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NATIONAL INTELLIGENCE ESTIMATE

Libya

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NIE 36.5-71

30 April 1971

№ 340

LIBYA

NOTE

This Estimate assesses likely developments in Libyan policy, particularly with regard to international relations. Since the Libyan regime is a small and secretive group that appears to have formulated few long-range plans, there are areas of considerable uncertainty, and the judgments are necessarily tentative. Most are intended to apply only to the next year or two, although a few longer term trends also are indicated.

CONCLUSIONS

A. The Revolutionary Command Council (RCC), led by the 28 year-old Colonel Qadhafi, has gained great credit in Libya by forcing the evacuation of Western military bases and by winning huge increases in income from oil. It has done little to improve the lives of Libya's two million people or to provide for broad participation in the running of the country. It is not likely to move much farther in these areas in the months ahead, but since the expectations of the Libyan people are not very high, dissension will probably remain small in scale and geographically fragmented. We believe that the RCC has sufficient assets—in public acceptance, troops, and money—to maintain itself in office for the indefinite future.

B. Regarding oil, the RCC's short-term goals are to increase income and conserve Libya's assets. For the longer run, it wants a greater Libyan role in oil operations. Outright nationalization seems unlikely, at least in the next year or two, but steps to increase government control of the oil industry in Libya will continue.

C. In a sharp break with the previous regime's policy, the RCC has turned primarily to Egypt for military training and technical assistance and to France, the USSR, and Czechoslovakia for arms. Concurrently, it has continued to seek some of the weapons ordered from the UK and the US by the Idris regime, though it wants to change some of the orders. The government clearly wants an elaborate military establishment and prefers to avoid dependence on any single source of supply. But Libyan personnel resources are so severely limited that no amount of arms and money will give the Libyan Armed Forces the capacity to pose a measurable military threat to any of its neighbors, much less Israel.

D. The RCC wants to be important in Arab affairs. It has given a substantial portion of its income to other countries, largely to encourage unity efforts and to promote the anti-Israeli cause. Qadhafi has apparently been the prime advocate of the recently proclaimed federation of Egypt, Syria, and Libya. We doubt that it will become a significant supranational organization, but Qadhafi wants to cooperate with Egypt, derives some benefit from doing so, and by dint of the subsidy to Cairo, gains a limited voice on general Arab policy toward Israel. In any case, Libya's sheer financial ability to influence Arab—and even world—affairs will grow rapidly.

E. Libyan relations with the Great Powers are colored by Libya's fervent interest in the Arab-Israeli situation. The USSR gains some credit in Libya for its consistent support for the Arabs. Nevertheless, the RCC has shown no desire for close ties with Moscow. We believe that the RCC will continue to keep both the US and the USSR at arm's length, while seeking to diversify its ties to other Western Powers and to strengthen its relations with the Eastern Arabs.

F. Certain Arab-Israeli events could greatly alter Libya's international outlook. A major outbreak of hostilities could lead to expulsion of the US official presence and to a Libyan move against one or more of the oil companies. A settlement, on the other hand, could reduce Libyan involvement in eastern Arab affairs; in time, if it held, the greatest single impediment to US-Libyan relations would decline in importance.

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DISCUSSION

I. THE FIRST 18 MONTHS

1. Two major and immensely popular changes have marked the first year and a half in office of the Revolutionary Command Council (RCC)—evacuation by the US and UK of their bases and a whopping increase in payments by foreign oil producers operating in Libya. Both came in the area which the impatient young activists who make up the RCC consider paramount—achieving Libyan control over Libya's destiny. The RCC leaders know that the operations of the world oil industry are beyond their reach, but they are also acutely aware that in today's market Libya's role as nearby supplier of a fifth of Western Europe's oil gives them an unprecedented amount of leverage over Western nations. They remain ready to use that leverage to get increased revenue and, they hope, to affect the course of the Arab-Israeli confrontation.

2. The RCC appears to have consolidated its control, holding over half the ministerial posts and staffing the government with young men apparently loyal to itself. There are periodic reports of disgruntlement, plotting, and complaints, but—on the basis of the scanty evidence available—serious dissension appears to be small in scale and geographically fragmented. Old regime exiles may entertain hopes of a return to power and may mount periodic coup attempts, but we doubt that they have adequate support within the country to make them a serious threat to the RCC. The Cyrenaican Defense Force and the Tripolitanean Police, which might have served as focal points for discontent, have been disbanded; about half their members have been absorbed into the regular armed forces and the remainder have been retired or dismissed. The Cyrenaican tribes have been further subjected to government control by the transfer of title to all tribal lands to the state, which

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can henceforth permit or deny tribal use of the land and water. Two Egyptian commando battalions, of about 350 men each, are stationed respectively in Benghazi and Tripoli as security insurance for the regime.

3. Three RCC members stand out. Muammar Qadhafi, the 28 year-old Prime Minister, Defense Minister, and Chairman of the RCC, is clearly the most influential man in the regime. His colleagues are consulted, they sometimes argue heatedly with him, but in the end his view has usually prevailed. Qadhafi has on occasion appeared impetuous and emotional, and something of a zealot. Certain facets of policy—notably emphasis on public observance of religious forms and on close ties with Egypt—reflect in part the weight of his personal convictions. Qadhafi has been the prime advocate of new Arab unity schemes. Next to Qadhafi, the two most influential RCC members appear to be the Deputy Prime Ministers, 26 year-old Abd al-Sallam Jaluud (production, industry, and economy) and 27 year-old Abd al-Munim al-Huni (services, interior, and local government). Jaluud has played a prominent role in dealing with Westerners; he handled the discussions that led to the withdrawal of 6,000 US and British military personnel from Libya, as well as two sweeping revisions of agreements with foreign oil companies. Security is al-Huni's responsibility; he controls the national police force, established by the RCC to replace the tribal forces of the old regime, as well as the foreign and domestic intelligence services.

II. DOMESTIC OUTLOOK

4. The transformations in Libya's form of government and in its foreign relations have not been matched by major changes in Libyan social institutions or by a new role for the public in political life. The bulk of the population—which numbers only about two million—remains poor, agrarian, diseased, and illiterate. The social clock has been turned back in some respects; the RCC has imposed conformity to traditional customs on an urban elite minority that had become accustomed to a measure of social freedom. The educated younger generation, deprived of opportunities for political expression and participation under Idris, had high hopes for the new regime; these have been frustrated.

5. The RCC seems to be groping for some kind of political structure that will satisfy desires for popular participation without impinging upon the regime's freedom of action. RCC members have discussed the possibility of forming a single political party, presumably along the lines of Egypt's Arab Socialist Union. Qadhafi has promised that a constitution will be prepared and elections held at some unspecified time. The only overt political action by the regime to date has been a series of popular rallies addressed by individual members of the RCC; when members of the public presumed to criticize or question the government on these occasions, however, the RCC members seemed affronted.

6. Internal economic decisions have reflected uncertainty and inexperience at the top. Following the coup, the RCC suspended work on many publicly-financed projects, pending restudy of contracting procedures and awards, and the construction industry suffered. Trade and banking also slumped, especially when all major firms in both categories were forced to accede to majority ownership by Libyans. Expulsion of the resident Italian community (15,000-20,000 members) in mid-1970 eliminated most of the skilled artisans and modern-sector farmers in Tripolitania. However, the economic sectors most sharply affected were operated largely by and for foreigners. Subsequent government actions have tended to revive sectors of the economy

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that benefit Libyans. In May 1970, a new budget reinstated most of the suspended projects and increased allocations for economic development. Some assets that were foreign-owned have been transferred to Libyans. On balance, the average income and living standard of Libyans probably has changed little since the revolution. Improvement, if any, has not been great, and shortcomings in housing, employment, medical facilities, and agricultural programs have given rise to complaints. A notable exception is the military, which has received substantial boosts in pay and perquisites.

7. Despite the many problems facing the RCC, dramatic political changes do not seem likely in the near future. There are no indications of differences of opinion within the RCC serious enough to trigger a rupture. Opposition from elements outside the RCC seems likely to remain fragmented for lack of a single compelling issue. If elections are actually held, Qadhafi presumably will be the only candidate for chief executive. Oil revenues will continue to give the regime sufficient resources to provide material goods more than adequate to satisfy Libyan expectations, which are not high. The RCC members do not seem disposed to focus their energies on the mundane problems of providing jobs, housing, and social services. They have concentrated on popular, emotional issues on which they have achieved important victories. However, the regime risks disappointing its constituency, now that such dramatic victories are past. Over time it could face real trouble from within its own ranks or from outsiders—e.g., a dissident group of military officers or members of one or another pan-Arab political party.

III. OIL

8. In its 1970 negotiations with the oil companies, the RCC insisted on compensation for past low receipts, especially in the early 1960s, when Libya was paid 10 to 15 cents per barrel less than the Middle Eastern average. It demanded a posted price[1] increase, plus a very large payment representing a retroactive increase in the posted price back to the beginning of production for each company. To bring pressure on the companies to come to an agreement, as well as for conservation reasons, the RCC forced oil production down from 3.7 million barrels per day (bpd) to 2.9 million bpd. In the settlements reached in September 1970, which featured playing off oil companies against one another, the companies agreed to increase the posted price and agreed to settle the retroactive claim by increasing the tax rate from 50 to about 55 percent. As a result of the 1970 settlements, Libya was assured about $1.4 billion in 1971 for roughly the same amount of oil that provided revenues of $1.1 billion in 1969.

9. Since the September 1970 settlements in Libya, the international oil industry has seen important changes. The 55 percent tax rate rapidly was extended to most Persian Gulf producers, whose posted prices also were increased somewhat. Venezuela unilaterally legislated higher posted prices and an increased tax rate. The Organization of Petroleum Exporting Countries (OPEC) met and agreed to cooperate in demands for further increases in prices and other revenue measures. Libya immediately announced demands in addition to those of OPEC—justifying the demands by pointing out Libya's entitlement to retroactive compensation. In an effort to avoid being whipsawed between Libya and Persian Gulf producers, the oil companies succeeded in banding together to carry out coordinated

[1] Posted price is an artificial price used as the base for calculating payments to governments of producing countries. Royalty is a percentage of posted price; tax rates are applied to posted price less costs of production and less royalties.

negotiations in Teheran and Tripoli. A 5 year agreement was reached in Teheran in February 1971 between the oil companies and the Persian Gulf producers that set the minimum tax rate at 55 percent, increased posted prices, and fixed a schedule for increasing prices through 1975.

10. New talks between the companies and the Libyans began almost immediately after the Teheran agreements. Oil industry representatives, wary of being victimized again by Libyan divisive tactics, mutually supported each other and agreed on common offers. Deadlines were set, approached, and passed. The Libyan negotiators alternately threatened and cajoled. Oil officials from Iraq, Saudi Arabia, and Algeria—all with oil whose value would be affected by the Libyan settlement—announced their support for Libya without committing themselves on the extent of that support. After 6 hectic weeks, an agreement was signed which will net Libya about $2.00 per barrel for oil produced during the remainder of 1971 and as much as $2.30 in 1975. (Under the late 1970 agreement, the Libyans had been getting $1.30 per barrel.) If production runs at the 3.2 million bpd level of early 1971, therefore, Libya will receive total oil revenues of about $2.4 billion in 1971. The oil industry attained its principal objective—a 5 year agreement generally consistent with the Gulf settlement. Libya, on the basis of geographical advantage and low sulphur oil, won a higher permanent differential between the payments for Libyan oil and for Gulf oil and an industry-wide commitment on future exploration activity. For all the histrionics and brinksmanship, the Libyan regime demonstrated a clear understanding of the international oil situation and a willingness to reach a negotiated settlement.

11. This is not to say that relations with the oil companies will be tranquil in the future. The Libyans are determined and cocksure, and they have shown themselves willing to get tough on occasion. They undoubtedly will continue to make the oil companies pay a high and rising price—in terms of revenues, reinvestment, and control of operations—in exchange for the right to operate. They will probably find excuses for reopening negotiations with one or more of the companies well before the expiration of the five year contracts now in force. Such a confrontation could be triggered by Libyan demands for higher prices, for greater Libyan participation, or by political and diplomatic developments.

12. While negotiating for higher revenues per barrel and imposing production controls, the RCC also has been pressing for a greater Libyan role in future oil operations. A deep-seated interest in an independent oil production capability no doubt is enhanced by the fact that almost 90 percent of current production is controlled by US-owned companies, who are subject to Libyan antagonism because of US support for Israel. During the 1970 negotiations, one company preferred to relinquish a small field rather than continue operating in accord with Libya's demands; that field is now being operated by the Libyan National Oil Company (LNOC). The RCC has announced that future concessions will be granted only to joint ventures with LNOC, and all domestic oil distribution and marketing facilities have been nationalized. The Libyans also have been consulting with the Algerians on methods of dealing with foreign oil companies. This could presage a Libyan move, along the lines developed by Algeria in 1967, to gain a controlling voice in management of one or more of the oil companies and control of their use of funds through administrative fiat rather than legal change in ownership. All of this would serve, among other things, to give Libyans badly needed experience in the operation of the oil industry.

13. The Libyans probably intend to take over the oil industry gradually, rather than by outright nationalization; we believe the latter remains unlikely, at least within the next year or two. Under the latest agreement, Libya can count on revenues of at least $2.3 billion annually. Nationalization would entail substantial loss of income, at least for some months, and would require Libya to take investment risks in exploring for new fields and developing new markets. The number of Libyans capable of managing or participating in modern industrial pursuits is extremely limited, and their talents are sorely needed in other sectors of the economy. Our judgment is that the RCC was not—and will not soon be—eager to take on all the hazards and difficulties that nationalization would entail. Therefore, the US balance of payments will probably continue to benefit from substantial profit remittances from Libya for at least another couple of years—especially in view of rising prices for oil.

IV. FOREIGN RELATIONSHIPS

A. Military Affairs

14. The RCC has completely revamped Libya's military relationships with the outside world. Egypt has become the primary—but not the sole—source of military training and technical assistance, and Cairo appears to be using some Libyan facilities for Egyptian purposes. The former UK airfield at El Adem, now Nasser Air Base, houses about 300 Egyptian personnel and some 30 to 40 Egyptian Mig aircraft; on occasion, it is used as a dispersal field for Egyptian bombers and transports. Egypt has about 200 army personnel nearby, training Libyan units. There are also a handful of Egyptians in Ukbah Bin Nafi (formerly Wheelus) Air Base, which is used by the Libyan Air Force, assisted by Greek and Pakistani training missions. In 1970, when Egypt was subject to Israel's deep penetration raids, the Egyptian Naval Academy was transferred to Libya, but it was subsequently returned to Egypt.

15. After obtaining the withdrawal of US and UK military installations, the RCC attempted to continue those military supply contracts negotiated by Idris which it approved—specifically those for jet aircraft from the US and Chieftain tanks from the UK. For a variety of reasons, including an apparent rebuff by the UK, however, it also turned expeditiously to France and the USSR. For about $250 million, France agreed to sell 110 Mirage aircraft during 1970-1974, and the first delivery—of 6 planes—took place in early 1971. Libya also bought Soviet arms; by the end of the year about $40 million worth of Soviet equipment, including about 130 tanks, 24 self-propelled guns, 90 artillery pieces and 100 armored personnel carriers (APCs) had been delivered. So far this year, it has received at least 120 APCs from Czechoslovakia. Meanwhile, the RCC continues trying to negotiate arms contracts with the West.

16. Building an elaborate military establishment probably will remain a principal aim of the RCC, and ample funds are available. Deliveries of Mirage aircraft are likely to proceed more or less according to schedule—24 in 1971 (including the 6 already delivered), and a similar number in 1972, even though the Libyans probably will not be able to handle any number of the aircraft operationally within the next year or two. Libya has already paid for 40 planes, and it probably would take an overt Libyan breach of the prohibition on transfer to or stationing in another country to impel Paris to break the contract. Since the Egyptians and Syrians cannot provide competent pilots for all of their own Migs, we do not expect any such transfer, although a few Egyptians probably have been

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seconded to the Libyan Air Force. Even if the putative federation comes into existence, the pilot shortage will remain; moreover, the guidelines for the federation as we now understand them leave military forces under national—not federal—control.

17. Resolution of arms supply problems with the UK will be more difficult. The British have refused to sell major weapons to the combatants in the Arab-Israeli confrontation, but they would find it difficult to deny pending Israeli requests for Chieftain tanks if they sell them to Libya, since Jaluud has publicly insisted that all Libyan weapons will be available for the battle against Israel. The Libyans under Idris paid British manufacturers over $100 million as downpayments for arms which have not yet been delivered; if the UK flatly refuses the RCC's request for Chieftains (and for other arms in place of missiles ordered by Idris), the disposition of this money will be the subject of a long legal dispute. If the UK decides to sell what Libya wants, it will probably get additional military orders. The UK's most likely course is to postpone any final action on this thorny question as long as possible, hoping for some change in the diplomatic situation that will make a sale more palatable politically. But the very large amounts of money to be earned from arms sales to Libya, the British vulnerabilities inherent in Libya's oil role and Libya's holdings of sterling, and the rationale underlying the Conservative government's decision to sell arms to South Africa lead us to conclude that London, if forced to decide, will eventually sell.

18. The Libyan purchases of Soviet-made weapons have not been accompanied by any notable closeness in Libyan political relations with the USSR. A junior charge d'affairs sent by Idris remains Libya's sole diplomatic representative in Moscow. The Libyans have refused to permit Soviet military technicians to enter Libya to maintain Soviet-supplied equipment. They have sent no military personnel to the USSR for training. The Soviet cultural exchange program continues to be sharply restricted, as it was before the revolution, and Soviet diplomats continue to complain of surveillance and rudeness. The number of Libyan students studying in Communist countries has not increased beyond the level of 15 to 20 prevailing under Idris. In sum, the RCC looks on the Soviets in much the same way as it does other European foreigners. The Russians, of course, do have the virtue in Libyan eyes of consistent support for the Arabs vis-à-vis Israel.

19. We are not sure of the total size of the arms orders Libya placed in Moscow in 1970, but shipments continue to arrive sporadically, and further deliveries are almost certain. At present, the Soviets are willing and eager to provide desired equipment and other suppliers are not. The refusal of the Libyans to accept Soviet technicians virtually guarantees exasperating maintenance difficulties and continuing Libyan complaints. If the UK again becomes a major arms supplier, we believe that the Libyans would probably cut back on purchases from the USSR. Even if arms sales by Moscow continue, we doubt that Libyan-Soviet relations will become close; the RCC is too xenophobic for that, and it is not under the kind of threat that helps make Egypt receptive to very close Soviet ties. In particular, we think it highly unlikely that Soviet military air or naval units would be permitted to operate from Libyan facilities in any guise—except possibly in the context of major Arab-Israeli hostilities.

B. Arab Affairs

20. The importance of Arab issues and interests to the current Libyan leadership is tremendous. Idris remained aloof from the

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Arab world. Qadhafi and company have plunged in. Qadhafi has been the prime mover in promoting various schemes for Arab unity. He has repeatedly pressed the Egyptians to move forward on plans for unity faster than they like. He has toured Arab capitals, often uninvited and without prior warning of his impending arrival, ruffling tempers along the way. He has loudly and simultaneously condemned King Hussein and extremist Palestinians, to the obvious distress of both. He demanded that all Arab states adhere to the Qadhafi plan—which boils down to a united Arab nation ready to do battle with Israel. He tried to embarrass all concerned into attending a summit meeting at which a schedule for action would be drawn up. So far, all this effort has had two obvious results: Qadhafi has won recognition in other Arab capitals as a factor to be coped with on the Arab scene (albeit as gingerly as possible), and Qadhafi seems to have become aware that all the sincere rhetoric in the world will not necessarily inspire the Arabs to united action.

21. The close relationship obtaining between Egypt and Libya is a natural outgrowth of the history of the two countries and the two regimes. For most Libyans, Cairo has long been the intellectual and cultural capital of their world. Although Libyan resentment of foreigners leads to periodic complaints about the sizable Egyptian presence, there is no evidence that such frictions are growing. For the RCC members, Nasser served as inspiration and model before the revolution and as mentor immediately afterward. He seems to have had considerable ability to influence their actions in the months between the revolution and his death. With Nasser gone, Egyptian influence on the RCC probably has declined somewhat. The RCC members probably are inclined to see themselves—young and active revolutionaries—in favorable contrast to an aging Egyptian leadership which has lost its revolutionary élan. Moreover the Libyan RCC is undoubtedly becoming less willing to seek advice in the light of it successful confrontations with foreign governments and foreign oil companies.

22. Qadhafi has been liberal with money as well as words. In the 18 months since the revolution, he has promised over $400 million to other Arab countries. He has actually paid over about $250 million under these pledges, as well as about $150 million under commitments made by the Idris government. (See Table.) Cairo has been the major beneficiary; without the $160 million or so it received from Tripoli in the last year, it might be suffering serious financial difficulties. Jordan has been less fortunate; during the September 1970 confrontation between Hussein and the fedayeen, Libyan payments of $25 million annually due under the Khartoum agreement of 1967 were suspended, and they have not been resumed.

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AID PAYMENTS BY LIBYA
(Dollars in Millions)

RECIPIENT	DONOR[a]	APRIL 1967-MARCH 1968	APRIL 1968-MARCH 1969	APRIL 1969-MARCH 1970	APRIL 1970-MARCH 1971
Egypt	Idris[b]	60	59	87	87
	RCC	—	—	48	104
Jordan	Idris	25	30	30	19
Fedayeen	Idris	?	?	?	—
	RCC	—	—	—	12
Sudan	RCC	—	—	20	—
Iraq	RCC	—	—	28	—
Yemen	RCC	—	—	—	4
South Yemen	RCC	—	—	—	3
Syria	RCC	—	—	—	24
Arab Economic Development Fund	Idris	3	3	3	—
	RCC	—	—	—	25
Other	RCC	—	—	—	5
TOTAL LOANS AND GRANTS	Idris[c]	88	92	120	106
	RCC	—	—	96	153

[a] Libyan Government making aid commitment.

[b] Khartoum commitment ($59 million annually beginning October 1967) plus additional commitments.

[c] The RCC assumed obligations undertaken by Idris; RCC payments in this regard totaled about $42 million during September 1969-March 1970 and $106 million during April 1970-March 1971.

23. Libya surely will continue to support Egypt financially in the absence of a negotiated settlement with Israel, and the bilateral relationship will remain important to both. Neither can easily afford to antagonize the other seriously—at least in present circumstances; both can gain from the friendship. Because of Cairo's financial dependence, its advice will tend to be muted, while Qadhafi will be inclined to assert himself as more of an equal in the relationship.

24. Qadhafi will probably continue to press for progress toward a federation of Arab nations. Plans for a very loose union of Egypt, Libya, and Syria—with the Sudan free to join at some unspecified date—have been announced, but the timetable for implementation is long and the details of the arrangement are hazy. Evidently the federal government—if and when it comes into being—will act largely as a coordinating body for foreign policy. Initial reports indicate that two of the three heads of state will be entitled to override the third, but powers of enforcement are unspecified and probably will not exist. As a practical matter, therefore, only unanimous decisions are likely to be pursued with any vigor. Given the disparate assets and interests of the member states, unanimity probably will equate with blandness—in deeds, though not in words. All things considered, we doubt that the federation will become much more than a consultative and coordinating organization without substantial supranational characteristics.

25. The strong ties between Cairo and Tripoli will continue to hamper development of close relations between Libya and the other countries of North Africa. Algeria obviously is interested in increasing its influence with

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the RCC, but not at any great cost to itself. Common interest in oil provides a basis for Libyan-Algerian cooperation in formulating negotiating positions. Algeria provides technical assistance to the LNOC, and the Libyans probably will continue to look to Algeria for inspiration in developing an independent oil exploration and production capacity. They also seem inclined, of late, to cultivate the general ethnic and cultural ties they have with Tunisia. But the essential focus of Libyan attention will almost certainly be eastward.

26. Despite all the activist rhetoric that has spewed forth from Tripoli since the revolution, we do not believe that the RCC will involve more than token Libyan forces against Israel. Libya has at most 19,000 military personnel; the bulk are men with less than a year's service and minimal technical competence. In short, Libya will not have the capacity to pose a measurable military threat to any of its neighbors, much less to contribute significantly to Egyptian capabilities against Israel.

27. Libya's financial capability to influence international developments will, however, grow rapidly. Libya can be expected to use its money to try to gain diplomatic support for the Arab cause and to encourage "neutralism" in the East-West confrontation. At the current production rate, annual revenues from oil will total $2.3 billion or more in each of the next several years. Libya cannot possibly spend such sums for internal purposes. Imports of civilian goods and services, excluding the oil sector, now run about $700 million annually; a 50 percent increase, which would be extremely difficult to absorb in Libya's circumstances, would raise these imports to about $1 billion annually. Defense imports currently are budgeted at about $140 million a year; Libyan ability to use even that amount is highly questionable. Thus, Libya probably cannot spend much more than $1 billion a year for its own requirements. It will have a minimum of $1.0-$1.5 billion annually in the next several years to give away, put in the bank, or use to strengthen its position in the oil industry (e.g., by buying tankers). Last year it gave away about $260 million. If gifts and loans continue at about that level, Libyan reserves would rise at the rate of $1 billion or more annually, perhaps reaching $6 billion in 3 or 4 years. Even if foreign gifts and loans are greatly increased or Libya spends heavily for oil-related investments, and only $500 million, say, is added to reserves annually, Libya would have $4 billion—as much hard currency as is now held by France or Japan—within 5 years.

C. Libya and the United States

28. The Libyans would like to buy some arms from the US, although this probably is not now a vital element in bilateral relations. Pilot training on US-supplied aircraft has been arranged with Greece and with a private US firm. Most of the spare parts and technical services needed to maintain Libya's small fleet of US-supplied military aircraft can be obtained outside of direct US-Libyan official channels, albeit with some difficulty and added expense. Far more important to the total relationship will be the relationship between Libya and the oil companies that develops in the months ahead, the role of the US Government in oil matters, and—most critical—the Libyan assessment of the US role in the Arab-Israeli situation.

V. SOME CONTINGENCIES

29. Should something happen to Qadhafi, the RCC would probably stick together under a new leader. Jaluud is the most likely one. He appears to be highly regarded by his colleagues as well as by foreigners who have had the not always happy experience of negotiating with him. As long as the RCC is in power, we would expect it to follow existing

policies on almost all major issues. Indeed, even the overthrow of the RCC probably would not lead to major changes in Libyan policy on oil. However, a new regime probably would make some changes in other domestic policies and in relations with the rest of the Arab world, and a successor might pursue a somewhat less militant policy toward Israel.

30. If relations between Libya and the oil companies should deteriorate to the point of a drastic curtailment or total shutdown of oil production and export by companies now operating in Libya, we believe that Libya could produce and market a substantial amount of oil on its own account. Libya has ample financial reserves to continue imports and other foreign transactions for several years. And it would probably not take long before Libya would find foreign purchasers (e.g., Germany, Italy, France) willing to buy oil directly. Procurement of tanker charters and hiring of technical assistance personnel would pose difficult, but probably not insuperable, problems for the Libyans. Libya's geographical position, the quality of its oil, its massive production, and limits on excess capacity elsewhere are such that attempts by other oil producers to replace Libya in European markets would probably fall short of total success. In these circumstances, however, direct Libyan sales certainly would remain well below current exports for an extended period. If the Suez Canal were open at the time, the problems for the Libyans would be greater.

31. Developments during an oil crisis could alter Libya's foreign relations. Relations with the US would be severely strained; whether diplomatic ties would be severed and trade with the US embargoed would depend on Libya's assessment of the role that the US Government was playing in supporting the oil companies. If a crisis involved a sharp political conflict between Libya and the governments of the owner companies (principally the US and the UK), the USSR probably would hasten to offer goods, arms, and technical assistance on credit and earn some political points in Libya thereby. Some Western governments (e.g., France, Italy, and Germany) might offer to negotiate for direct purchase of oil from Libya. Within the Arab world, there would be pressure for the other oil producers to back Libyan demands, but there are limits on how far they would go—as there were this year. Any Arab producers who attempted to take advantage of the situation at Libya's expense would incur sharp Libyan displeasure.

32. A major outbreak of Arab-Israeli hostilities probably would have similar effects in some respects. It probably would lead the Libyans to expel the US official presence and might lead them to move against one or more of the oil companies, as a means of hurting Israel's principal arms supplier. It could cause a rearrangement of inter-Arab friendships, as Libya would embrace those countries that fought hardest or talked loudest against Israel, while shunning the others.

33. On the other hand, some sort of Arab-Israeli settlement would create indecision, confusion, and mental agony in Tripoli. The Egyptians, conscious of their financial needs, would try to satisfy the RCC, but the kind of Arab concessions to Israel inherent in almost any conceivable settlement would be viewed by the RCC as a sellout of the Arab cause and the onus of Libyan blame would fall on Cairo. After the inital shock wore off, however, the RCC would probably realize that vocal opposition to a settlement would antagonize Egypt without harming Israel. In the end, Libya would probably come to accept the situation and might reduce its involvement in eastern Arab affairs. In time, if the settlement held, the greatest single impediment to US-Libyan relations would decline in importance.