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LIBYA: SANCTIONS REMOVAL DONE RIGHT?

A REVIEW OF THE LIBYAN SANCTIONS EXPERIENCE, 1980–2006

BY RICHARD NEPHEW

MARCH 2018

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PREFACE

Sanctions are here to stay as an instrument of US foreign policy. But they remain faintly understood by most policy makers, a risk considering how frequently they are utilized. Worse, scant attention has been paid to one of the most important elements of sanctions use: ending them.

As part of my research into sanctions more generally, I have sought to explore the unswept corners of sanctions policy, starting with the risk of sanctions overuse in May 2015 and continuing with consideration of how previously sanctioned jurisdictions can be reconnected to the global community. In this vein, the Center on Global Energy Policy has commissioned papers on Myanmar (by Peter Kucik) and Cuba (by Peter Harrell), in addition to my own paper on Iran. In August 2017, I examined the risk of the unintended consequences of sanctions from an unconventional perspective: the collateral damage done to other countries, in this case to Pakistan from Iran sanctions.

This paper is intended to be another in this broad series returning to the process of terminating sanctions. By looking at Libya, a reasonably recent example, I hope to offer new answers to an old quandary: How do you stop imposing sanctions and make good on the implicit bargain in sanctions imposition as part of a diplomatic strategy? And what happens then?

Leaving consideration of the conclusion of this research to the paper itself, it is worth noting that it is these sorts of questions that this program—looking at economic statecraft, sanctions, and energy markets—will continue to address in the months and hopefully years to come.

EXECUTIVE SUMMARY

The diplomacy associated with Libya's 2003 decision to abandon its weapons of mass destruction (WMD) programs and support for terrorism has been rightly held up as a model. After years of isolation and international sanctions, Libyan dictator Muammar Gaddafi decided to change course. He agreed to dismantle and repatriate most of his nuclear infrastructure, to eliminate his chemical weapon stocks and ballistic missiles, and to abandon the use of terrorism as a foreign policy instrument. Libya wanted to be largely normalized and was prepared to pay a price to achieve this end but also wanted to receive the benefits of this normalization.

In this, Libya represents a useful test case for not only how sanctions can be imposed but also for how they can be relieved. Though often ignored as a component of the sanctions story, relief from sanctions once imposed is as important as the manner of their imposition. This is because sanctions are not just about denial of resources or access to an adversary; they are also intended to serve as an object lesson for other potential sanctions targets. For this reason, it is important that sanctions imposition is seen as aggressive and thorough but also that sanctions relief is seen as tangible and useful to those that may—one day—find themselves on the receiving end of a future sanctions effort. If sanctions are to serve their purpose for diplomatic leverage by inflicting consequences for misbehavior, then those who are made subject to them must also be able to articulate to audiences both at home and abroad that relief has its benefits.

Based on a review of the data and anecdotal history, there appears to be sufficient grounds to support the contention that sanctions had an effect on Libya's economy (and eventually on its decision-makers), as well as did their removal. There are inconsistencies in the data and historical record with respect to this conclusion. After all, though Libyan economic growth petered out, it did not bottom out as wide-ranging economic sanctions would normally intend. Likewise, though the Libyan economy did grow and investment increased after 2004, the fact that Libyan oil exports also increased at the same time dampens the enthusiastic case for the effects of sanctions relief. Moreover, considering the arc of time under consideration, it is possible that other issues—such as Gaddafi's fear after 9/11 that Libya might be next after Afghanistan for harboring terrorists or that possession of a nascent WMD program would be similar cause for invasion after Iraq—weighed heavily in Libyan strategic thinking. But sanctions did play a role in constraining the decision-making of Libya and its ability to improve its economy. Moreover, in the end, a desire to rid Libya of sanctions—which Libyan officials have themselves affirmed was part of the Libyan strategic calculus at the time—led Libyan officials and Gaddafi personally to make changes to Libyan policy in a manner that was conducive to international interests with respect to WMD proliferation and terrorism.

For future relief scenarios, there are two recommendations for how best to evaluate sanctions relief performance.

1. First, the United States should develop a framework for evaluating the performance of sanctions relief and publish information and data outlining the results of its evaluations.

2. Second, the United States should facilitate clear conversations about the scope of potential sanctions relief and its limitations during negotiations of associated agreements.

Both recommendations could complicate negotiations of agreements and selling them afterward, but they would also help to ground subsequent debates both at home and abroad.

INTRODUCTION

The diplomacy associated with Libya's 2003 decision to abandon its weapons of mass destruction (WMD) programs and support for terrorism has been rightly held up as a model. After years of isolation and international sanctions, Libyan dictator Muammar Gaddafi decided to change course. He agreed to dismantle and repatriate most of his nuclear infrastructure, to eliminate his chemical weapon stocks and ballistic missiles, and to abandon the use of terrorism as a foreign policy instrument. Libya wanted to be largely normalized and was prepared to pay a price to achieve this end but also wanted to receive the benefits of this normalization.

In this, Libya represents a useful test case for not only how sanctions can be imposed but also for how they can be relieved. Though often ignored as a component of the sanctions story, relief from sanctions once imposed is as important as the manner of their imposition. This is because sanctions are not just about denial of resources or access to an adversary; they are also intended to serve as an object lesson for other potential sanctions targets. For this reason, it is important that sanctions imposition is seen as aggressive and thorough but also that sanctions relief is seen as tangible and useful to those that may—one day—find themselves on the receiving end of a future sanctions effort. If sanctions are to serve their purpose for diplomatic leverage by inflicting consequences for misbehavior, then those who are made subject to them must also be able to articulate to audiences both at home and abroad that relief has its benefits.

This paper reviews first the history of sanctions imposition against Libya from 1980–2000 and then sanctions relief from 2000–2011. In it, I offer an assessment first of the effects of sanctions and then the effects of sanctions relief, seeking to pin down the degree to which sanctions—rather than other economic factors or policy choices—were responsible for Libyan economic development. The paper then concludes with an analysis of the sanctions relief that Libya enjoyed and potential lessons for future sanctions imposition and relief projects.

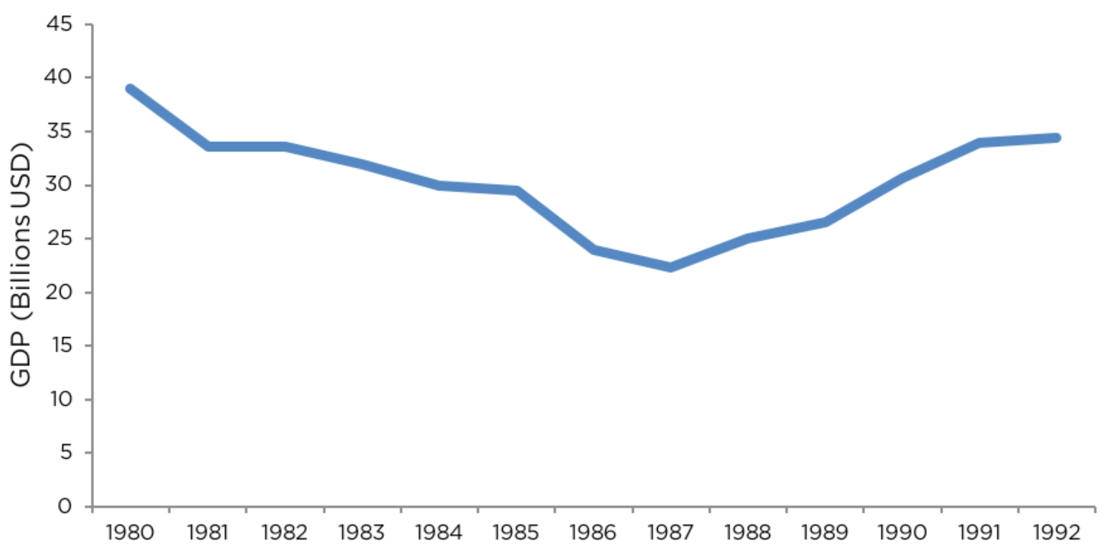
One complication in performing this analysis is that, over the arc of the two decades of sanctions imposed against Libya, perspectives on WMD proliferation and terrorism support—and what to do about them—changed. After 9/11 (and subsequent military operations in Afghanistan) and the 2003 invasion of Iraq, it became plausible for Gaddafi to imagine that he and Libya might be next. Substantial scholarship has gone into this question,[1] and those who had responsibility for overseeing the dismantlement of Libya's WMD programs have laid out an impressive case arguing that the Bush administration's hard power elsewhere was crucial to success.[2] This paper does not argue against 9/11, Iraq, or the 2003 seizure of the BBC China (a ship bound for Libya with nuclear equipment) as vitally important parts of the story or even as tipping points. But as will be shown in the following pages, these events took place after Libya had already begun to seek a negotiated settlement to its isolation and after sanctions had begun to bite heavily. More than anything, these factors support my more general contention in every sanctions case: to be effective, sanctions must be embedded in a comprehensive, coherent, and integrated strategy in order to communicate demands and intentions clearly. If nothing else, the case of Libya from 1980–2006 is a further argument in favor of this perspective.

1980–1992: US SANCTIONS ALONE

As for other oil-exporting states, much of the 1970s was to Libya's benefit. The economy grew significantly during the decade (averaging 10 percent growth annually[3]), as did per capita incomes. Professor Ronald Bruce St. John—who has studied Libya for decades and is the author of numerous books on the subject—notes that "per capita incomes increased from $35 in 1951 to a little more than $2,200 in 1969 to almost $10,000 a decade later."[4] The result was a new time of prosperity for the country and its population.

But with the beginning of the 1980s, Libya's growth slowed considerably due to a combination of factors; in fact, Libya experienced a significant contraction for the first half of the decade (chart 1). Some of the decline is directly attributable to the collapse in oil prices in the 1980s. Whereas at the beginning of the decade oil cost over $30 per barrel, by 1985, prices were less than half that amount.[5] St. John states that "in 1981–86, Libya's annual oil revenues dropped from $21 billion to $5.4 billion."[6] For oil export–dependent countries like Libya, losing half of the national income was naturally damaging. However, Libya could have managed the situation better had its policy makers been diligent, careful, and thoughtful; in her comprehensive treatment of pre-2004 Libya sanctions, O'Sullivan has presented data that underscores the degree to which "Libya's economic performance dragged behind other oil-exporting countries subject to similar external shocks."[7] Instead, Libya's decision-makers took a decidedly more radical approach. Gaddafi pursued austerity policies in order to compensate for lost oil income and simultaneously pursued a revolutionary approach to national jurisprudence and popular rights.[8] Both were unpopular and, from an economic perspective, damaging in that they reduced the incentive and interest in investing in Libya from abroad

Chart 1: Libyan GDP, 1980–1992



Source: International Monetary Fund

Simultaneously, Gaddafi was also seeking to demonstrate his revolutionary bona fides in a variety of Middle Eastern and African conflicts. Libya became a supporter of many different terrorist groups, permitting them to operate within Libyan territory. A 1986 State Department report offers a contemporary account of Libya's various activities, the sum of which is the conclusion that "Qaddafi has used terrorism as one of the primary instruments of his foreign policy and supports radical groups which use terrorist tactics."[9]

The United States responded to the Libyan government's support of terrorism in the Middle East and beyond by naming it one of the first state sponsors of terrorism (SST) under the 1979 Export Administration Act.[10] Under the terms of the law then in place, Libya was prohibited from receiving US exports of military and dual use goods, US bilateral assistance, and US support in receiving loans from international financial institutions.[11] In time, the scope of the prohibitions on SSTs grew as new laws were passed by Congress utilizing the same designation in order to deny such states access to the US economy more generally as well as goods that could support the development of WMDs.

However, Libya was singled out for additional pressure as a result of its foreign policy adventurism in Africa, an aggressive and expansionist interpretation of its territorial waters in the Gulf of Sidra, the murder of Gaddafi's political opponents abroad (which even resulted in the shooting death of a British police officer, Yvonne Fletcher, in London in 1984), and subversive activities worldwide. In 1982, President Reagan imposed a ban on imports of Libyan crude oil and exports to Libya of oil and gas equipment. In November 1985, Reagan banned the import of refined petroleum products from Libya, quickly followed by the imposition of a comprehensive embargo against Libya in January 1986 following terrorist attacks at the Rome and Vienna airports.[12] Military pressure shortly joined sanctions after the April 5, 1986, bombing of the La Belle disco in Berlin, Germany, which killed 3 people and injured a further 230. The La Belle was frequented by US soldier, and in retaliation, President Reagan ordered Operation El Dorado Canyon, which included air strikes against a variety of Libyan targets. Though the embargo was later partially eased to avoid catastrophic economic losses for US oil and gas companies then operating in Libya, the effect was still significant: with the embargo, the United States essentially walled itself off from Libya (a condition that persisted for the next eighteen years).

The key question is the degree to which this sanctions pressure is responsible for the damage being done to Libya. O'Sullivan's view is that, during the 1980–1992 period, most sanctions pressure was less damaging to Libya than the broader atmospheric factors affecting Libya (such as the aforementioned lost oil revenue) and overall government mismanagement. She notes that the direct impact of sanctions on financial flows, for example, was modest given the opportunities available to Libya to find other outlets for its now more limited capital. Likewise, though the United States banned oil imports from Libya, the nature of the global oil market was such that the United States merely shifted its purchases to North Sea oil, and other purchasers of oil shifted to pick up Libyan exports. O'Sullivan argues that there was an impact on Libya from US sanctions, but mainly in the area of Libyan oil production from previously US-managed oil fields due to lost access to spare parts and expertise when US companies shuttered their operations in the country. The US and European governments negotiated agreements that non-US companies would not step in to replace US companies at those affected fields. Even then, though, Libya's other oil fields—not covered by "no backfill" arrangements—were able to grow prodigiously , offsetting the production loss.

None of this is particularly surprising. It is a truism in sanctions policy for good reason that unilateral sanctions activities rarely work, given the diversity of other economies globally. With potentially very few exceptions (such as rare earths and other materials), no country holds an absolute monopoly on any one particular economic instrument or resource. For this reason, countries have often preferred to seek multinational support for their sanctions drives. The United States is no different, and from 1992–2004, it pushed for the aggressive expansion of sanctions against Libya—but this time of a multinational character.

1992–2003: MULTILATERAL PRESSURE

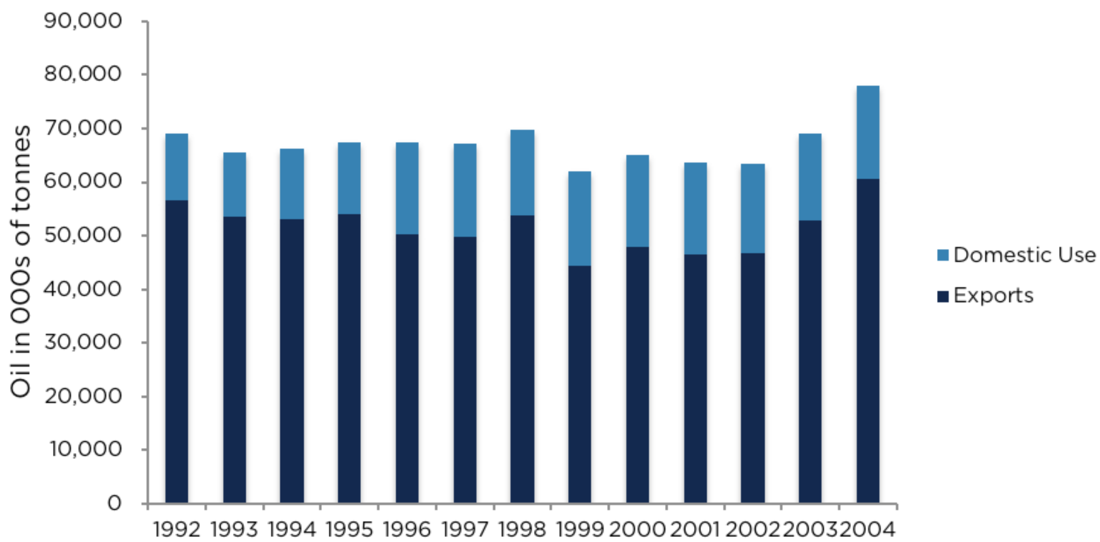
As was the case with many other embargoes enacted by single states, the United States soon acknowledged that the diversity of alternative business partners for Libya—particularly in Europe—limited the damage imposed. Though the Reagan administration sought an agreement to impose reciprocal European measures against Libya, it achieved only "pledges of European governments to try to keep their companies from taking advantage of the departure of US firms from Libya."[13]

International disregard for Libya sanctions changed after the explosions of Pan Am 103 over Scotland in 1988 and French airliner UTA 722 over Niger in 1989. Subsequent investigations linked Libyan intelligence officers to both operations. Libya's refusal to hand over the suspects implicated in the bombings resulted in consideration of UN Security Council sanctions in 1992. Resolution 748 took effect on April 15, 1992. It imposed a ban on air travel to and from Libya (with an exception for humanitarian travel), an embargo on arms and arms-related services to Libya, and a reduction of diplomatic personnel at Libyan embassies worldwide.[14] Resolution 883, adopted in November 1993, went farther: it prohibited the export to Libya of a wide range of oil and gas equipment, banned transactions involving Libyan airlines, and imposed an asset freeze on the Libyan government, with the significant loophole of permitting the repatriation of Libyan oil and agricultural revenues.[15]

As described by Ethan Chorin, "Sanctions hit Libya like a bomb. Between 1992 and 1997 the consumer price index rose 200 percent, while salaries remained fixed…at between 150 and 500 Libyan dinars (about $100 month). From 1992 to 1999, Libya's economy grew, on average, at nugatory 0.8 percent."[16] Libya's oil and gas production infrastructure suffered considerably, with downstream refineries forced to seek inferior and costly spare and replacement parts.[17] From a systemic perspective, the uncertainties around Libya resulted in a number of deleterious knock-on effects. Inflation "soared" in response to the widening exchange rate between the Libyan dinar and US dollar (which was even worse in black market prices), and Libya was forced to respond defensively to the potential of additional sanctions by allocating greater amounts to national reserves.[18]

On the other hand, oil production in Libya was steady throughout this period (chart 2). So were exports, particularly to Europe, where Libya "accounted for 21.6 percent of hydrocarbon exports to Italy; 10.8 percent to Germany; 7.6 percent to the UK; and, 5.5 percent to France."[19] Sanctions stymied Libya's ability to obtain new investment, particularly for projects that were ambitious or complex. But "unlike the situation in Iran, where the National Iranian Oil Company was opening its industry to foreign investment for the first time [since the revolution], outside involvement in Libya's energy sector was long-standing"[20] and not prohibited by the resolutions adopted by the UNSC.

Chart 2: Libyan oil production, exports, and domestic use, 1992–2004



Source: International Energy Agency (IEA)

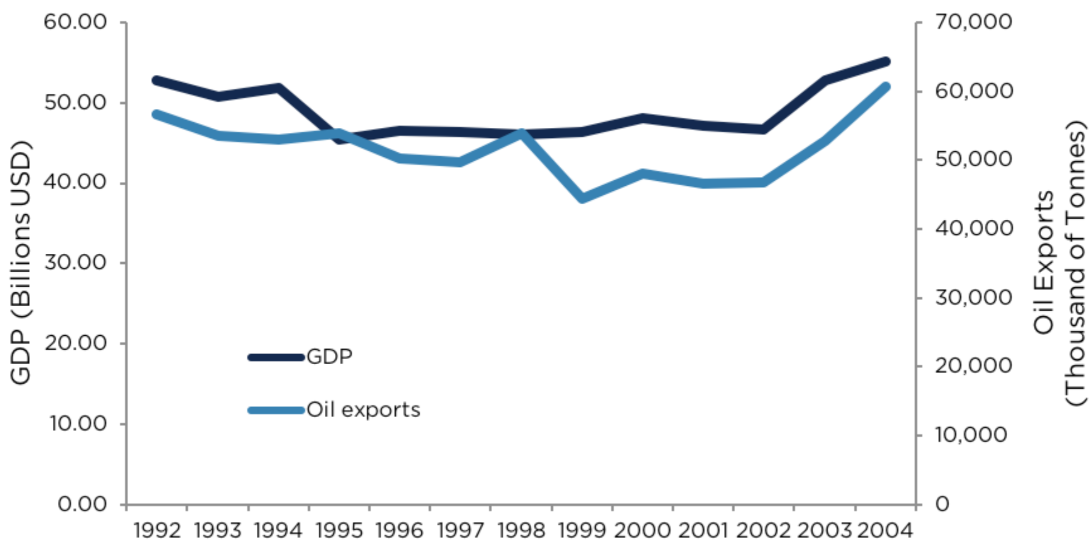
The Libyan government utilized this continued access to international markets as well as its political connections in Europe, Africa, and the Middle East to dampen enthusiasm for the US-led sanctions campaign. The Libyan government sought alternatives to compliance with the terms of resolutions 748 and 883, which permitted the suspension and termination of UNSC sanctions in the event that Libya handed over those suspected of being involved in the Lockerbie and Niger bombings for trial and renounced terrorism.

The United States too recognized that the present level of pressure on Libya was likely insufficient to drive Libya into making concessions on such vital matters. In 1996, the US Congress passed the Iran-Libya Sanctions Act (ILSA), which threatened US market access to any foreign company that invested more than $40 million in Libya's petroleum sector. The high monetary threshold of $40 million was such that few transactions would be implicated and others could be massaged because the provisions of ILSA specified "new" investments. Moreover, Professor Lisa Anderson (former dean of SIPA and a longtime scholar of North Africa) noted that "at the outset, the sanctions were probably a boon for the regime, serving to distract popular attention from the mismanagement that was responsible for many of the country's economic and social woes."[21]

But, coming on the heels of the Helms-Burton Act (which threatened sanctions against those who did business with Cuba) and in tandem with frustrations over the "Iran" portion of ILSA, international reaction to these sanctions was hostile. The European Union passed legislation that prohibited compliance with extraterritorial sanctions requirements and threatened to file suit against the United States at the World Trade Organization (WTO). The Clinton administration responded to this pressure by exercising use of ILSA's national security waiver provisions to avoid imposing sanctions against companies invested in Iran, which suggested a similar approach might be undertaken with respect to Libya.[22] It also undertook to develop a proposal with the United Kingdom that would entail Libya surrendering the accused Lockerbie and Niger bombers for trial in the Netherlands and offered assurances that UNSC sanctions would be terminated if and when Libya satisfied the conditions of resolutions 748 and 883.

That said, real damage was being done to Libya through the opportunity cost of the sanctions. Libya was damaged directly through some of the measures adopted but more generally by the absence of any confidence in its future (necessary for investment across industries) and concerns about the capricious and reputation-damaging nature of its government. Libyan government officials later estimated that sanctions "cost Libya upwards of $30 billion."[23]

Chart 3: GDP for Libya, 1992–2004



Source: World Bank and IEA

Moreover, internally, the Libyan economy was being systemically undermined by the nature of the regime under sanctions, with "the inconvenience and scarcity sanctions produced soon [contributing] to growing corruption—both petty smuggling and more serious fraud, currency speculation and money laundering by senior officials—[that] in turn, fed domestic opposition."[24] It was in this context that Libyans—led by Sayf al-Islam Gaddafi, Muammar Gaddafi's son—began to explore options for reform and international reengagement.

In April 1999, Libya surrendered the two Lockerbie suspects to the Netherlands. Consequently, the sanctions imposed in resolutions 748 and 883 were suspended via UNSC presidential statement.[25] However, the United States and the United Kingdom refused to permit a vote by the UNSC to terminate those sanctions until Libya fully accepted responsibility for the airliner bombings and renounced terrorism. The events of 9/11, perhaps ironically, were extremely helpful in prompting Libya to accept its responsibility, agree to pay an indemnity to the families of the victims of the two bombings, and to renounce terrorism. In part seeking to leverage the changing international perception of Libya and doubtless in part out of recognition that being seen as a sponsor of terrorism was a security risk, the Libyan government condemned the attacks and began to cooperate with the United States and its partners on counterterrorism.

Libya had had a mixed history with Islamist groups, having fought against Libyan insurgent groups for over a decade. In February 1996, the Libyan Islamic Fighting Group (LIFG) attempted to assassinate Gaddafi and "throughout the spring of 1996, armed battles raged throughout the mountains of eastern Libya between LIFG and Libyan security forces."[26] Gaddafi may have intuited that the threat of groups like al Qaeda was as great to his own government as to those of the United States and Europe and that counterterrorism cooperation was a useful way to help preserve his own power.[27] At a minimum, he was shrewd enough to recognize that there was an advantage internationally to consolidating his own struggle at home with the greater international problem of terrorism. Likewise, the United States—in the early stages of the War on Terror—also could utilize Libya's conversion as a means of demonstrating the benefits of turning away from support for terrorism.

On September 12, 2003, the UN Security Council adopted resolution 1506, terminating the UNSC sanctions still then in place, if suspended.[28] But the absence of US companies and US investment opportunities also proved distracting and damaging for Libya. As noted earlier, Libya's decision to abandon its WMD programs and support for terrorism in general served to give the George W. Bush administration the support necessary to move forward with a more general loosening of sanctions starting in 2004.

2004–2011: RELIEF ARRIVES

Though Libya had made sufficient progress to justify termination of UNSC sanctions, the United States had residual concerns with Libyan policy, particularly its potential for the development of WMD. Leveraging the negotiations and cooperation developed in the late 1990s and early 2000s, the United States and United Kingdom negotiated a separate arrangement with Libya for Libyan abandonment of its nascent WMD programs. In December 2003, this agreement was announced by the Libyan government, starting a process for the removal of tons of nuclear equipment and materials as well as documents that established the process through which Libya had acquired uranium centrifuges and process equipment from the A. Q. Khan proliferation network. This network, named for the Pakistani nuclear weapons scientist who led its work, was responsible for the supply of nuclear equipment and expertise to a variety of potential nuclear weapons aspirants, including Iran and possibly Syria and North Korea.

As US, UK, and international experts verified the absence of other undeclared nuclear activities in the country and began the process of eliminating Libya's chemical and biological weapons programs, as well as its ballistic missiles, the United States also undertook efforts to provide Libya relief from sanctions. Throughout the spring of 2004, the United States reversed its sanctions on Libya, starting with the travel ban in February 2004 and ending with the termination of the US national emergency with respect to Libya in September 2004.[29] US sanctions imposed under the International Emergency Economic Powers Act (IEEPA) require a declaration of a national emergency in order to permit the president to impose sanctions against a country; by terminating the national emergency, President Bush effectively terminated US sanctions.

In November 2004, the White House asked Congress to remove a ban on export-import bank loans to Libya following the September decision to cancel the national emergency that had been declared with respect to Libya. In January 2005, Libya "awarded eleven of fifteen new exploration and production sharing agreements to American oil companies."[30] International energy companies that had never left Libya also continued their relationships, though with individual ones suffering or prospering depending on broader political issues (such as those associated with seaborne migration into Europe from Africa).

However, a new wrinkle emerged: reports that the Libyan government had sought to assassinate Saudi crown prince Abdullah over insults made against Muammar Gaddafi.[31] This delayed the ability of the United States to terminate Libya's status as an SST until May 15, 2006, by which time the Libyan government had taken a variety of steps to provide reassurance to the United States about its support for terrorism going forward. The US Department of State's annual report on terrorism from 2005 provides a full accounting, but summarized, these included

1. conviction of Abulrahman Alamoudi for his dealings with Libya, including involvement in the Abdullah plot;

2. negotiations with Saudi Arabia, which included the pardoning of five Libyans held in Saudi Arabia in connection with the plot;
3. cooperation with the United States and United Kingdom in curtailing the terrorism-related activities of the LIFG and negotiation of an agreement with the United Kingdom on the repatriation of Libyan nationals suspected of engaging in or facilitating terrorist activities;
4. extradition of terrorists located in Libya to Egypt;
5. cooperation with the international community to help ensure that its territory was not used as a safe haven for international terrorists; and
6. continued renunciation of terrorism by senior Libyan officials.[32]

Consequently, by the time of the 2006 State Department report, the United States was prepared to announce as follows: "As a result of the historic decisions taken by Libya's leadership in 2003 to renounce terrorism and to abandon its WMD programs, the United States rescinded Libya's designation as a state sponsors of terrorism on June 30. Since pledging to renounce terrorism in 2003, Libya has cooperated closely with the United States and the international community on counterterrorism efforts."[33]

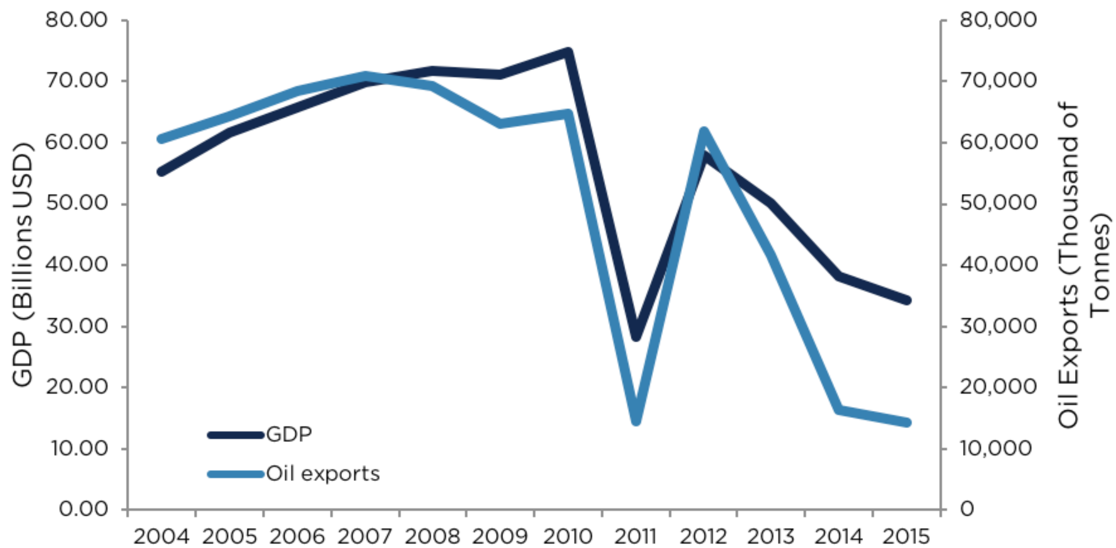
With this, sanctions against Gaddafi's Libya were terminated until the civil war that erupted in 2011.

Some have argued that there was significant cynicism present in the approaches by Libyan and American policy makers, noting for example that Libya "had offered to open talks on the issues that provoked the US embargo—including the WMD programs" but had been rebuffed by the United States.[34] Still, as noted, these events took place after Libya had already begun to seek a negotiated settlement to its isolation and after sanctions had begun to bite heavily. American reticence to engage with Libya aside, Libya's own interest in pursuing talks and its satisfaction with the relief of sanctions are the larger questions here.

One might suspect that if sanctions had played a substantial if not entirely determinative role in poor Libyan economic performance over the previous two decades, then their removal ought to have made a significant impact on Libyan economic performance from a positive perspective. In some respects, this may be the case. In contrast to the period of heaviest US and UNSC sanctions, Libyan economic growth improved steadily until 2007–2008 (chart 4).

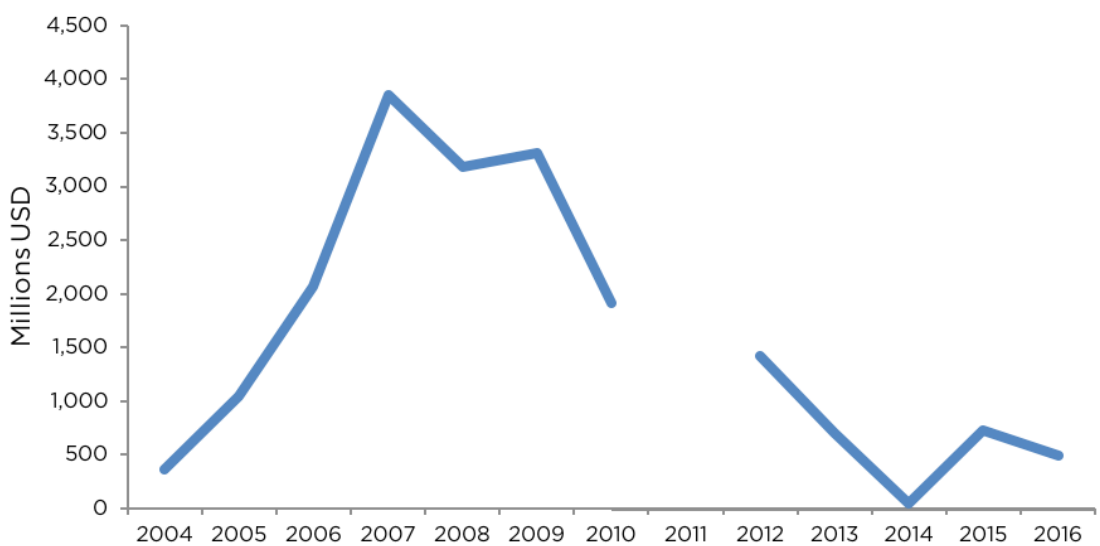
Certainly, for those measures most directly linked to external participation, Libya benefited greatly from sanctions' removal. FDI levels may be the most straightforward proxy for international investment, and in this Libya did well after 2004 and until 2008–2009, when the onset of the Great Recession and drop in oil prices negatively affected investment opportunities and decisions around the world (chart 5).

Chart 4: Libyan GDP and oil exports, 2004–2015



Source: IEA and World Bank

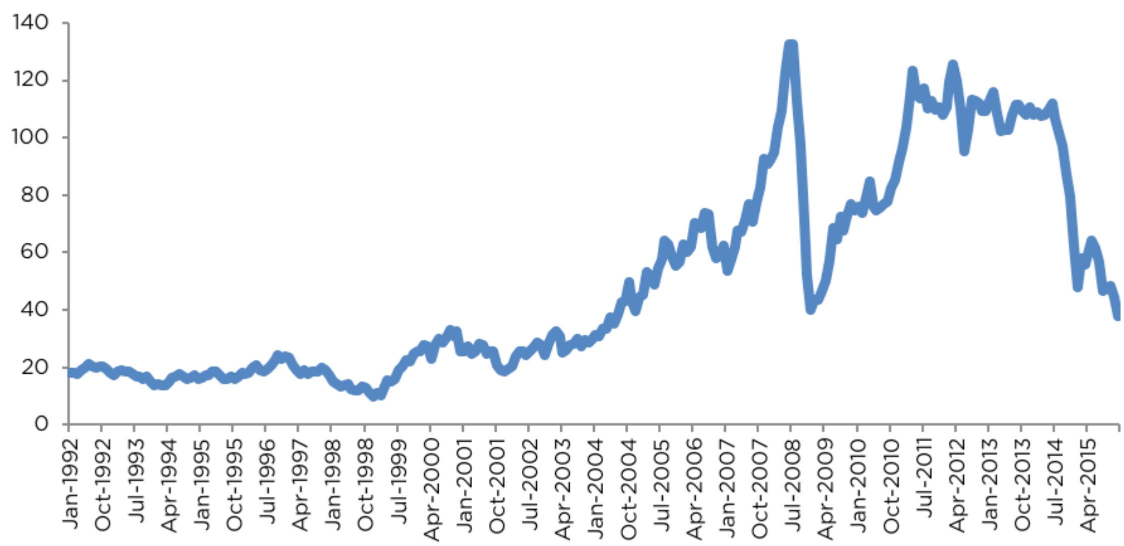
Chart 5: FDI in Libya, 2004–2016 (data from 2011 not available due to the civil war)



Source: UNCTAD

But the role played by oil prices in general complicates the nature of this story. In fact, increased oil prices during that period might account for some of the additional investment into Libya. Higher oil prices might have pushed international energy companies to find new sources of oil and gas, as well as given them the resources to do so. From 2004–2005, oil prices went up by 42 percent and again 19 percent from 2005–2006 (chart 6). Oil was and is Libya's primary driver of economic activity and growth. In 2006, the World Bank outlined the nature of this dependency, noting that Libya's "hydrocarbon sector [represents] about seventy-two percent of GDP, ninety-three percent of government revenues, and ninety-five percent of export earnings."[35] Simply by considering oil prices, one could argue that the generally stable situation in Libyan economic growth throughout the 1990s had more to do with the oil-dependent nature of the Libyan economy: stable prices with little investment in alternative economic means or expanded oil production would naturally lead to a stagnant level of economic growth.

Chart 6: Average monthly oil price, 1992–2015 (Brent, USD)



Source: EIA

However, Libyan FDI growth outpaced both, skyrocketing by 200 percent from 2004–2005 and 100 percent from 2005–2006.[36] Moreover, considering the fact that countries outside of the United States had been more or less free to invest in Libya during much of the previous two decades, it is unlikely to be entirely coincidental that the end of US sanctions in 2004 paced a massive infusion of new investment into Libya. As Chorin noted, "When it went offline, Libya had been underexplored relative to other oil-producing countries…there was tremendous potential for bringing updated technology and methods to bear on existing production."[37]

The problem for Libya was that, instead of harvesting that increased investment and attention for new areas of economic growth, it continued to stagnate under the Gaddafi regime. As St. John notes throughout his description of the closing years of the Gaddafi government, though the regime sought to reform itself, there were significant difficulties in doing so both on conceptual grounds (as Gaddafi remained leader of the country) and practical grounds. Moreover, the investment and opening drive that began quickly in 2004–2006 also began to ebb, as problems with managing "frequent changes to tax and investment law as it applied to the oil industry activities" became more frequent and frustrating to those operating in Libya. A March 2010 report by the US Department of State on the investment climate in Libya describes some of the efforts undertaken by Libya to improve its attractiveness to outside investors. However, despite acknowledgments of billions earmarked for new infrastructure and new legislation that would improve opportunities for investors, the report also underscores the level of endemic corruption in the process, weak legal protection for foreign companies, prejudicial tax and ownership policies, and other hindrances to normal economic activity.[38] Not for nothing, in 2010, Libya ranked at 130 on Transparency International's Corruption Perceptions Index and at 171 on the Economic Freedom Ranking of the Heritage Foundation.[39]

Libya had gained concrete benefits from sanctions being lifted in the form of improved access to international markets and sources of capital, but it failed to adapt to the times and saw persistent diversion of state resources to Gaddafi projects with dubious prospects for success, contributing to broader economic issues (such as the Great Manmade River project or the idea of turning Sirte into the capital of the United States of Africa). In fact, Libya's ability to improve growth and secure foreign investment could say more about the utility of sanctions relief if it were able to overcome broader, more systemic defects in its own economy.

ASSESSMENT AND CONCLUSIONS

Based on a brief review of the data and anecdotal history, there are sufficient grounds to support the contention that sanctions had an effect on Libya's economy (and eventually on its decision-makers), as did their removal. Libyan economic growth stalled out in comparison to other states in similar situations, as did foreign investment, when sanctions were imposed. When sanctions against Libya were eased starting in 2000 and especially after 2004, Libyan economic growth and foreign investment increased markedly. In other words, sanctions worked as intended.

But the data and anecdotal history do not entirely support this contention. After all, though Libyan economic growth petered out, it did not bottom out, as wide-ranging economic sanctions would normally intend. Likewise, though the Libyan economy did grow and investment increased after 2004, the fact that Libyan oil exports also increased at the same time dampens the enthusiastic case for the effects of sanctions relief. After all, the UN Security Council did not prohibit Libyan oil sales, and as detailed in the previous section, oil sales to Europe and elsewhere continued throughout the US embargo. Sanctions relief for Libya was primarily in the area of increased investment, for which the return on produced barrels of oil would be much slower than the increased exports would suggest. And if Libyan economic growth and oil exports were as tightly correlated, as seems likely, then this suggests that—regardless of sanctions relief—Libya was poised for an improvement economically.

If we assume that the increased price in oil has more to do with Libyan economic growth, does that diminish the impact of sanctions relief on Libya and therefore the utility of sanctions in the first place? In my assessment, no. Sanctions did play a role in constraining the decision-making of Libya and its ability to improve its economy. Moreover, in the end, a desire to rid Libya of sanctions—which Libyan officials have themselves affirmed was part of the Libyan strategic calculus at the time—led Libyan officials and Gaddafi personally to make changes to Libyan policy in a manner that was conducive to international interests with respect to WMD proliferation and terrorism. There were material improvements in both areas, as Libya dismantled its nuclear weapons–related infrastructure and halted its support for terrorism.[40] Libya also eventually eliminated its stocks of chemical weapons and its long-range ballistic missile systems, though these were, as with Libya's nuclear program, potentially less significant than originally feared. Even if the impact on Libya's economy was more modest both in the imposition of sanctions and in their removal, in the end, they may have proved a useful catalyst.

Perhaps more interesting is the relationship between Libya's sanctions relief and that enjoyed by other countries, such as Iran. Iran and Libya share some similarities. Both remain dependent on oil exports, though Iran's less so in recent years than over the past decades. Both are also plagued by endemic corruption and uncertain regulatory and legal environments for foreign investors. And both were plagued by the same difficulty in sanctions relief: the unchanged nature of national leadership. Just as with Iran, there were many in the United States who had a less than enthusiastic reaction to the decision to relieve sanctions against Libya. Officials in the US government as well as others outside of it expressed concern with the continued presence of Gaddafi as the unchallenged autocrat in charge of Libya, as well as its human rights record. For this reason (as well as the exposure of a plot to assassinate then Saudi crown prince Abdullah[41]), Libya remained under some residual sanctions as an SST despite relief from those that were most damaging to the Libyan economy.

But unlike with Iran, those doing business with Libya saw the situation differently after the nuclear agreement was reached in 2015. Even if it is too soon at the time of this writing to assess the ultimate economic benefits of the agreement fully implemented less than two years ago, there is sufficient dissimilarity in business attitudes toward the two countries to merit comment. In the case of Iran, there remains widespread trepidation, with minimal new oil and gas investment formalized; in the case of Libya, by just over a year into the agreement to terminate sanctions, 15 new oil and gas projects had been awarded.

Some of this probably has to do with the economic conditions prevalent at the time. From 2004–2005, a main topic of discussion was peak oil, the idea that worldwide crude oil production had reached its high water mark.[42] Though some may have disagreed with the concept at the time, it was still a prevalent part of the international energy conversation. From this perspective, at the time, any potentially untapped production in Libya would have been seen as of central importance and value to international companies. Fast-forward to 2015, and the picture is considerably different: the discovery and tapping of new, unconventional sources of oil had changed the picture markedly, with oil prices both on the decline as well as expectations that oil fields would suddenly go dry. Iran and Libya faced different global economic conditions and expectations for their central product; consequently, their experiences of sanctions relief were different.

Yet another difference was the level of acrimony and disquiet over the Libyan and Iranian nuclear agreements, particularly within the United States. The agreements themselves were obviously different, with one involving removal of most of a country's nuclear infrastructure and the other its management over a period of decades. And in part (though likely not in whole) this shaped the political forces arrayed in opposition to both agreements to relieve sanctions—but so too did the ongoing occupation and conflict in postinvasion Iraq as well as the nature of the political parties in control in Washington.

In considering sanctions relief for Libya, however, two potential lessons learned emerge that ought to be part of a future sanctions removal operation.

First, the United States should develop a framework for evaluating the performance of sanctions relief and should publish information and data outlining the results of its evaluations. Establishing a regular process for developing and issuing reports on the results of sanctions would be useful. First, it would create benchmarks and objective criteria through which relief can and should be evaluated. By outlining the topics to be examined and then creating a consistent data pool for the evaluation, the United States would be in a position to chart progress over time as well as to identify deficiencies. Bureaucratically, this function could land either at the State or Treasury Departments but perhaps would be best located within the intelligence community to provide a policy objective presentation. Second, the United States would be in a position to respond to criticism from the state subject to sanctions relief as to the pace and progress of the relief, as well as to prioritize additional steps for improvement. Third, the United States would be able to identify areas for nongovernmental organizations, humanitarian organizations, and investors (US and third party) to consider how best to move forward with their respective activities. Fourth, even though this idea would be potentially politically sensitive in cases where there is debate over the agreements reached that permit sanctions relief to be granted, having a set of data that can be examined and debated—rather than confronting questions with separate pools of facts—would permit discussions to be more objective and sober.

Second, the United States should ensure clear conversations about the scope of potential sanctions relief and their limitations occur during negotiations of associated agreements. Clear discussions of this sort would ensure that there are no unfulfilled or inflated expectations of performance, which can be damaging to an agreement—particularly one in which sanctions relief is traded for something that is verifiable and traceable over time, such as WMD disarmament, support for terrorism, or improvement in human rights conditions. Inflation of expectations ought to be avoided by all parties, but the United States, in particular, should be in a position to outline after the fact the terms under which sanctions relief was given and potential limitations of those sanctions. The United States should consider outlining conditions in agreements that might preclude full implementation of sanctions relief in the targeted domestic economy. For example, if sanctions relief would permit investment in a country, then the United States ought to ensure that the country in question also commits to improvement of its own investment climate in clear, demonstrable ways. This would have the effect of making negotiations far more complicated and may be an objective pursued more than achieved, but it would also avoid confusion and misperceptions after the fact.

NOTES

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