LIBYA:

FINANCIAL AND STRATEGIC IMPERATIVES MAY STILL AVOID ANOTHER CIVIL WAR

A possibly imminent offensive by eastern forces to capture Tripoli would be strategically perilous, diplomatically unwise, and financially unaffordable. The opposing sides are more likely to begin contentious talks on a transition government rather than risk another drawn-out civil war.

On 4 March, Libya’s state-controlled National Oil Corporation (NOC) said it had lifted force majeure at the country’s biggest oilfield of El Sharara. Local sources have since confirmed that oil production of the 315,000 barrels a day field has restarted. Last month, eastern military forces under the umbrella group of the Libyan National Army (LNA), led by Khalifa Haftar, seized control of the oil field as part of its recent offensive to capture southern territory.

The LNA and NOC, which is controlled by Tripoli’s internationally-recognised government led by Prime Minister Fayez al-Serraj, had since failed to agree on the reopening of the El Sharara oil field, causing a production loss of USD 1.8 billion. The reopening of the field was negotiated by the United Arab Emirates (UAE), following a meeting between NOC Chairman Mustafa Sanalla and Haftar the previous week.

The capture of the El Sharara and El Feel oilfields last month has given Haftar effective control of the country’s crude output of around one million barrels a
day. However, revenues from oil exports are managed by the state oil firm NOC in Tripoli, which remains under the control of Prime Minister Serraj.

Nevertheless, the reopening of the field is a clear victory for Haftar and his main backer the UAE. Haftar’s LNA has taken much of the south of Libya since January, expanding from its power base in the east and capturing key oil infrastructure. The group already controls eastern oilfields and ports. The main question now is whether Haftar will seek to build on his recent momentum and seek to capture Tripoli. The recent success of the LNA has led its supporters to urge Haftar to order his troops north to take Tripoli. We still remain sceptical over his capability and intent to do so.

**Marching on Tripoli**

The United Nations has been stunned by the LNA’s recent southern advance and is scrambling to mediate between the parallel governments in the East and West. Peace negotiations have faltered, despite a recent UAE-brokered meeting between Haftar and Prime Minister Serraj, who claimed that they had both agreed on holding long-delayed parliamentary and presidential elections by the end of this year. There is no indication that Haftar has agreed to such a timeline. The last date for parliamentary elections in December 2018 was indefinitely postponed following a recommendation by the UN envoy, Ghassan Salame. Since then the peace talks have been no more than a side-show to Haftar’s military advances (See LIBYA: PEACE AND STABILITY REMAIN DISTANT OBJECTIVES FOR 2019).
Following its recent offensives in southern parts of the country, the LNA is now calling on Haftar to break the mediations deadlock by marching on Tripoli and to oust the internationally-recognised government. The main staging base for such an offensive would be Jufra, a city in the desert straddling east and west. Sources confirm that some LNA elite troops have been deployed to Jufra, although most of Haftar’s eastern army has returned home since completing recent campaigns in the south.

However, such a move would be a drastic escalation of the current situation and would be likely trigger an international backlash. Haftar’s main backers in the UAE, Egypt, and Russia might be supportive of a move on Tripoli, yet other key players such as Italy, who have recently provided support to the LNA, would be expected to condemn such an action and threaten to withhold further assistance.

Tripoli’s other backers Turkey and Qatar might also step up intervention in Libya if the LNA moves on the capital. At a summit in Italy in November last year, France was rumoured to have declared its willingness to support an offensive by Haftar’s LNA to take Tripoli, during one of the side-line meetings; however, this remains unconfirmed.

On Haftar’s part, an offensive to take Tripoli would require the redeployment of fighters from strategic positions such as the oil crescent, leaving key assets vulnerable to other militias and a resurgent Islamic State in Libya (ISIL). The El Sharara oil field had been closed since rogue guards and tribesmen seized it in December. Libya’s mainstay oil sector is likely to remain a focal point for militant actors and aggrieved communities for personal appropriation or for the sake of acquiring concessions.

Moreover, it is unlikely that Haftar would be able to finance an offensive on Tripoli, having spent most of the LNA’s war chest on recent southern advances, as well as to refinance southern banks. While some communities in western Libya have signalled support for the LNA, it is far from clear whether Haftar would be able to quickly capture the city from the myriad of well-armed militias supporting the western government. This indicates that any advance on Tripoli would have to be well-financed and orchestrated, rather than opportunistic.

Without timely payments, the LNA’s constituent rebel groups and militias would be likely to fracture and return. The LNA claims it has 85,000 fighting men, but this includes soldiers paid by the central government who it hopes to eventually inherit. Its elite Saiqa force numbers some 3,500 and is heavily overstretched guarding critical infrastructure in the eastern city of Benghazi, as well as ports and oil fields. Haftar’s sons also have well-equipped troops, but their numbers are also uncertain. The bulk of the LNA consists of tribesmen and Salafists, as well as Sudanese and Chadian mercenaries, who would refuse to march on Tripoli without pay.

Another factor that might impede a swift offensive on Tripoli would be the reaction of powerful Misrata-based militias, who oppose Haftar. While there have been belligerent comments from Misrata residents over the past weeks, there is not yet any indication of a military mobilisation. If Misrata militias do deploy to either protect Tripoli or attack Benghazi, Haftar’s LNA forces would be stretched to capacity and face a combat-hardened enemy, possibly on two fronts.

Debt concerns mount

Any campaign on Tripoli would also spike military spending on both sides and further raise bond issuance by the opposing governments. Diplomats seeking to mediate a peace deal are raising alerts that
any unification of the country, and its central banks, would be impeded by further bond issuance.

The eastern House of Representatives (HoR) has sold bonds worth more than USD 23 billion since 2014 to fund its wage bill, bypassing the central bank in Tripoli. The eastern government’s finance ministry has been selling the debt to a parallel central bank in the east and the proceeds of the sales are used to pay eastern state employees via local banks, in large part using dinars printed in Russia.

The eastern central bank recently said it will issue another USD 5 billion in bonds this year. The bank is also considering starting a secondary bond market to raise USD 7.2 billion dinars from citizens and state bodies in the east, such as social insurance funds and banks. Much of this cash is meant pay LNA constituent forces and to supply southern banks, including in the recently captured main southern city of Sabha.

Meanwhile, the Tripoli-based central bank has issued almost USD 48 billion in bonds since 2014 to fund the government’s welfare state and expensive public services, as well as to pay off local militias that control government buildings. This debt is covered by interest-free quasi loans from local banks to the central bank. Like Benghazi’s central bank, Tripoli has also been printing money, in the UK.

**INSIGHT**

An offensive by eastern LNA forces against the western capital of Tripoli would be strategically perilous, as well as diplomatically unwise. Moreover, such a campaign might be lengthy and thus unaffordable for Haftar, especially if Misrata militias intervene to support the Tripoli-based government. The country’s total public debt has already spiked by more than USD 70 billion over the last four years. Increased borrowing in both west and east has added to the national debt, increased inflation, and put local banks at risk. This does not bode well for any eventual re-unification plans mooted in the stagnant peace negotiations.

A potential compromise scenario for Haftar would be to accept to form a transitional government in Tripoli. Recent statements by Serraj to hold elections by the end of the year and by Tripoli’s central bank to pay more public servants based in the East would indicate that the West favours such a proposal. However, Haftar’s military backers, as well as the UAE, would dislike him giving up military control. The LNA has threatened to march on Tripoli, unless their leader is recognised as the country’s overall military commander, which Misrata and Tripoli militias will not accept.

If the LNA does instigate a campaign to capture Tripoli, fighting would be likely at key government buildings, the NOC central bank, and Mitiga international airport. A deployment of LNA elite forces to Tripoli would also put at risk recently captured oil facilities to attacks from ISIL, other armed militias, and tribesmen. Disruptions to output stemming from such incursions will serve to dampen investment into Libya’s abundant hydrocarbon sector while restricting the country’s already limited revenue inflows. As a result, this will prolong the country’s dependence on external assistance to fulfil basic economic functions.

In the absence of any political stability and the inefficacy of domestic institutions, Libya’s economic strife is certain to persist. Ongoing dependence on militias by the GNA will continue to see disproportionate allocations of revenue to such actors, rather than crucial development and growth-promoting expenditures. Libya has launched no major infrastructure plan since 2011, leaving roads and hospitals in poor shape. There is almost no budget to rebuild Benghazi and Derna, two eastern cities where whole districts were destroyed by fighting.