US Sanctions Against Libya: Opportunities for Eastern Europe [redacted]

US sanctions against Libya may provide an opportunity for Eastern Europe to earn badly needed hard currency as well as to diversify its sources of oil. Several East European countries—particularly Bulgaria, Romania, and Hungary—may seek to supply Libya with technology and petroleum drilling equipment previously supplied by US firms. Bloc countries almost certainly must weigh carefully Tripoli's past unreliability in paying many of its East European suppliers. Moreover, Eastern Europe's potential to capitalize on the sanctions depends on West European competition because Libya, for both economic and political reasons, is likely to view the Bloc as a second choice. [redacted]

Turning Oil Into Hard Currency

A substantial portion of the Libyan crude oil obtained in barter deals is refined and reexported to the West for hard currency.[1] From 1980 to 1985 the region earned $4-7 billion in hard currency annually from reexports of oil. Over the past decade Libya has provided 13 to 15 percent of Eastern Europe's non-Soviet oil imports. In 1983 Bulgaria and Hungary relied the most on Libyan oil, importing over 75 percent of their non-Soviet oil from Libya. Poland (60 percent of non-Soviet oil imports), Yugoslavia (30 percent), and Romania (10 percent) also counted on Libyan oil. [redacted] Czechoslovakia has received substantial amounts of Libyan oil, which it has resold on the spot market, although neither country reports these deals. East Germany imports little, if any, oil from Libya. [redacted]

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Opportunities for Expanded Ties

East European firms potentially could fill some of the gaps left as US firms comply with the sanctions. Bulgaria and Romania already have an established presence in Libya as suppliers of petroleum drilling and exploration equipment and technicians. These countries probably could provide additional equipment and services of sufficient

[1] The USSR supplies about 70 percent of Eastern Europe's oil imports and Libya, along with Iran and Iraq, supplies the rest. (C NF)

Commercial Ties Limited

Although Libya has played a relatively small role in Eastern Europe's foreign trade, the growth in Eastern Europe's exports to Libya since 1980—almost 2 percent annually—exceeds the growth of the region's exports to developing countries as a whole. In 1984 Libya purchased 10 percent of the region's hard currency exports to developing countries. Hungary and Bulgaria have seen the most rapid growth of exports to Libya; East Germany has experienced a decline in sales. [redacted]

Libya provides an outlet for East European arms and manufactured goods, many of which are not competitive in Western markets. Czechoslovakia, Yugoslavia, and Bulgaria have been Libya's major East European arms suppliers. In 1983 and 1984 East European arms deliveries to Libya totaled $480 million and $350 million, respectively. Eastern Europe also supplies services and equipment for oil drilling and refining and constructs large-scale projects such as refineries, factories, power plants, irrigation systems, agricultural facilities, housing, roads, and some military-related projects. Because of the scarcity of skilled professionals and need for construction crews, Tripoli employs a sizable number of East European guest workers and pays their salaries in hard currency. An estimated 50,000 East Europeans—including 800 military advisers—currently work in Libya.

[redacted]

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quality and quantity to maintain Libyan oil production and exports. Tripoli is already hiring Bulgarian crews to replace US crews in conducting seismic studies and is likely to bring in more Bulgarian crews as needed. [redacted]

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Incentives for East European countries to replace US firms in Libya include:

- *Hard currency earnings.* Increased sales of equipment and services to Libya, specifically in the petroleum sector, could generate hard currency—either by direct payment or via reexport of more Libyan oil. Goods and services previously supplied by US firms totaled about $600-700 million annually. Because of the soft oil market, Eastern Europe may have good bargaining leverage in striking barter deals with Libya. These same market conditions, however, limit prospects for reexporting more of this oil without putting additional pressure on prices. Still, even if Eastern Europe marketed just one-fourth of the Libyan oil formerly sold by US companies and prices plunged to $10 per barrel, the region could earn annually nearly $200 million in hard currency.

- *Diversification of Oil Sources.* By diversifying its energy sources, Eastern Europe lowers the risk of domestic energy shortfalls—a particular concern if the Soviets decrease their oil exports to the region. The USSR might choose to redirect some oil exports to the West to generate hard currency in the wake of falling energy prices or retain more oil at home to balance supplies with growing domestic demand. In addition, Eastern Europe may look increasingly to Third World oil producers such as Libya because the price for Soviet oil—while payable in East European goods—is now almost twice the world price. [redacted]

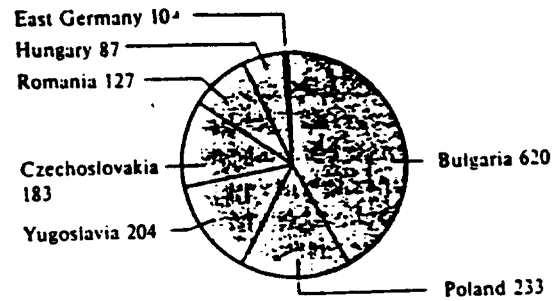
The Risks

Eastern Europe is probably approaching increased Libyan commercial ties with caution. In recent years several Bloc countries have encountered difficulty in receiving payment for exports—including military hardware—and construction services. Falling oil prices and revenues have worsened Tripoli's cash flow problems. Uncertainty about Libya's creditworthiness has probably limited trade between Tripoli and the Bloc. [redacted]

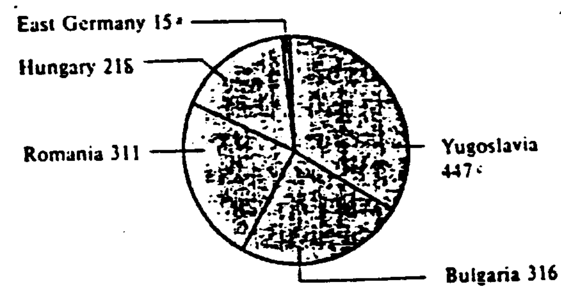
Eastern Europe: Trade With Libya, 1984

Million US $

Exports to Libya



Imports From Libya[b]



[a] Estimated.
[b] According to official East European trade statistics. Czechoslovakian and Polish imports of Libyan goods are negligible.
[c] Including some oil imports on Soviet accounts.

[redacted]

Libya's cash shortage has forced some of its East European creditors to accept payment in oil, and even then Tripoli has been less than reliable in making deliveries. [redacted] some East European firms have had considerable difficulty getting Libya to deliver oil to settle debts. Recently, Romania blamed its inability to meet payments due to Western banks on Libya's failure to meet its commitment to deliver oil for resale. Even if this accusation is exaggerated, such bad experiences may induce Romania and other Bloc countries to go slowly on expanding trade ties. [redacted]

Outlook

Despite the risks, East European countries are likely to try to supply Libya with goods and services previously furnished by US firms. However, the region's ability to do so is limited. Soviet demands for oil and gas equipment, coupled with its hard currency shortages, could persuade the USSR to look to its East European allies to replace Western equipment purchases. The need to supply the Soviet economy could leave little slack capacity to produce goods for the Libyans. [redacted]

Furthermore, competition from West European and Asian firms also seeking to benefit from US sanctions will limit the Bloc's gains. [redacted] In addition, many West European and Asian firms are interested in—or have actually taken over—previous US contracts for civil engineering and construction projects in Libya. [redacted]

Libyan authorities are likely to continue to favor these firms over the East Europeans. By employing Western firms, Qadhafi would not only receive better quality goods and services but also isolate the United States from its West European allies. As long as Eastern Europe faces such competition, its gains from increased commercial ties to Libya will be restricted. [redacted]

[redacted]

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