Summary

Libya’s swift international rehabilitation continues as it takes on increasingly prominent roles on the world stage and attracts more business and investor interest.\(^1\)

Since 2008, Libya has been a non permanent member of the UN Security Council, chair of the African Union, chair of the Arab Maghreb Union and, this month it assumes the Presidency of the UN General Assembly. Libya is involved in regional humanitarian, peacekeeping, economic and development efforts signalling a transformation in relations with the rest of the world that began when UN Sanctions were suspended in 1999 and intensified after its agreement to renounce weapons of mass destruction (WMD) in 2004.\(^2\)

Libya maintains strong ties with the UK while the restoration of full diplomatic relations with the United States, at the start of the year, is a significant turning point and opportunity for further development in business and other spheres. Talks with

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\(^1\) This year’s Wilton Park conference, the fifth in a series begun in 2004, coincided with what has been dubbed ‘Libya Week’ in the UK. A seminar for the Libya-Africa Investment Portfolio on exploring the opportunities for British business to work with Libya in Africa, hosted by the UK’s Special Representative for Trade and Industry, His Royal Highness, The Duke of York, immediately preceded the Wilton Park meeting and it was followed by a forum for business people hosted by the Middle East Association in London.

\(^2\) Libya had been indicating that it was seeking a way out of its isolation since the mid 1990s. The passing of Law 5 in 1997, designed to encourage foreign investment, was a sign of this.
the EU on a broad ranging agreement are making progress and Libya is enjoying a rapprochement to Italy which should also create fresh opportunities. Controversy generated by the recent release from jail in Scotland and return to Libya of Abdelbaset Al Megrahi, convicted of the 1988 Lockerbie bombing, however, shows that the fallout of historical tensions can still generate damaging shock waves. Although Libya agreed, in principle, to facilitate the UK police investigation of the murder of WPC Yvonne Fletcher, shot in London from the windows of the Libyan Embassy in 1984, the UK police have not been back to Libya since 2007.

In general, though, there is a clear trend towards improved international relations. As an oil-rich nation with significant natural and human resources, Libya is well placed to develop its potential at home, and to attract the human and technological capital it requires from abroad.

The UK-Libya Relationship

1. The first meeting between Libya’s leader Colonel Muammar al-Qadhafi and Prime Minister Gordon Brown, at the July G8 summit in Italy, reinforced the importance of the bilateral UK-Libya relationship developed under Tony Blair’s tenure when the UK pioneered discussion on the WMD issue. Britain sees Libya as a key interlocutor on proliferation and counter-terrorism, and on Darfur/Sudan. Both countries share an understanding of the threat posed by violent extremism. This underpins co-ordination on counter-terrorism strategies. The UK is an important partner for Libya in providing opportunities for educational development, which is an important measure to counter the threat of fundamentalist extremism. Burgeoning financial and business links are outlined later in this report.
Libya and the EU: Towards a framework agreement

2. Libya is currently negotiating a wide-ranging Framework Agreement with the European Union. Negotiations have been underway since November 2008 with meetings held every two months, and progress is steady. Areas covered by the discussions include a general political and human rights dialogue, economic, trade and energy cooperation, justice and home affairs issues and institutional capacity building. It is clear that Libya’s most pressing requirement is for expertise rather than financial aid, especially with regard to developing human resources. Tensions generated by irregular migration flows are a particular concern for Libya and her neighbours on both sides of the Mediterranean. An offer from the EU to provide €50m to assist with border control has been turned down: Libya seeks more EU funding.

3. Further work is being done on tackling HIV AIDS, developing trade in areas other than hydrocarbons and on education/cultural links. It is not clear when the Framework Agreement will be concluded – especially as 27 member states need to endorse the results. However, the EU has adopted a rigorous five point working programme whose initial aim is to conclude the Framework Agreement; then to agree joint financial cooperation on shared priorities; to provide help in modernising and diversifying the economy; and to engage in further dialogue and cooperation on migration and on issues related to African and Maghreb integration.
Libya and the United States: A new beginning

4. The restoration of full diplomatic ties between Libya and the United States at the start of 2009, with the arrival of a new Ambassador to Libya (the first in 36 years) was a significant development. The current detente would not have been possible without the signing of a $1.5 billion US/Libya compensation claims settlement in October 2008. Since then, two of Colonel Qadhafi’s sons, Saif Al Islam and Mu'tassem, have visited the United States; full US consular services have been restored in Tripoli and a number of bilateral initiatives launched in science and technology, military cooperation, cultural, educational and trade spheres. The US has pledged support for Libya’s economic reforms; in particular, moves towards a more market orientated approach, development of human resources and diversification from the oil and gas sectors.

5. But criticism is still heard from Libya that external undertakings made at the time of the agreement to renounce WMD have not been fully honoured. Assistance to develop a civil atomic energy capacity has not been fulfilled in the manner Libya hoped. There is disgruntlement that the US and EU have offered to assist Iran’s civil nuclear industry even though Iran has made no peaceful gestures that can be compared to Libya’s. Tripoli asks what incentive can there be for Iran and North Korea to give up their WMD, if they can see no benefit accruing to Libya for such a decision? Other pledges still pending, which are expected to come to fruition, include the provision of security guarantees, should Libya be threatened, and provision for defence sales. The UK made a pledge to Libya on peace and security in 2006.

6. The U.S. too sees Libya as an ally on counter terrorism issues. There is a power vacuum in the Sahel region of Africa, which threatens Libya, its neighbours and the
West. Libya has unsurpassed knowledge of the region, and the factions involved, which provides further opportunities for cooperation.

7. It must be stressed, though, that safeguarding and promoting human rights remain high on the US agenda, in Libya as elsewhere.

**Creating conditions for growth; fostering business; and managing risk**

8. Libya is oil rich, debt free and has huge investment potential. Sociologically, it is a cohesive society and there are reformist elements pushing against vested interests for it to become more entrepreneurial. Libya is pursuing World Trade Organisation membership as a long-term aim, and the Free Trade Agreement with the EU - likely to happen sooner. There is an appetite for change, along with a desire for sustainable economic growth. An apology from Italy for the damage done by the colonial past, coupled with a €5 billion compensation agreement, has allowed the adverse impact of painful history to recede, providing opportunities for new bilateral business ventures.

9. The climate for doing business in Libya has improved over the past two years. Increasingly, Libya is seen as a land of opportunity. British retailers, Marks and Spencer and Bhs have achieved real success in Libya, with the opening of their flagship stores.

10. The rating agency Standard & Poors recently awarded Libya an ‘A’ classification, which is encouraging. However, business people say Libya can be a difficult environment in which to operate with the unpredictable, time-consuming process of obtaining entry visas, and the requirement for those working in Libya to secure exit visas, frequently cited as a considerable source of frustration. Small and medium
sized enterprises, in particular, will need more safeguards and certainty before they run the risk of investing.

11. An agreement on double taxation has been signed with the UK and is due to come into force in 2010. A further agreement on Investment Protection and Promotion is now due to be signed. This will help British business people. But the debate on corruption in Libya is ongoing and affects companies considering investment, particularly those operating outside the energy sector.

12. Libya’s wants to increase oil production from 1.8m barrels a day to 2.5m and is counting on the help of International Oil Companies. But there are question marks over whether the target will prove realistic given limiting technical factors. The increased revenue that would result is intended to fund a wide-ranging and ambitious programme of sustainable development projects which should provide opportunities for business, in the health and education sectors in particular.

Institutional Development

13. Traditionally, Libya has been a network rather than system-orientated society. Personal relationships are paramount; and it needs a stronger framework of reliable institutions if it is to grow and attract more foreign investment. Increased transparency and predictability in the dealings of commercial courts, financial institution capacity building, developing procurement and contracting management are top priorities. Internal capacity building can be enhanced significantly through the transfer of knowledge from abroad with programmes such as those carried out by the British Council, London School of Economics and U.K. Law Society.

14. Many companies use Transparency International’s ‘Corruption Perception Index’ (CPI) as an indicator of how safe a country is for inward investment. A visit by a
senior TI representative was seen as a positive development. However, Libya is currently low on the index, rated at number 127 out of 136. The index is made up of a composite variety of indices and the legacy of 20 years of sanctions means it is hard to establish these in Libya. This is one reason why Libya is not succeeding in attracting all the foreign investment it seeks. The CPI was only able to measure 2 indices out of 11 in Libya and it was noted that some of the biggest countries near the top of the index have made considerable errors that contributed to the recent credit crisis. In another positive move over the past year, both Amnesty International and Human Rights Watch have been allowed access to the country. This openness to scrutiny is encouraging, and necessary, for increased mutual understanding. It was suggested that Libya might host an African Union meeting on addressing corruption, with advice from Transparency International.

Balancing the private and public sectors

15. Colonel Qadhafi has been considering new mechanisms for redistribution of the country’s wealth, seen as a national asset derived from publicly owned natural resources. Although significant policy changes are unlikely before the next General People’s Congress in March 2010, special programmes have been put in place for some Libyan families needing assistance.

16. The tone of Libyan pronouncements on packages for redistribution of wealth, and uncertainty about implementation, can, however, create disquiet among foreign businesses seeking guarantees for their investment. The pace of political versus economic reform remains skewed. The state bureaucracy continues to grow and more status is given in Libya to the public sector than to the private. To external investors, wealth creation does not appear to be the primary objective and, despite
attempts to encourage other industries, the oil and gas sectors continue to attract the bulk of foreign direct investment.

17. More open, efficient, transparent systems of governance are needed for Libya to fulfil its aspirations, with an emphasis on continuity and on facilitating commercial activity. New ventures are often strangled by bureaucratic bottlenecks of elaborate and unnecessary regulation. Opening systems to internal reform and external scrutiny, such as visits by the international monitoring associations cited above, is key.

Banking and Investment

18. Inward investment is growing at a rate of 6% a year, fostered by a liberalised exchange mechanism and greater independence for the Central Bank. A wide-ranging investment programme, worth 160 billion dinars, was launched by the Libyan government last year with a broad remit to upgrade and expand infrastructure and foster growth in both the private and public sectors.

19. Banking laws, passed in 2005, have led to the gradual emergence of a credit culture in contrast to the previous practice of hoarding liquidity. A credit bureau at Libya’s Central Bank is aimed at encouraging prudent lending, and the new national payment system will enable real time settlements. Attracting foreign capital creates the need for a strong financial sector. Allowing foreign ownership of banks and/or permission for foreign banks to open branches would be a welcome measure to make the banking system more stable and less vulnerable to domestic upheaval (in keeping with World Bank advice that state owned banks tend to hamper growth). The sale of minority stakes in the Libyan Sahara and Wahda Banks, as part of a strategy to encourage limited foreign partnerships, was well timed. Banks in the EU and Gulf
states have shown greatest interest in taking these up. Developing a branch network for foreign banks in Tripoli and, eventually, around the country would be a helpful step forward.

**Developing Civil Society**

20. Civil society is still in its infancy in Libya. Even though aspiring NGOs can be the object of considerable mistrust from official sources, there is real potential for the sector to develop, albeit with limited independence and backing from the upper echelons of Libyan society which is currently essential. Several members of Colonel Qadhafi’s family have set up foundations to work on issues such as women’s welfare, in Africa and prison reform. These are able operate in a more agile way, bypassing the official bureaucracies.

21. There was considerably less confidence about the future for a free press, once seen as an important harbinger of change, but now relegated to a lesser role by international broadcast media and the internet. A glut of information, such as that provided by 24 hour news stations and web sites, can bring problems in its wake. For example, some Arabs stopped watching the BBC when it decided not to publicise the Gaza appeal. And media ‘Islamophobia’, which equates Islam with terrorism, was deplored. But, ultimately, these multiple sources of, and outlets for, communication are constructive channels accessed with ease by younger people, that must lead to greater openness.

**Developing human resources**
22. This is a particular priority for the Libyan government. Libya is a vast country with a small population of 5.6 million, 30% of whom are under 14 and 40% under 30. The track record is creditable. The UN Human Development Index, which measures health, education and GDP, ranks the country at 56th of 177 in the world – first in Africa and fifth in the Arab World. But there are still immediate, urgent demands and new schools, hospitals, roads, housing, seaports, airports and power stations are being built to serve the growing population. Making provision for social assistance, health system reform and health/social security insurance are all under consideration and would provide opportunities for business and knowledge transfer. But human resource development is not keeping pace with the building programme outlined above.

23. Current expenditure on university education totals 25 billion Libyan dinars per year and will continue until 2014. New education measures have been introduced, aimed at increasing training and higher levels of attainment, particularly in science and medicine. It is important to match ability to aspiration within the context of workforce requirements. Developing vocational technical training is as important as the academic sector.

24. Britain has a well-established tradition of welcoming students from Libya, sustained during the period of international sanctions. Currently, up to 7,500 Libyans study in the UK – the greatest number from any Arab country. Leading institutions such as the CASS business school, Liverpool Business School, London School of Economics and Political Science and the School of Oriental and African Studies have set up formal links with Libyan institutions.

25. The British Council makes a valuable contribution, increasing skills among younger Libyans up to the age of 30 to equip them for a more globalised future and
promoting links between Libyan and UK universities. Its core activity, teaching English, is pivotal. But there is scope for a wider range of organisations, such as the education consultancy and service organisation, the CfBT Trust, to work with Libya on developing human capital.

Women in the workplace

26. Women are increasingly forming part of the work force, and are accepted as such. Around 30% of women of working age are in paid employment. A number of prominent women represent Libya on the world stage. Many women go on to higher education and train as doctors, lawyers and teachers. There are fewer working in business and public administration, but there is an association of business women in Tripoli and small bank loans are available exclusively for women seeking to set up small or medium sized enterprises. Contacts between Libyan businesswomen and their UK counterparts have been fostered by Cherie Booth-Blair, Baroness Symons, the British Council and Shell.

Working with Libya on energy, environment and climate change

27. The need to safeguard energy supplies has become a top foreign policy priority for many countries. This has clear implications and opportunities for Libya. The links between business, international institutions and individual countries are particularly complex in this regard. While efforts are made to promote alternative sources of energy, fossil fuels (oil and gas) remain the key source of energy. Disputes such as
those between Russia and Ukraine on gas payments show the disruption that can be caused by just a few days of interrupted supply.

28. Libya’s position as a major supplier of fossil fuels gives it considerable weight. The National Oil Corporation of Libya is one of the country’s most important institutions. Independent oil companies operating in Libya were among the first foreign investors. Some secure considerable profits but also aim to make a contribution to the country’s development. Energy multinationals Shell and BP have significant hydrocarbon interests in Libya. A gas exploration agreement signed by BP in 2007 could prove to be its biggest anywhere. The companies seek to pass on technological know-how and training expertise and to co-ordinate with Libya’s own efforts to safeguard the natural environment and its rich archaeological heritage.

29. Shell projects in Libya include commitments to implement their health and safety code, waste management, knowledge transfer, local content, capacity building and employment opportunities. Many are implemented through partnerships with the local community, authorities and stakeholders. Particular successes include the Intilaaqah (Lift-off) programme for entrepreneurship, which has so far trained 750 young people to create their own jobs and raise capital. To date, 90 companies have been formed and 300 jobs created. A road safety strategy, also sponsored by Shell, is being adopted by the Libyan authorities in an attempt to reduce the road accident fatality rate, which is one of the highest in the world.

30. Evidence of increased desertification, salination and lowering of the water table are focusing attention on the effects of climate change in Libya. Planning for carbon sequestration and storage will be critical. Long term strategies to this end are needed. However, Libya shares the reservations of other developing countries undergoing periods of rapid growth. Some Libyans emphasise that Libya, as a
developing country, needs different time scales to introduce appropriate measures and should not be required to sign up to the same emissions restrictions as industrialised nations.

**Renewable energy**

31. Libya’s Africa Investment Portfolio is considering investing in solar energy, seen as a potentially significant export for the entire North African region. The U.K. Department for Energy and Climate Change wishes to intensify its dialogue with Libya to include renewable energy projects. All major independent oil companies have invested in research, although, at this stage, Libya is better prepared in terms of human and technical capacity to develop bio fuels. The cost factor is important, especially in relation to oil prices. Solar energy (for electricity generation) becomes economically viable when the price of oil exceeds $62 per barrel (however solar cell prices are set to tumble, following breakthroughs in China).

**Rebuilding trust between the West and the Islamic world**

32. The lead Libyan organisation working on rebuilding trust, both within Libya and outside, is the World Islamic Call Society (WICS), established in 1972. WICS General Assembly convenes every four years and comprises around 400 Islamic organisations from all continents. It establishes guidelines for common areas of work and selects 36 of its members to form the World Council for Islamic Call.

33. Much of the Society’s work focuses on education and health. Training religious leaders, in the context of a moderate interpretation of Islam, is a priority. WICS highly respected Secretary General, Dr Mohamed Sherif, argues forcefully that
support for terrorism runs counter to the religious teaching of the Islamic faith, while
tackling poverty and caring for refugees are basic tenets.

34. WICS colleges train students in 50 countries worldwide including 1300 in Libya
alone. The organisation employs 1200 teachers and 52 health workers and is
recognised by UNESCO and WHO, among others. To date, 60% of its efforts are
conducted in Africa, where its humanitarian efforts include three hospitals and
medical caravans. 70% of its revenues come from investments and 30% from a 1%
tax levied on Libyans.

35. An important part of the Society’s remit is to promote interfaith dialogue and
cultural exchanges aimed at rebuilding trust between Islam and the West. Real hope
for a new understanding had been raised by President Obama’s speech in Cairo in
June calling for a new beginning between the United States and Muslims, based on
mutual interest and respect.

36. A visit by the Archbishop of Canterbury to Libya in January of this year was an
important milestone. The Archbishop met Colonel Qadhafi, preached at an
ecumencial service in the Roman Catholic Church in Tripoli, and gave a lecture at the
Society’s headquarters. As a result, work is in hand to establish a formal religious
dialogue with the Anglican Church and to set up an exchange programme for young
people. The Society has similar contacts with the Catholic Church and other
religious groups.

Working with Libya in Africa

37. Three challenges were identified in Africa. The first is the economic downturn,
which has not affected Africa so badly because it is less integrated with the rest of
the world economy. However, it has affected China, which is manufacturing less and
therefore buying fewer raw materials from Africa. The second is climate change, which is becoming increasingly manifest, especially on the edges of the Sahara. The third is posed by fragile states like Somalia which are becoming havens for terrorism, drugs and pirates. There is also a problem of lawlessness in parts of the Sahel.

38. Libya is the only African state to send aid to West Africa, Zambia and Zimbabwe, although sub-Saharan regions account for only 10% of its total aid expenditure. Sustained follow up is critical, but currently lacking.

39. Libya is preparing common policies to tackle these concerns during its Presidency of the African Union (AU) with the direct backing of Colonel Qadhafi. But the Union suffers from considerable internal division about its long-term goals and the response, so far, has been mixed.

40. The USA sees prospects for working with Libya, as an effective development partner in Africa, on the specific issues of food security, road building, tackling climate change and agricultural research. Promoting a sustainable agricultural system across Africa is a particular priority. Libya can play a key role in building infrastructure and water supplies.

41. Libya can also play an important role in alleviating regional tension, particularly in Chad, Darfur/Sudan and Somalia, working through the AU. Of a total of 85,000 peacekeepers, 32,000 come from AU member states and are currently involved in an internationally mandated peace operation involving 24 African countries. The use of AU peacekeepers is important leverage in ensuring broad participation in the UN aided peace process. Active dialogue continues as the US, EU and Libya have distinct roles in peace-keeping and - building in Africa.

Conclusions
1. Considerable progress has been made in resolving the diplomatic issues that once divided Libya from the rest of the world. The USA’s decision to re-establish full diplomatic relations, and engage with Libya, on both humanitarian and regional development efforts is a reflection of this.

2. Libya’s abundance of natural resources makes it attractive to foreign investors. There is, however, a strong need to develop its human resources as a key to unlocking potential for future growth.

3. There is much scope to develop Libya’s long standing links with the UK and other Western partners, particularly in the areas of education and training (including vocational training), health, construction, retail and development of financial services. It will help if multiple-entry visas are offered to business visitors in both directions.

4. Political and economic stability, human rights dialogue, a sound legal framework, guaranteed property rights and devising means to minimise corruption will all be good for development. To this end, efforts to promote greater transparency and to allow external monitoring are to be encouraged.

5. Libya has offered to host the next Wilton Park conference in March/April 2010 in Tripoli, with a suggested focus on the scope for cooperation in capacity building, education and health, developing the business environment, water and food security and renewable energy.

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Wilton Park Reports are brief summaries of the main points and conclusions of a conference. The reports reflect rapporteurs’ personal interpretations of the proceedings – as such they do not constitute any institutional policy of Wilton Park nor do they necessarily represent the views of rapporteurs.¹

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