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3 September 2004

Libya: Drawing Benefits From New Ties to the West

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Libya: Drawing Benefits From New Ties to the West

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3 September 2004

In addition to his efforts with the United States, Libyan Leader Mu'ammur Qadhafi is trying to build influence with other Western countries¹ to end Libya's pariah status and reintegrate Libya into the international community. Qadhafi's acceptance of responsibility for the 1988 Lockerbie bombing and his December 2003 announcement that Libya would abandon weapons of mass destruction (WMD) have furthered his efforts to revive

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ties to the West and to remove longstanding obstacles to improved relations. Libya's emphasis on improving its relations with Western nations—particularly with Europe, which Qadhafi sees as likely to be more open to relations with Libya—appears to signal Tripoli's commitment to a more pragmatic course over the long run, but this course does not ensure that it will support US policies.

• Libyan Prime Minister Ghanem and Foreign Minister Shalgam in May received Australia's foreign minister in the highest-level diplomatic visit between Tripoli and Canberra in 30 years,

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Libyan press reported in May that Australia plans to increase diplomatic and trade exchanges and open an embassy for the first time in 17 years.

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• Qadhafi traveled to Brussels in April—his first visit to Western Europe in 15 years—to meet and be seen with Western leaders including the Belgian prime minister and European Union (EU) President Prodi,

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• Qadhafi's son Saif al-Islam and Ghanem met separately with French President Chirac this spring, laying the groundwork for a visit by Chirac to Libya sometime this year.

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• Libyan officials were pleased that Canada in March planned to upgrade its diplomatic representation in Tripoli to the ambassadorial level, according to press.

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Actively Fostering Ties to West

Since his public announcement renouncing WMD, Qadhafi has supported an unprecedented number of high-level exchanges with Western officials to broaden relations and showcase Libya's reemergence on the international scene.

Libya also hopes to extend its relations with the West by participating in forums for multilateral dialogue, economic cooperation, and training.

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Libyan officials responded positively to a conditional offer by the EU to join the Barcelona Process—the Euro-Mediterranean economic and political partnership.

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• Libyan media gave high-profile coverage to the British prime minister's visit in March—the first such visit in 60 years.

• Libyan officials in July held a series of meetings to discuss Tripoli's application to the World Trade Organization

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¹ This assessment when referring to "the West" includes only Europe, Australia and Canada. (U)

This report was prepared by the Office of Near Eastern and South Asian Analysis. Comments and queries are welcome and may be directed to NESAS,

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- In February and March working-level relationships were established on health, education, and economic cooperation with British officials, [redacted]

- The Belgian foreign ministry in February agreed to provide unspecified training for Libyan diplomats, according to press. [redacted]

- In March Libya's National Oil Company and the energy firm Royal Dutch Shell signed an agreement outlining Shell's future gas exploration projects in Libya. According to press reports, the Shell agreement is worth \$200 million, with the potential for a later partnership worth up to \$1 billion.

- Libya's tourism ministry in April signed a \$1.2 billion agreement with the Dutch leisure firm El Dorado to construct ten tourism complexes in eastern Libya, according to press reports. Libya's first Western luxury hotel—the \$135 million Corinthia Bab Africa built by the Malta-based Corinthia Group—opened in Tripoli last year, according to press.

**Working to Boost [redacted]
Relationships With the West... [redacted]**

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Tripoli's successes in improving its image and its newfound resolve to pursue market-based economic reforms have attracted increasing international business interest. Foreign investment is still strongest in the oil and gas sectors, but Libya's new open-for-business image, actively cultivated by Prime Minister Ghanem and other Libyan officials, has produced new investments and strong expressions of Western interest in the tourism, banking, and manufacturing sectors.

Turning Over a New Leaf on Economic Reform

While Libya's political outreach to the West has helped attract foreign investment, Tripoli's concerted effort over the past two years to promote market-based reforms also has caught the attention of international businesses that had written off Libya as an investment destination.

- Libya's first move toward economic liberalization occurred in late 2001 when Tripoli formally applied for membership in the World Trade Organization, according to press reports; the following year Libya slashed tariffs by an average of 50 percent

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and unified its exchange rates. The government in September 2003 started allowing private sector merchants to import foodstuff commodities,

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- Prime Minister Ghanem last year announced an ambitious privatization program; one public bottling plant has already been sold and 360 state firms are to be opened to private investment in stages, according to press reports. Tripoli is also in the process of opening a stock exchange, according to press reports, and a small but efficient private banking sector is gradually emerging, according to press.

... And Moving to Resolve Bilateral Irritants

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Since his renunciation of WMD, Qadhafi has shown a willingness to negotiate with the West to resolve longstanding obstacles to improved relations. For example, Libyan officials on 10 August agreed to pay \$35 million in compensation to the victims of the 1986 bombing of the La Belle Discotheque in Berlin, according to press.

- Tripoli in April allowed Scotland Yard to interview suspects involved in the 1984 death of British police officer Yvonne Fletcher, who was fired upon from the Libyan Embassy in London during an anti-Libya protest, according to press.

- [Redacted] Libya and France in January announced that Tripoli would pay \$1 million to the families of each victim of the bombing of UTA Flight 772 in 1989,

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Qadhafi's moves to remove impediments to Libya's reintegration into the international community at times are stalled by an apparent need to save face and maintain an independent stance.

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Implications for the United States (U)

Libya's emphasis on improving ties to Western nations suggests Tripoli will pursue a more pragmatic course over the long run. This emerging foreign policy direction, however, does not ensure Libya's unconditional support of US policies, and Tripoli may disagree with Washington on contentious issues such as on the Palestinians and Iraq.

- Pressure from the United States and its allies caused Libya to withdraw its candidacy for a seat on the UN Security Council in 2003, but Qadhafi may hope that better ties with the West will bring support for Libya's candidacy when the seat comes open again in January 2006.
- Some Western countries may be more willing to sell Libya conventional weapons and nonlethal military supplies, particularly if Tripoli claims the goods will be used to stem illegal emigration to Europe. Italy has advocated lifting the EU arms embargo on Libya so it can provide Zodiac-type rubber boats, tents, and possibly night vision equipment that Libya could use to control its coastline, according to press.
- Libya's ties to Europe have expanded more rapidly than those with the United States, giving European companies an advantage over US firms seeking to invest in Libya. Some French companies, for example, have been quick to establish business ties with the Libyan telecommunications industry.
- Libyan officials could seize on joint appearances with European leaders or participation in international forums to voice Tripoli's opposition to the US presence in Iraq and its concerns regarding expanding US influence in Africa.

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