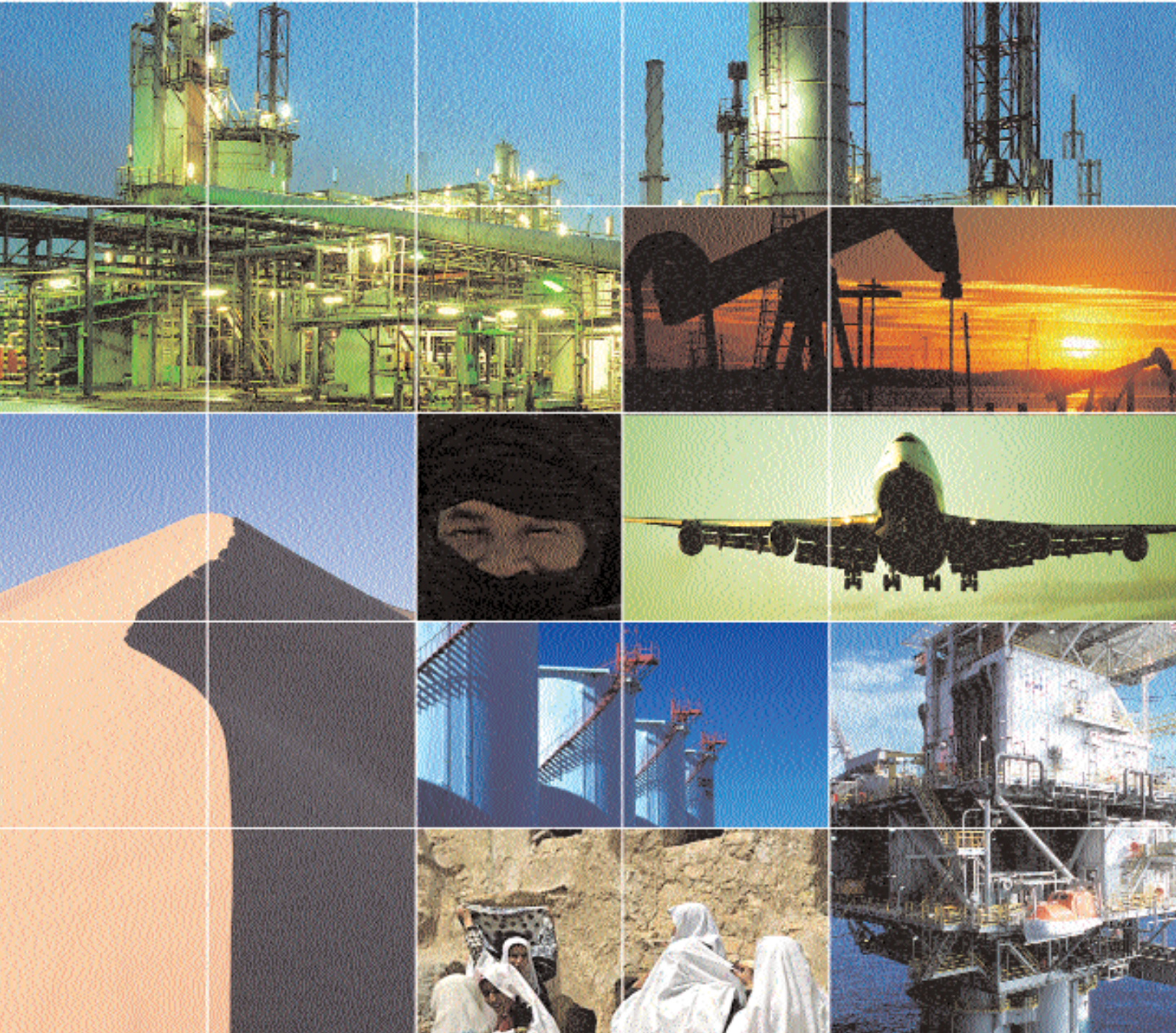


LIBYA BUSINESS GUIDE

ECONOMY • INTERNATIONAL RELATIONS • AGRICULTURE • OIL • NATURAL GAS • MINERALS • TRANSPORTATION • ELECTRICITY • TELECOMMUNICATIONS • FINANCIAL SERVICES • TOURISM



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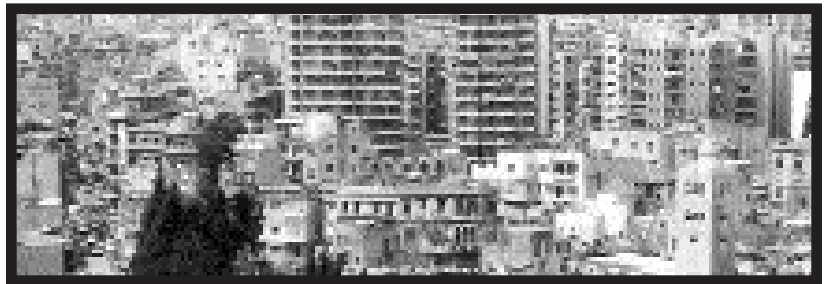
Author's Note: The information provided in this guide was compiled with due diligence and is presented in good faith. However, given the limited amount of written information available on the topic, the material may prove to be incomplete in some instances. In addition, the Libyan market, business climate, and policy environment are rapidly evolving. This guide reflects the state of events at the time of publication, May 2005.

I. INTRODUCTION

The Socialist People's Libyan Arab Jamahiriya is reengaging the world economy, emerging from a difficult period of isolation. Recent changes, combined with reform-minded vision and the growing vigour of its business community, offer opportunity. The next Libyan chapter must pursue more streamlined and transparent governance to enable new business and investment. In time, a more liberal economy, improvements in infrastructure, and better industrial performance will boost Libya's international competitiveness.

New development can now only be hindered by such factors as lack of imagination and the difficulties of negotiating a dauntingly large bureaucracy. In addition, the greatest challenge is a static one: the economy's long (and continuing) dominance by near-absolute state control. Authority is highly centralized and the future direction of government remains unclear. Other challenges—and risk factors—include the high cost of formal and informal red tape and Tripoli's nascent offering of business services.

Libya also lies in a region that presents unique challenges for developing trade and business. Overcoming these challenges requires high impact public-private collaboration targeting not just short-term trade, but enduring economic partnership. Fortunately, Canada-Africa trade is already generally consistent with Canadian foreign policy goals aiming to address social issues on the continent as well as improve Africa's integration into the global market. A number of Canadian Government initiatives support these goals. While CIDA cannot yet operate in Libya, Canada retained minimal diplomatic relations with Tripoli throughout the United Nations sanctions era, opened an embassy there in 2002, and appointed a resident ambassador in 2004. Export Development Canada (EDC) is at the forefront of



research efforts examining opportunities for Canadians in the Libyan market.

These kinds of partnership will spur investment, and a stronger Libyan economy will have ripple effects, including improving government (in particular, its mechanisms for recruiting and regulating new investment), the rule of law, and adherence to international standards for labour and human rights. Put simply, energizing and adding players to the Libyan economy will improve its viability as a trading partner. This investment is a long-term commitment, but one that will undoubtedly reap rewards for all involved.

A major capacity gap exists in Libya. There is no single, defined point of entry for the foreign businessperson. The private sector is too young, the privatization process has just begun and will take time, and the legal structure needs reform and enhancement. In some cases the best entrée is the relevant Libyan ministry or the

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Chamber of Commerce (a public entity). In time, the Libyan Foreign Investment Bureau will hopefully mature into the “one stop shop” that it is designed to be. In the short term, Libyan embassies abroad will play a key role in the networking and information sharing processes. And in the private sector, there are reputable, accredited law firms on the ground in Tripoli and Benghazi that should be approached for insight, interpretation, and direction. Finally, as the private sector strengthens, it will form associations. A new



A new organization called the Libyan Businessmen’s Council is gaining a foothold in Tripoli as an association for Libyan business professionals.

organization called the Libyan Businessmen’s Council is gaining a foothold in Tripoli as an association for Libyan business professionals. Established business associations overseas, the Canadian Council on Africa and the Canada-Libya Chamber of Commerce and Industry included, are keen to cultivate relationships with Libya’s emerging players.

Out of Isolation

Libya has been subject to economic sanctions by both the United Nations and the United States. UN sanctions were imposed in 1992 and suspended in 1999, when Libya extradited two suspects in the Lockerbie PanAm bombing.¹ These were formally lifted in September 2003, when the Security Council agreed that Libya had taken the required steps toward 1) accepting responsibility for the Lockerbie bombing; 2) renouncing terrorism; 3) paying compensation; and 4) agreeing to co-operate with any future Lockerbie investigation.² Libya was also subject to the U.S. “Iran-

Libya Sanctions Act” (ILSA). This legislation, passed in 1996 and renewed in 2001, prohibited any American individual or company from making substantial contributions to Libya’s (or Iran’s) petroleum producing capabilities. Americans who did so were subject to at least two of seven authorized sanctions.³

In December 2003, shortly after UN sanctions were formally lifted, Col. Qadhafi announced that he would dismantle Libya’s weapons-of-mass-destruction programs, resulting in a surge of efforts to restore Libya-U.S. relations. On April 23, 2004, the White House announced that the United States would ease its economic embargo. On June 28, the U.S. opened a liaison office in Tripoli, reestablishing direct diplomatic relations after a 24-year break. On September 20, U.S. President George W. Bush officially lifted the trade embargo against Libya. By revoking the four executive orders barring trade with Libya, Washington formally lifted a freeze on Libyan assets, opened up U.S. air service to Libya, and allowed U.S. companies to buy Libyan oil and invest in Libya. This move also released millions of Libyan dollars earmarked for the families of the victims of Pan Am Flight 103.

Government Structure

Libya has maintained political stability since Col. Muammar Abu Minyar al-Qadhafi staged a successful coup d’état in 1969. Under Col. Qadhafi’s leadership, the state is technically a Jamahiriya, or a system of councils in which every citizen is promised the right to express his opinion in open forum. The system is a basic pyramid, with each upper official being elected by the body below it. National elections are also

¹ UN sanctions included a ban on flights and sales of some oil equipment as well as the freezing of some Libyan assets.

² “UN lifts Libya sanctions,” BBC News World Edition [London] 12 September 2003.

³ Specifically, these sanctions were: 1) denial of Export-Import Bank assistance for exports to the sanctioned party; 2) denial of licenses for exports to the sanctioned party; 3) proscription on U.S. government procurement of goods or services from the sanctioned party; 4) prohibition on imports from the sanctioned party; 5) ban on loans of more than \$10 million by U.S. financial institutions to the sanctioned parties; 6) prohibition on service by the sanctioned party as a primary dealer in U.S. government bonds; and 7) preclusion of service by the sanctioned party as a repository of U.S. government funds.

decided through this hierarchy of people's committees, with the head of government elected by the General People's Congress. The last election was held March 2, 2000. There are no political parties; the legislature, called the General People's Congress, is unicameral.⁴

The Central Bank⁵

Libya's primary financial institution is the Central Bank of Libya. The Central Bank is responsible for managing currency circulation, maintaining Libya's gold and foreign currency reserves, and regulating exchange rates to stabilize and monitor growth. Also, until a stock market is established, equities will be traded through the Central Bank.

While the Central Bank is an autonomous corporate body from the Central Government, it is still 100% state-owned, and therefore acts as banker to the state. Every government agency or state-owned business keeps its accounts with the Central Bank of Libya. The central branch is located in Tripoli, and additional branches are located in Benghazi, Sebha, and Sirte.

Economy

Libya's economy relies heavily on the oil sector, which remains largely state controlled and regulated. Oil revenues, coupled with a small population, provide Libya with one of the highest per capita GDPs in Africa. The Government applies much of the revenue to public infrastructure of which the Great Man Made River is a prime example. Government subsidies on foodstuffs, education, health, and housing make Libyan living standards among the highest in the region.⁶ Within Col. Qadhafi's first three years as head of government, Libya nationalized all

foreign business, all heavy industry, agricultural land, banks, insurance firms, and service companies. Legislation passed in 1977 placed most other economic activity under the control of the state. It was not until 1988, when the country began to feel the combined effects of U.S. sanctions and declining oil income, that the government made some allowances for private ownership. Since then, legislation governing private sector activity has evolved a great deal, generally reflecting a trend towards greater private sector autonomy.⁷ In 2002, economy and finance ministers and Saif al-Islam Qadhafi (son of Col. Qadhafi) revealed the government's intention to restructure the economy as a market economy. Reform efforts are indeed spurring economic growth. GDP has experienced steady growth in recent years, and efforts to check inflation have been successful.⁸

Reform Under IMF Review

In August 2003, the International Monetary Fund (IMF) concluded an Article IV consultation with Libya.¹⁰ The IMF found that Libyan authorities took real steps towards economic liberalization in 2002. The government unified its dual exchange rate system at a fixed rate and eliminated both foreign exchange rationing and import licensing requirements. Continuing high oil prices throughout the year augmented the success of these initiatives.

GDP

Purchasing power parity —US\$33.36 billion (2002 est.)

GDP – real growth rate

1.2% (2002 est.)

GDP – per capita

Purchasing power parity —US\$6,200 (2002 est.)⁹

⁴ Central Intelligence Agency, World Fact Book: Libya (2004).

⁵ Economist Intelligence Unit, Country Profile 2004: Libya (London, UK: 2004).

⁶ Economist Intelligence Unit, Country Profile 2004: Libya (London, UK: 2004).

⁷ Ibid.

⁸ Central Intelligence Agency, World Fact Book: Libya (2004).

⁹ Ibid.

Real non-oil GDP grew by nearly 3% and deflation continued with a 9.8% decline in the consumer price index.¹¹

Unfortunately, in 2002 the external current account shifted to a deficit for the first time since 1998, and gross official reserves decreased slightly.¹²

2002 expenditure growth was driven by budgeted capital expenditure growth of 3.2% of GDP. Most expenditure funded development projects in communications, construction, health, housing, and education. The year's oil revenue received a boost from the large devaluation of the official exchange rate at the outset of the year. However, the IMF found that tax revenue decreased and customs revenue stagnated despite a surge in imports, mainly as a result of widespread tariff exemptions granted to public enterprises.¹³

Libya was receptive to some IMF policy advice and implemented recommended measures including eliminating the Great Man-Made River (GMR) exchange tax (levied only on private foreign exchange transactions) and devaluing the exchange rate by 15%. The government also replaced import deposit requirements with prudent regulatory mechanisms limiting the use of bank credit for import purposes.

The Article IV concludes that the medium to long-term challenge facing Libya is achieving sustainable economic growth rates that will generate employment for a rapidly growing labour force. The government agreed that realizing this goal depends largely on reducing the role of the

public sector. Sixty percent of government spending was allocated to finance public sector jobs at the time of the Article IV review.¹⁴ The Economist Intelligence Unit (EIU) notes in its Libya Country Study that the government employs 70% of all salaried Libyans.¹⁵

Pressure to Diversify and Privatize

Oil prices are high enough to lessen pressure to diversify the Libyan economy. Nonetheless, the government is intent on attracting foreign investment into manufacturing and tourism. So far, success in non-oil has been limited, but includes government owned Misurata Iron and Steel Works and the Ras Lanuf Industrial Complex. The majority of manufacturing plants are underused or abandoned. Agriculture is estimated to constitute as little as 5% of GDP.¹⁶

In June 2003, Col. Qadhafi announced a privatization initiative and appointed a strong supporter of privatization, former Trade and Economy Minister Shukri Muhammad Ghanem, as Prime Minister. Dr. Ghanem was a progressive choice. He earned his Ph.D. at the Fletcher School at Tufts, and prior to serving as minister, he was the director of the research division at OPEC. By October 2003, Prime Minister Ghanem had identified 361 firms in a variety of sectors (steel, petrochemicals, cement, agriculture) as candidates for privatization in 2004.¹⁷ The government has made progress on this agenda. As recently as July 2004, media reported that just under half of the firms earmarked had been privatized.¹⁸

¹⁰ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. An IMF team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. Upon returning to headquarters, the team prepares a report which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

¹¹ International Monetary Fund, IMF Concludes 2003 Article IV Consultation with The Socialist People's Libyan Arab Jamahiriya, Public Information Notice (PIN) No. 03/125 (Washington, DC: 23 October 2003).

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Economist Intelligence Unit, Country Risk Service, Country Report 2004: Libya (London, UK: 2004).

¹⁶ Ibid.



130 Slater Street
Suite 1015
Ottawa, Ontario
K1P 6E2
Tel: (613) 565 3011 or (888) 852-9461
Fax: (613) 565 3013
www.ccafrica.ca



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Ottawa, Ontario
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Fax: (613) 565 3013
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