

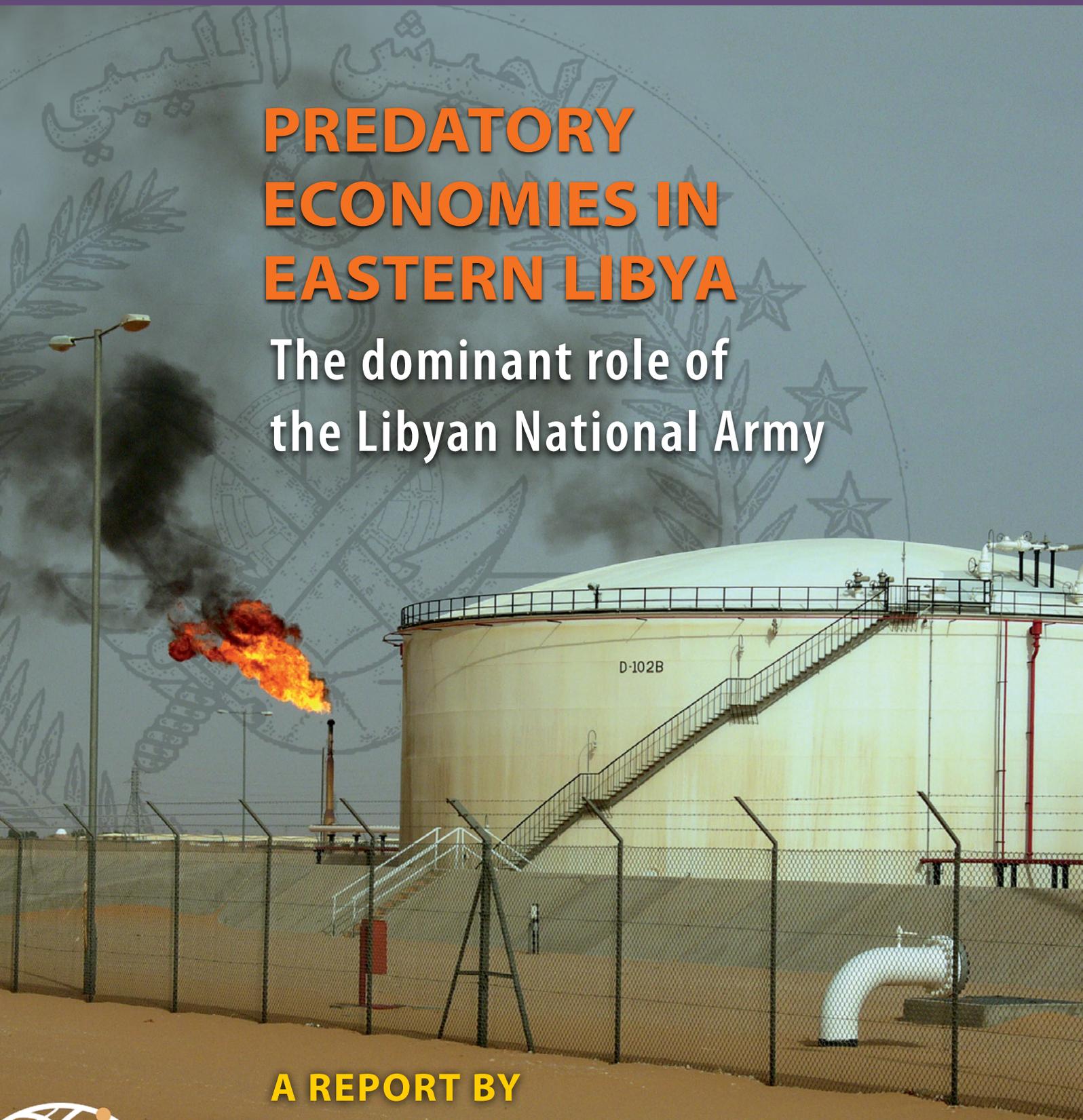


GLOBAL INITIATIVE

AGAINST TRANSNATIONAL
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PREDATORY ECONOMIES IN EASTERN LIBYA

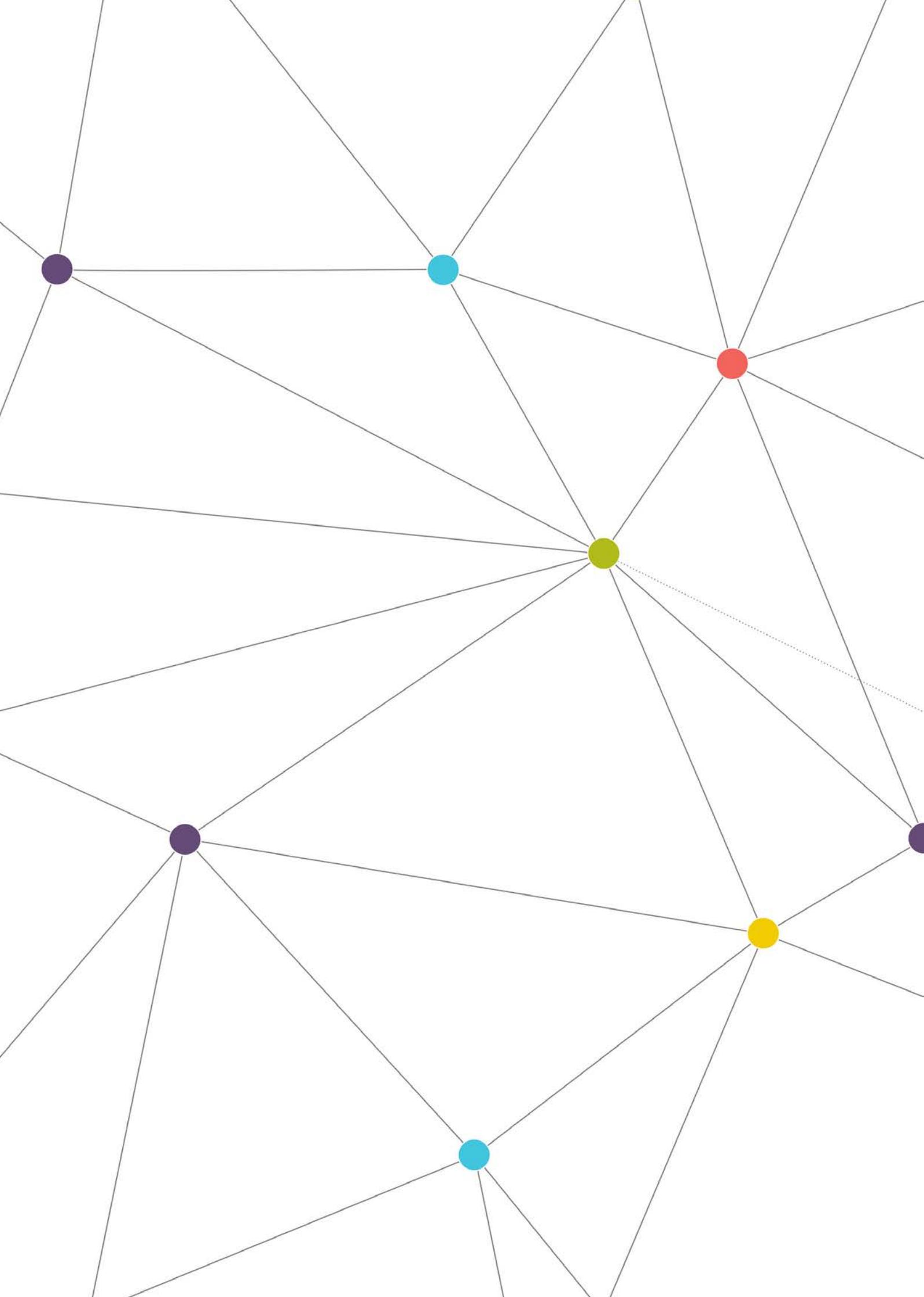
The dominant role of
the Libyan National Army

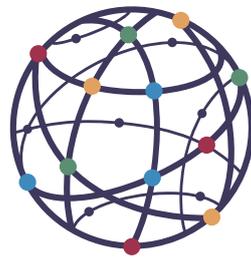


A REPORT BY
NORIA RESEARCH

JUNE 2019







Predatory economies in eastern Libya

The dominant role of the Libyan National Army

Report by Noria Research

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The Global Initiative against Transnational Organized Crime
WMO Building, 2nd Floor
7bis, Avenue de la Paix
CH-1211 Geneva 1
Switzerland

www.GloballInitiative.net



Contents

- Executive summary** 1
 - Methodology 2
- A brief introduction to the LNA** 3
- The LNA’s use of force: Racketeering, extortion and misappropriation of public funds** 4
 - Urban warfare and militia-like behaviour in Benghazi, 2014 to 2017 4
 - Misappropriation of state funds and access to cash 7
- The LNA’s involvement in semi-legal exports** 9
 - Exports of scrap metal: A new source of income for the LNA 9
 - Smuggling of refined petroleum products 12
 - Smuggling of refined petroleum products by the LNA in eastern Libya by sea 12
 - Smuggling of refined petroleum products in eastern Libya by land 14
- Promotion of local allies along human-smuggling routes** 15
 - Consolidating alliances with local constituencies in south-eastern Libya 16
 - Human-smuggling routes and actors in south-eastern Libya 17
 - The LNA’s foothold in al-Kufra today 18
- Conclusion** 19
- Notes** 21



Executive summary

On 4 April 2019, the Libyan National Army (LNA) launched a surprise attack on Tripoli, as the UN-sponsored dialogue process was reaching a critical stage. The leader of the LNA, Khalifa Haftar, was betting on a quick victory but was confronted with fierce resistance. The LNA has become embroiled in a destructive stalemate south of the capital. The war has destroyed the little trust that existed in Libya, and both sides appear committed to continue fighting.

In light of this, there is an urgent need to understand how the LNA funds itself and its involvement in the black economy, as well as its ability to carry on a war far from its eastern heartlands.

One aspect of LNA financing that is relatively well understood is its use of a parallel Central Bank and Russian-printed dinars to pay its wage bill.¹ This controversial programme has led to a dangerous build-up of debt and there are limits to how much further it can be stretched. The financial pressures arising from this situation are very likely to be a major part of Haftar's urgency in the current conflict – he is running out of time to see through his plans. On top of this, there are fears that Tripoli may wage economic war on the east's banking system, further undermining its already shaky finances and posing an even greater threat to Libya's unity.²

But the LNA has not only relied solely on the parallel banking sector to fund itself. In fact, it has been directly taking control of both licit and illicit economies in eastern Libya, mirroring the development of a predation economy led by dominant armed groups in western Libya.

Tripoli, the capital and seat of the country's political and financial institutions, has been the playground of armed groups competing to capture state resources. These groups have exerted influence over these state institutions to serve their private interests, and their candidates have been appointed to senior positions.³ At the same time, international governments have been particularly sensitive to the involvement of armed groups in criminal activities in western Libya, notably human smuggling. This is explained by the fact that the vast majority of migrants attempting to reach Europe make the sea crossing from the Libyan west coast, posing what was perceived as a political and security threat by a number of European countries.

International observers have been trying to identify and measure the sources of financing available to Libyan warring parties, in a country with the largest oil reserves on the African continent.⁴ Armed groups' access to state funds and their involvement in smuggling activities have enabled them to sustain long-term military efforts, thereby fuelling the Libyan conflict. At the international level, this situation brought about the appointment of Ghassan Salamé (a French-Lebanese academic) as the new Special Representative of the UN Secretary-General (SRSG) to Libya in June 2017. In his first briefing to the UN Security Council, given in August 2017, Salamé unequivocally expressed his concerns over the economic situation in the country: 'The impression now of a well rooted political economy of predation is palpable, as if the country is fuelling its own crisis with its own resources to the benefit of the few and the frustration of the many.'⁵ In an attempt to deter the development of illicit economic activities, the UN Security Council sanctioned five Libyans in 2018 who have been involved in human smuggling and racketeering.⁶

Since 2014, western Libya has been at the heart of the international community's concerns over the development of an economy of predation led by armed groups. But, in contrast to the attention paid to the development of a predation economy by armed groups in western Libya, a comparable process led by the LNA in eastern Libya has elicited less interest from international observers. With its base far from the capital, the LNA has been wrongly seen as an outsider to the ongoing competition to capture state resources. Nonetheless, the LNA has developed over recent years a strategy of predation in a bid to access new revenue streams.

This report sheds light on the predatory behaviour of the LNA in territories that have been under its control since the so-called 'liberation' of Benghazi in July 2017. The report analyzes the three-pronged strategy used by the LNA to gain control of the major streams of revenue in the territory under its control.



First, the LNA has used force to take control of public infrastructure and private property, and to extort and bring under its control local lucrative economies. The LNA has also threatened government officials and blackmailed bank employees for cash.

Secondly, the LNA imposed a monopoly over a number of export businesses, notably of scrap metal and refined petroleum products. These export activities are either banned or highly regulated. Since mid-2017, Libya's Interim Government and the Libyan House of Representatives (HoR) have granted the LNA unregulated 'legal' monopolies over a number of illegal export activities. This has led to a rapprochement between LNA-affiliated institutions and officers on one side, and smuggling networks specializing in illicit exports on the other.

Thirdly, the LNA deployed a strategy to sponsor armed groups in spite of their known involvement in the human-smuggling business, providing them with political and military support and, by doing so, allowing them to take control of smuggling routes and eliminate competition. This sponsorship strategy allows groups to develop and increase their financial capacity, while remaining under the patronage of the LNA. However, there is no indication that the LNA's leaders have access to revenue generated by human smuggling. More recently, the (in some cases public) presence of human smugglers among the LNA's forces attacking Tripoli raises questions concerning the LNA leadership's attitude towards human-smuggling activities in Libya. Recent official reports have indicated that efforts to contain illegal migration in Libya have been undermined, owing to the return of violence in western Libya.

The military's strategy of predation is blurring lines between licit and illicit economic activities, both falling under the control of a military actor. This overlapping of the economic interests of military actors and smugglers reinforces the merging of illicit and legal interests. Moreover, the use of force and unlawful practices – such as extortion – by

“The impression of a well rooted political economy of predation is palpable, as if the country is fuelling its own crisis with its own resources to the benefit of the few and the frustration of the many. – SRSg Ghassan Salamé”

LNA commanders to obtain economic advantages, such as tax exemptions and monopolies over a number of export businesses, threaten the private sector in eastern Libya.

Methodology

This report is based on interviews conducted with a range of actors in Libya, Tunis, Cairo and Istanbul, including businessmen, administrators, victims of armed groups, LNA dissidents, local notables and others. Some interviews were conducted remotely. The report also draws from information contained in official documents, some of which are confidential and are not sourced in this paper.



A brief introduction to the LNA

The creation of the LNA was announced by Haftar in February 2014 in a televised broadcast. In his declaration, made on the Saudi-owned pan-Arab channel al-Arabiya, the former army general announced a *coup d'état*, which, however, was not followed by any military action.⁷ The LNA effectively came into existence in May 2014 in Benghazi with the launch of Operation Karama,⁸ which targeted extremist organizations present in Benghazi. The LNA, perceived as the last bulwark against these groups, which had flourished in Libya between 2011 and 2014, immediately gained strong support among the military and the Libyan people. On 2 March 2015, the LNA, led by Haftar, was granted legitimacy by the HoR,⁹ nominating him as the General Commander of the Armed Forces.¹⁰ However, the LNA failed to be endorsed by the internationally recognized government based in Tripoli, the Government of National Accord (GNA), and as a consequence, failed to secure sustainable access to state funds to finance its expenditures and pay the salaries of its troops.¹¹ Only members of the LNA with military numbers granted before May 2014 continued to be paid by the central government.

Since May 2014 and the start of Operation Karama, securing revenue for the LNA has been a matter of concern for its leaders. LNA commanders of armed groups in Benghazi lamented a shortage of ammunition and weapons, accusing the leadership of nepotism and extending support to groups led by Haftar's tribesmen and sons.¹² In 2014, the LNA relied on direct military support and assistance from countries in the region and further afield, and on supplies of military equipment owned by Libyan army troops who joined Operation Karama. From March 2015, when Haftar was sworn in as the General Commander of the LNA, the army had access to funds provided by the Interim Government.¹³ In February 2019, Ali al-Hebri, the Governor of the Eastern Central Bank of Libya (Eastern CBL),¹⁴ said in a TV interview that one-third of the Interim Government's budget over the last three years (or LYD9 billion, equivalent to US\$6.47 billion) was allocated to financing the LNA.¹⁵

The Interim Government's own access to state funds was discontinued and dependent to a large extent on the Central Bank of Libya's (CBL) goodwill to pay the salaries of public functionaries in eastern Libya.¹⁶ Access to state funds became even more constrained following the establishment of the internationally recognized GNA. The Interim Government relied on unregulated loans provided by Libyan commercial banks and the Eastern CBL. The Audit Bureau put the total of the Interim Government's expenses between 2015 and 2017 at LYD21 billion (US\$15 billion), of which a significant portion was transferred to the LNA, according to several sources. The Audit Bureau also indicated that LYD15 billion (US\$10.79 billion) of the total budget came from loans. In 2018, a confidential report indicated that the Eastern CBL agreed to extend a credit of LYD10 billion (US\$7.9 billion) to the Interim Government, even though the Interim Government did not generate any income and was unable to service its financial obligations. The CBL, based in Tripoli, warned against the increase of public debt due to unregulated loans granted to the Interim Government by the Eastern CBL and commercial banks based in the east.

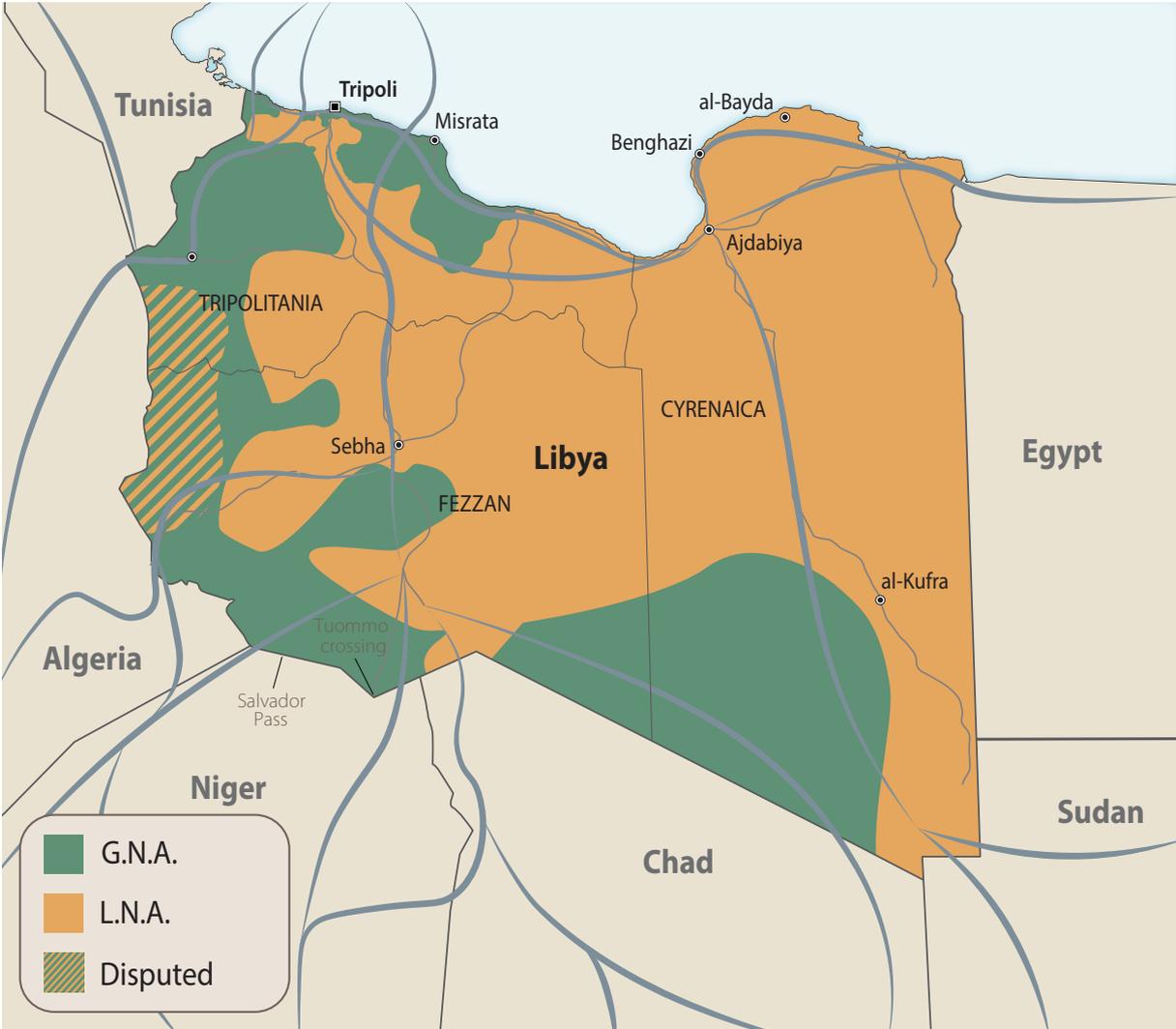
More recently, under mounting international pressure, the CBL and its eastern counterpart in al-Bayda agreed to an international audit of their accounts.¹⁷ In parallel, the LNA is today challenged by increasing expenditure incurred by its continued military (and political) expansion, and has been trying to find autonomous and more sustainable revenue streams.

The LNA had imposed undisputed control over Cyrenaica by mid-2017 and expanded its presence to al-Jufra. Composed of around 70 000 men, the LNA is today in control of a territory larger than France (see Map 1) and engaged in an effort to modernize and equip its troops¹⁸ – initiatives that necessitate financing.

In the absence of a sustainable state budget and difficulties encountered by the Interim Government to access funds, the LNA has had to develop independent and more accessible revenue streams, notably since the liberation of Benghazi on 5 July 2017.¹⁹ To this end, the LNA has used its political and military leverage over legislative and executive bodies in Cyrenaica to expand its control over licit and illicit economies in eastern Libya, and to cover with a veil of legality a strategy of predation.



Map 1: Areas controlled by the LNA and the Libyan Government of National Accord



The LNA’s use of force: Racketeering, extortion and misappropriation of public funds

Urban warfare and militia-like behaviour in Benghazi, 2014 to 2017

During the three years of fighting in Benghazi between May 2014 and July 2017, pitting the LNA against a coalition of jihadists and revolutionary hardliners, armed groups affiliated with the LNA developed an economy of predation, taking possession of property by force and exploiting resources within the territory they controlled. Proliferation of weapons and the absence of the rule of law allowed armed groups to take possession of private properties and public facilities. Certain ethnic groups were forced to flee the city, mostly people originating from Misrata and other parts of western Libya. Individuals and families were targeted by LNA-affiliated armed groups for allegedly



belonging to or supporting terrorist organizations,²⁰ even if they had no specific political or ethnic affiliations. Witnesses' reports indicated that individuals were kidnapped, detained, tortured or killed, and their properties were taken over by members of local armed groups. During this period, the behaviour of LNA-affiliated armed groups was similar in many aspects to patterns observed in other urban warfare theatres, operating along lines of territorial control, and carrying out racketeering and extortion.

By mid-2017, following the announcement of the LNA's victory in Benghazi, there was growing popular discontent towards the behaviour of armed groups, and the LNA leadership attempted to limit their activities. However, as the LNA attempted to impose greater control over their armed groups in Benghazi, senior officers of the LNA also became predatory in their activities, demanding a share of economic assets and investments. A more systematic and organized form of predatory behaviour was put in place by commanders of the LNA, and coordinated by the Military Investment and Public Works Committee (referred to in this report as the 'Military Committee').

The Military Investment and Public Works Committee

The Military Investment and Public Works Committee was first established by the LNA General Commander by decision 56 (2016) but had remained inactive until the nomination of Air Force Colonel al-Madani al-Fakhri on 5 June 2017 to head the Committee. The committee was officially designed to oversee and coordinate the LNA's economic activities and increase its military and production capacities. Following the appointment of al-Fakhri, the committee was tasked to take charge of the LNA's fixed and movable assets that had been accumulated over previous years, to run the LNA's export businesses and to generally manage the LNA's economic activities. Article 4 of the LNA's General Command decision to appoint al-Fakhri states that 'all productive and services projects belonging to the armed forces, as well as their movable and fixed assets are transferred to the Military Committee'. Article 5 adds, 'The Office in charge of military properties is affiliated with the Military Committee.'

Commanders behind the creation of the Military Committee used their positions to extort local businessmen, alternating threats with offers to provide protection. Reports of such practices were corroborated by testimonies given to the author. Extortion took several forms. A prominent businessman, known for his role in providing direct financial support to LNA-affiliated groups in Benghazi between 2014 and 2017, shared the details of a meeting with a senior commander of the LNA after having been summoned to his office, during which he was asked to provide financing through the LNA leadership.²¹ Another businessman reported that warehouses and homes belonging to him were taken over by units of the LNA. He managed to save his family home only after a court decision that found he was the rightful owner. He said that one of his warehouses was dismantled to be sold as scrap metal, which was exported by the Military Committee.²² Another businessman was forced to pay a bribe of hundreds of thousands of dollars to a certain LNA commander to permit him to undertake a business investment in Benghazi.²³

Such examples of racketeering and extortion carried out by LNA leaders were motivated not only by a need to finance the LNA's expenses, but also by fierce internal competition for money and power. However, this process of concentrating economic resources in the hands of the few at the top of the LNA's pyramid was met with resistance by local armed groups, notably those that had benefited from the state of lawlessness in Benghazi in previous years. In July 2018, a local armed group affiliated with the LNA's Special Forces took over the headquarters of the Military Committee in Benghazi, publicly accusing its head of 'misappropriation of funds allocated to the wounded of the LNA'.²⁴ The occupying group also blocked access to Benghazi's port in a show of force to demonstrate its capacity to interrupt the Military Committee's export activities.

As well as expropriating private assets and extorting private economic actors, the LNA developed a strategy of taking control of public infrastructure and other economic assets, transferring them to the management of the Military Committee. To take a few examples, the General Commander transferred the control of the three major



production projects in eastern Libya to the Military Committee in October 2017: the al-Sarir Production Project, the al-Kufra Agriculture Project and the al-Kufra Settlement Project. Al-Fakhri appointed the military to take over and manage the projects but provided no legal or economic basis to justify this decision. Although these enterprises do not seem to constitute valuable economic assets, this decision is nevertheless significant, in that seems to correspond to a systematic predatory behaviour on the part of the LNA to become the most important, if not the only, economic actor in eastern Libya, where it has been in control of political affairs, the media and religious affairs (through a network of Salafi clerics). Now it is also in control of the economy.

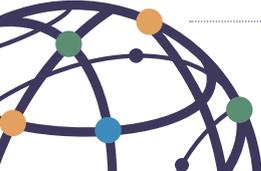
In September 2016, the LNA succeeded in taking control of key oil infrastructure in the Oil Crescent,²⁵ allowing exports of crude oil to resume under the supervision of the state-owned National Oil Corporation. Oil terminals had been under blockade by a local armed group between summer 2013 and September 2016. In March 2019, the LNA's takeover of the al-Sharara and al-Fil oilfields places most of Libya's oil infrastructure under its control. The international community has repeatedly warned against any attempts to establish parallel export channels in Libya, emphasizing that only the Tripoli-based National Oil Corporation can legally export oil from Libya. To this day, the LNA does not seem willing to change that status quo, a stance that seems to have been taken to allow the LNA to gain some international respectability and become an essential Libyan interlocutor in dialogues with the international community.

As mentioned in the Introduction, the LNA was not endorsed by the internationally recognized GNA, and its legal status remains uncertain. The HoR granted the LNA legitimacy in March 2015 but did not provide it with the mandate to undertake economic activities. It was only in November 2018, two years after the establishment of the Military Committee, that the HoR passed law no. 3 (2018), granting the Committee and the General Commander extensive control over economic affairs, which will be detailed in later sections.



Women attend a demonstration to demand an end to Haftar's offensive, Tripoli, 26 April 2019.

Photo: REUTERS/Ahmed Jadallah



This law provides a 'legal' basis for expropriation of private and public properties, with retroactive effect. Paragraph 6 of Article 6 of the law states: 'The Committee has the right to assign, cancel or transfer ownership of assets, estates and land properties falling under its authority to affiliated apparatuses, affiliated or contracted companies in accordance with Libyan laws.' The term 'falling under its authority' is ambiguous and allows room for interpretation. However, given that many private and public assets are today under the direct control of the LNA or groups affiliated with it, it would seem to have been drafted to legally authorize de facto possession of properties. And it would seem to simultaneously encourage predatory behaviour and compel landlords to sell their properties at very competitive prices in Libya's east. Several accounts have confirmed this pattern, even if information on property transfers is still missing at this stage. Paragraph 7 of Article 6 states that the Committee has authority to 'acquire assets, estates and land properties required for its economic and investment activities', without adding further conditions. Given the LNA's undisputed political and military hegemony in eastern Libya, and in the absence of any control mechanisms, such legal sanction will probably help the LNA leadership to become eastern Libya's primary property owner.

Misappropriation of state funds and access to cash

The LNA have also used force in their strategy to misappropriate cash. LNA commanders have used blackmail to extort cash from public servants and bank employees. There have been incidents of armed groups kidnapping the relatives of targeted individuals and blackmailing them for money. The director of a commercial bank operating in eastern Libya said that he has been threatened by people linked to the LNA to release cash from CBL deposits contained in one of his bank's branches in eastern Libya.²⁶

The banking sector has been a primary source of financing of armed groups in Libya, including the LNA. The CBL finances and distributes quotas of letters of credit to each bank, which, in turn, distributes letters of credit to its branches. A confidential report issued in 2018 indicated that letters of credit issued by banks in eastern Libya between 2016 and 2018 reached more than LYD1.5 billion (US\$1.08 billion). The report added that letters of credit did not comply with required procedures, as established by the CBL. The report also indicated that most entry ports for imported goods are in western Libya, which made it difficult for the authorities to verify if imported goods matched the descriptions given on invoices presented to the issuing banks, especially given the political division between western and eastern Libya.

On behalf of the importer, banks issuing a letter of credit will provide a financial guarantee to the exporter in hard currency deposited in a correspondent bank abroad. The payment usually takes place upon verification of the goods. However, in the absence of efficient controls over the banking sector and customs authorities in Libya, letters of credit granted to businessmen or private individuals linked to armed groups were in reality used to buy hard currency at the official rate of LYD1.4 to US\$1. Hard currency is then injected into the Libyan currency black market through a network of currency brokers and sold at the black-market rate, which fluctuated between LYD4 and LYD9 to \$1, from 2016 to 2018 (see Figure 1). This has resulted in draining the country's reserves of hard currency and depreciating the value of the Libyan dinar, leading to an unprecedented liquidity crisis and a significant rise in commodity prices. In reality, fraudulent use of letters of credit has been widely observed across the country, but mostly in Tripoli and Misrata, since 2013. Recent reforms introduced by the Presidency Council have attempted to limit the impact of this phenomenon by reducing the gap between the official exchange rate and the black-market rate of the dinar to the US dollar.²⁷

A letter of credit is a guarantee from a (Libyan) bank stating that a local buyer's payment to a foreign seller will be correct and made on time. Banks typically require a pledge of securities or cash as collateral for issuing a letter of credit, as well as charging a service fee. The scheme is similar to document for collection, with a slightly different mechanism, and the fact there is no annual quota for transactions. In fraudulent transactions, the buyer obtains a letter of credit for a much larger sum than the imported goods are worth.²⁸

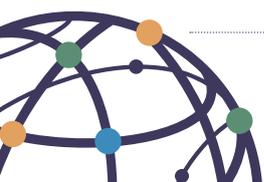


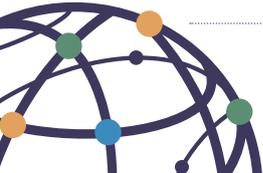
Figure 1: Black-market rate of the Libyan dinar to the US dollar, August 2016 to December 2018



Note: The graph indicates the price on the 24th of each month, or the next (or previous) working day.

This corrupt scheme was a large source of revenue for currency brokers and their accomplices, including leaders of LNA-affiliated armed groups. The transfer of large quantities of hard currency abroad is a violation of Libyan law, which bans the practice outside conventional banking channels agreed by the CBL. Nationwide networks of currency brokers have flourished with the scam, and it has had ramifications overseas, notably in the United Arab Emirates (UAE), Turkey and Tunisia. The same networks were also used to smuggle money out of the country. In a television report broadcast on al-Hadath TV (reportedly owned by Haftar), the governor of the Eastern CBL announced that the bank had recovered €45 million worth of damaged banknotes, which were transferred from the CBL branch in Benghazi to the new headquarters of the Eastern CBL in January 2018 under the protection of LNA navy units.²⁹ The governor added that €25 million worth of the damaged banknotes were sold by the Eastern CBL to local currency brokers at the official exchange rate of LYD1.7 to 1 euro.³⁰ Local sources in Benghazi said that currency brokers who bought the banknotes were linked to a prominent LNA commander. Large quantities of the damaged banknotes were then smuggled abroad where they were exchanged against ‘new’ banknotes for around 80 per cent of their nominal value. The new banknotes were later injected back into the Libyan currency black market where they were exchanged for an average price of LYD5 (US\$3.58) for €1. Similar financial schemes involving smuggling of hard currency have been very common in Libya over recent years, not only constituting a violation of Libyan law, but also draining the country’s reserves of hard currency.³¹

Competition to take control of Libya’s reserves of hard currency continues. Law no. 3 (2018) passed by the HoR provides the Military Committee with privileged access to hard currencies (see Article 26, ‘The Central Bank of Libya has a legal obligation to provide the Military Committee’s bank account with requested amounts of hard currency, in accordance with the law.’)³²



Alongside its predatory strategy of expanding its property acquisitions and gaining access to the country's cash reserves, the LNA has also taken control of a number of illegal export businesses.

Figure 2: Damaged euro banknotes from the CBL safe in Benghazi purchased in Istanbul



The LNA's involvement in semi-legal exports

In December 2017, Haftar asked the Interim Government's Minister of Economy and Industry to issue a series of decisions and laws that would grant the Military Committee exclusive authority over exports of scrap metal and the right to supply fuel to vessels anchored off the Libyan coast. In addition, law no. 3 (2018) granted the Military Committee exemptions on export taxes and administrative fees, to the considerable competitive advantage of companies and entities owned by the LNA.

Exports of scrap metal: A new source of income for the LNA

Successive Libyan governments, including under the former regime, repeatedly banned exports of scrap metal from Libya, which represents a strategic national economic asset used by the country's steel plants to produce iron and steel products at competitive prices. The National Transitional Council banned exports of scrap metal in 2011.³³ This policy decision was later confirmed by the Libyan Transitional Government in 2012 and by the House of Iftaa, the highest religious authority in Libya, in 2017.

The country has large quantities of scrap, which were increased by abandoned military vehicles and material from Gaddafi's army in 2011. A confidential market study of the steel industry in Libya in 2014 reveals that there were between 12 and 21 million tonnes of scrap in Libya. Local steel and iron production plants, notably the state-owned Libya Iron and Steel Corporation (LISCO), buy local scrap at competitive prices discounted from international market rates. In Libya, a tonne of scrap was bought by LISCO at an average price of LYD150 (US\$108), when international market prices were between US\$230 and US\$290. However, over recent years, prices of local scrap in Libya have been driven up by illegal exports. The business is very lucrative, and has benefited armed groups that were in



charge of port facilities. On 10 May 2017, in a letter addressed to the House of Iftaa, the Chairman of LISCO said that increasing exports of scrap metal in large quantities and at low prices were presenting 'a serious threat' to the national economy.

Authorities in Tripoli and Misrata have therefore tried to enforce the ban on exports of scrap since late 2016. In November 2016, the Municipal Council of Misrata instructed port authorities to enforce the ban,³⁴ while the GNA's Ministry of Interior called to cease exports of scrap metal from Libya.³⁵ However, measures taken to reinstate the ban after the scrap exports boom in 2014 had limited success. It is estimated that Turkey is currently the world's major importer of aluminium scrap, and that Libya is now the major exporter.³⁶

As the ban on scrap exports was partially enforced in western Libya in late 2016, scrap collectors and dealers, who were more interested in selling their goods on foreign markets in hard currency, started sending shipments to eastern Libya. Scrap shipments were first sent to al-Breiga port in Tobruk, and later to Benghazi after the re-opening of its port in December 2017. Exports of scrap sold for hard currency were seen as an opportunity to generate more revenue for groups in charge of the eastern ports, which became the main gateway for Libyan metal scrap.

On 18 December 2017, the Interim Government exempted the Military Committee from the export ban imposed in 2012 by the Libyan Transitional Government. Besides the fact that the Interim Government lacks international and local legitimacy, this decision demonstrates how the LNA leveraged its military hegemony to its economic advantage. The decision by the minister to exempt the Military Committee was made after a request signed by Haftar to the Interim Government.

With this, the Military Committee, as well as armed groups affiliated with the LNA, started taking control of the scrap export supply chain. First, the committee received between US\$50 and US\$70 for every exported tonne of scrap, sold at an average price of US\$150 (which is significantly below international market prices). Secondly, armed groups affiliated with the LNA started taking over public infrastructure and private properties, dismantling them for scrap metal to sell to wholesalers. Collection of scrap metal has taken a more official form more recently. Figure 5 shows a truck used by scrap collectors with a tag that reads 'General Command – Military Investment Committee – In application of the General Commander to collect scrap in the city of Benghazi'. Sources also indicated that LNA appropriated facilities, such as warehouses around oil fields. Truck convoys headed from oilfields transporting scrap metal to Benghazi and Tobruk were reported on several occasions.

Sources indicated that several senior commanders of the LNA shared the profits generated by this business, triggering tensions between them. When the port of Benghazi reopened in late 2017, the LNA General Command ordered the closure of the port of Tobruk in December 2017 over allegations of illicit trade practices, just as the Military Committee took control over scrap exports from eastern Libya. (The port of Tobruk was later reopened following negotiations between the LNA, local authorities and powerful clans in Tobruk.)

At around the same time, in late 2017, the Military Committee imposed a monopoly over supply of fuel to vessels anchored in the country's eastern ports, arousing suspicions that refined petroleum products were being illegally exported from eastern Libya by the LNA.

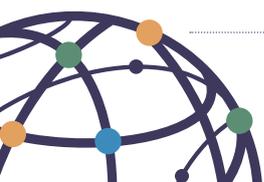


Figure 3: Letter from the Military Committee authorizing port authorities in Tobruk to load 5 000 tonnes of scrap on board the vessel *al-Nur*, signed by al-Madani al-Fakhri on 12 June 2018



Figure 4: A laissez passer issued by the head of the Trade Administration of the Military Committee on 13 September 2018 authorizing 50 trucks to transport scrap metal from al-Nafura Oilfield to Tobruk (Source: confidential)





Figure 5: Truck used by LNA scrap collectors in Benghazi

Smuggling of refined petroleum products

In 2010, before the Libyan revolution, the country exported 1.65 million barrels of crude oil per day and 594 billion cubic feet of natural gas, which, combined, accounted for 96 per cent of the government's budget and 65 per cent of its GDP.³⁷ Following the revolution, the country experienced a sharp decrease in oil exports, which slumped to 0.4 million barrels per day in 2016, while yearly oil revenues declined from US\$40 billion to US\$4.6 billion between 2013 and 2016. Libya has very limited refining capacity, and imports 90 per cent of its refined petroleum products for domestic consumption, a rate that has continued at a steady level since 2011.

The Libyan Audit Bureau estimates that smuggling of refined petroleum products cost the Libyan state around US\$20 billion between 2014 and 2017.³⁸ Refined products are distributed by four distribution companies, which barely pay for products they purchase and distribute.

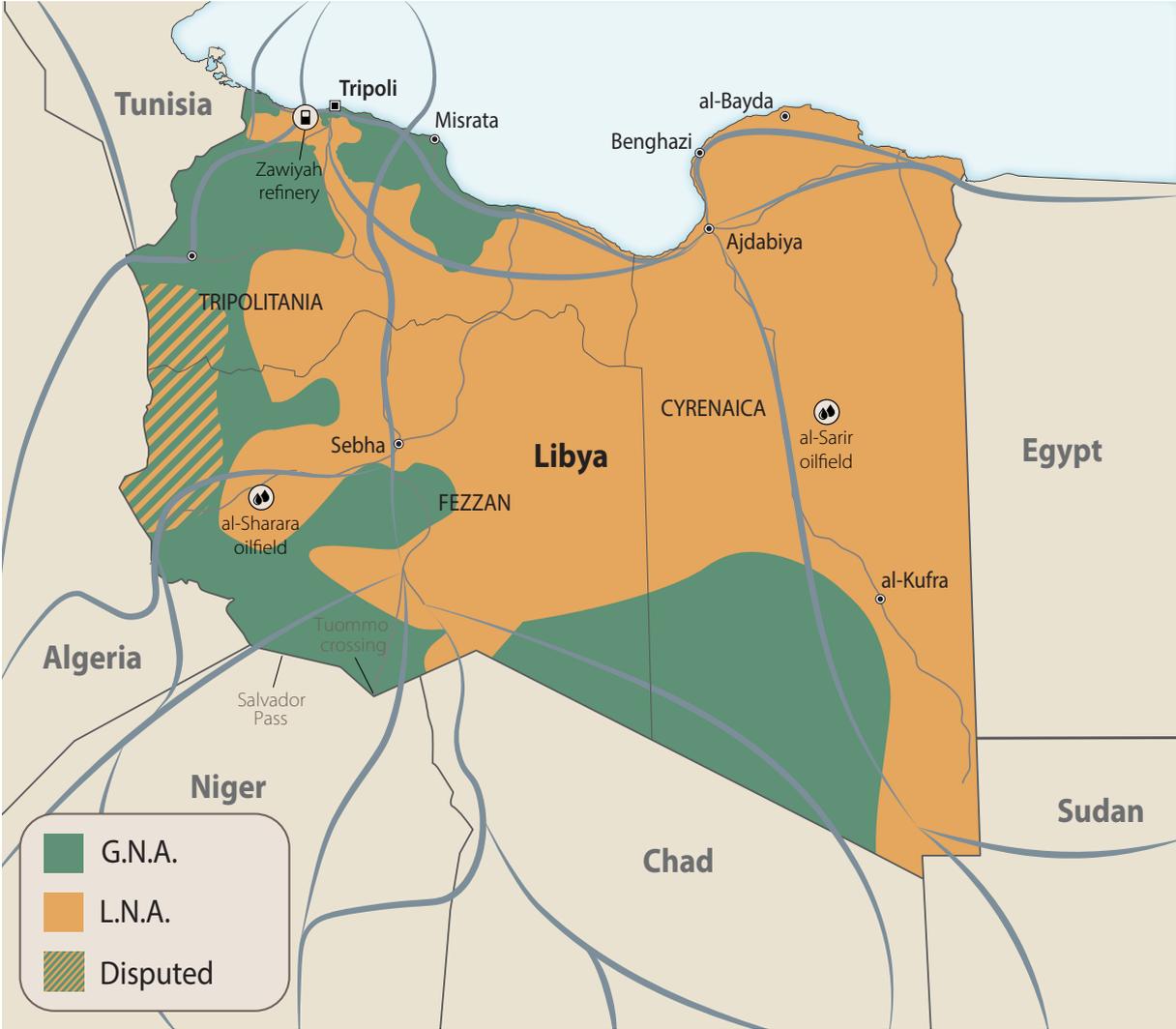
To limit exports of refined petroleum products, the Transitional Government regulated exports of strategic goods, giving exclusive rights to export refined petroleum products to the National Oil Corporation. In the absence of an effective control over exports by state authorities and the exponential rise of smuggled quantities of fuel and diesel, the UN Security Council in June 2017 passed Resolution 2362, which made those (including institutions not acting under the authority of the GNA) who illicitly export petroleum from Libya, including crude oil and refined petroleum products, subject to international sanctions.³⁹ A few months later, in August 2017, a GNA-affiliated armed group officially arrested one of the most active smugglers of refined petroleum products in western Libya, Fahmi Slim Bin Khalifa.⁴⁰ His detention, the subsequent arrests of some of the smuggling agents and rounds of fighting that took place in the city of Sabratha along the smuggling route from Zawiya to Zuwara contributed to a significant decrease in smuggled quantities during the first months of 2018.

Smuggling of refined petroleum products by the LNA in eastern Libya by sea

On 28 September 2017, as the fighting was at its peak in Sabratha,⁴¹ Libya's maritime agencies were informed that the supply of fuel and other oil derivatives to vessels was the 'exclusive prerogative' of the Military Committee. The committee motivated its decision to take control of the trade by a will to (supposedly) 'preserve national security and interest', it said. While some hailed the decision as a positive move towards preventing smuggling of refined petroleum



Map 2: The al-Sharara and al-Sarir oil facilities are controlled by the LNA



products in the east, others criticized it as merely a cover for smuggling operations. As it turns out, the record of supplies, registered by the National Oil Corporation, to vessels in Benghazi and Tobruk during the period following the committee’s decision indicated a number of anomalies. They showed that quantities supplied were higher than vessels’ consumption needs for navigation. Quantities are artificially boosted to be smuggled, notably to Malta.

In 2018 sources working in Libya’s oil sector identified a suspicious pattern among vessels involved in the smuggling of refined petroleum products. Vessels usually call in the ports of Benghazi or Tobruk, or coast the Libyan eastern shores every three weeks to a month, before sailing to destination ports in Egypt, Malta and Cyprus. The same sources indicated that close connections between the Maltese and Libyan networks allowed a smooth shift of some of the smuggling activities from Zuwara to the east of the country. The arrest of Fahmi Slim, the uncertain security situation along the coastal road between Tripoli and the Tunisian border, and recent international sanctions against Mohammad Koshlaf (the man in charge of the Zawiya refinery) all contributed to a marked decrease in smuggled products in 2018 off the west coast.⁴² It is known that there are connections between smugglers in western Libya and prominent eastern Libyan politicians linked to the LNA. On 23 November 2015, Presidency Council member Ali al-Gatrani, in his capacity as the Chairman of the International Investments and Trade Committee of the Libyan House of Representatives, wrote a letter to the Maltese authorities attesting that the company owned by Fahmi



Slim was legitimate, adding that its activities would help ‘develop Libya’s economy’.⁴³ Al-Gatrani issued another communiqué a few months later claiming that he was not aware of Slim’s smuggling activities.⁴⁴ This seems unlikely, considering that many Libyans were already aware of Fahmi Slim’s notorious role in the smuggling business, even prior to the revolution. On 23 October 2015, Fahmi Slim’s activities were also revealed by the *Asia Times* and relayed in Libyan media outlets: ‘The smuggling kingpin is Fahmi Slim Mousa Ben Khalifa, aka Fahmi Slim. Slim, a Zwara native said to be about 45, served a few years of a 15-year sentence for drug smuggling in [the] Gaddafi days before the revolution opened the prisons.’⁴⁵ This episode illustrates that links between persons affiliated with the LNA and smuggling networks of refined petroleum products have existed since 2015. As a matter of fact, al-Gatrani was the major financial sponsor of the LNA in 2014 at the start of Operation Karama.

In parallel to the development of smuggling of refined petroleum products by sea, armed groups affiliated with the LNA continued to benefit from smuggling of fuel and diesel by land, across Libya’s southern borders. The country’s main fuel depots are controlled by armed groups affiliated with the LNA.

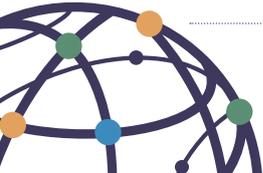
Smuggling of refined petroleum products in eastern Libya by land

Smuggling of refined petroleum products by land was prevalent during the previous regime, mostly conducted by groups considered to be loyal to Gaddafi and who benefited from the security services’ complicity. Similar smuggling patterns continue today across Libya’s land borders with Egypt, Sudan, Chad, Niger and Tunisia.

In eastern Libya, oil facilities, including depots, are under the direct control of the LNA or its affiliated armed groups. In exchange for their loyalty, the LNA turns a blind eye to their petroleum smuggling activities. The case of the al-Sarir oil complex illustrates this transactional relationship between the LNA leadership and local armed groups.



Oil well, Libya
Photo: Shutterstock



The al-Sarir oilfield facilities are under the protection of the Ahmad al-Sharif Brigade commanded by a Tebu military career officer, Ali Shida. Of all Tebu commanders who initially supported Operation Karama, Shida is the only one to have remained loyal to Haftar. Some explain his loyalty to the LNA by his attachment to the military institution and his fear of being outlawed. Others have provided a more rational explanation: 'Ali's brother is directly in charge of the al-Sarir oil facilities and is involved in smuggling of petroleum products. A litre is officially sold at LYD0.2 to 0.3 [the official price fixed by the National Oil Corporation is LYD0.15 per litre]. A barrel is sold for LYD30. In southern localities, such as al-Kufra and Sebha, the black-market price fluctuates between LYD600 and 900 per barrel. It is sold across the Chadian border for around LYD1 200 per barrel. The Ahmad al-Sharif Brigade gets a cut of about 30 per cent of the smugglers' benefits.⁴⁶

The LNA therefore uses its political hegemony and legal prerogatives to maintain Ahmad al-Sharif's role in providing security to the al-Sarir oil facility, giving the brigade access to state payroll and revenues generated through transnational smuggling of refined petroleum products. The concentration of the political, economic and symbolic capital in the hands of the LNA in eastern Libya creates a strongly dependent relationship among local armed groups towards it, and this is apparent in affiliated armed groups' smuggling of petroleum products, a form of sponsorship that effectively buys their loyalty. While the LNA has been reluctant to grant political rights to the Tebu and address their long-standing grievances, providing the local group with a cut of the smuggling business has proved to be enough to obtain their support.

The Ahmad al-Sharif Brigade continues to be involved in the smuggling of petroleum products. However, since 2014, armed groups in southern Libya have been turning away from smuggling petroleum as it has become less lucrative and logistically more challenging than human and drugs smuggling. Furthermore, refined petroleum products smuggled to markets in Chad and Niger are not paid for in hard currency. Hence, the development of human smuggling in Libya became an increasingly attractive alternative market for local armed groups. East African networks, which had been active in Cyrenaica since 2012, started paying Libyan smugglers in US dollars, the value of which significantly increased against the Libyan dinar on the black currency market between 2014 and early 2018. Local armed groups quickly seized this opportunity for new sources of revenue, incorporating human smugglers into their ranks and taxing migrant convoys. Patterns of political alliances between local armed groups and the LNA have also contributed to shaping the human-smuggling landscape in south-east Libya.

Promotion of local allies along human-smuggling routes

The role of the LNA was decisive in determining the outcome among various armed groups vying to take control of Libya's human-smuggling routes. The LNA provided military and political support to affiliated armed groups operating along the smuggling routes. By doing so, it fulfilled two objectives. First, it expanded its influence across eastern Libya by consolidating alliances with local armed groups and, by extension, with local constituencies. Secondly, its strategy allowed affiliated armed groups to take control of smuggling routes, finance their activities, and evict their military and business competitors. The dynamics unfolding over the last few years in al-Kufra, a strategic hub of the human-smuggling business in Libya, help shed light on these strategies.

The LNA has been trying to increase its influence in al-Kufra's military and economic affairs. Furthermore, several reports indicate that LNA units close to the army's leaders are now involved in drug smuggling in the region of al-Kufra, in close collaboration with Zway-dominated armed group Subul al-Salam.⁴⁷

Al-Kufra is an urban agglomeration in the Libyan Desert, an oasis town some 800 kilometres south of Benghazi and around 370 kilometres from the Sudanese and Chadian borders. It has a population of about 60 000, 40 000 of whom are ethnic Zway, and 10 000 Tebu; the rest are foreigners, mostly from Chad and Sudan.



Consolidating alliances with local constituencies in south-eastern Libya

Following the strategy of the former regime, the LNA developed alliances with local constituencies by using its political and military clout. The LNA manipulated local tensions to its advantage by investing certain groups with a legal mandate, providing them with political and military support, and tacitly agreeing to their involvement in smuggling activities. Unlike in Benghazi, however, where a certain level of centralization of the LNA chain of command can be seen, the LNA in southern Libya remains an aggregate of local armed groups sharing circumstantial political affiliations and linked to one another through cultural and economic interests.

“The LNA in southern Libya remains an aggregate of local armed groups sharing circumstantial political affiliations and linked to one another through cultural and economic interests.”

The LNA leadership provided support to both parties to the 2015 ethnic-based conflict between the Tebu and the Zway in al-Kufra, finally imposing itself as peace broker. Following two months of inter-ethnic fighting in al-Kufra in summer 2015, the LNA sponsored a ceasefire agreement on 11 October 2015, which would shape the political-military landscape and smuggling routes in the region. The agreement resulted in asserting the military supremacy of a newly created Zway-dominated armed group affiliated with the LNA. Before the outbreak of violence in al-Kufra, Tebu armed groups, which had been fighting alongside the LNA in Benghazi, benefited from the LNA's support. Their role in the battle of Benghazi during that period was praised by pro-LNA media.

Sudanese mercenaries from the Sudan Liberation Army/Minni Minawi (SLA/MM), fighting alongside the Tebu during the conflict had entered Libya in early 2015 under the banner of the LNA (and continue to fight for the LNA today). During the conflict in al-Kufra, Tebu fighters supported by SLA/MM fighters succeeded in temporarily breaking the siege imposed by Zway groups against the Tebu neighbourhoods of al-Kufra since 2012. The Tebu–SLA/MM military alliance was on the verge of entering al-Kufra when the LNA air force bombed their military convoy on 20 September 2015, putting a sudden end to its alliance with the Tebu and to their historical dream of becoming again a dominant actor in southern Libya. In the words of a prominent Tebu politician from al-Kufra:

The LNA manipulated the Zway and the Tebu. It, first, made us believe that we're strong enough to change the balance of power in al-Kufra in our favour and to address historical prejudices. Second, it used us to pressure the Zway to cut off their ties with Tripoli authorities and Islamist factions opposed to the LNA, and to join the camp led by Khalifa Haftar. One has to admit that the LNA leadership has proved to be very persuasive and its strategy successful.⁴⁸

From October 2015, the LNA shifted its support to Subul al-Salam. The consequences of the conflict were catastrophic to the Tebu, and most of their leaders fled al-Kufra to the Fezzan or overseas.⁴⁹

In southern Libya, a zero-sum-game logic determines the nature of relations between northern actors and their southern proxies. In the absence of a national vision that would bring together the country's different components, the LNA's expansion strategy relies on supporting one group against another and exploiting local divisions. Also, the decision to support the Zway as opposed to the Tebu is motivated by political, cultural and economic reasons.



First, the Zway are significantly more numerous and have strong connections to decision-making circles in Benghazi, Tripoli (and Khartoum). Secondly, Haftar has tribal links with the Zway, as his mother is from the ethnic group. Thirdly, the demographic and military presence of the Zway extends from the Sudanese border to Ajdabiya via Tazerbu and al-Kufra, and hence gaining their support was strategic for the LNA's objective to control this vital route, which is one of Libya's main itineraries for all categories of travellers and goods – and, most importantly, for migrants since 2014.

Subul al-Salam was established in October 2015 as an interposition force between the two ethnic communities and was put in charge of the al-Sad checkpoint, which regulates access to and from al-Kufra, along the road leading north to Ajdabiya.⁵⁰ This strategic role would become instrumental in asserting the group's control over smuggling routes. From that point on, Subul al-Salam has managed to build up its military capacity and impose its dominance over the region of al-Kufra. On its Facebook page, Subul al-Salam published pictures of technical and military materiel delivered by the LNA. Its leader, a Salafi sheik, Abd al-Rahman Hashem, is reported to have visited Haftar in al-Rejma several times.⁵¹

Empowered by the LNA's political and military support, the group has brought under its banner most Zway fighters in the al-Kufra district, including those who were initially opposed to Haftar. The brigade also counts among its members some of the most prominent human smugglers in al-Kufra, who benefited from their positions to increase their activities and progressively evict their competitors. They have repeatedly denied their involvement in the smuggling business, using an anti-smuggling rhetoric to build up their local and national legitimacy. However, sources close to the group claim that several members of Subul al-Salam are directly involved in the smuggling business and transport of migrants. Moreover, migrant convoys travel along the road and pass by checkpoints controlled by the group.

Human-smuggling routes and actors in south-eastern Libya

From 2014 to late 2016, there were two main smuggling routes across eastern Libya that were used by smugglers to transport migrants from the Sudanese borders to Libya's northern towns. The routes fell under the control of competing Zway and Tebu groups.

The first route, which is still in operation today and is controlled by the Zway and their allies among Sudanese rebel groups, starts in the area of Jabal al-Oweinate, and from there runs to al-Kufra or Tazebu, before splitting into two directions, one heading north to Ajdabiya, and another west to Zella, where elements belonging to the SLA/MM are deployed. The segment of the route via Zella was developed in 2016 to deal with the sudden collapse of Ajdabiya as a logistics hub following the kidnapping and murder of East African migrants by ISIS in Sirte in 2015 as they were headed for Tripoli.⁵² Groups travelling along this route share the same tribal affiliation and are politically aligned with the LNA, driving down competition between the different groups. This route is known to be safe and is mostly used to convey migrants from the Horn of Africa, notably Eritrea and Somalia, who are known for paying for their journey upfront and in hard currency. Whereas some Sudanese, Egyptians and Chadians are dropped off by Libya's Directorate to Combat Illegal Migration (DCIM) in border zones with their home countries in unsecure conditions, Eritreans and Somalis tend to continue their journey north. A local source from the DCIM indicated that Somali and Eritrean migrants are sent to northern detention centres by road in civilian cars, with no military protection: 'Normal citizens, out of kindness, would drive migrants north. The Directorate does not have the required means to transport migrants.'⁵³ Regardless of the accuracy of this statement, it does at least show how safe the road from al-Kufra to the north has become, in a region where attacks on migrant convoys have been frequent. Improvements in security conditions have benefited the smuggling business in general. According to local sources in al-Kufra, the closure of the central Mediterranean route as a result of joint European and Libyan efforts has not disrupted the flows of migrants, which continue as before. Similar statements were also made by interviewees in the Fezzan. However, the accuracy of such statements remains difficult to assess.



At this stage, it is hard to determine the impact of deterrent measures taken to shut down the central Mediterranean route on flows of migrants into the south-east of Libya. What is clear, however, is that the increasingly firm control imposed by the LNA over the eastern Libyan region has not restricted the smuggling business. In fact, the political and military stability exerted by the LNA in eastern Libya seems to have benefited LNA-affiliated armed groups involved in the human-smuggling business in and around al-Kufra.

The second route, which was under the control of the Tebu, has to a large extent been abandoned, according to several sources in the Tebu smuggling milieu. Tebu smugglers used to take control of migrants entering Libya in the region bordering Chad and Sudan before transporting them across the Libyan Desert to Rebiāna. From there, migrants were transported to Sebha via Kelenji, waw al-Namus and Um al-Araneb. Several factors contributed to the abandonment of this southern route – the deterioration of the Tebu’s military situation in the south-east following their defeat in al-Kufra in 2015, the collapse of their alliance with Sudanese mercenaries and the transfer of most of their troops to the Fezzan weakened their capacity to provide adequate security to migrant convoys, exposing them to repeated attacks by criminal groups.

In parallel, criminal groups, notably from the Mourdia clan in Chad, have been increasingly active since 2015, regularly attacking convoys of migrants. A Tebu smuggler who had worked along this route said: ‘By the end of 2016, we avoided transporting Eritreans and Somalis who pay in US dollars, because they were much more attractive as targets for criminal groups.’⁵⁴ The same smuggler added that Sudanese agents, whose role had been pivotal in organizing the transfer of migrants along the southern route, also decided to end their collaboration with Tebu groups after repeated attacks. A major Sudanese agent was attacked in Um al-Araneb in late 2016 and moved to Braq al-Shatea to set up a new route, in collaboration with the Zway. Lack of political sponsorship, disorganization and divergent interests among Tebu groups put them in disarray in the south-east of Libya.⁵⁵

After the Tebu abandoned this route, criminal gangs, mainly from the Mourdia clan, started moving north to launch sporadic attacks on migrant convoys, particularly in the area of Tazebu. In September 2018, Subul al-Salam announced the arrest of a major commander from the Mourdia called al-Arabi, who started operating in Zway territory around late 2017 and early 2018.⁵⁶

Undoubtedly, the LNA’s strategy of sponsorship of local armed groups in the south-east is not the only factor shaping migration routes and dynamics. Other factors also play a role, in particular counter-migration policies deployed in neighbouring countries and, more generally, business dynamics. However, the LNA’s strategy has allowed certain local groups to grow stronger, and others to weaken, which has had a direct impact on smuggling actors and routes. The LNA’s support has been decisive in transforming Subul al-Salam into the largest military actor in the south-east of Libya and a major player in the human-smuggling business.

More recently, deploying a strategy similar to that of the former regime’s, the LNA has tried to enforce more direct control over the activities of local armed groups and the local economy.

The LNA’s foothold in al-Kufra today

As LNA units such as Brigade 106 have extended their field of operations into southern Libya, a strategy linked directly to the LNA leadership and the recent nomination of strong military governors, there is a need to address the threat posed by this system of delegating political and economic power to local armed groups.

The LNA’s foothold in al-Kufra grew stronger in early 2018. On 21 March 2018, the general command of the LNA nominated army colonel Belqasem al-Abaaj as the military governor of al-Kufra.⁵⁷ Al-Abaaj is a Zway from al-Kufra who, during the former regime, was in charge of the local branch of Libya’s Military Intelligence for two decades. Al-Abaaj is familiar with local tribal politics and management of smuggling networks. He also coordinated relations with the Justice and Equality Movement, a Sudanese opposition group that fought alongside Gaddafi during the



2011 revolution and hosted Sudanese fighters in farms and warehouses near al-Kufra,⁵⁸ a valuable experience in the light of mounting tensions between Subul al-Salam and Sudanese mercenaries in Libya. Recently, the Military Committee mandated Abaaj to run the newly created Apparatus in Charge of the Development of the al-Kufra and al-Wahat⁵⁹ – the regions that, combined, contain Libya’s major oilfields.

Unlike former military governors, al-Abaaj attempted to impose greater control over armed groups, including Subul al-Salam, but with limited success. Al-Abaaj is a military career officer instinctively distrustful of armed groups and who incarnates the LNA’s strategy of centralization observed in Benghazi and in the east more generally.⁶⁰ However, local sources doubted the governor’s intention to stop human smuggling and described recent announcements as mere rhetoric. In the absence of sanctions against smugglers who continue to operate as members of armed groups in al-Kufra, measures recently taken by the military governor to counter smuggling activities do not seem to have had any impact on smuggling in al-Kufra.

“The participation of identified human smugglers in military operations alongside warring parties in Tripoli casts doubts on the intentions of the LNA leadership to combat human smuggling in Libya.”

More recently, the participation of identified human smugglers in military operations alongside warring parties in Tripoli casts doubts on the intentions of the LNA leadership to combat human smuggling in Libya. In reality, the transactional relationship between the LNA leaders and sponsored armed groups playing a role in the human-smuggling economy seems to provide them with immunity. Identified smugglers, one of whom is under an arrest warrant for his role in the killing of migrants in Bani Walid on 24 May 2018, is another indicator of the little importance shown by the LNA leadership to the involvement of affiliated armed groups in smuggling activities. Besides the direct participation of smugglers in the fighting alongside warring parties, sources in Tripoli indicated that recent military developments in the Libyan capital have undermined recent efforts to contain flows of migrants from Libya across the Mediterranean to Europe.

Conclusion

Over the last two years, the LNA has taken possession of public and private assets, and imposed a monopoly over key lucrative export businesses in eastern Libya. The LNA’s tax exemptions and financial advantages, guaranteed by law no. 3 (2018), coupled with its political and military superiority, are enough to see off any economic competition. The influence the LNA has gained over political and financial institutions to promote its economic interests is in many ways similar to the behaviour of armed groups in Tripoli. Henceforth, the prospect of a takeover of Tripoli by the LNA raises the question concerning its future approach towards the country’s financial institutions, notably the Central Bank of Libya, the National Oil Corporation and the Libya Investment Authority.

The existence of a legal economic sector, already weakened by several years of instability and the criminal behaviour of armed groups, is further threatened today by the promotion of new economic actors involved in illicit economic activities and capable of generating high revenues. Moreover, the control of Libya’s key infrastructure, such as ports and airports, by armed groups and the absence of effective control mechanisms pose reputational risks for the country and will deter international partners from trading or investing in Libya, further undermining the country’s



weakened economy. This situation is aggravated by the fact that the law grants the LNA general commander the authority to decide which investors can operate in Libya.⁶¹ Local businessmen have expressed their fears of being excluded from reconstruction bids, and indicated that certain international and regional sponsor states were promised by the LNA leadership a number of oil concessions and infrastructure contracts for the reconstruction of Benghazi in return for their support of the LNA over previous years.

In the absence of a political agreement, nationwide competition between armed actors to illegally capture state resources is encouraging predatory patterns. Access by Tripoli-based armed groups to state funds and their alleged influence over Libya's financial institutions – all based in Tripoli – 'justify' competing actors' rhetoric to fight for their share, it is argued. However, the LNA has become today the major political-military actor in Libya in terms of the size of the geographical territory under its control, and its role in shaping Libya's political institutions will most likely be decisive. As such, the LNA general command carries a substantial responsibility in putting an end to the predatory behaviour of affiliated commanders and groups, and control mechanisms should be placed over its economic activities, which seems unlikely to happen given the composition of the forces attacking Tripoli.

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Noria is an independent network of political analysts and researchers. Noria brings together specialists around shared methods and objectives, producing and disseminating fieldwork-based research and political analysis. Noria also provides political analysis for decision-makers, and fosters public dialogue and reflection on key international issues.



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