Banks Not Bullets: A New War Front Opens Up in Libya

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Articles & Testimony

Previous civil war combatants are now fighting a financial and resource war over the country's vast wealth, but Washington and UNSMIL can still exert more leverage than other players if they so choose.

Libya continues to descend into chaos as the conflict over the future of the Central Bank (CBL) continues. Sadiq al-Kabir, the long-serving governor of the bank, fled the county due to threats against him and his staff. The bank's operations ground to a halt, threatening the financial system within the country and international confidence in the bank itself.

Instead of another civil war with armed groups, this war is being fought over Libya's significant wealth—especially control of the central bank and oil production. More broadly, the country's illegitimate leadership class has driven Libya further into chaos for their own gain. Without a strong international intervention, which could take advantage of the current financial disaster, Libya's political environment will further deteriorate, even if the immediate banking crisis is temporally resolved.

Dysfunctional Politics

The latest UN-sponsored initiative announced on 2 September requires some background on the evolution of Libya's political institutions. The purported agreement on the future of the Central Bank is between the House of Representatives (HoR) elected in 2014 and the High Council of State (HCS) formed as part of the Libya Political Agreement in 2015 on one side, and the Presidential Council on the other. This is an unusual formulation because the HoR and HCS never agree. They have purportedly now agreed on an alternative transitional arrangement following al-Kabir's departure.

The Presidential Council grew out of the 2021 Libya Political Dialogue Forum after the 2019-2020 civil war. The three-member Presidential Council was essentially a non-factor, ceding most of its nominal authority to the Government of National Unity and its prime minister, Abdul Hamid Dbeibeh, who was in office more than two years after his term was set to expire. Dbeibeh's rift with al-Kabir was over spending, which sparked the latest crisis. The Presidential Council ousted al-Kabir, citing its constitutional right—a dubious legal claim that was immediately challenged.

The council then appointed a new governor, Abdel Fattah Abdel Ghaffar. This version of the CBL tweeted on 2 September that its functions are "back to business as usual." In a press conference two days earlier, Abdel Ghaffar pledged "transparency and disclosure to the supervisory authorities related to the bank and will not hide…data."

Although the new CBL now controls the physical building—and, according to one report, the SWIFT codes—it seems unlikely that the bank's international relationships will return to normal absent an internationally agreed resolution to the banking crisis. It may be able to pay the majority of Libyans on public sector payrolls in dinars, but the dinar will continue to slide as the banking system hangs in the balance.

Over the years, any potential Libyan agreement has either been stymied by the commander of the eastern-based Libyan National Army (LNA), Field Marshal Khalifa Haftar, or international spoilers—or both. During the several rounds of negotiating the LPA, Haftar always found a way to say no. His counterparts in the West were certainly not innocent, but chasing Haftar proved futile, as demonstrated most egregiously when he attacked Tripoli in 2019. And when elections were planned for December 2021, Haftar's candidacy was one of the main stumbling blocks to postponing them indefinitely.

Oil Used as Leverage

Egypt has supported Haftar throughout, while Turkey saved Tripoli in 2020. But today, Haftar's most threatening alliance is with Russia, who will certainly not let the battle for Libya's wealth go to waste. That certainly will include playing with Libya's oil production.

In early August, Saddam Haftar, the unforgiving son of Khalifa Haftar, shut down the Sharara field in southwest Libya production by 300,000 barrels per day out of almost 1.3 million bpd reported in late July, according to Libya's National Oil Corporation (LNOC). By 24 August, production had decreased again to less than 600,000 bpd, and the NOC declared force majeure on several of the fields, most of them shut down by Haftar to establish leverage over the contest for the CBL.

Production decreased as low as 300,000 bpd, with only the westernmost Waha field running consistently. AGOCO has resumed production by 140,000 bpd, but mostly for domestic refineries to feed the local power grid, not exports.

Once the NOC declared force majeure, international oil prices spiked 2-3%. Prices have since settled back down due to other factors, such as a planned increase in production by OPEC+ and lower Chinese demand, but Libya's fluctuations indicate how variations in its production will continue to have a significant impact on the price of oil. One energy analysis firm estimates Libyan production could stabilise between 300,000-400,000 bpd if Waha remains open—even if output is reduced and AGOCO-run fields continue to operate.

Other experts are more bullish and believe the crisis will quickly resolve itself. Current oil terminals are offloading spare capacity from excess storage, but that will soon cease, so the actual impact of the stoppages will appear soon. Either way, the process of resuming oil fields will not be instantaneous.

International Leverage

Unlike previous political negotiations in Libya, where the US and its European partners failed to lean sufficiently on Libyan and international parties who prevented stabilising Libya, Washington now has significant leverage to address the crisis over the central bank.

UNSMIL—the UN Support Mission in Libya—has convened a negotiation forum to resolve the crisis over the CBL. To support these negotiations, the US can threaten banks not to trade with the CBL until an acceptable, transparent resolution is resolved. Because major banks have reportedly stopped dollar transactions with the CBL, US support for the UNSMIL-led process should have great weight—significantly more than the traditional spoilers can bring to bear.

In an even more extreme proposal, the US and its European partners can employ the same tactic to resolve the longstanding dispute about forming a new technocratic government to help stabilise the country. Such a government would face threats from armed groups, but if these groups are starved of funds, they may concede. It may also create time and space for alternative Libyan coalitions to form from the population and replace the political elite who have long treated Libya as their personal bank accounts.

*Ben Fishman is the Levy Senior Fellow at The Washington Institute and former director for North Africa on the U.S. National Security Council. This article was originally published **on Al Majalla's website (https://en.majalla.com/node/322104/politics/banks-not-bullets-new-war-front-opens-libya)**.* ❖

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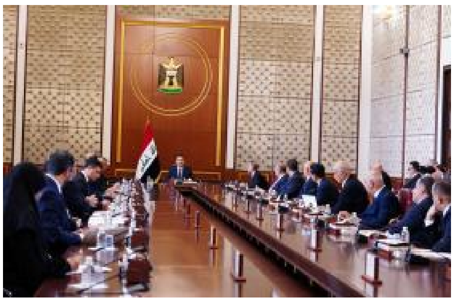

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