

Libyan unrest will force oil prices higher

✘ Industrialized countries may be faced with the prospect of a shrinking oil supply and higher prices in the second half of the year unless a solution is found to increase production due to higher than expected demand. OPEC controls about 40% of world oil reserves and includes members such as Libya and Iraq, which have struggled to maintain their export output due to severe domestic instability and intensifying political unrest in some non-OPEC countries such as Colombia and South Sudan, not to mention the tensions between Russia and Ukraine that had already served to raise oil prices in recent weeks. Chinese demand, despite rumors of a slowing economy, is having a significant impact on demand as imports have reached record levels of 6.8 million barrels a day (bpd) last April. China has actually been increasing strategic oil reserves and refining capacity as two new giant facilities have been built.

Brent crude actually shot up to above USD\$ 109 in London in response to the rising uncertainty in Libya, where crude oil production has fallen to about 210,000 barrels per day, well below the pre-crisis levels of 1.4 million barrels, with the deposits of the western regions that remain idle. The resumption of heavy fighting using artillery and aircraft around the area of Benghazi is to blame. Indeed, the exacerbation of Libyan unrest and the prospect of a potential return of military dictatorship have effectively eroded any hope that the post-Qadhafi government, might yet survive much longer. The Libyan situation is made all the worse by the fact that the clashes in Tripoli and Benghazi have been far more complex than simply those between the good – non- Islamists – and the bad – the Islamists. The main rivalry is between the militias of the town of Zintan, who backed former Prime Minister Mahmoud Jibril – and then the anti-Islamist component

of the National Congress general (GNC) – and the militia that prevails in the city of Misrata, in turn, generally associated with the political forces closer to the Islamist component.

The rivalry between these two groups dates back to the times of the revolution against the Qadhafi regime and all attempts so far exercised by politicians to find an agreement between these two actors have failed. Libya has also endured the collapse of public order and especially in the oil rich east of the country, where the weak security forces of the Libyan state have been repeatedly attacked by groups ranging from the simple to the more structured criminal organizations jihadist cells. In the past year, armed groups have occupied and blocked production at all major oil fields in eastern Libya, contributing to the paralysis of the State. It is against this sorted background that emerges General Khalifah Haftar. The man who could attempt to defeat the majority of the militias to form a military government, restoring order and stability. Haftar is controversial due to his role in the coup led by Qadhafi against King Idris in 1969 and his odd alliance with the CIA after a failed military mission in Chad, where he was a unit commander, in 1986.

Gen. Haftar and secular militias in the western part of Libya, Zintan, were very displeased by the appointment for new prime minister, Ahmed Maiteeq, whose ties – or alleged ties – to the pro-islamist parliament made him intolerable. Haftar is not alone in his battle against the Islamists and the government. The berber militias of Zintan, Saif al-Islam would be directly responsible for the attack on the Parliament. The government, while being unable to do anything, accused Haftar of wanting to stage a coup.

In the face of all this we can say that the already dramatic situation in Libya has worsened to the point where no return to stability is likely without radical changes of the status quo. A federal option was on the table a few months ago but this would still need a strong central government to

implement. Moreover, since Qadhafi's demise, Libya has experienced a vast gap between poor and rich. The combination of tribal, religious and wealth struggles suggests that the situation is not likely to improve in the short term. In oil terms, after the first armed clashes of last week, mostly concentrated in Benghazi, the price of oil has increased by about USD\$ 0.30 in a few hours, demonstrating the importance of Libyan production to the world market. Consequently, a new intensification of the Libyan conflict – unless resolved quickly and in such a way as to ensure stability rather than the more idealistic 'democracy' could damage the international oil market in general.