

THE RUSSIAN-LIBYAN RAPPROCHEMENT: WHAT HAS MOSCOW GAINED?

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In mid-April 2008, outgoing President Vladimir Putin went to Libya. He was the highest-level Russian official ever to visit this petroleum-rich North African country. A number of agreements were reached then, including a resolution to Libya's Soviet-era debt to Moscow, a contract for Russian Railroads to build a railway line between two Libyan cities (Sirte and Benghazi), and a memorandum of cooperation between Gazprom and the Libyan National Oil Company. There were also reports that major Russian arms sales to Libya may be forthcoming. In addition, Gazprom appears set to become heavily involved in Libyan gas exports to Europe through a swap of some Gazprom assets in Russia in exchange for some of the assets in Libya of ENI, Italy's multinational oil and gas company. In July 2008, Gazprom proposed that it buy all Libyan petroleum intended for export.

Gazprom's growing Libyan presence has led some to fear that Moscow is attempting to dominate European gas imports not just from the east, but also from the south. This fear has only been furthered by Libyan leader Colonel Muammar Qadhafi's enthusiasm for a "gas

OPEC" and, despite his recent rapprochement with Washington, for Putin's confrontational approach toward America and the West. Far from presaging a Russian-Libyan alliance, however, the April 2008 Putin visit to Libya may actually have been an attempt to play catch-up with the West (especially Europe), which had benefited from the end of Libya's isolation following the lifting first of UN and later U.S. sanctions against it. Nor is it clear that Gazprom's offer to buy all of Libya's petroleum exports will be accepted. Finally, as some Russian analysts have noted, the benefits that Moscow receives from improved relations with Tripoli may turn out to be relatively limited.

BACKGROUND

Although Libya was not as firm a Soviet ally as many Third World Marxist regimes were, Moscow developed close ties with the anti-Western regime of Qadhafi, who had overthrown Libya's pro-Western monarchy in 1969. The number-two Soviet leader at that time, Aleksei Kosygin, went to Libya in 1975, and Qadhafi visited Moscow in 1976, 1981 and 1985. Soviet-Libyan trade volume during

the 1970s and 1980s was approximately \$100 million per year.¹ During this period, Moscow also supplied \$4.6 billion in weaponry to Libya, providing about 90 percent of that country's arms inventory.² According to *Kommersant*, "Libya was one of the Soviet Union's few partners that paid in full for the military equipment it purchased from the USSR."³ Libya, however, did run up a debt to Moscow during these years.

With Russian support, however, the UN Security Council imposed sanctions on Libya in 1992 (at the height of Yeltsin's pro-Western foreign-policy orientation). Russian-Libyan trade dwindled to \$1 million per year by the mid-1990s.⁴ Due to the UN sanctions, Libya claimed it was unable to repay its debt to Moscow.⁵

In April 1999, UN sanctions against Libya were lifted. Yeltsin suspended Russian sanctions against Libya the following month, but America's remained in place.⁶ It initially appeared that Russian-Libyan economic relations would resume. Aeroflot service between Moscow and Tripoli started up again in June 1999.⁷ A contract was signed for a Russian firm to build a 117-kilometer natural-gas pipeline inside Libya.⁸ In mid-2000, Promeksport began implementing contracts signed in 1999 and 2000 to sell ammunition to Libya and repair its Soviet-supplied armored vehicles and air defense systems.⁹

Russian observers, though, recognized that these deals were small compared to those being made by the Europeans. According to one, there were more Americans and Britons than Russians working in Libya at the end of 1999, despite the fact that American and British sanctions against Libya remained in force.¹⁰ Moscow, however, hoped that bigger deals would

soon follow. Prospects for these seemed to improve when Libyan Foreign Minister Abdel Rahman Shalgham visited Moscow in August 2000 and met with President Putin, who accepted an invitation to visit Libya. Still, the issue of Libya's debt to Moscow, estimated by *Nezavisimaya gazeta* in 2000 at \$3.8 billion, remained unresolved.¹¹ As it turned out, neither Putin's visit nor a resolution of the debt issue would occur until April 2008.

In the latter part of 2003, Libya's relations with the United States (as well as Britain) improved dramatically with the resolution of the Lockerbie episode and the lifting of American sanctions against Libya. In addition to Western corporations, Russian firms benefited from Libya's reintegration into the world community. In December 2006, both Tatneft and Gazprom won tenders for developing four blocks out of 14 that Libya had put up for competitive bidding.¹² Gazprom won another Libyan contract in December 2007, for which it signed a production-sharing agreement in February 2008.¹³ Russian-Libyan trade grew to \$130 million in 2006¹⁴ and to \$232 million in 2007.¹⁵

Moscow, however, sought to benefit much more from relations with Libya. As one Russian observer noted, Libya's overall foreign trade in 2005 was \$41.6 billion.¹⁶ Russia's share of this was miniscule. Nor had there been any of the major arms, petroleum or other deals with Libya that Moscow had sought. And the debt issue, which was apparently blocking these contracts, remained unresolved. Talks on this matter were reportedly making progress but were set back when Moscow arrested Sergei Storchak (deputy to Finance Minister Aleksei Kudrin), who had been Russia's chief negotiator with

Libya on debt.¹⁷ Libya's detention without charge of the Lukoil representative in Tripoli in November 2007 did not help matters either.¹⁸

THE BREAKTHROUGH

A breakthrough in Russian-Libyan relations occurred in December 2007. According to *Rossiiskaya gazeta*, it began when Qadhafi telephoned Putin to congratulate him on the victory of the pro-Putin political party, United Russia, in the Duma elections earlier that month. Shortly afterward, they reportedly agreed that Putin would visit Libya soon.¹⁹ Russian Foreign Minister Lavrov went to Tripoli at the end of December to talk about Russian-Libyan military and economic cooperation, including Russia's willingness to "provide assistance for Libya to realize its right for atomic-energy peaceful use,"²⁰ the debt issue and the upcoming Putin visit.²¹ According to an unnamed Russian government source, the scheduling of Putin's visit "depended, in particular, on the achievement of an agreement on settling the Libyan debt."²²

As it turned out, the debt issue would not be resolved until Putin went to Tripoli in mid-April 2008. By then, Libya's debt to Moscow amounted to \$4.6 billion. This figure was reduced by \$100 million to cover Libyan financial claims against Russia. Moscow agreed to write off the remaining \$4.5 billion "in exchange for the signing of important contracts — not only in the area of military-technical cooperation, but also in the civilian realm. The money will be progressively written off as Russian enterprises start receiving payments from the Libyans under various contracts."²³

During Putin's visit, Libya signed a contract with Russian Railroads to build a 554 km rail line between Benghazi and

Sirte worth 2.2 billion euros. According to *Vremya novostei*, about half this sum would count toward Libya's debt obligation.²⁴ In addition to signing a memorandum of understanding on cooperation in gas production with the Libyan National Oil Company, Gazprom signed a memorandum of understanding with the Libyan Arab African Investment Group "about the possibility of setting up a joint venture for working in third countries in Africa."²⁵ The two sides also signed an agreement on developing friendship and cooperation, declarations of intent to cooperate in various fields (including the peaceful use of nuclear energy) as well as others.²⁶

Although not signed at that time (nor as of this writing), there were reports that Russia's Technopromexport was hoping to obtain a contract to build power-generating facilities in Libya worth over \$6 billion.²⁷ There were also reports that Libya might buy \$2.5 billion worth of arms from Russia.²⁸ One optimistic Russian estimate claimed that Libya might actually buy \$11 billion worth of arms from Moscow.²⁹ An agreement on a major Russian arms sale to Libya, however, has not yet been reached.

The atmospherics of the Putin visit were very friendly. *Vremya novostei* saw Qadhafi as treating Putin with special favor when he invited the latter for breakfast at his home in Tripoli instead of a tent in the desert, where the Libyan leader usually receives foreign guests.³⁰ At a banquet for Putin on April 16, Qadhafi made a speech that criticized the United States and NATO while praising Russia and Putin. Qadhafi expressed special "admiration for the way Putin had worked to make Russia a power again."

Since the April 2008 Putin-Qadhafi summit, Gazprom CEO Alexei Miller went to Libya in July 2008 and met both with

Qadhafi and the chairman of the Libyan National Oil Company. According to Interfax, Gazprom accepted Libya's offer to discuss the possibility of "building new gas transportation capacity from Libya to Europe."³² More important, Gazprom offered to buy "all gas, oil and liquefied natural gas intended for export from Libya at competitive prices in the future."³³ Although Gazprom claimed that "Libya gave a positive appraisal" to this proposal, there was no indication that Tripoli had agreed to it or would. Even if it does not agree, Gazprom's role in Libya may grow if (1) a deal is finalized to swap Russian assets of Gazprom for Libyan assets of ENI,³⁴ (2) Gazprom participates in pipeline projects between Libya and Europe, and (3) a Gazprom-Libyan joint venture for building electric-power generating capacity in Libya goes forward.³⁵

In addition, Libyan Prime Minister Al-Baghdadi Ali al-Mahmudi met with Prime Minister Putin in Moscow on July 31, 2008. They agreed to strengthen cooperation of the Gas Exporting Countries Forum high-level committee (chaired by Moscow) and to step up the work of the Russian-Libyan inter-governmental commission on trade, economic, scientific and technical cooperation. The two sides also discussed cooperation in the military, railway, infrastructure, petroleum and atomic-energy spheres.³⁶ The sale of over \$2 billion worth of Russian arms to Libya was reportedly being discussed.³⁷ While no additional contracts were signed, it would not be surprising if this occurred in the near future. The only concrete item emerging at this time, however, was that on July 31, Libya finally released the Lukoil representative it had held without charge since November 2007 and allowed him to return

to Moscow, for which Putin expressed gratitude at a joint press conference with his Libyan counterpart.³⁸

WHAT HAS MOSCOW GAINED?

As journalist Judy Dempsey put it, "Some analysts describe Gazprom's moves in North Africa as a 'pincer' attack on Europe. They say if Gazprom succeeds in Libya and in Algeria, where it is already competing for contracts, it could end up dominating the supply routes to Southern Europe. That would be in addition to its current ambitions in southeastern Europe and parts of Northern Europe..."³⁹ The Jamestown Foundation's Vladimir Socor asserted that Gazprom's

strategy aims to gobble up gas production and exports from Middle Eastern and African, as well as Caspian countries and sell that gas in Europe and North America through Gazprom.

Through this strategy the Kremlin seeks to accelerate the formation of a Russia-led cartel of gas exporters, but also to create a network of bilateral arrangements between Russia and individual gas-exporting countries as an alternative option in the event that the cartel's formation proves elusive.⁴⁰

Gazprom's offers to buy up all the gas volume available for export from Algeria, Azerbaijan and Turkmenistan as well as Libya, plus its aggressive move into Iran at a time when Western firms are leaving the Islamic Republic, suggests that Gazprom may indeed be trying to dominate the European gas market. Even if this is Gazprom's intention, however, it is not clear that all — or even any — of these gas exporters would agree to it. To a greater or

lesser extent, Moscow has troubled relations with all the other gas exporters mentioned here (Algeria, Azerbaijan, Turkmenistan and Iran). It is not clear that any of them, much less all, would voluntarily increase their dependence on Moscow if they could avoid doing so.

This may also hold true for Libya. Indeed, some Russian analysts see Moscow as deriving only limited benefits from its improved relationship with Tripoli, despite the April 2008 Putin-Qadhafi summit. Writing in *www. Gazeta.ru*, Mikhail Subbotin questioned the wisdom of Russia's writing off Libyan debts to Moscow in exchange for contracts. Debt repayment, he pointed out, would have gone to the Russian government in full. Contracts, by contrast, go to Russian firms, but they only keep the net profit after their own costs. The net gain, then, is much smaller. Writing off Libya's debts to Russia might have been useful if Libya had been closed to Russian firms and this would have gained entry for them. On the contrary, he argued: "During the past few years, Libya has issued over 50 exploration permits to more than forty companies from various countries in the world.... If anyone had any illusions on this account, it should be stressed that a 'closed' Libyan market did not exist." Even Gazprom, after all, had gotten some contracts in Libya before the April 2008 debt write-off.⁴¹

Nikolay Pakhomov made a similar point in *www.Politikom.ru*: "[I]f someone owes someone a sum of money and then also agrees to buy something from the lender for the sum of the debt, it turns out that he now owes twice as much money. Unfortunately, this simple mathematics does not work in Russian-Libyan relations."⁴² Pakhomov also questioned the need for the memorandum of understanding Gazprom signed with the

Libyan Arab African Investment Group about investing in other African countries. Chinese, American and European firms had managed to extend their activities in Africa without Libya's help. Why, then, did Russian firms need it?⁴³ Finally, Pakhomov questioned the value of the petroleum contracts Russian firms had signed or the arms agreements Moscow hoped to reach with Libya:

The situation is comparable with neighboring Algeria, and some time ago after Putin's [2006] visit there, seemingly historic agreements were reached, but things are almost not moving. Two main versions exist about the disagreements that have arisen: shortcomings were found in the Russian military hardware offered to Algeria, or the Italian energy sector, itself interested in North Africa, intervened.⁴⁴

Finally, one of the most important contracts actually signed during the April 2008 Russian-Libyan summit may have come at an unexpected cost for Russia. "Almost immediately after" Russian Railways received its contract to build a railroad in Libya, *Kommersant* reported, "Saudi Arabia annulled the results of a similar tender that had been won by Russian Railways."⁴⁵ It is unclear, though, whether the Saudis did this because of displeasure over Russia's improved relations with Libya (whose leader, Qadhafi, had allegedly sought to have then-Crown Prince Abdullah assassinated in 2003), or because the Saudis were going to do this anyway out of unhappiness with Russian Railways.

CONCLUSION

Western concern about collusion between Russia and Libya, especially in the gas

market, is understandable. But, just as Qadhafi has been difficult for the West to work with, the recent history of Russian-Libyan relations shows that he has not been easy for Moscow to work with either. It would not be surprising, then, if Moscow's recent enthusiasm for Libya is followed by a period of disappointment.

Although problems remain, Qadhafi's improved relations with America, Britain and France and his strong relations with Italy show that he now values good relations with the West. His change of mind, of course, is not due to any new-found love for Western values or remorse over his previously hostile behavior, but out of a highly pragmatic calculation that good relations with the West can help his regime both survive and prosper.

Like Russia, Qadhafi wants to maximize his profits from petroleum sales to the West. It is highly doubtful, then, that he would allow Russia to position itself to determine how much or how little oil and gas Libya can sell. Indeed, any attempt by Russia to limit petroleum sales to the West would be an opportunity for Libya to profit by increasing its own sales to that region. And, with the

rapprochement between Libya and the United States (under which Washington accepts his regime and does not seek its downfall), Qadhafi would appear to have little to gain by joining any Russian effort to weaken the West. Such a move would only serve to encourage and embolden Qadhafi's radical Islamist opponents, against whom Russia is unlikely to be able to provide Qadhafi with effective help.

Why, then, has Qadhafi sought to improve relations with Russia if there are limits to the extent of his willingness to cooperate with it? One possible explanation is that he is doing this in order to induce the West to offer him better terms for whatever he might want. Even if this is not his primary motive, one thing is clear: Qadhafi's drawing closer to Moscow has not been accompanied by a move away from the West. Indeed, Qadhafi's desire for good relations with the West, which seems highly likely to continue, will serve as a fundamental obstacle to any Russian effort to obtain Libyan cooperation, whether in pursuit of an ambitious geopolitical agenda or just economic advantage.

¹ "Putin to Make Working Visit to Libya Wed.," ITAR-TASS, April 16, 2008 (World News Connection).

² "Russia, Libya Plan to Sign \$2.5 Billion Worth of Arms Contracts," *Agenstvo voyennykh novostei (AVN)*, April 14, 2008 (World News Connection).

³ Mikhail Kozyrev, "A Gift from Our Friends in North Africa," *Kommersant*, June 1, 2000, p. 4 (Current Digest of the Post-Soviet Press [CDPSP], 52:22, June 28, 2000, p. 20).

⁴ "Putin to Make Working Visit to Libya Wed.," ITAR-TASS, April 16, 2008 (World News Connection).

⁵ Marianna Belenkaya, "Putin Will Visit Qadhafi Too," *Nezavisimaya gazeta*, August 2, 2000, pp. 1, 6 (CDPSP, 52:31, August 30, 2000, pp. 1-3).

⁶ Yelena Suponina and Olga Antonova, "Boris Yeltsin Remembers Qadhafi," *Vremya MN*, May 18, 1999, p. 2 (CDPSP, 51:20, June 16, 1999, p. 23.)

⁷ Belenkaya, "Putin Will Visit Qadhafi Too."

⁸ Yelena Suponina, "Col. Qadhafi Already Getting Mail," *Vremya MN*, October 29, 1999, p. 4 (CDPSP, 51:44, December 1, 1999, p. 20).

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- ¹⁷ Aleksei Ivlev, "To Prison, on Urgent Business!" *Vremya novostei*, November 29, 2007, pp. 1-2 (CDPSP, 59:48, December 26, 2007, p. 7).
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