financial picture would give Qadhafi more flexibility to promote his domestic and international goals. He would have adequate funds to finance consumer imports and welfare programs and still pursue his economic development programs, military purchases, and foreign ambitions. [redacted]

Outlook

Libya is most likely to follow a policy somewhat closer to accommodation than confrontation with the oil companies. We believe a continued weak oil market, concern over US actions, potentially greater isolation in the Arab world, and decreasing latitude to pursue his international ambitions will push him to moderate his policies toward the oil industry. He probably has already reached the outer limit in his relations with the oil companies and is now willing to compromise to protect his source of income. [redacted]

Qadhafi's appointment of Kamal Maqhur in March as Oil Minister to replace hardliner Abd al-Salam Zagar could signal a decision to moderate relations with the companies. [redacted] The $1.35 per barrel cut in official oil prices on 1 April and the $2 discount on the company's equity crude appears to be an additional move toward accommodation. [redacted]

Libya will encourage the foreign oil companies currently operating in the country to remain in some capacity for the near future even though they will not be permitted greater ownership in the industry. Other foreign oil companies, both Western and Communist, will be welcome to explore for oil under a service contract or a form of production sharing. As long as Qadhafi is around, however, Libya's policy is likely to permit oil company profits only large enough for the companies to continue a low to moderate level of operations, not large enough to stimulate a major resurgence in exploration and development. [redacted]

We expect that Qadhafi will be able to limit domestic discontent by concentrating spending cuts in the industrial development and military procurement spheres that would have little impact on the average Libyan. If the soft oil market continues beyond a year or two, however, the government may be forced to take bigger cuts in the social program and consumer import budgets, which would heighten domestic criticism of Qadhafi's oil policies. [redacted]

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Annex

Libya's Oil Policies: A Historical Perspective

The Petroleum Law of 1955, amended in 1961 and 1965, set Libya's relations with the oil companies. The original legislation was designed to attract foreign capital for exploration and production as rapidly as possible. Instead of conducting a single agreement with one concessionaire, as had been done in many of the other oil-producing countries, the Libyan legislation invited bids on a number of specified but sizable areas at the same time. To speed up exploration, the law provided that the bulk of a company's concessions would revert to the state incrementally in 10 years [redacted] 25X1

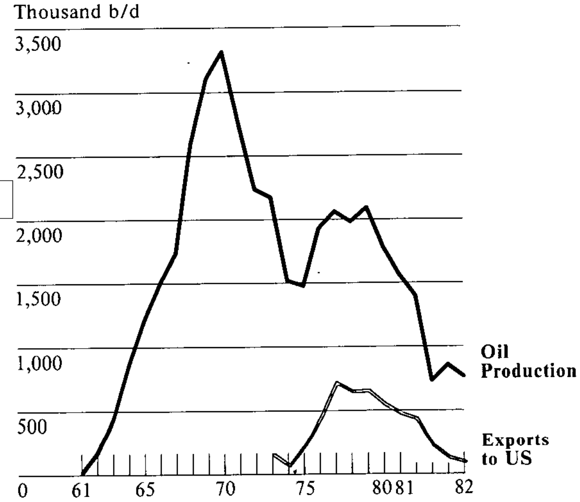
The legislation also provided incentives not encountered in other major producing countries, including permission to discount prices for tax determination. The discount feature was especially advantageous for small independent companies because it allowed those with no overseas refining and marketing capabilities to penetrate the European market by cutting prices. [redacted] 25X1

An exceptional combination of circumstances spurred a rapid development of the Libyan petroleum sector after Esso discovered commercial quantities of oil in 1959—despite a worldwide surplus of oil and falling real oil prices. Libyan oil was low in sulphur; had a significant transportation advantage over the Persian Gulf countries in the growing European market; was a more secure supply because pipelines and tankers did not have to traverse foreign territory; and the discounting provision allowed the smaller companies to profitably undercut the prices of the majors. The companies were so successful in rapidly developing and marketing Libyan oil that production soared from less than 20,000 b/d in 1961 to more than 3.3 million b/d in 1970, 9 percent of non-Communist oil production. [redacted]

The revolutionary government under Qadhafi inherited this flourishing oil industry intact in 1969, and in less than five months it moved against the oil companies with a combination of shrewdness, nerve, and seeming recklessness that revolutionized the world oil industry and brought Libya a dramatic increase in oil revenues. Although the new government promised no spectacular changes in oil policy, it quickly became evident that Qadhafi would seek greater benefits and more control from the foreign oil companies in line with his general nationalist and socialist philosophies. A remark to the heads of foreign oil companies indicated the high-risk attitude and philosophy he would follow: "The Libyan people, who have lived for 5,000 years without petroleum, are able to live again without it." [redacted] 25X1

Figure 2

Libya: Oil Production and Exports to US



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Unsuccessful in its initial attempt to negotiate a satisfactory price increase in May 1970, the government began to systematically reduce oil production under the guise of conservation. Occidental was the 25X1 first company to receive such orders because it lacked oil resources outside Libya, but Libya soon cut the output of other foreign producers. These cutbacks led to scarcities and to fears for future supplies among consumer countries which in turn stimulated stock-building. World oil demand at this time was near productive oil capacity. The consequent rise in prices of both oil and freight fostered conditions in which the oil companies could not resist Libyan demands for increases with any degree of plausibility. After prolonged discussion, Occidental conceded an increase in posted prices that set the pattern for the other companies. [redacted]

The capitulation by Occidental marked the beginning of the shift in control of oil production and pricing in international oil markets from the head offices of the major oil companies in London, New York, Houston, and San Francisco to the host governments. Although OPEC supported Qadhafi's implementation of the conservation regulation and viewed with satisfaction the cutbacks, which stimulated sharp increases in petroleum prices, most of the members stood aloof while the negotiations were in progress. After the Libyan victory, the breached oil company defenses became vulnerable everywhere, and OPEC countries individually and collectively took the offensive on oil pricing. Between June and December 1973, OPEC took the power of price-setting altogether from the oil companies. [redacted] 25X1

Libya's price maximizing policies, however, eroded its traditional cost advantage. From the spring of 1971 to the end of 1974—with the exception of the confused period during late 1973 and early 1974—oil exports shifted from Libya to the Persian Gulf. Libyan exports dropped to 800,000 b/d in December 1974. In early 1975 Libya lowered its prices significantly to regain competitiveness. The Libyan price cuts stimulated oil production, and for the third quarter exports reached 1.9 million b/d. Libya kept its prices competitive with the rest of OPEC and maintained production until mid-1981 when Qadhafi failed to make accommodations in response to the soft oil market. [redacted] 25X1

Backed by major successes in gaining control of pricing and output, Libya moved to the forefront of OPEC in addressing the question of the government role in the capital structure and decisionmaking process of the companies. In December 1971 the government nationalized the British Petroleum share of the Sarir field. In late 1972, 50-percent participation was agreed to with an Italian company, and in early 1973 talks began with the Oasis group and Occidental Petroleum. By August both of these companies had agreed to 51-percent participation by the Libyan Government. On 1 September 1973 Libya unilaterally announced that, with the exception of a few small operators, it was taking over 51 percent of each of the remaining oil companies. [redacted] 25X1 25X1

The unfavorable working environment for the companies prompted a dramatic decline in exploration and development investment. The number of drilling rigs in the country fell from 55 at the end of 1969 to eight by 1974. The regime since has pursued erratic policies that have inhibited foreign operators from implementing a systematic development program. Even now, with oil capacity declining as the older fields are depleted, Libya has only 35 operating drilling rigs. [redacted] 25X1

Table 4

Libya: Drilling History

Year	Oil Wells	Gas Wells	Dry Holes	Others	Total
1956			1		1
1957			4		4
1958	4		23		27
1959	16	2	23		41
1960	48	1	90		139
1961	116		111		227
1962	106	4	121		231
1963	146	1	210		357
1964	231	6	170		407
1965	205	2	153		360
1966	147	7	91		245
1967	117	5	69		191
1968	116	1	82		199
1969	187	4	86		277
1970	171	3	71		245
1971	31		38	6	75
1972	27		28	10	65
1973	47		19	16	82
1974	46	1	3	22	72
1975	33	1	42	8	84
1976	50		27	11	88
1977	98	2	29	7	136
1978	134		27	14	175
1979	158	2	39	21	220
1980	NA	NA	NA	NA	200

OPEC Annual Statistical Bulletin 1980.

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