Libya — more unpredictable still

Adrian Hamilton discusses Libya's move against BP, and whether it marks the start of more widespread action by the oil producers against the West

EVER SINCE the government of Libya was seized by a group of young revolutionary officers two years ago, the country has gained an unequalled reputation for toughness and unpredictability in the Arab world. Imbued with a zeal born of idealism and resentment at past exploitation by Western companies, the Revolutionary Command Council led by Col. Muammer Khedaffi has been softened by none of the constraints operating in other major oil producing countries of the Middle East.

Early stage

Libya's position close to the European markets and the high quality of its oil production have made Libya particularly strong in international oil trade terms. Its oil production has also given it massive bank reserves, and it has had little to spend them on in a country that is sparsely populated and still at an early stage of development. Europe and the oil companies have needed Libya far more, in fact, than the Libyans have needed the oil taxes and revenues.

These advantages it has used to the full—alternatively blackmailing, threatening and persuading oil companies and foreign governments alike with remarkable success. Last year it pushed the Governments of the U.S. and the U.K. into withdrawing their forces from their Libyan bases almost without trouble. At the same time, it was the first of the oil producing countries to force the oil industry to concede higher posted prices, tax rates and retroactive payments with little compromise, as well as nationalising oil company refining and marketing interests in Libya.

This year, it once again startled the oil world by coming in with a new round of revenue demands, upsetting the more moderate negotiations with the Gulf countries of OPEC and eventually gaining substantially higher terms than almost any other country.

When OPEC this autumn presented new demands for state participation and higher revenues to compensate for the effects of the international currency crisis, Libya once again refused to join in a more cautious general aproach by the Gulf countries. Instead, it suggested that its immediate aim was a 51 per cent. take-over of the companies, compared to the 20 per cent. level sought by the Gulf negotiators. On the currency question, it introduced new rules to effect a revaluation of oil company payments, and took over Esso's banks assets in the country when the industry refused to comply.

Despite Libya's intention to press for greater State intervention in the oil industry and its desire to play a more radical role on the Arab stage, its latest action in nationalising BP and withdrawing its deposits from British banks has undoubtedly caught both the British Government and BP off guard. Despite the quarrels over arms shipments, the two governments were thought to be coming closer to agreement on the BAC contract and the sale of Chieftain tanks in the past few months. Equally, British Petroleum has maintained relatively good relations with the Libyans during the past two years of crisis. It has been one of the few groups which has not had its production cut back over the past 24 months.

Both BP's and the British Government's immediate response has been one of relief that the move has come at a relatively favourable time for the U.K. The demand for sterling at the moment is strong, and the U.K. is doing its best to limit the upward pressure on the pound. At the same time, crude oil is in plentiful supply in Europe at the moment and BP should have little difficulty in replacing its Libyan off-take from other sources in the Gulf.

So far the Libyan action has been directed specifically at BP. Its partner in Libya, Bunker Hunt, has not been affected, nor have any other oil companies in the country. BP's share of Libyan production, at just over 200,000 barrels a day, forms barely more than 5 per cent. of its total off-take in the Middle East and Africa. Of this, less than half, or 3-4 per cent., of the U.K.'s total imports goes to Britain. Unless Libya actually attempted to prevent all Libyan oil shipments to the U.K.—a difficult task—both the country and BP can substitute for BP's lost Libyan oil with comparative ease. BP's main concern will be ensuring that proper compensation is paid.

Burdened

What concerns the oil industry far more than any immediat supply problem, however, is the likely effect of the action on the broader relations between the Libyans and the oil companies operating there, and between BP and other Arab countries. The Libyan Government has so far made it clear that the object of the move is to gain retribution for Britain's alleged support of Iran's seizure of three strategic islands in the Gulf last week.

But if the action should broaden out to include other oil companies operating in Libya, Libya's own bargaining position is probably weaker this year than it has been for some time. Demand in Europe has been lower than expected and freight rates have fallen to historically low levels. Libyan oil, which enjoyed a dramatic price increase last spring at a time of high freight rates, now costs more landed in Northern Europe than long-haul supplies from the Gulf, whose basic cost increases last spring were much less.

The result has been that most oil companies, burdened with excess tanker capacity chartered at times of shortage, have preferred to increase Gulf supplies this year at the expense of Libyan and other short-haul supplies. Libyan production, even accounting for the continuing restrictions on output enforced by the Libyan Government, is well down from the level of over 3m. barrels per day of crude oil at the time of the OPEC agreement last spring to about 2.5m. barrels this autumn.

At the same time, off-take from the East Mediterranean terminals carrying oil from Iraq and Saudi Arabia has been cut by as much as 30 per cent. The move from short-haul to long-haul shipments has particularly affected the markets in North West Europe. The U.K., which took about 23 per cent. of its total crude oil imports from Libya last year, is now taking rather less than 20 per cent.

Where Libyan production, therefore, was virtually irreplaceable in the conditions of tanker and supply shortage last winter, most oil companies now feel that it is almost entirely replaceable under present conditions. Rough calculations put additional Gulf production capacity at around 1.5m. barrels a day, and there are further potential sources in the East Mediterranean, Africa and the Caribbean. There are probably enough tankers to take care of a switch in supply patterns on this scale, though freight rates and the price of crude oil would be bound to rise as a result.

The main difficulties would be felt by the independent companies such as Occidental, Continental and Bunker Hunt, who depend on Libya for almost their entire crude oil production outside the Americas. The major companies would then have to help their more vulnerable brethren with other supplies—an issue already agreed upon by the industry when facing the OPEC demands earlier this autumn.

Shortages

The situation would be much more serious, however, if Libya's action presaged a much more general move by other countries against the oil companies—or, specifically, against BP. Over 90 per cent. of BP's worldwide crude oil liftings are made from countries in OPEC, and about 19 per cent. come from Iraq alone. From the consumer's point of view as well, a total shut-down of Mediterranean supplies—if the action were limited to that area—would be bound to create shortages.

Libyan Oil Exports by Company . . . And by Destination (b/d)

	1970	1969	Change %
Oasis Group (Continental/Marathon/Amerada/Shell)	940,327	783,561	+ 20.0
Esso Group (Esso Standard/Esso Sirte/Liamco/Grace)	677,231	732,305	− 7.5
Occidental	665,690	599,166	+ 11.1
BP/Hunt	411,344	316,054	+ 30.1
Amoseas Group (Chevron/Texaco)	324,903	364,558	− 10.9
Mobil/Gelsenberg	252,852	262,973	− 3.8
Aquitaine Group (Aquitaine/Elf/Hispanoil/Murphy)	19,868	4,781	+ 315.6
Linoco	8,424	—	—
Amoco	6,993	520	+1,244.8
Phillips	4,512	5,612	− 19.6
Total	3,312,144	3,069,530	+ 7.9

	1970	1969	Change %
Italy	806,318	662,420	+ 21.7
W. Germany	686,207	751,355	− 8.7
Britain	493,139	418,769	+ 17.8
France	421,400	333,740	+ 26.3
Holland	302,363	309,780	− 2.4
Spain	161,826	162,732	− 0.6
Belgium	128,446	122,320	+ 5.0
U.S.	94,045	155,509	− 39.5
Switzerland	48,951	30,084	+ 62.7
Trinidad	48,114	22,712	+111.8
Bahamas	32,780	—	—
Denmark	23,834	24,869	− 4.2
The Rest	64,721	75,240	—
Total	3,312,144	3,069,530	+ 7.9

Fortunately, there are no signs that any of this will happen. Indeed, all the indications yesterday were that Libya's action was taken without reference to any other country except Algeria, and that its fellow members of OPEC and the Arab League have little intention of supporting Libya, other than verbally.

Libya's boycott of the general OPEC meeting in Abu Dhabi earlier this week—as a gesture against British and Iranian "collusion" in the Gulf—has already widened the existing gap between Libya and its fellow members of the Organisation. Where Libya is in a position to do without oil revenues for a time, most other producing countries need the oil payments to finance ambitious schemes of economic development.

Countries like Iran and Saudi Arabia also have much wider trade interests which could be vulnerable to any breakdown in relations with the U.K. Even Iraq would find it difficult to act against BP, despite the political pressures on it to follow Libya's example. Iraqi production is in the hands of a consortium of companies in which BP has paper shares. To separate one company from another within the Iraq Petroleum Company would be almost impossible, as the Iraqis discovered when their anger was directed against the French at the time of Algerian independence.

Equally, within Libya itself, there are as yet no firm indications that the Revolutionary Command Council wishes to attempt to extend the conflict to other countries. Despite the tensions of the dispute over revaluation of payments, relations between the Libyan Government and the industry as a whole have been restrained, while the issue of participation has hardly been approached at all in talks so far.

In commercial terms at least, the Libyans appear to have been highly conscious of the weakness of their present position in the oil trade. The market is weak and their own petroleum company is still young and inexperienced. Their leaders have generally expressed a desire not to move too fast towards state control. Col. Khedaffi has always been more concerned with leading Arab nationalist feeling than with internal socialism, and his leadership of the latest action would suggest that its motivation is primarily political—a one-off gesture against the British and their policy in the Gulf.

Vulnerable

In the end, though, there may be more surprises in store for the oil industry. The Libyans are no more predictable to-day than they were before the action. Having started on the road to nationalisation, they may follow it further. Equally, their example could still spur other Arab countries into expressing, in commercial terms, their resentment of British policy in the Gulf.

Although the experience of the Suez crises and the Arab-Israeli wars of the last 20 years has shown that most producing countries prefer to keep oil out of politics, the lesson of the latest crisis is that the industry is still vulnerable to political use on the spur of the moment. As long as this is so, governments in Europe will be wary of involving themselves too deeply in direct relations with the oil countries of the Middle East and Arab world.

Labour News

Gas men reject 7% pay offer

Costain-Tarmac plan £100m. Eurocentre near Heathrow

BY NICHOLAS LESLIE

AN AMBITIOUS £100m. international trade and exhibition complex close to London's Heathrow Airport is planned by

the securing of planning permission from various authorities a key factor is obtaining Government office development permits,

would be a commercialy viable scheme, and that the entire cost would be met by private invest-

GMT raises electricity peak

BY DAVID WALKER

RECORD DEMANDS for electricity this winter are being added to substantially by the return to Greenwich Mean Time.

The switch back to GMT, the Central Electricity Generating Board estimated yesterday, is putting a lighting load of 1,400 MW on evening peak electricity demand in England and Wales.

meet the normal electricity requirements of two cities the size of Manchester. GMT meant that the domestic and commercial lighting load started coming on an hour earlier than under British Standard Time, boosting the normal build-up to the peak demand of the day.

The lighting load, the CEGB said, was increasing the growth

3.5 per cent. compared with a year ago, and was in addition to a similar rise in the basic advance in demand.

Maximum demand met so far, it revealed, has exceeded 39,000 MW, some 400 MW more than the previous record set last January. The heaviest call for