ASSESSING KEY POLITICAL RISK INDICATORS FOR AUTHORITARIAN STATES:

THE CASE OF LIBYA AND THE PETROLEUM INDUSTRY

BY
ROGER A BJELLAND

Thesis presented in partial fulfilment of the requirements for the degree of Master of Arts in International Studies in the Faculty of Arts and Social Sciences at the Stellenbosch University

Supervisor: Ms Derica Lambrechts
Faculty of Arts and Social Sciences
Department of Political Science

March 2012

DECLARATION

By submitting this thesis/dissertation electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

March 2012

ABSTRACT

For multinational oil corporations (MNOCs), increasing worldwide demand for energy combined with greater competition in the international petroleum market necessitate continuous search for new areas rich in hydrocarbons – and the greatest oil reserves have in many instances been located in authoritarian states with challenging investment environments that often imply great uncertainty with regard to return of investment (ROI). In such cases, proper political risk analysis is an invaluable decision-making tool in determining whether the risk of a negative ROI is too large to make an investment. The Libyan market appeared highly promising for MNOCs from the mid-2000s, and oil companies decided to return to Libya despite a large degree of uncertainty around regulatory, contractual and political stability issues. Once the Arab uprising surfaced in 2011, eventually turning into a brutal civil war between the Quadhafi regime and the opposition to his rule, the levels of political risk in the Libyan market increased dramatically.

A model of political risk analysis can only be as good its components, and the start of 2011 once again manifested the importance of proper political risk analyses in order to minimise potential losses resulting from unexpected events. Thus, in the context of the Arab Spring revolution, the main purpose of this research is to assess the forecasting ability of key political risk factors and indicators. The central question asked is whether political risk analysis as a discipline can be successfully applied as a tool to forecast a political situation within authoritarian states. Specifically, and by analysing the case of Libya, the aim of this study is to determine whether the political events of 2011 and the concurrent extremely high levels of political risk could have been anticipated by competent political risk analysis. This study builds on the 1999 work of Professor Albert Venter and his vindication of key political risk indicators for authoritarian states. Additionally, the study seeks to contribute to existing research by adapting the indicators to an industry-specific political risk context, namely the petroleum sector. The research study concludes that a forecast for Libya, conducted with information available in 2009, would have given the market a medium high level of political risk, with several points of great concern for MNOCs. The research study argues that competent political risk analysis, as far as it is possible to predict such an event as the Libyan uprising, identified several signs of an imminent revolution. The analysis could not forecast *when*, or even *if* it would happen, but the fact that several indicators pointed in the direction of increasing levels of political risk signifies that it could have been too early for MNOCs to return to the country in the mid-2000s.

OPSOMMING

Die toenemende wêreldwye energiebehoeftes gepaardgaande met groter mededinging in brandstofmarkte, dwing die Multi-nasionale Olie Korporasies (MNOKs) om deurlopend te soek na nuwe gebiede ryk aan vloeibare koolstowwe (hydrocarbons) en die grootste olie reserwes word in baie gevalle aangetref in state met outoritêre regerings vorme waar die beleggings omgewing van so 'n aard is dat 'n kapitaal-opbrengs (KO) baie keer erg onseker is. In sulke gevalle is dit noodsaaklik dat daar 'n behoorlike analiese van politieke risiko moet wees sodat bepaal kan word of die kans van 'n negatiewe KO te groot is om so 'n belegging te maak. In die beginjare van die 2000s het die Libiese market veel belofte vir die MNOKs ingehou en het hulle besluit om na Libië terug te keer ten spyte van die feit dat daar groot onsekerhede bestaan het ten opsigte van reguleering, kontrakte en politieke stabiliteit. Die vlakke van politieke risiko het in 2011 dramaties verhoog met die Arabiese opstande, wat uiteindelik in 'n burgeroorlog tussen die Quadhafi regime en sy teenstanders, ontaard het.

'n Model van politieke risiko analise is natuurlik net so goed soos sy verskillende dele en aan die begin van 2011 het dit weereens aan die lig gekom dat behoorlike politieke risiko analise baie belangrik is om te verseker dat onverwagte gebeure die kleins moontlike invloed op winste sal hê. Dus, met die 'Arabiese Lente revolusie' as agtergrond, is die hoofdoel van hierdie navorsing om te bepaal tot watter mate belangrike politieke risiko faktore en indikators gebruik kan word om voorspellings te waag. Die vraag word gevra of politieke risiko analise, as disipline, suksesvol toegepas kan word om die politieke toestande in outoritêre state, te voorspel. Deur spesifiek die geval Libië te analiseer, is die doel van hierdie studie om te bepaal of die politieke gebeure van 2011 en die ernstige verhoogde vlakke van politieke risiko redelikerwys voorspel sou kan wees as daar bevoegde politieke risiko analise vooraf was. Hierdie studie gebruik as basis die 1999 werk van Prof. Albert Venter waarin hy regverdiging toon van die politieke risiko indikators vir outoritêre state. Daarby beoog die studie om by te dra tot bestaande navorsing deur die indikators aan te pas vir toepassing in 'n ondernemings-spesifieke politieke risiko konteks, naamlik die brandstof sektor. Die navorsing maak die gevolgtrekking wat Libië betref, met die inligting wat in 2009 beskikbaar was, dat 'n voorspelling van ñ medium hoog vlak van politieke risiko vir die market gemaak kon wees met sekere punte van groot kommer vir die MNOKs. Die navorsingstudie maak die punt dat bevoegde politieke risiko analise, sover dit moontlik is om 'n onverwagte gebeurtenis soos die Libiese opstande te voorspel, verskeie tekens van 'n dreigende revolusie geïdentifiseer het. Die analise kon nie voorspel *wanneer* of selfs *indien* dit sou gebeur nie, maar die feit dat verskeie indikators getoon het dat daar verhoogde vlakke van politieke risiko was, het dit aangedui het dat die middle 2000s te vroeg was vir die MNOKs om na die land terug te keer.

ACKNOWLEDGEMENTS

Firstly, I am very thankful for all the valuable insight and advice provided by my supervisor, Derica Lambrechts. Her feedback and comments throughout this whole process are greatly appreciated, and this thesis would not have been of the same quality without her excellent work.

Secondly, I would like to thank my editor, Jane Housdon, for her amazing job with the finishing touches to this thesis. It really makes a difference to the end result.

Moreover, I would like to thank my fellow students and friends in Norway and South Africa, for all the good times and valuable discussions. These last years have been truly amazing and something I will never forget. Special thanks go to Niel for helping with the Afrikaans opsomming.

Importantly, I wish to thank my parents, Ellen and Øystein, for their constant and invaluable support throughout my life, and throughout this study. This would not have been possible without you.

Further, I am eternally grateful for the support of my parents-in-law, Tore and Eva. Your support and facilitation throughout this process has truly amazed me.

Last, but not least, I am very fortunate to have the best girlfriend a guy can possibly have, Siri, whose love and support got me to South Africa in the first place, as well as throughout the process of finishing this thesis. We're in this together, and we made it together!

TABLE OF CONTENTS

LIST OF FIGURES, TABLES AND MAPS

List of Acronyms and Abbreviations

AMU	Arab Maghreb Union
ASU	Arab Socialist Union
AU	African Union
BBC	British Broadcasting Corporation
b/pd	Barrels per day
BERI	Business Environment Risk Intelligence
BP	British Petroleum
CIA	Central Intelligence Agency
CNN	Cable News Network
DRC	Democratic Republic of Congo
EIA	Energy Information Administration
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
IMF	International Monetary Fund
IOM	International Organization for Migration
MEED	Middle East Economic Digest
MNOC	Multinational Oil Corporation
NOC	National Oil Corporation
NTC	National Transitional Council
OPEC	Organization of the Petroleum Exporting Countries
PRS	Political Risk Services
RCC	Revolutionary Command Council
RCM	Revolutionary Committees Movement
ROI	Return of Investment
SEPM	Society for Sedimentary Geology
UK	United Kingdom
UN	United Nations
UNHCR	United Nations Human Rights Council
UNSCR	United Nations Security Council Resolutions

US	United States of America
USD	United States Dollars
WMD	Weapon of Mass Destruction

Chapter I: Introduction to the Research Study

1.1 Background to Study

Similarities between the wave of cries for democracy and consequent uprisings in North Africa and large parts of the Arab world in the first quarter of 2011, can be drawn with the European 'Year of the Revolution' in 1848. In the European uprising, a liberal and democratic revolt spread like wildfire throughout the continent, sweeping away conservative and oppressive government rules. In 2011, in what has been called the 'Arab people's revolution'[1] (Shaikh, 2011), only a few weeks separated the ousting of President Ben-Ali in Tunisia and President Mubarak in Egypt , as well as the civil war in Libya, while similar events and outcomes were seen in, for example, Algeria, Yemen, Oman, Syria, Bahrain, and the United Arab Emirates. Rhami Khouri (2011) called this the birth of Arab politics, as he believes that politics in this region will never be entirely the same.

The changing political environment in the North African region inevitably leads to challenging times for the governments and populations of these countries. Moreover, it is challenging for the multinational corporations who have great interests in the natural resources these areas possess. By far the main exports of the North African region are oil and gas, and Libya sits on the largest oil reserves on the African continent[2]. Owing to several other factors, such as the lifting of sanctions by the United Nations (UN) and the United States (US) in 2003 and 2004 respectively, the Libyan market has in the last decade been highly attractive for investment by multinational oil corporations (MNOCs). Additionally, and largely due to Muammar al-Quadhafi's protectionist politics over previous decades, the natural resource potential in Libya remains highly underexplored (EIA 2011).

In such situations, that is, when a corporation is considering entering and investing heavily in a developing country market, political risk analysis and management are imperative instruments. One of the main objectives of any political risk analysis is to forecast events that could potentially be negative for the return of an investment (ROI) (Howell and Chaddick, 1994:5). Particularly in the

[1] In this thesis, when speaking about the 'Arab revolution' this refers to the demonstrations and turmoil that started in Tunisia in December 2010, and which spread to several other countries in the Middle East and the North African region over the course of the next months.

[2] By early 2011 Libya held about 46.4 billion barrels of oil reserves, which is the largest in Africa. Additionally, Libya has close to 55 trillion cubic feet of natural gas reserves. In 2010, total oil production was almost 1.8 million barrels per day (EIA 2011:1).

period 2004 to 2007, MNOCs[3] that had not been present in Libya for decades due to the UN and US sanctions started re-entering and investing heavily in hydrocarbon exploration and production in the Libyan market, despite a large degree of uncertainty around regulatory, contractual and political stability issues (EIA, 2011; Widdershoven and Payne, 2007:19). It is highly likely that due to this uncertainty these MNOCs had risk management and mitigation procedures in place, in order to minimize the negative impact of potential political events. Yet, it is probable that although such procedures were in place, MNOCs present in the Libyan market did in fact experience a severe degree of negative ROI. This argument can be justified by the fact that, after the outbreak of the revolts in Libya in March 2011, the MNOCs had to close their offices, stop all production and pull out their employees (see, for example, Faucon, 2011). Thus, in the context of the Arab revolution of 2011, the main purpose of this research is to assess the forecasting abilities of key political risk factors and indicators[4]. Specifically, and by analysing the case of Libya, the aim of this study is to determine whether the political events of 2011 and the concurrent extremely high levels of political risk could have been reasonably anticipated by competent political risk analysis. This study builds on the 1999 work of Professor Albert Venter and his vindication of key political risk indicators for authoritarian states. By duplicating Venter's methodology in a simulated forecast a researcher/analyst would conduct in 2009, for the period July 2009 to July 2011, it aims to conduct an analysis of major political risk factors for authoritarian states in the context of the Arab revolutions. Additionally, the study seeks to contribute to existing research by adapting the indicators to an industry-specific[5] political risk context, namely the petroleum sector.

---

[3] Examples of such MNOCs are British Petroleum (BP) (*British Petroleum*, 2007), Royal Dutch Shell (Widdershoven and Payne, 2007; *Oil Field Services*, 2004), the Oasis Group, which consists of ConocoPhillips, Marathon Oil and Amerada Hess (ConocoPhillips, 2005; *Houston Business Journal*, 2005), and Statoil (*Statoil*, 2006). It must be noted that some MNOCs remained in Libya during the course of the last decades despite US and UN sanctions, such as Italy's Eni, France's Total Oil, and Spain's Repsol (Walt, 2005).

[4] In this study, *risk factor* is used as an overarching concept which could consist of several subordinate *risk indicators.* The combination of these two are referred to as a *risk variable*.

[5] Industry-specific political risks are risks occurring on a micro-level, that is, risk which is specific to, for example, the oil and gas sector. The opposite of this is macro political risks which are '[…]directed at all foreign enterprises' (Robock, 1971:9) and thus affect '[…] all foreign firms in a country without regard to organizational characteristics' (Kobrin, 1981:253). Industry-specific political risk will be further conceptualised in Chapter 2.

1.2 Problem Statement

Although that event was so sudden and unexpected as to seem premature, the explosive forces which resulted in it had long been accumulating.

William S. Chase, 1850:vi

The above quote concerning the French Revolution in 1848 is equally well suited to the Arab revolution of 2011. Although signs of frustration and underlying tension within these states' populations was evident for many years, most of the countries that experienced revolts seemed relatively stable on the surface right up until the sudden explosion of revolutionary forces in the beginning months of 2011 (Lynch et al., 2011:1-2). Furthermore, even after the demonstrations and turmoil started in Tunisia and while in the early phase in Egypt, many experts (Walt, 2011) stated confidently that it was not likely that the revolts would spread further. One can only assume that MNOCs present in the Libyan market also experienced the outbreak of the revolutionary events as sudden, although it is highly likely that they had conducted thorough forecasts and political risk analyses as part of their risk management strategies before they decided to invest in and enter the country.

In order to understand risk it is important to acknowledge that politics and business go hand in hand and are never separated from each other (Brink, 2004:4). Thus, if one fails to adequately assess the political environment before an important investment is decided upon, the chance of the investment turning negative greatly increases. Without a proper political risk analysis one is going in to the investment 'blindfolded', thus ignoring the potential pitfalls. Moreover, this research agrees with Frynas and Mellahi's argument that the nature and scope of political risk is dependent on the standpoint of those affected, thus risk should be assessed through an industry-, firm- or project-specific analysis (2003, cited in Alon et al., 2006:626-627).

Within the energy industry, political risk management has become increasingly important in recent decades, partly since the world's oil and gas production is directly related to the geopolitical location of reserves (Berlin et al., 2003:2). Furthermore, the process of globalisation and constantly increasing flows of foreign direct investment (FDI) implies a more integrated world and international marketplace (Alon et al., 2006:623). The MNOCs are responsible for supplying the world's continuously increasing need for energy, and they are thus in constant search of new areas that are rich in hydrocarbons. The MNOCs are also in competition with each other; hence it is imperative for them to capture an early market share in countries with great energy potential. In this regard, Berlin et al. (2003:5) make a valid point when they state that '…there is usually a direct correlation between the degree of political risk that a company is prepared to accept, and the degree of geological potential of the proposed contract area…'. A major challenge for MNOCs is that most of the areas with great potential are so-called 'backyards', that is, controlled by authoritarian states with a challenging political environment, hence they are also 'risky prospects' for investments (Alon et al., 2006:623-624).

Political risk can arise from a great variety of factors, be they of an internal (from within the host country) or external origin, or whether they pose macro (generic) or micro (specific) risks (Brink, 2004:1). MNOCs operating within authoritarian states face a great variety of risks, for example: risk of civil wars in a host state or threats from neighbouring states, terrorism, civil unrest and political instability, corruption, governmental regulations and taxation systems (Alon et al., 2006:631). However, one of the greatest risks faced by MNOCs operating within such states is that of expropriation and nationalisation. Berlin et al., (2003:3) make another valid point when they state that '…an oil company must be able not only to find hydrocarbons, it must also be able to develop and produce those hydrocarbons at a reasonable profit over time'. A change of government rule, whether by a legitimate election or a coup d'état, could involve major changes for a MNOC dependent on the new leadership's economic policies or attitude towards the company. Yet, companies within the energy industry seem to be willing to accept even very high degrees of risk, as long as they think they are able to manage and mitigate the risks once they occur (Alon et al., 2006:632). Hence, it is of the utmost importance to be able to forecast the future political environment in a prospective or current host country, because if certain risks materialise, they could present threats that are too large for the investment to be made (Berlin et al., 2003:4).

Several MNOCs stayed out of the Libyan market for decades due to the international sanctions posed on Libya. Yet, when they decided to re-enter the country in the period from 2004 to 2007, it is likely that they were aware of the fact that the regime at the time violated both human rights and international law on many occasions. Furthermore, it must have been evident that risks such as expropriation, nationalisation, and even civil war, could potentially be realised. Yet, the extreme potential of the unexplored areas, as well as the large number of proven oil reserves, made them decide to accept the risks involved. After the revolutionary events of 2011 and the grave consequences this had for the MNOCs, one could question whether the potential political risk they faced at the time of entry into Libya was, in fact, at an acceptable level.

It is evident that for MNOCs, political risk analysis is growing in importance and it is of paramount importance that the analyses are of adequate quality. The first quarter of 2011 showed that this is particularly true for MNOCs operating within, or planning to operate within authoritarian states where revolutionary forces could surface. According to Brink (2004:9-10), '… a model for the analysis of political risk should attempt to offer decision makers the ability to deal with future situations, to be able to lessen blows and exploit an advantageous future'. She further argues that 'an attempt should be made to design models that are able to cope with futures that might be less likely but that would signify critical problems, threats or opportunities if they materialized'. The Arab revolutions signify a major change in the political environment of the affected states, and it could therefore be useful to conduct an assessment of the forecasting abilities of common political risk analyses. Since a model for political risk analysis can only be as good as its components (Brink, 2004:36), this study aims to assess the components within some of the most widely used political risk analysis frameworks.

1.3 Objectives and Relevance of the Study

This research revisits Venter's (1999) study and applies his methodology in an analysis of key political risk indicators. Thus, the overarching purpose of this study is to gain knowledge on the usefulness of major political risk variables with regard to forecasting future events that could increase political risk for an investor. By assessing the usefulness of the components used in common political risk analyses, this study will make a contribution to improving future forecasts and analyses of potential political risks.

Furthermore, while Venter's vindication was carried out on a more general basis, a key objective of this research is to contribute to existing literature by enabling the analysis to also function as an industry-specific tool. This will be done by adding a few risk variables that are common to industry-specific analyses of the petroleum sector. This is useful as this industry sector is by far the most important in the North African region as well as in large parts of the rest of the Arab world, which have been the areas to have experienced revolutions to the greatest extent in 2011. A final (although more indirect) objective will be to assess the applicability of the indicators on authoritarian states. If this is achieved, it has the potential of improving the ability of a MNOC to anticipate unexpected events, such as the revolutionary events in Libya and the North African region in 2011. Overall, the work of this study will attempt to help improve the forecasting ability of existing frameworks, and thus assist MNOCs in reducing or managing risk when investing in an authoritarian state market.

1.4 Research Question

Based on the research problem discussed earlier, it is evident that a new assessment of the components and variables used in common political risk analyses could be useful. In particular, this research will focus on the forecasting ability of such analyses. This study aims to duplicate Venter's methodology (1999) in a simulated forecast conducted in 2009, for the period July 2009 to July 2011, and conduct an analysis of key political risk variables for authoritarian states in the light of the revolutionary events in North Africa in 2011. Additionally, this study contributes to Venter's methodology by adding elements of an industry-specific political risk analysis, by identifying and adding common risk indicators for the oil and gas sector. Thus, this study will be guided by the following main research question:

Can political risk analysis as a discipline be successfully applied as a tool to forecast a political situation within authoritarian states?

Further, the following sub-questions will help to guide the research:

- Which risk variables can be regarded as common for political risk within the oil industry? This sub-question is asked in order to enable the research study to function as an industry-specific analysis for the petroleum sector.
- Analysing the Libyan socio-economic and political situation from before July 2009, could political risk analysis have been used successfully to forecast the political unrest and concurrent increased levels of risk in Libya in 2011? This sub-question is directly related to the central research question, since the results of the case study assessment will give strong indications of the forecasting abilities and usefulness of common political risk variables, and thus of political risk analysis as a forecasting tool.

The next section will address the specifics of the way in which the study will conduct the research, in order to find answers to these research questions.

1.5 Research Method and Research Design

The research design of this study is of a qualitative nature, following a non-linear and cyclical research path and having an inductive and predominantly critical approach. By being inductive, the research is kept dynamic and flexible, thus allowing ideas and propositions to be formed and changed throughout the evolvement of the study (Neuman, 2006:60; 152). The critical approach can be recognised in the study's assessment of major political risk factors and indicators and their usefulness with regard to forecasting potential future political risk events. The case study of Libya will be of a more descriptive nature, particularly the account of the historical narrative and contextualisation of the recent events. However, the case study also contains critical elements, such as the analysis of the processes that eventually led to the uprisings and the raised levels of political risk. The research design will consist of a data-gathering method that uses mostly secondary data. The secondary data will be collected from the sources mentioned in the literature survey, that is, academic and theoretical literature such as books and journals on political risk analysis, the oil and gas industry, and the historical development of the Libyan situation. In addition, organisational and other reports from various international sources will be gathered, as well as journalistic articles on the topic.

Furthermore, as this study seeks to assess the extent to which key political risk indicators have been adequate in determining a specific major political event happening in the first months of 2011, July 2011 will be set as the end-time for the analysis[6], although reference will be made to subsequent events of the revolution. The starting point of the analysis could be set at several points, for example, in 2003 when the UN lifted their sanctions on Libya, or in 2004 when the US did the same. This marks the beginning of Quadhafi's more liberal foreign policies and an improved relationship between Libya and the Western world. Moreover, the main point of return of MNOCs to the Libyan market was in 2006 when the US rescinded Libya's designation as a state sponsor of terrorism (EIA, 2011). However, this research sets the starting point of the analysis at July 2009. At this point the Libyan investment environment appeared promising for MNOCs, after several years of economic growth and promises of further liberalisation of the Libyan economy. Additionally, this two-year period is chosen to keep the analysis similar to Venter's (1999) study. It is within this time frame that the political risk indicators will be operationalised and assessed, in the simulated forecast.

[6] In the main analysis in Chapter 4, this research study is only using data that existed at the time the forecast is thought to be conducted (July 2009). Thus, the analysis is realistic with regard to what a competent political risk analyst would find if he/she carried out the analysis at that point. Chapter V will make use of data from 2011 in its discussions.

1.5.1 Identification of Key Political Risk Variables

As noted earlier, this research duplicates Venter's methodology (1999); thus it will utilise the same variables as were identified in his study, and analyse these in the light of the Arab revolution of 2011. Venter's work built on the study of Howell and Chaddick (1994) and their evaluation of political risk indicators, and both these studies utilised three of the most common risk indices: the Business Environment Risk Intelligence (BERI), Political Risk Service (PRS), and the Economist Intelligence Unit's model (EIU). In his study Venter (1999) uses the political risk indicators that Howell and Chaddick (1994) tested in use, and by adding elements from the cognitive requirements for reasoned decision-making he develops an amended set of political risk indicators, which he argues gives a more reliable model for forecasting political risks in authoritarian states (Venter, 1999). The same methodology will be used in this research, as its aim is to analyse and re-test the key risk indicators identified by Venter, thus assessing their contemporary ability to forecast political risk events in authoritarian states. Moreover, since this research aims to contribute to Venter's study by adding elements of micro-analysis, it will identify the most common key political risk factors and indicators for the oil and gas sector.

1.5.2 Rationale behind Choice of Case Study

Most parts of the North African region have an abundance of natural resources, and as Tunisia, Egypt, Libya and Algeria have all experienced recent revolts, any of these cases could have been chosen. Yet, a variety of factors make Libya stand out as the best choice for a case study for this research: since this study aims, as part of its objective, to adapt Venter's study to the *petroleum industry* specifically, the case study naturally needs to be of importance in this regard. Libya has the largest proven oil reserves in Africa, ahead of Nigeria and Algeria. In addition, from the North African region, Libya and Algeria are the only members of the Organization of the Petroleum Exporting Countries (OPEC). Also, owing to Quadhafi's restrictive policies since he came to power in 1969, combined with the number of sanctions imposed on the country until recently, the country's resource base has remained largely unexplored. These factors combined suggest that Libya could be one of the most interesting future investment prospects in Africa for the international oil industry. Finally, it is in Libya that the realised risks have been greatest. Most companies shut down production and closed down their offices at the start of the demonstrations. Further, Quadhafi threatened to expel MNOCs originating in countries that contributed to efforts to end his regime, and replace them with companies originating in states which have supported him by not conforming to the international pressure to support the rebels[7] (Newsmax, 2011). Moreover, the petroleum sector has been chosen as a variable for the following reasons. *Firstly*, this natural resource is by far the largest export from the North African region; it is therefore the industry sector that attracts the major proportion of investors and FDI. *Secondly*, it is the industry that has experienced the worst realised risks and consequences of the turmoil in the region as of now. *Thirdly*, the oil industry has been chosen because of the researcher's own interest in the field.

1.6 Literature Survey

In order to build a platform for the research itself, this study will utilise and analyse a spread of literature from different academic fields, although predominantly from that of political risk analysis. Several categories have been constructed according to their use for this research, and the following sections will provide a quick overview of these.

1.6.1 Foundations of Political Risk Analysis – Constructing a Platform

Political risk stems from uncertainty. When investing in a country, or in a project, it is important to decrease this uncertainty as much as possible by gaining knowledge and understanding of what the risks are or might potentially be. If this knowledge is in place one can, at least in theory, manage and mitigate these risks (Brink, 2004:3). Closely related to this is the fact that political risk analysis and management is grounded mostly in problem-solving and decision-making theory (Brink, 2004:3). Newell et al. (1958) are commonly regarded as those who first outlined such theories, with Simon (1978, 1986) and Kobrin (1978, 1979) as some of the other major contributors in this area. Further, Vertzberger (1998) has several good arguments; particularly with regard to decision making, and the complexity of the definition and conceptualisation of risk and other associated concepts. Hough et al. (2008) also have a useful discussion on conceptualisation, in addition to providing a good overview of the different categories of analysis frameworks. Furthermore, Brink (2004) provides a solid overview and discussion of problem-solving and decision-making theories. Her work together with that of the abovementioned scholars will be discussed in Chapter 2 of the research, and this will form part of the foundation and background of the study.

[7] In one of Quadhafi's speeches he charged that: 'we are ready to bring in Indian and Chinese companies to replace Western companies', and in another interview he stated: 'we don't trust the West anymore, so Russia, China and India will be our allies in the oil sector, construction and investments' (Newsmax, 2011).

Also deemed relevant for this research, is Ulrich Beck's (1992) theory of reflexive modernisation and risk society (cited in Hough et al., 2008:7).This research will seek, in its second chapter, to discuss briefly the usefulness of Beck's theory and incorporate it in the later analysis. Finally, Brink (2004:3) makes the important point that 'the use of a particular method of analysis greatly influences the investment decision, as well as the reliability of and validity of the eventual product of political risk analysis'. Herein lies the fact that if one uses and is dependent on a particular model, and this model is flawed or not entirely suitable for the specific investment, the whole project could easily fail. A political risk analysis model must therefore be dynamic and flexible, for it to capture industry- and investor-specific micro circumstances (Brink, 2004:3).

1.6.2 Industry-Specific Political Risk Analysis

While risk analysis had a more general perspective in its early years, the trend, particularly since the early 1990s, has moved in the direction of industry-specific political risk analyses. Lax (1983) published his *Political Risk in the Oil and Gas Industry* relatively early, and he is still regarded as one of the most influential academics in the field. His views on specific variables for the oil and gas sector are deemed to be highly useful for the purpose of this research. Even earlier than Lax, Bunn and Mustafaoglu (1978) published their article on how to forecast risk for the oil and gas industry. Other authors who have promoted specificity when assessing political risk are, for example, Alon et al. (2006) in their *Managing Micropolitical Risk: A Cross-Sector Examination* and Berlin's (2003) *Managing Political Risk in the Oil and Gas Industries*. These all prove to be useful, particularly in the sections discussing, identifying and analysing the major political risk indicators for the petroleum sector. Moreover, Alon and Martin (1998), and Frynas and Mellahi (2003) are also useful in this section.

1.6.3 Forecasting Political Risk

As mentioned, Venter's (1999) vindication of political risk indicators serves as a foundation and starting point for this study's assessments. His study is a contribution to the improvement of political risk forecasts, which is also one of the main objectives of this research. Moreover, this study will draw upon several other authors and works which discuss political risk forecasting. Howell and Chaddick's research (1994), upon which Venter (1999) built his study, is also useful in this sense. Additionally, Nel's empirical study (2009) on the predictive power of political risk forecast models, which repeats Howell and Chaddick's assessment (1994), is drawn upon in Chapter

2. Furthermore, Brink (2004) has a thorough discussion on this issue in several chapters. In addition to these aforementioned works, several other academic studies will be drawn upon in this section, for example, Bunn and Mustafaoglu's aforementioned early study on political risk forecasting (1978); and Hough et al.'s (2008) article on risk analysis in a strategic forecast context.

1.6.4 Libya: Historical Narrative and Contextualisation

In this section, Vandewalle (1998; 2006) provides a very thorough historical overview of both the modern Libya in general, and also of its development into an oil-producing state, which will be useful for the research's contextualisation. Similar historical narratives are provided by Blanchard (2009) and St. John (1987; 2008). The latter author, in particular, seems to be a true expert on the development of Libya, and should thus be one of the main references when creating a historical narrative. The historical literature will be complemented with more current reports, such as the US Department of State's (2011) country pages on Libya, and the latest country brief on Libya from the US Energy Information Administration (EIA, 2011). Moreover, journalistic articles and other publications complement these in giving a good overview of and background to the current situation of socio-economic and political conditions.

1.7 Limitations and Delimitations to the Study

Perhaps the most common critique of qualitative political risk analysis is its 'soft' nature, which implies that the analyses are highly subjective and formed by probabilistic assessments (Hough et al., 2008:6). This is also the case in this research, and as such it is of paramount importance that the researcher manages to stay objective in the analysis process. This is particularly true in the case of the rating of indicators, as potential bias and subjectivity makes the analysis prone to over- or under-rating certain factors. Furthermore, it is imperative that the sources used, on which the foundation of this study is built, are both credible and reliable. Another apparent limitation is the limited access to information with regard to the actual socio-economic and political situation in Libya during the period which is to be assessed, and information from the Libyan government on this issue could, in some instances, turn out to be unreliable. However, by basing the analyses in this study on reports and country briefs from credible sources, such as international independent organisations or private corporations with expert knowledge on the Libyan situation, this study's assessments should prove to be reliable.

A delimitation to this study, which was touched upon earlier, is that there will be no data collection after July 2011 to make the study more manageable. However, a few exceptions are made due to the rapid transformations in the Libyan situation between March and October 2011, in order for this research to be as relevant as possible. When this study began, the demonstrations and uprising in Libya had just surfaced, but it was not long until the turmoil turned into a brutal civil war between the Quadhafi regime and the rebels, supported by NATO. At the time of writing, Quadhafi has recently been killed by the opposition, and the National Transitional Council (NTC) is the 'liberated' Libya's interim administration in the period up until the first democratic election (Malone, 2011). Nonetheless, as the purpose of this research is primarily to assess the events that led to the revolutionary events, rather than to assess the current level of political risk, this is not seen as damaging the reliability or validity in any way. It must be pointed out that in Chapter IV, the simulated forecast of the period 2009-2011 will only make use of data that is thought to have been accessable at the point of analysis, in July 2009.

1.8 Research Outline

The remaining outline of this thesis is as follows:

Chapter II is where the theoretical foundation is laid, with a specific focus on the theories of problem solving and decision making. Further, the chapter contains a conceptual clarification and discussion of the key concepts and terms for the later analysis and assessments. Importantly, a thorough review of Venter's (1999) study and methodologies is carried out in this section, as well as an identification and choice of political risk variables for the oil and gas industry.

Chapter III contains two main sections that are both related to the case study. Firstly, the historical narrative of the Libyan case will be presented, while the second section concentrates on a historical contextualisation of the oil and gas industry in the Libyan market.

Chapter IV is where this research's main analysis is conducted. Herein, the identified political risk variables are applied to a political risk analysis, and operationalised in the context of the Libyan situation. This is done by conducting a simulated forecast for the time period mid-2009 until mid-2011.

Chapter V contains the conclusion of the research and analyses conducted. Moreover, it contains an evaluation of the achievements made with regard to the aims and objectives stated in the first chapter, as well as recommendations for future studies.

1.9 Conclusion

This chapter has served two key roles; firstly, it has provided an introduction to the topic that is to be investigated in this thesis. Secondly, it has constructed an outline of the technicalities behind how the research is to be conducted. The topic that forms the background of this study is the revolutionary events of 2011 in the Arab world, which have created great challenges for MNOCs present in these markets, since the realised levels of political risk are perhaps greater than ever before in the affected regions. This pertains particularly to the Libyan market where MNOCs have been forced to close offices and shut down all production, as a result of the revolts and civil war in the country.

The research problem for this study concerns the usefulness of the components within common political risk analyses with regard to forecasting events such as those seen in the first quarter of 2011. By duplicating the methodology Venter (1999) used in his study, this research aims to conduct an analysis of key political risk factors and indicators, in order to assess their forecasting ability with regard to future events of political risk in authoritarian states. In practice, this is done by conducting a simulated forecast for the period July 2009 to July 2011, thought to be conducted in mid-2009 with the information available at that point. Furthermore, a key objective of this study is to contribute to existing literature by adapting the key risk indicators to an industry-specific analysis, namely the petroleum industry. The main research question guiding the study concerns the extent to which political risk analysis as a discipline can be successfully applied as a tool to forecast a political situation within authoritarian states. By using Libya as a case study, and by looking specifically at the petroleum sector within the country, this research will contribute new knowledge to improve the forecasting ability of common political risk analyses. For MNOCs operating in, or planning to operate in authoritarian states, this will give valuable insight into the way in which forecasts should be conducted in order to minimise the impact of a political event that increases the level of risk a company could be facing.

Chapter II: Theoretical Grounding, Conceptualisation, and Identification of Political Risk Variables

2.1 Introduction

The first recognised scientific writings on political risk appeared in the late 1960s (Simon, 1982:62), yet risk analysis is not a recent phenomenon, but 'an ancient craft that has been practiced by merchants and traders (as well as decision-makers in the political and military fields) over centuries' (Hough et al., 2008:6). It emerged as a decision-making tool and scientific enterprise during the Cold War era, and gained popularity during the 1970s, with recognition of its importance increasing with incidents such as the oil crisis in Iran in 1973 and1974 (Brink, 2004:3; Hough et al.,2008:6). However, towards the end of the 1980s the field of political risk analysis seemed to gradually lose its momentum (Hough et al.,2008:6). In as early as 1982 Simon (1982:62) stated that 'despite more than a decade of development, the field of political risk assessment is in a state of disarray'. This is partly due to the amount of criticism of the 'soft' sciences at the time, with an increased focus on true quantitative measures. Some even called the academic field of political risk a 'passing fad' and much of the research in the area was at this point not integrated into real-life business as part of companies' decision-making process. Hence political risk analysis was seen by many to have outlived its usefulness (Brink, 2004:3; Hough et al., 2008:6). Yet, it gained new momentum in the late 1990s as a response to several factors, such as major shifts in the world's power balance, globalisation and climate change, and at the start of the twenty-first century there are indications that increased awareness of the complex risk environment is leading to a greater demand for professional risk analysis than ever before (Brink, 2004:3).

This chapter serves several purposes. Firstly, the theoretical foundations of political risk analysis, and thus of this study, will be discussed. Secondly, this chapter contains a discussion and clarification of key concepts relevant to this research. Thirdly, a thorough review of Venter's (1999) study will be conducted. Finally, and as the objective of this research is to contribute to Venter's model by conducting an industry-specific analysis, this chapter will contain a section on identification of key political risk variables for the oil and gas industry.

2.2 Theoretical Grounding: Theories of Problem Solving and Decision Making

In human nature, uncertainty often derives from either a lack of knowledge or from being unable to control the nature and processes within the environment when a decision is to be made. Similarly, before making an investment, uncertainty often plays a major part as to which option(s) an investor should choose, as there are usually elements surrounding the investment environment that are not wholly familiar or known. Particularly, uncertainty is evident when a company or organisation is considering entering a developing market, or a market where political and socio-economic conditions are unstable or unfamiliar. Hence, in such markets, political risk analysis is an imperative tool in order to solve this problem by decreasing and managing the uncertainty, before making a decision as to whether or not an investment should be made.

According to Brink (2004:30), 'the application of management science can be viewed as a rational attempt at problem solving, bearing in mind that such "problems" do not exist in a vacuum, but relate externally to the explicit decision making environment as well as internally to individuals' understanding of reality'. Thus, closely related to this, and serving as a foundation for risk management and political risk theory, are the theories of problem solving and decision making, whose relationship can be seen as symbiotic (Brink, 2004:31). Making decisions and solving problems are foundational parts of society, and a problem can be simply defined as a discrepancy between an existing situation and a desired state of affairs (Kaufman, 1991, cited in Brink, 2004:31). As Simon et al. (1987:11) denote, *problem solving* is concerned with setting goals, fixing agendas and designing appropriate actions, while *decision making* is concerned with evaluating and choosing between the options. Decision theory, which is commonly seen as underlying the theory of rational decision making under uncertainty, complements problem-solving theory. According to Brink (2004:30) 'The major steps of decision analysis are defining the decision statement amongst uncertainty, establishing and evaluating objectives, generating alternatives, and finally comparing and choosing among options'. Hence, once a decision problem is apparent, a decision maker must resolve it by choosing the appropriate action.

Investments often concern situations of uncertainty and potential risk. In problem solving, potential solutions need a 'consecutive ordering of ideas that can be tested' (Brink, 2004:30), and in order to find potential solutions the problem of 'where to invest' must also have observations. Political risk analysis is concerned with such situations, where the decision maker must choose between options without being certain of the outcome. It serves the function of reducing the uncertainty surrounding an investment, by enabling the decision maker to gain knowledge on potential political risks that might arise. However, although the decision makers' knowledge base is increased after a political risk analysis, the highly dynamic nature of political risk implies that problems do not remain 'solved' after the analysis and throughout the investment process. Yet, the problem can potentially be mitigated and managed by constant monitoring of the investment environment, as well as revision and adaption of a competent political risk analysis model (Brink, 2004:30-31). In this sense, Brink (2004:30, citing Bunge, 1998) states that 'in all decision making processes […] rational agents behave as risk-averse persons intent on minimizing uncertainty with the help of expert knowledge […] if unable to reduce these uncertainties to below some acceptable risk level, the rational agent will refrain from acting, or the foreign investor will refrain from continuing a particular foreign expansion project'.

In conclusion, it is clear that political risk analysis can potentially function as a tool for decreasing the uncertainty that revolves around any investment decision that has to be made.

2.3 Conceptualisation of Key Concepts

In this section, those terms regarded as key for the research will be clearly conceptualised in order to clarify and gain further insight into their meaning. This is deemed important since several of these terms and their definitions have been and still are heavily debated in different political risk fora. Furthermore, several of the concepts have often been used interchangeably, such as political risk and country risk, although they involve different aspects. Thus, by conceptualising them in light of the purpose of this study, misunderstandings will not arise concerning what this research actually purports to communicate.

2.3.1 Risk and Risk Analysis

There exists a great variety of general and specific definitions of risk, and the usage of the word *risk* depends largely on the context in which the author is conceptualising it. As Hough et al. (2008:10) puts it: 'the nominal definition of and operationalisation of the concept risk is ambiguous and highly problematic'. A broad definition could be that risk is 'the undesirable and potential harm or danger to anyone that results from behaviour and action, or from a particular event, situation or issue' (Hough et al., 2008:10). According to Brink (2004:17, citing Chicken, 1996), risk can be seen as the 'manifestation of doubt regarding the frequency and consequences of undesirable events'. However, as can be noticed in the above definitions the term *risk* often connotes negative words such as danger or harm, which are associated with unfortunate situations. Although it should be regarded as a potential problem in the context of uncertainty, *risk* cannot be seen as purely a negative concept. Rather, it must be regarded as a neutral phenomenon which can have both a positive or negative result (Hough et al., 2008:10). Valsamakis et al. (1999, cited in Hough, 2008:3) provide a definition which leaves out the purely negative connotations and defines risk as 'the uncertainty surrounding an event and outcome in a specific situation'. However, this definition is too broad and too exclusive. Vertzberger (1998:19) states that 'as a real-life construct of human behavior, risk represents a complex interface among a particular set of behaviors and outcome expectations in a particular environmental context'. He (1998:20) further argues that 'the classic definition of risk – that all outcomes for which probability distributions are similar represent the same level of risk – is not realistic'. Rather, risk is most often associated with the nature of the outcome, as well as whether the outcome will be positive or negative.

It must be noted in this regard that risk is a probabilistic assessment, unable to foresee the future since the outcomes have not yet occurred (Hough et al., 2008:10). The degree of risk will be determined by the level of uncertainty around a particular situation, where a negative impact on the investment is possible (Hough, 2008:3). Risk is thus closely connected to uncertainty, and the unknown future that can have both a negative and positive impact on the investment. Moreover, although the concepts of *uncertainty* and *threat* often have the same connotations as *risk* they are not synonymous, and it is deemed important to recognise both the difference between them as well as their relation to each other.

Risk and *threat* can be seen as closely interrelated; however, whereas *risk* implies an unknown future probability of negative consequences, *threat* promises a more definitive negative effect with regard to real implications. Thus, they are interrelated in the sense that a risk can potentially develop into a threat, just as a threat could also involve elements of risk (Hough et al., 2008:11). Further, the term *uncertainty*, as discussed in previous sections, is related to incomplete information. Kobrin (1979:70) argues that uncertainty is subjective '…in the sense that opinions about the relative likelihood of events are based upon perceptions that are a function of the available information, previous experience, and individual cognitive processes which synthesize both into an imagined future'. Moreover, since uncertainty is subjective it can be possible to reduce risk by gaining a better understanding of the political environment in which the investment is to be made, and of the potential impact political events or operations can have upon the investment (Kobrin, 1979:71).

Vertzberger (1998:20) believes in this regard that 'it is sensible to view the classic probability-oriented distinction between risk and uncertainty as merely describing two levels of uncertainty', which he then defines as *structured uncertainty* (known outcome probabilities) and *unstructured uncertainty* (unknown outcome probabilities). The term *risk* should then be kept for those situations where not only the outcome probabilities are uncertain, but also where the situation itself poses possibilities of unknown outcomes which will have unfavourable consequences for the decision maker. The logic behind this formulation, he explains, is that 'all risky situations subsume uncertainty, but not all uncertain situations involve risky outcomes' (Vertzberger, 1998:20). By taking this into account, Vertzberger (1998:22) defines *risk* as 'the likelihood that validly predictable direct and indirect consequences with potentially adverse values will materialize, arising from particular events, self-behavior, environmental constraints, or the reaction of an opponent or third party'. This definition is thorough and encompasses most important issues of what risk is considered to involve, according to this research. Thus, it is this definition that will be used for the remainder of this study.

Furthermore, Ulrich Beck's theory of reflexive modernisation and risk society is considered worthy of mention in this section. He believes that the 'concept of risk is directly bound to the concept of reflexive modernisation', and thus he defines risk analysis as 'a systematic way of dealing with hazards and securities induced and introduced by modernization itself' (Beck, 1992: 21, cited in Hough et al., 2008:7). Therefore, the rationality of risk can be seen as reflexive 'since risks as consequences are politically reflexive to threatening forces such as modernization and globalization' (Hough et al., 2008:7). In this regard, Hough et al. (2008:7) argue that 'the new paradigm of risk society – as a catastrophic society constituted by reflexive rationality – critiques scientific knowledge and the corresponding calculation of risk to the extent that in the risk society the unknown and unintended consequences come to be the dominant force in history and society'. In light of the revolutionary events in North Africa and parts of the Middle East in 2011, these ideas are regarded as applicable to the onset of the demonstrations and eventual conflicts. Although this will first be analysed in Chapter 4, it is quite apparent that one of the prominent reasons for the outbreak of the demonstrations in, for example, Egypt and Libya, was the underlying societal tension caused by factors that most likely can be related to modernisation (Lynch et al., 2011).

Finally, *risk analysis* will be defined in this research as 'the analytical process – embedded in a particular framework and methodology of choice – that assigns values to the probable "risky" effect of particular factors' (Hough et al., 2008:12).

2.3.2 Political Risk

As mentioned in the introduction to this chapter, the academic field of political risk has been through several phases of development. Similarly, the definitions of political risk have evolved with the development of the field. Yet, although several authors stated at the beginning of the 1980s that there is no or little consensus as to what constitutes political risk (Simon, 1982:62; Fitzpatrick, 1983:249), there is still an ongoing debate between scholars and practitioners regarding what the term actually includes, and what it should exclude in its definitions (Alon et al., 2006). This section will review key elements of the conceptualisation discussion in order to find an appropriate definition for the purpose of this research.

In 1979, Kobrin (1979:77) argued that the term political risk could just as well be 'dropped from usage', as it is '[…] overly confining and confusing'. After almost twenty years of increasing literature in the field he believed that it would be difficult, if not impossible, to gain consensus on what the term actually means. Early definitions varied greatly, were either very general or very specific and had a strong focus on either negative consequences of host government intervention, changes in the political environment, or political events (Fitzpatrick, 1983:249; Kobrin, 1979:67). Alon and Martin (1998:10) note a few general problems with many of the early definitions: (1) the scope of political risk was too narrow, leading to improper conceptualisation, wrong data-collection, inappropriate choice of analytical tools, and misinterpretation of the analytical results; (2) an assumption of political risk as only having negative impact on a company, which is not always the case; (3) the strong focus on host government policies and actions as well as political events excludes all other causes of political risk.

Importantly, in order to find what political risk *is*, one must also define what it *is not*. Several terms have been used synonymously with that of political risk, such as political instability, uncertainty, and country risk. Thus it is important to discuss the relationship as well as the differences between these concepts, before finding an appropriate definition of political risk for the purpose of this research.

2.3.2.1 Political instability and Political uncertainty

Political instability and political risk are different phenomena, although they are related (Robock, 1971:8; Kobrin, 1978:114). Political instability can be seen as a property of political risk, referring to 'biased uncertainty about the probability of political events taking place' (Brink, 2004:19). Political instability refers more to unexpected changes in the host government's leadership, policies, or implementation of power (Brink, 2004:19). Thus, while risk is a property of the firm, political instability is a property of the environment (Kobrin, 1978:115). Further, political *uncertainty* derives from lack of information, while political *risk* can be seen as a more objective measurement of the amount of doubt, which differs from the subjective nature of uncertainty and instability (Howell, 1986, cited in Brink, 2004:19).

Kobrin (1979:74) argues that political instability is 'neither a necessary nor a sufficient condition for changes in policy relevant to foreign investment'. In fact, it does not necessarily affect an investment at all. In this regard one must acknowledge that all changes in the business environment cannot be regarded as political risk. Robock (1971:8) states that 'where change is gradual, progressive and reflects continuity in government policies and political forces, future trends are neither unexpected nor difficult to anticipate'. Further, it must be noted that political risk, as irregular change, is not necessarily a term with negative connotations. In many instances companies have continued with business as usual through long-enduring civil wars, and in some cases it has in fact resulted in an improved business climate and increased profits for the investor (Kobrin, 1978:115). Brink (2004:21) makes an important point in this regard when she argues that 'although political instability and political uncertainty are mentioned as negative contributing factors to political risk, uncertainties can be regarded in a positive light. If risk encompasses any actions of which the consequences are uncertain, then chances taken in a positive or profitable environment should be rewarding. If these uncertainties are managed accordingly, the possibility of being able to exploit them becomes a reality'. Furthermore, 'what is political risk for one firm may not be political risk for another' (Robock, 1971:8), and likewise, political risk for one industry sector might not be political risk for another. For instance, if the host government of Libya abruptly changes a concession agreement, an oil company would be affected while an international bank would not, at least not directly, that is. Thus political risk cannot be seen as a homogenous phenomenon since it varies greatly between industries, companies or even projects (Kobrin, 1978:114; Robock, 1971:8).

Furthermore, as Kobrin (1978:115) argues: 'the most important means by which instability or conflict affects the firm is not *direct* threats […] but rather potential changes in government policy. The most important risk of instability is that it may result in governmental constraints on operations such as local ownership regulations, restriction on remittances, exchange controls, and expropriation'. However, as he further states: 'direct effects of conflict are not always unimportant. There are times when local violence, general strikes and threats to the security of personnel make operations difficult or impossible' (Kobrin, 1978:115). The civil war in Lebanon in 1975 and 1976 and the Iran crisis of 1978 and1979 are some examples, and so, of course, is the 2011 civil war in Libya with which this research is concerned.

2.3.2.2 Country Risk

Often the concept *country risk* is used in a similar manner as *political risk*. Country risk analysis increased in popularity in the late 1970s and at beginning of the 1980s, and originally it had a narrow meaning relating primarily to a country's creditworthiness (Hough, 2008:5).Today, however, it is often regarded as including the socio-economic, political and financial features of a country (Iroanya, 2008:95). Political risk was initially incorporated into country risk analysis, but derives originally from two types of specific risks; the risk of revolution and the risk of expropriation, although the scope of what political risk includes increased to incorporate most issues where government decisions or influence are relevant (Hough, 2008:5). Political risk can be seen as a component of country risk, and both concepts can be connected to a government's actions and policies. However, empirical evidence shows that risk or profit loss can also emanate from events caused by individuals or corporations within a political system, or from the investors' business policies. Thus, those actions which are outside government control and still cause loss must be included in a country risk conceptualisation, since these also take place within the geographical and legal space of the host country. Hence, a conceptualisation of country risk must include both risk emanating from the actions of a host government, as well as those of individuals and the foreign investors themselves (Iroanya, 2008:95-96).

Today consensus has been more or less reached that political risk is a far narrower concept than country risk (Brink, 2004:19; Hough, 2008:6; Iroanya, 2008:95). Brink (2004:19) believes that *country risk* 'differs from political risk in the sense that country risk can be explained as potential financial losses due to problems arising from *macro economic events*'. Howell (1998:3-4, cited in Hough, 2008:6) believes that political risk refers to 'the possibility that investors will suffer losses or diminished profits as a result of political decisions', as well as to 'decisions or events of a political nature, whether the result of direct or indirect government action or inaction, or the result of non-governmental political events and forces'. Country risk, however, is a much broader concept that includes economic considerations within a specific environment.

2.3.2.3 Defining political risk

Having clarified the difference between the terms political instability, political uncertainty, country risk and political risk, it is clearer what a definition of the latter concept must include.

Iroanya (2008:96) points to Desta's (1993) identification of two schools of thought in the debate of political risk conceptualisation: the 'host government intervention' scholars see political risk as 'loss suffered by foreign investors, which is a direct consequence of government actions'; while scholars who locate political risk within 'instability in the national environment' emphasise a range of other factors, such as civil war, ethnic conflicts, coup d'état's and expropriation. However, most of the factors found to be important in the latter school of thought are still direct actions of the government, hence the main point of separation between them can be found in the motive behind the actions, rather than in the loss-causing actions themselves. Thus, they are, as Iroanya (2008:97) points out 'making the same argument in different ways'.

This research believes that a good definition of political risk manages to incorporate aspects from both these schools of thought. Importantly, one must incorporate both economic and social factors since they are in fact products of the political system and thus they cannot be ignored as part of a political risk definition (Hough, 2008:6). A few definitions regarded as appropriate for this research should be noted. In his early and groundbreaking work, Robock (1971:7) focuses on discontinuities and direct impact on a company in the definition, and he argues that 'political risk exists (1) when discontinuities occur in the business environment, (2) when they are difficult to anticipate and (3) when they result from political change'. Furthermore, he states that 'to constitute a "risk" these changes in business environment must have a potential for significantly affecting the profit or other goals of a particular enterprise' (Robock, 1971:71). Howell and Chaddick (1994:71) believe that political risk 'is the possibility that political decisions, events, or conditions in a country, including those that might be referred to as social, will affect the business environment such that investors will lose money or have a reduced profit margin'. However, as Hough (2008:6) notes: 'political risk only assesses the possibility of loss due to the socio-political situation in a given country, and not losses as a result of economic conditions beyond government control or business practice'. Brink (2004:18) provides a good and broad definition when she states that political risk is 'the probability that business will either earn less money, or suffer losses in profit as a result of stakeholders within a political system's (in)actions or reactions to events, decisions and policies'.

Simon's (1982:68) definition states that political risk can be seen as 'governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments'. This particular definition is well recognised and much referred to in political risk literature. Alon et al. (2006:625) argues that part of the reason for this is that it distinguishes macro- and micro-political risk[8], it differentiates between external and internal sources of political risk, and furthermore, it sees political risk in the general environmental context rather than constraining it to governmental actions. Simon's (1982:68) definition is regarded as useful for the purpose of this research, thus it is chosen as the guiding principle when discussing political risk throughout this study. Finally, *political risk analysis* will be defined as broadly encompassing 'the examination and explanation of the probability that interrelated factors caused or influenced by government political decisions, (in)actions, reactions, or other unforeseen external or internal events will affect business and investment climates in such a way that investors will lose money or not make as much money as they expected when the initial decision to invest was made' (Brink, 2004:25). This definition will be utilised for the remainder of this research, as it contains all important aspects while not excluding any key issues as discussed throughout this section.

2.3.3 Forecasting Political Risk

Firstly, an important remark is that the term forecasting must be separated from that of predicting. Often within political risk literature, these concepts have been used interchangeably, however, it has become the argument of many authors that it is not possible to *predict* when or how risk will occur. Rather, as Brink (2004:27) observes, it can be possible to 'anticipate a probability upon observing certain trends or current events, and the way in which they come together'. The processes and models of political risk analysis prevent the possibilities of a *prediction* of future events, since they involve evaluations of complex social systems and interactions that are highly dynamic by nature. Brink (2004:27) argues further that while a prediction can be regarded as a prophecy that bravely

[8] Macro- and micro-political risk will be discussed in section 2.3.4 (Industry-Specific Political Risk).

states what *will* happen in the future, a forecast provides an *estimate* of a future event that *might* pose a *certain degree* of risk to the investor. Additionally, a political risk analysis will always suffer from incomplete and perhaps also inaccurate information (Brink, 2004:28). As Lax (1983:121) puts it: 'One could never obtain *all* the potentially relevant information….Even if all the information was assembled, you still would not be any closer to analyzing political risks than to predicting the course of the planets'. Thus, a *prediction* would in any case be virtually impossible (Brink, 2004:28).

One of the main purposes of political risk analysis is the forecasting of potential losses or situations that could lead to loss of profit (Hough, 2008:7). Much criticism can be directed at both previous and current quantitative forecasting models, for example, for the subjectivity behind the definition and weighing of risk factors. Nonetheless, this research agrees with Hough (2008:11-12) that forecasting methodologies are a fundamental addition to expert judgements. Robock (1971:16) suggests that political forecasting involves four main steps: (1) gaining an understanding of the government in power; (2) analysing the investor's own operation or product in order to identify the type of political risk that can potentially occur; (3) determining the source of the potential risk; (4) and 'project into the future' the potential of political risk, both with regard to *if* and *when* it could occur. Further, Robock (1971:16) argues that the focus throughout the forecast process must be on political forces that are hard to anticipate and that can have a severe effect on the business environment. Importantly, one must also look beyond the present government and practices in order to gain an understanding of the political environment. As Robock (1971:16) puts it: 'The challenge is to understand the path along which all policies and attitudes have been travelling…' . Thus, an essential part of any political risk analysis is to gain knowledge of the historical processes that have formed the current investment environment.

Remembering the discussion at the beginning of this chapter regarding problem solving, the 'problem' of political risk, or the uncertainty of the risk occurring, can be reduced by conducting a forecast. Brink (2004:32) suggests that if an investor is fully aware of the required investment environment, the political risk analyst can work 'backwards' to identify those conditions that are considered to make up the ideal risk rating. Then, the risk factors can be 'weighed' in order to find this identified rating, which leads them to reflect the ideal investment climate. Further, when developing techniques of forecasting, the point is to connect the event or action resulting in a loss to the causes and predictors of this act. Then, by being aware of past occurrences, one can make an argument that presence of certain risk factors can signify a good probability of the occurrence of a certain risk event (Howell and Chaddick, 1994:73). However, as noted earlier, the forecasting process is left to the user of the model, hence such assessments are of a subjective nature. This is evident by, for example, how a risk variable within the model can be phrased and conceptualised differently dependent on the context in which the researcher is working, which inevitably has an impact on the subjectivity of forecasting as a method of analysis (Hough, 2008:7). Finally, and as Robock (1971:10) argues, the forecaster of political risk cannot only look at a snapshot of an investment climate to identify potential sources of political risk. He must also continuously monitor and analyse the evolving situation over time, since most risk factors upon which the forecasting models are based assess highly dynamic realities, such as the socio-economic circumstances of the host state, or government regulations.

2.3.4 Industry-Specific Political Risk

As stated in Chapter 1, this research seeks to contribute to existing research by adding industry-specific risk variables for the petroleum industry to Venter's (1999) methodology. Thus, it is necessary to clarify the difference between general political risk, and industry-specific political risk.

Just as political risk exists in macro environments, it can be present in a micro environment, and within political risk literature this is often referred to as industry-specific political risk (Brink, 2004:20). However, there is a lack of available literature on assessment tools and techniques for the assessment of micro-political risk, which is surprising as the highest amount of encountered risk events today is micro-political in nature (Alon et al., 2006:626). The simple logic behind the usefulness of micro-political risk analysis is that risk can vary greatly from industry to industry within a single host country (Brink, 2004:20). Although many political risk factors would be the same for all companies and industries within a particular market, the impact of a realised event can vary greatly for the different actors. It is often the capability of a given firm to manage and mitigate the risks that decides the effect on a company of a political risk event. A good example of this is the case of multinational oil companies (MNOCs) in the Niger Delta (Alon et al., 2006:625-626). This research agrees with Alon et al.'s (2006:627) assertion that micro-political risks are 'more manageable and thereby more practically useful for modern-day companies'. In 1971, Robock (1971) argued for the importance of a focus on micro-political risk for companies. According to him (1971:9), 'the risk is of a macro nature when unanticipated and politically motivated environmental changes are broadly directed at all foreign enterprise', while 'the risk is of a micro nature when the environmental changes are intended to affect only selected fields of business activity or foreign enterprises with specific characteristics'.

Alon et al. (2006:639) find in their study of micro-political risks for three different industries (energy, financial and automobile industry) that each of the sectors has some unique micro-political variables that determine which companies within that particular industry are more prone to risk. Examples are how the energy sector can experience an impact from variables such as environmental activism or energy vulnerability, while the financial sector in the same business environment is affected by variables such as banking regulations or debt service ratio. Therefore, this research finds Alon et al.'s (2006:639) argument sensible; namely, that for any company conducting a risk analysis it is essential to keep in mind both the general macro-political risks, and the unique micro-political risk factors specific for the industry under consideration.

2.3.5 Authoritarian States/Regimes

Libya, the country this research focuses upon, can be recognised as an authoritarian state (US Department of State, 2011). However, what does the term *authoritarian state/regime* involve? This section addresses this question since an understanding of such a political system is crucial during the later analysis of political risk factors for Libya. Additionally, and as stated in Chapter 1, this research's key objective is to conduct an analysis of political risk factors specifically for authoritarian states.

According to the *Encyclopedia Britannica* (2011), authoritarianism can be regarded as the 'principle of blind submission to authority, as opposed to individual freedom of thought and action'. An authoritarian government indicates any political system in which the power is concentrated in the hands of one leader or small elite, which has no constitutional responsibility to the people within the state. Leaders who are authoritarian usually exercise their power arbitrarily without concern for existing bodies of law, and most often the people cannot replace the leader by choosing freely among candidates in elections. Further, there is usually no freedom to create political parties or other groupings with oppositional beliefs from the ruling regime, thus there is no established possibility of competing for power within the state (*Encyclopedia Britannica,* 2011).

Linz (1964, cited in Linz, 2000:159) defines a variety of nondemocratic and non-totalitarian political systems as authoritarian if they were 'political systems with limited, not responsible, political pluralism, without elaborate and guiding ideology, but with distinctive mentalities, without extensive nor intensive political mobilization, except at some points in their development, and in which a leader or occasionally a small group exercises power within formally ill-defined limits but actually quite predictable ones'. Furthermore, in a democratic government, the ruling power is formally dependent on the support of constituencies. In contrast, in authoritarian regimes the political power is not accountable through independent groups or institutions, even if it could be rather responsive to them (Linz, 2000:161). Linz (2000:160) states further that 'we speak of authoritarian regimes rather than authoritarian governments to indicate the relatively low specificity of political institutions: they often penetrate the life of the society, preventing, even forcibly, the political expression of certain group interests […] or shaping them by interventionist policies like those of corporativist regimes'. This research finds these definitions useful, however, in the case of Libya the point of 'without elaborate and guiding ideology' is not necessarily true, as Muammar al-Quadhafi's *The Green Book* (1976) promotes his ideologies and beliefs regarding political systems, and according to him, it is by these thoughts that Libya has been governed.

On another note, authoritarian states are in this age of globalisation and modernity often considered to be transitional, as democracy as a political system has gained a stronger foothold, at least theoretically. Kobrin (1978:116) argues that violence peaks in transitional states, since 'while expectations have been raised and discontent exists, institutions generally have not been developed that allow its peaceful expression'. Moreover, empirical studies have found that the relationship between modernisation and conflict can be seen as an inverted 'U'. In the early developmental stages of the society, it is likely that discontent arises due to socio-political rather than economic factors. However, at later stages the situation changes if promises of development are broken, thus economic discontent becomes a more important factor with regard to a rising civil discontent with the ruling authorities. It is in these middle stages that the inverted 'U' is at its peak (Kobrin, 1978:116). Finally, Hegre et al. (2001:34) argue that all forms of political change can potentially create instability, whether in the form of democratisation or autocratisation. Once a regime loses legitimacy, dissatisfied factions of society might engage in a struggle against it. Furthermore, if a regime uses repression as a means to stay in power, without having well developed political institutions, civil violence is likely to be promoted. Although this might not be the case in all authoritarian regimes, Hegre et al.'s (2001:34) argument is logical. Civil violence against a regime might not occur in a long period of time, but it is likely that oppression of a population inevitably leads to increasing opposition that eventually can surface and result in significantly raised levels of political risk for an investor operating in this specific host market.

2.4 Venter's (1999) Methodology

As stated in Chapter 1, the main purpose of this research is to conduct an analysis of key political risk indicators for authoritarian states, based on Albert Venter's study (1999). Therefore, before utilising his methodology in an analysis, it is central to review it thoroughly. However, Venter's study built on the excellent work by Howell and Chaddick (1994), thus it is deemed imperative to present their article first.

In brief, Howell and Chaddick (1994) assessed three different approaches in political risk models for foreign investment and trade; the Economist model (EIU), the Political Risk Services model (PRS), and the Business Environment Risk Intelligence model (BERI). By comparing the 1986 projections against realised losses due to political risk events in a specified time period, they manage to pinpoint the source of the losses, thus also evaluating the usefulness of commonly used political risk indicators. In their study, they conclude that forecasting of political risk can work; that a variation exists with regard to accuracy between the models in their forecasting abilities; that the models can improve their forecasting abilities by being restructured; and finally that some variables could be more useful to an investor than others. Their findings suggest that EIU is the weakest model, however, Nel (2009)[9] argues that on the contrary, the EIU is the most reliable model to forecast risk while the PRS model accounted for the most unexplained variance. Nonetheless, two variables surfaced from Howell and Chaddick's (1994) analysis that could most often account for actual losses incurred. One of these is 'authoritarianism', a condition commonly and mistakenly associated with stability. On the contrary, the authors find that authoritarian actions by host governments do not necessarily bring stability. The second is 'bad neighbours', that is, instability in the regional environment (Howell and Chaddick, 1994:89-90).

The purpose of Venter's (1999:1) research is to 'contribute towards an improved framework of political risk analysis, enhancing a company's ability to anticipate unexpected political risk events'. In his study, he addresses the question of whether the fall of the Suharto presidency in Indonesia and the political unrest that followed, which led to high levels of political risk in 1998, could reasonably

[9] In her study, *The Predictive Power of Political Risk Forecast Models,* Nel (2009) revisits Howell and Chaddick's (1994) comparative research on the reliability of the assessed models (BERI, PRS, and EIU).

have been anticipated by competent political risk analysis. In this, he uses the key political risk indicators tested-in-use by Howell and Chaddick (1994), with an added element of the cognitive requirements of reasoned decision making, in order to develop a modified set of political risk indicators. Venter (1999:1) claimed to have three objectives to his study:

- to determine whether the political risk events in Indonesia could have been anticipated
- to determine whether some measure of control over an investment's future could have been exercised in Indonesia
- to determine which choices an investment manager could defensibly have made with regard to the investment.

Venter (1999:1) notes that political risks are difficult for a company to control, as such events are discontinuous and hard to anticipate on the basis of generalisations since they are too few and too disparate. Nonetheless, he believes it is possible to reveal early warning signals of future risks on the basis of a descriptive analysis of a state's socio-political trends. In this regard, he argues that 'the human political situation demands some measure of control over facets of the environment. Without faith in an ability to influence future events in predictable ways, human survival itself would be in jeopardy'. Importantly, Venter (1999:2) remarks that there is no consensus, and no set body of knowledge within the literature on which political risk indicators should be used, however it is possible to solve that problem by analysing past performance in practice by the indicators.

Venter (1999:3-4) extracts the findings of Howell and Chaddick (1994) with regard to the forecasting power of all three risk indices, and then suggests that they be agglomerated into one methodology where the key political risk indicators are:

- ***Bad neighbours'/regional political forces'/dependence on hostile neighbouring power***: Venter (1999:4) states that both the BERI and the EIU models identify this variable as vital. It implies that the host state under consideration is influenced by another state, an external power, which often uses force to dominate their peripheries.

- ***Islamic fundamentalism/radical religious forces***: Venter (1999:4) believes that this variable is powerful due to 'the resurgence of state and/or politically inspired Islamic fundamentalism and terror'. He remarks that several issues point to a trend of Islamic fundamentalism being 'at odds with capitalism and foreign investment', such as the state-sponsored terror by the Libyan and Iranian regimes.

- ***Authoritarianism/undemocratic measures to retain power/generals in power***: As stated earlier, this is one of the two variables identified by Howell and Chaddick (1994) as critical. As Venter (1999:4) argues: 'this variable seems to be counter-intuitive', since often the authoritarian state seems stable on the surface. Yet, this stability must be seen as short-term at best, since it often hides a common discontent within the population of the state that could potentially explode into riots and political violence against the authoritarian regime, thus dramatically increasing the political risk for the investor.

- ***Staleness, uncertain leadership succession (long leadership)***: According to Venter (1999:4), empirical evidence shows that a leader must stay in power for about five years to secure his/her grip on power in a state, but needs about ten to twelve years in power before he/she 'begins to get detached and stale'. Corruption and nepotism are some of the problems that tend to arise from such long leadership. Also, the risk increases the more authoritarian the leader is, since transfer of power often becomes highly problematic.
- ***Ethnic/religious/racial tensions***: Societal tensions are recognised predictors of political turmoil or social upheaval, and thus increased political risk in a state. When present, a government must focus on finding a solution, hence resources available for economic development become restricted. In addition, such tensions can lead to open conflict, destruction of property, or even regime change in a country.

- ***War, armed insurrection, instability, and non-constutional changes***: A war or armed insurrection often leads to disruption of a national economy, and in some cases it also means expropriation and nationalisation of assets belonging to the investor, and/or destruction of physical facilities.

- ***Societal conflict, deep ideological cleavages***: Societal divisions that are not necessarily based on ethnicity, but rather on ideology or class, and represent a threat to consistency in social and economic policy.

- ***Rapid urbanisation, social conditions, population explosion***: When present in a society, these variables tend to suggest increased corruption and crime, unemployment, drug-related issues, illiteracy and various health problems.

- ***Macro-economic circumstances of the host state:*** Venter (1999:4) states that 'the PRS model demonstrates the relationship between business and economic elements that are vulnerable to political influence'. Government policies of the host state can lead to investment losses as a consequence of certain factors such as payment delays, exchange controls or international borrowing liabilities. Venter then refines the PRS model by using Kern's (1985, cited in Venter, 1999:4) 'acid test' on public finances, which embodies:
    - Payment of interest and principal as a percentage of export earnings on goods and services, where the ratio should not exceed 25 per cent.
    - Outstanding government debt as a percentage of GDP, where debt divided by GDP x 100 should not exceed 40 per cent, as this points to long term financial problems.
    - Total debt as a percentage of exports should not exceed 100 per cent.
    - Current account deficit as a percentage of GDP should not exceed 7.5 per cent of GDP.
    - Government budget deficit as a percentage of GDP should not exceed 3 per cent of GDP.
    - Tax, as a percentage of GDP, should not exceed 30 per cent, which points to low government involvement in the economy and moderate government consumption.

The review so far has shown how Venter (1999) has utilised and recombined the variables according to Howell and Chaddick's (1994) findings, in addition to refining the PRS model. The next step in his analysis, after the contextualisation of the political risk environment of Indonesia, is that he utilises this methodology and the technique of forecasting in the case of Indonesia, operationalising and testing the revised key risk indicators. The main question asked by Venter (1999:5-6) is: if the above revised list of key political risk indicators had been used, what would a summary of macro-political risks in Indonesia have revealed? He proposes a negative scoring system from 0 to -5 with each of the risk indicators, similar to the BERI and the Economist models, where 0 is no risk and -5 is the highest risk. Venter (1999:6) remarks in this regard that this poses the 'danger of bringing in an element of subjectivity', yet a competent analyst of political risk with specialised knowledge is the 'best available at present', and thus fundamental in 'drawing up such a summarised system'. Further, penalty points are given on the basis of extra high degrees of risk on certain indicators.

Finally, the scores are summarised, giving a total score on a risk scale between 0 and 45, with six different levels of risk ranging from 'no risk' (score: 0) to 'very high risk' (score: 45) (Venter, 1999:7).

In his post-analysis comments and conclusions, Venter (1999:7-8) states that a decision maker cannot control the political environment, but if key political risk indicators are properly used in an analysis, he/she can at least make an effort to control the future of the investment. His conclusion and argument is that by using the above methodology, a political risk analyst would come to the conclusion that Indonesia presents a medium high political risk for foreign investors, thus they should be warned to use caution and political risk-reducing strategies concerning a current or potential investment in the state. He (1999:8) argues further that his restructured model clearly '[…] could be used with greater confidence in future political risk assessment of states', and that what his study then claims 'is that the key indicators identified by Howell and Chaddick, suitably modified and tested in use in the case study of Indonesia, can give a shorthand overview of the political risk faced by investors in a state'. However, a weak point in the political risk indicators was identified, namely the macro-economic circumstances of the host state. This could not adequately '[…] show the structural weaknesses of the crony capitalist state over which Suharto was presiding', thus it should be made more sensitive in future analyses (Venter, 1999:8).

Finally, he argues that the lack of transparency in economic statistics generated by the government proves the need for this addition as a political risk factor to the set of indicators. Of particular importance is the magnitude in the economy of privately held debt in relation to the GDP, as using only the government levels of debt proved to be inadequate. This would have enabled the analysis to reflect more clearly the high political risks for investors, and thus strengthened the models forecasting power (Venter, 1999:8). These aspects recognised by Venter as containing potential for improvement will be taken into consideration by this research in Chapter 4.

2.5 Identification of Political Risk Variables for the Oil Industry

As stated in Chapter 1, one of the purposes of this research is to contribute to political risk indicator literature and Venter's methodology by adding elements of an industry-specific political risk analysis. Hence, this section focuses on identifying and adding a few common risk indicators for the oil and gas sector, potentially enhancing the forecasting power and accuracy of this methodology.

In his book, *Political Risk in the Oil and Gas Industry*, published in 1983, Howard L. Lax writes extensively on the subject. Therein he (1983:109) states that 'particularly in the highly politicized crude and natural gas markets, there is little agreement on how to evaluate political risks', arguing further that in order for the risk analysis to be useful for the extractive industries, it 'may need to forecast the political situation five or ten years into the future'. However, it is not adequate to merely forecast potential future events, '[…] determining how tomorrow will affect operations, profits, and other corporate concerns is the key' (Lax, 1983:110). Analysis and management of political risk are both undoubtedly crucial when investing in the oil industry, where investment amounts are often enormous and where the investment process often takes many years, or even decades to complete (Berlin et al., 2003:1). As touched upon in Chapter 1, Berlin et al. (2003:2) believe that 'political risk management in the energy industry plays an increasingly important role since the world's oil and gas production pattern is directly related to the geopolitical location of reserves'. In defining political risk in the petroleum industry, Berlin et al. (2003:2-3) argue that compared to other types of risk, the *political* risk represented by the host country is a particularly important consideration for this business sector, which is often high profile and controversial in countries where private upstream petroleum activities exist. Moreover, an international oil company operating within a particular host state must be able to first find the hydrocarbons, then produce these at a profit over time, within an environment where it is uncertain whether a future government will adopt the current policies regarding national resources. However, since companies have operated successfully under all variants of political systems, it is clear that political risk is not a direct result of a host country's political system; rather it evolves from changes to the socio-political conditions. Thus, it is *how* a political power is exercised that often determines the impact on an investment (Berlin et al., 2003:3-4).

When assessing the current and potential level of political risk in a country, a MNOC looks at indicators such as other companies' experiences in the same area, activities that can disrupt the government's stability, future prospects for government change, regional political trends, the history of nationalisations/expropriations, and the overall economic condition of the country (Berlin et al., 2003:5). In their conclusion, Berlin et al. (2003:15) find that expropriation and nationalisation remain important political risks for MNOCs, although not to the extent that they did in the past. Further, the risk of creeping expropriation/nationalisation, as well as the risk of contract repudiation, seems to pose a greater risk to MNOCs today. This is particularly true of price and monetary controls, strict labour and environmental regulations, and punitive taxation. Also, companies within the petroleum sector are highly influenced by, for example, the risk of a war or terrorism within a host country, political instability, civil and labour unrest, energy vulnerability, corruption, repatriation restrictions, and environmental activism. Some examples of political risk that companies within the energy sector have faced in the last decade are the war in Iraq in 2003, the unfavourable tax system in Russia, the terrorist bombings in Kenya and Tanzania in 1998, and the kidnapping of oil company staff and sabotage on oil installations in Nigeria. Nevertheless, MNOCs are usually willing to accept a high level of risk if they believe it is manageable enough to ensure profitability of their operations (Alon et al., 2006:631-632).

Several petroleum companies, such as BP and Shell, have their own strategies to forecast such political risks, and Alon et al. (2006:634) describe the IHS Energy Group's model, which has also been adopted by the Société Générale research team as the chosen tool to identify political risks faced by several other oil companies. The IHS index bases its assessments on three key risk factors: political, economic, and commercial petroleum, and within these the risks are subdivided into eleven distinct variables, with different weights assigned: war and external threats (6 per cent); civil and labour unrest (15 per cent); internal violence (21 per cent); regime instability (18 per cent); economic instability (5 per cent); energy vulnerability (4 per cent); environmental activism (6 per cent); ethno-linguistic factionalism (5 per cent); investment constraints (7 per cent); repatriation restrictions (5 per cent); and threat of adverse changes in contracts/fiscal terms (8 per cent). Clearly, the three most important political risk variables are civil and labour unrest, internal violence, and regime instability, which in total account for 54 per cent of the model. These must be focused upon in any political risk model, and this is particularly imperative when assessing the conditions in a state characterised by authoritarianism.

Lax (1983:112) proposes a list and classification of political risk variables that are likely to be relevant for the oil and gas industry, clustered under three main categories: host variables, corporate variables, and external/international variables. He then further classifies the host political risk variables into governmental/political; economic; socio-cultural; and petroleum-specific. As this list is extensive, although not exhaustive (Lax, 1983:112-113), and since many of the general political risk variables are covered by Venter's methodology (1999), this research will focus on pointing out those that can be regarded as specific for the oil and gas industry. Under 'host political risk variables', and those within the 'economic' category, three specific variables for the oil and gas industry are identified: role of the foreign oil firm in the domestic economy; integration of petroleum/gas industries with the rest of the national economy; and importance of petroleum to government revenues and the overall economy. Furthermore, under Lax's (1983:113) 'petroleum-specific' section, he lists several variables: ownership; domestic reserves/production; host's relative market position; level and destination of exports; strength of the national oil company; role of the foreign firm in the national oil industry; prices; domestic ability to operate the industry, including commanding the necessary skills, technology, know-how and capital; and finally ownership/contractual relationship between the firm and the host. Under the section 'corporate political risk variables', Lax (1983:113) identifies the following variables: nationality of the MNOC; position in the world industry, including sources of crude, reserves, production, and market outlets; special bargaining advantages with regard to technology, managerial skills, services, and capital; and the nature of the dealings with host government (receptive, diplomatic, and open or unreceptive, brusque and unyielding). Finally, under the section 'external/ international political risk variables', Lax (1983:113) identifies these variables specifically for the oil and gas industry: world petroleum market conditions, such as prices, supply, and demand; and developments in other oil-exporting countries (demonstration effect). Importantly, Lax (1983:113) remarks that this list only points in the direction of those variables that may be important. It is then the role of a model to organise the consequences of, and the relationships between the variables, so that it becomes a useful analytical tool.

Bunn and Mustafaglou (1978:1557-1558), in their article that focuses on an oil company considering an investment for oil exploration in a developing country, identify ten key political risk events regarding an oil company's possible venture in a developing country: sudden expropriation; creeping expropriation; adverse tax changes; civil disorder; war; production restrictions; repatriation limitations; domestic price controls; devaluation risk; and export restrictions. Further, they (1978:1559) define a political risk factor as 'any set of circumstances which influence the occurrence of a political risk event', and by defining the events first, they identify a set of factors connected to this specific event as precursive. The full list of political risk factors is thus very extensive, as each of the ten events has been connected to between two to eleven political risk factors (Bunn and Mustafaglou, 1978:1563-1566). Therefore, this research will only extract a few of these risk factors that do not form part of Venter's (1999) methodology, and which are deemed useful in an analysis of the oil and gas industry. Firstly, under the risk events 'sudden expropriation' and 'creeping expropriation', Bunn and Mustafaglou (1978:1565-1566) identify the political risk factor 'availability of managerial and scientific technology'. This factor can surface if the local resources are eventually so developed that the government becomes able to operate all facilities themselves, and thus expropriate foreign companies. Another risk factor hereunder is 'relations with firm's parent country', which involves the expropriation of a company if there is a deteriorating relationship between the host country and the company's home country.

Having discussed some of the literature that exists on political risk factors and indicators for the oil and gas industry, a few of these must be selected for this research's later analysis, and added to the already established framework of Venter (1999). As it is impossible to gather *all* information, it is necessary to restrict the choice to those regarded as *key* for the specific case at hand, and this research identifies two main categories of separate political risk factors that are recognised as particularly important for the oil and gas industry. By adding these to Venter's methodology, making a total of eleven political risk factors in addition to several added indicators, the analysis will be made significantly more sensitive to issues related to the oil and gas industry sector, thus increasing the overall sensitivity of the political risk analysis which will be conducted later in this study:

- **Sudden/Creeping Expropriation and Nationalisation:** with risk indicators being, for example, the domestic ability to operate the industry; special bargaining advantages (with regard to technology, managerial skills, services); price and monetary controls; host government relations with firm's parent country.

- **Adverse Government Regulations:** with risk indicators being; threat of adverse changes in contracts/fiscal terms; tax changes/punitive taxation; repatriation restrictions; labour and environmental regulations; production restrictions.

Additionally, some of the more dynamic political risk indicators can be added as elements to consider under Venter's risk factors, in order to further strengthen the analysis. These are:

- *Civil/labour unrest,* and *civil disorder/environmental activism* will be regarded here as political risk indicators under the risk factor 'societal conflict'.
- *Importance of petroleum to government revenues and the overall economy* will be regarded here as a political risk indicator under 'macro-economic circumstances of the host state'.

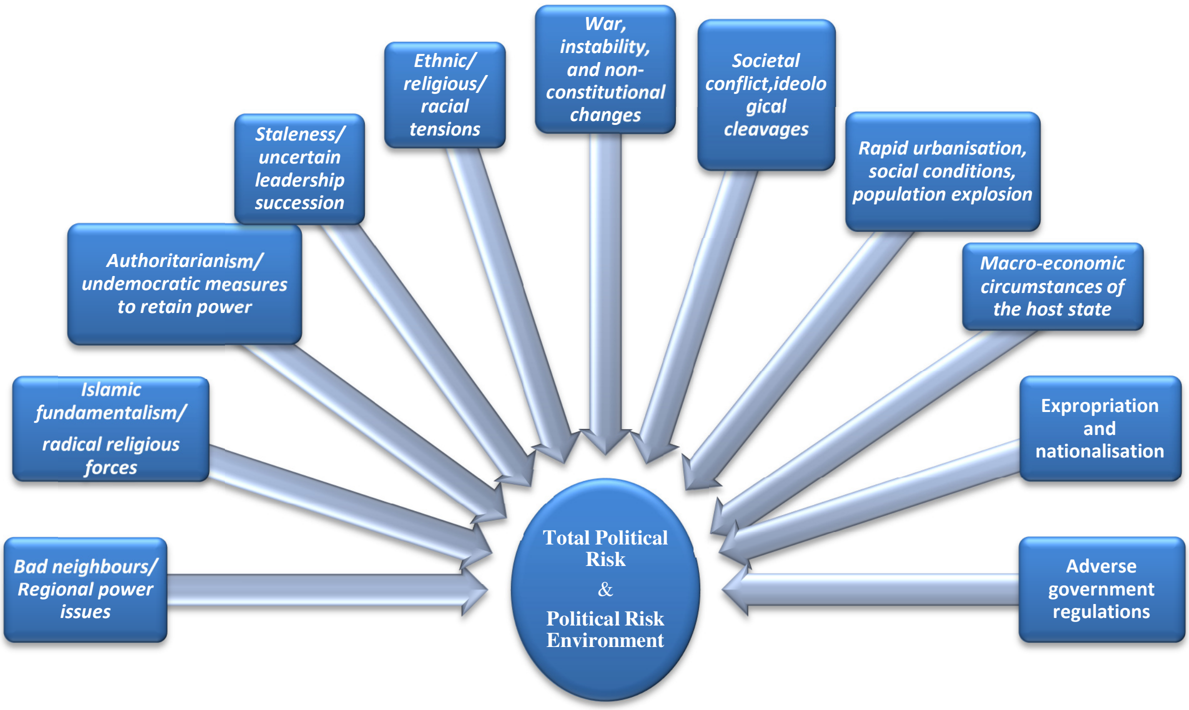


Figure 1: Industry-specific political risk model for multinational oil corporations (MNOCs) operating in authoritarian state markets.

Importantly, the risk scale Venter (1999:7) used needs to be modified slightly due to new risk factors having been added to the methodology. Two new industry-specific political risk factors have been added to the methodology, thus the total maximum points given is now -55.

Original Risk Scale	Modified Risk Scale
0 = No risk - 15 = Small risk - 20 = Medium risk - 30 = Medium high risk (Caution advised, have political risk strategies in place) - 40 = High risk (Only invest in specific projects in which political risk can be insured) - 45 = Very high risk (Unacceptable for a foreign investor, stay out)	0 = No risk - 25 = Small risk - 30 = Medium risk - 40 = Medium high risk (Caution advised, have political risk strategies in place) - 50 = High risk (Only invest in specific projects in which political risk can be insured) - 55 = Very high risk (Unacceptable for a foreign investor, stay out)

Table 1: Modified version of Venter's (1999) risk scale.

2.6 Conclusion

This chapter has focused on four different sections. Firstly, the theories of problem solving and decision making have been presented, since these serve as a foundation for political risk analysis. Secondly, all terms that are regarded as key for this research have been discussed and conceptualised according to the purposes of this study. It is clear that there exists no consensus within the literature on what political risk should include and exclude, and thus how the concept should be defined. However, the broader elements of it are generally agreed upon, and it is clear that political risk must be defined according to the perspective and purpose of the user. In this research, political risk is defined as 'governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments' (Simon, 1982:68). In the third section, Venter's methodology was thoroughly presented and reviewed. It is this methodology that this study will utilise in its later analysis of political risk indicators in authoritarian regimes. In his concluding remarks, Venter (1999) identified a few issues which could be improved, and by taking this into account this research should prove to be more sensitive and thus generally improved with regard to the ability as a tool to forecast potential risk.

In the last section, a review of the literature on industry-specific political risk was conducted, in order to identify a few political risk factors that are then incorporated into Venter's methodology. Two factors are regarded as key: sudden/creeping expropriation and nationalisation, and adverse government regulations. Additionally, several indicators have been added to the methodology in order to increase the sensitivity of the analysis and its forecast of potential political risk events.

Chapter III: Historical Narrative and Contextualisation

3.1 Introduction

Libya[10] is located in the region of North Africa, neighbouring Egypt, Algeria, Tunisia, Chad, Sudan, and Niger[11]. The capital is Tripoli, and Benghazi is the only other major city. It is a country characterised largely by distinct regions and a tribal society[12]. Libya has, in recent decades, been one of the biggest oil-producing countries in Africa, possessing the largest oil reserves on the African continent (Blanchard, 2009:2; US Department of State, 2011). However, from March to October 2011[13] it was a country in a state of civil war ignited by popular demonstrations against Muammar al-Quadhafi's regime. The impact on multinational oil companies[14] (MNOCs) present in the Libyan market has been severe, as explained earlier. This is a further example demonstrating that proper political risk analysis is growing in importance, and it is of paramount importance that the analyses are of adequate quality. The first months of 2011 showed that for MNOCs operating within, or planning to operate within authoritarian states where revolutionary forces could surface, proper risk analysis is critical. Thus, this study aims to assess the components within the most widely used political risk analysis frameworks, in order to find out if political risk analysis as a discipline can be successfully applied as a tool to forecast such a political situation within an authoritarian state.

As mentioned in Chapter 2, an understanding of the historical processes to have formed an investment environment is a crucial part of any political risk analysis. The development of Libya has been both dramatic and complicated, and this chapter seeks to build an understanding of the historical processes in the country. The development of Libya's foreign policies also receives attention. Additionally, this chapter contains a contextualisation of the oil industry in Libya, for example, its historical development, and its impact on the Libyan economy. Through this, the chapter will set the stage for the operationalisation and analysis of the key political risk variables in Chapter 4.

---

[10] The official name of Libya is *Great Socialist People's Libyan Arab Jamahiriya*, with the word 'Jamahiriya' being a term coined by Quadhafi, explained by him as a 'state of the masses governed by the populace through local councils'. However, in practice Libya is regarded as an authoritarian state (US Department of State, 2011).
[11] For a complete map of Libya, see Map 1: Appendix A.
[12] Islam is the official religion and the Quran is the basis for the country's law and 'social code' (Blanchard, 2009:12).
[13] Until the time of writing; as stated in Chapter 1, due to time constraints this research cannot process information after a certain time, and the limit for this study is set to July, 2011, with a few exceptions, as noted earlier.
[14] Examples are Eni (Italy), Wintershall (Germany), and British Petroleum (United Kingdom) (Blas, 2011).

3.2 Historical Contextualisation of Libya: Pre-Quadhafi

This section consists of a historical contextualisation of Libya; from the very early days before it officially became the United Kingdom of Libya, to the days of colonisation, the eventual independence, and the years up until the 1969 coup d'état when Colonel Quadhafi came in to power[15].

3.2.1 Pre-Colonisation and the Colonisation Period (1911-1943)

The land area that now constitutes Libya has been under foreign control for most of the history, part of one empire or another. In the seventh century C.E., it was conquered by the Arabs and throughout the next centuries the majority of the indigenous people converted to the Islamic culture and religion. Thereafter, the Ottoman Turks conquered the area in the mid-sixteenth century and ruled until Italy's invasion and colonisation in 1911 (Blanchard, 2009:2; Simons, 2003:1-4; De Sousa, 2008; Chapin Metz, 1987). It was not until 1929 that the name Libya was formally adopted by the Italians as the official name of their colony which consisted of the three provinces of Tripolitania, Cyrenaica, and Fezzan[16] (St. John, 2008:2). During the Italian occupation, resistance by the indigenous Libyans was widespread. Between the two World Wars, King Idris I, the Emir of Cyrenaica, was the main resistance leader against the Italian colonisers (US Department of State, 2011; Chapin Metz, 1987). Although the Italians brought many positive developments to the country, their campaign was brutal and is recognised to have brought extreme devastation to Libya, by, for example, the forced removal of a large portion of the population in Cyrenaica to concentration camps, or by the decimation of local livestock. Reliable sources estimate the total number of deaths between 1912 and 1943 directly related to the Italian brutality to be between 250 000 and 300 000, and this from a population of between 800 000 to 1 million at the time[17] (Ottman and Karlberg, 2007:13; Vandewalle, 2006:31).

3.2.2 Independence (1943-1952-1969)

When allied forces removed Italy from Libya in February 1943, the two provinces of Tripolitania and Cyrenaica came under separate British administration, and the third province of Fezzan came

[15] An important note to make at this point is that the following discussions will not be able to go into any depth of the major historical incidents, due to space constraints. Thus, only the key incidents and motivations will be presented and briefly discussed.

[16] The word 'Libya' itself contains a long history. It derives originally from a single Berber tribe, and was previously used by the Greeks for the North African region as a whole, excluding Egypt. Thereafter, it was applied by the Italians, before the UN adopted it in 1951 (St. John, 2008:2; Ottman and Karlberg, 2007:9).

[17] According to Vandewalle (2006:31), most of these deaths occurred during the fascist period of the Italian colonialism in Libya, and between 1930 and 1931 an estimated 12 000 Cyrenaicans died from execution alone.

under French control. King Idris I returned to Libya in 1944 after his exile in Egypt, and fought for a further removal of foreign control during the next few years. In 1947, Italy finally renounced all claims to Libya as part of the 1947 peace treaty with the Allies, and two years later the UN General Assembly passed a resolution that stated that Libya was to become independent before January 1, 1952. King Idris I was Libya's official representative during the negotiations, and when Libya eventually declared its independence on Christmas Eve in 1951, it was proclaimed a constitutional monarchy with King Idris I as the head of state[18] (Chapin Metz, 1987; US Department of State, 2011).

Libya is a creation of the West – a combination of the kingdoms of Cyrenaica, Tripolitania, and Fezzan, into the United Kingdom of Libya. It was the UN commission at the time that remarked that a central government was needed as an 'institutional compromise', in order to unite the country economically and politically. However, the separate administration of the provinces during and after the Second World War, coupled with the different reactions to Italian colonialism, led to suspicion and tension between the provinces. Thus, once independent, Libya adopted a constitutional framework that left the central government relatively weak in relation to the individual provinces. Libya essentially remained a tribal society where political loyalties were held within provincial borders; therefore the objective of unifying the country into one political community proved to be a tough challenge (Vandewalle, 2006:46).

As a result of the roles they had during and immediately after the Second World War and up until independence, the UK and US were granted access to areas within the country considered to be strategic in the Cold War against the Soviet Union. In return, the UK and US granted aid to and provided Libya with significant income from the rental of military bases. This provided Libya with the first economic boom in a country that was one of the world's poorest at its creation[19] (Vandewalle, 2006:45). Moreover, eight years after Libya gained its independence, major changes were occurring, as significant oil reserves were discovered within its borders[20]. Libya, having been one of the poorest countries in the world as measured per capita GDP, suddenly became tremendously wealthy.

[18] The new 'United Kingdom of Libya' was in fact the world's first state to gain its independence through the UN, and also one of the first former European colonies in Africa to get its independence (US Department of State, 2011).

[19] The United States alone spent more than USD 100 million in Libyan aid by the end of 1959, thereby making Libya the world's single largest recipient of US aid at the time (Vandewalle, 2006:45).

[20] This will be further discussed under section 3.4; History of the Petroleum Industry in Libya.

Although the economic and political state of Libya after independence showed a number of positive developments, a number of social, economic, and political challenges arose after the country's rapid transition from one of the poorest countries in the world to suddenly becoming wealthy. The transition from being an isolated desert country to becoming an international oil exporter meant that in a short period of time, Libya had to create a number of complex state institutions in order to manage the new resource abundance and wealth. However, those institutions and bureaucracies that emerged suffered as a result of inadequate regulation procedures. The general population was not allowed any involvement in the distribution of this new-found wealth, and rampant corruption and nepotism further exacerbated the internal difficulties Libya faced at the time. At the same time, Arab nationalism was on the rise in North Africa and the Middle East, which meant that Libya now stood in the middle of two factions, the West and the East, resulting in divided loyalties and discontinuity in both the political and economic arena. King Idris and his followers worked hard to prevent an uprising and political mobilisation of the opposition inside Libya, however, a group of officers from the Libyan military eventually ousted the king in September 1969, with a young Captain Muammar al-Quadhafi[21] in the leading role (Vandewalle, 2006:45; Chapin Metz, 1987; US Department of State, 2011).

3.3 Historical Contextualisation of Libya: The Quadhafi-regime (1969-2011)

The instrument of government is the prime political problem which faces human communities.

Muammar al-Quadhafi, cited in St. John, 1987:125.

From the very beginning, it was clear that the new regime in Libya sought to make considerable changes both to domestic and foreign policy issues. Quadhafi's 'Third Universal Theory', enshrined in the three-volume '*The Green Book'* (Quadhafi, 1976), offers an alternative political and economic theory to the capitalist and communist system, in a combination of Islamic, pan-Arab and socialist values. In line with Quadhafi's theories, and over the course of the decade after the revolution, the colonel and his twelve fellow army officers in the Revolutionary Command Council (RCC)[22]

[21] Muammar Abu Minyar al-Quadhafi was born in 1942 near the central coastal city of Sirte, at the very end of the Italian colonisation period and in the midst of the Second World War. He went to University, studying geography for a short period of time, but dropped out and joined the army where he remained until he led the coup d'état in September, 1969 (*Blanchard*, 2009:11; *Headlines Africa*, 2011; US Department of State, 2011).

[22] The world views and motivations of Muammar al-Quadhafi, and the other members of the RCC, originated largely by them having similar backgrounds growing up in lower middle-class families from marginalised societies, and undertaking military careers that seldom provided the opportunity of upward socio-economic mobility in the Libyan society (Blanchard, 2009:3; St. John, 1987:125). St.John (1987:125) states in this regard that 'the consistent and closely

undertook a total overhaul of the economy, society, and political system in Libya. Throughout the past decades they have led Libya through major transformations both domestically and at an international level. This section will, although in a very simplified way due to space constraints, present and briefly discuss the key events in Libyan history under Quadhafi's rule, in order to gain a better understanding of the current investment climate in the country.

3.3.1 The Early Years of Revolution (1969-1975)

When Colonel Quadhafi and his troops entered Tripoli in September 1969 for the coup d'état, it was an entirely military operation, a character of the revolution that was maintained in the immediate aftermath of the revolution as well (St. John, 1987:125-126). Once in power, the RCC adopted the 'Egyptian approach' – creating a totally new governmental structure which enabled it to transfer the ideology of the revolution to the Libyan population, and by this generate mass support for the new regime (St. John, 1987:128). From the very start of the revolution, the RCC took action to strengthen their power, for example, by eradicating the monarchy, decreeing the new Libyan Arab Republic, and monopolising legislative functions and policy direction. In December 1969, they replaced the 1951 constitution with a new proclamation that gave RCC the highest authority in Libya, with Colonel Quadhafi emerging as the de facto head of state, and the RCC now empowered to take any action deemed necessary to protect the regime (Blanchard, 2009:3; St. John, 1987:126; US Department of State, 2011; Chapin Metz, 1987). Soon, the RCC established a Council of Ministers, appointing civilians to help run the government; however, in all policy areas it was the RCC that had supreme authority. Their iron grip on power could also be noticed in the way in which they refused the formation of any form of political organisation by civilians, and although the RCC stated that they mirrored the wishes and thoughts of the Libyan people, they clearly showed no willingness to share any power with them. As mentioned in the previous section on the years after independence; in 1969 Libya remained the traditional, tribal society it had always been. Hence, the danger of the new regime experiencing any challenges from below was not severe, as the traditional system was characterised by a general ignorance, conformity and passivity of the masses towards the government's conduct and affairs (Blanchard, 2009:12; St. John, 1987:126-128).

The RCC's motto became 'freedom, socialism, and unity', and the new regime pledged to promote Arab unity, to undertake an active role in the Palestinian cause, and to promote domestic policies

integrated values and attitudes of the members of the RCC governed the way in which the Libyan government engaged in the decision-making process'.

based on fair wealth distribution, social justice, and non-exploitation. Moreover, one of the first main objectives of the new revolutionary government was the elimination of Western influence in Africa and the Middle East, and to eradicate all international military installations in the country. By 1970, all US and British facilities and installations had been closed down, and in that year Libya expelled thousands of Italian residents. Moreover, the US withdrew its ambassador from Tripoli in 1972. Not long after Quadhafi came to power he partially nationalised all non-Libyan oil and commercial interests in the country[23] (Blanchard, 2009:3; Chapin Metz, 1987; US Department of State, 2011). Further, at the beginning of the 1970s, Quadhafi and the RCC spent enormous amounts on military training and equipment (Headlines Africa, 2011). Within the first year alone, the military establishment tripled in size, and the rapid expansion continued throughout the decade. As a result, by the end of the 1970s the Libyan military had the highest ratio of military equipment to manpower in the developing world (St. John, 1987:137). However, during their first years in power, Quadhafi and the RCC also spent much of the oil income on improving the standard of living for the Libyan people, making Quadhafi very popular, particularly among the poor (Headlines Africa, 2011).

The RCC reduced tribal identification and power in an attempt to broaden support for the revolution by substituting local leadership with leaders supportive of the new regime's goals and objectives. Furthermore, Quadhafi and the RCC decided to cross old tribal boundaries and divided all of Libya into new administrative divisions, in order to strangle regional identity and traditional power centres. However, by mid-1971 it was clear that the RCC had underestimated the power of the tribal leadership in Libya, as the new governmental structure was not generating enough popular support to transform the society into a modern progressive state. As a result, after less than two years this new system was scrapped in favour of a totally new government structure (St. John, 1987:128-129; Chapin Metz, 1987). In mid-1971, Quadhafi announced the formation of an official mass mobilisation party, the Arab Socialist Union (ASU), with committees elected at several levels. However, discussion related to ideology or government policy was banned, and it soon became evident that the ASU could not resolve the failures of the previous government structure (St. John, 1987:129). As St. John (1987:130) argues: 'it never resolved the fundamental contradiction inherent in trying to be both an organization which reflected government interests and objectives on the one hand, while remaining sensitive to public demands and aspirations on the other'. Thus, the ASU

[23] This will be further discussed under the section 3.4; History of the Petroleum Industry in Libya.

failed at the same issues as the preceding structure: it under-estimated the power of traditionalism and tribal leaders in developing the Libyan people's attitudes and perceptions.

Quadhafi's third attempt to gain popular support came in mid-1973, when he proclaimed a popular revolution intended to increase public participation in Libya's affairs, and through this, intensify revolutionary change. By involving the Libyan people more, the RCC hoped to foster attitudes supportive of its goals. In this process, the People's Committees were central. The Libyan people were encouraged to take the power into their own hands through these committees, by holding their own elections in their local communities. However, much confusion followed as a result of Quadhafi's vague instructions of the practical functionality. Moreover, in practice the committees turned out to become merely an addition to the security services, luring out individuals who were opposed, or even ambivalent, to the objectives of Quadhafi's revolution. These people were then arrested for not having identified themselves adequately with the government's policies (St. John, 1987:131). Although this third strategy of the RCC was quite radical and produced mixed results, it was largely positive for the Libyan government and significantly more successful than the previous attempts at structural transformation. The new system was based on Libyan people participating in the election of their local leaders, with popular involvement in the policy-making processes. Thus, political involvement through active participation was introduced for the first time in Libyan history, enabling the local communities to deal with local challenges more efficiently. It was a tactical decision by the RCC that became an enormous success. In the process, the ruling regime strengthened its control of the revolution by exposing and arresting a large number of critics of the regime, thus in fact weakening the power of tribal leadership (St. John, 1987:131). In some sense, this encapsulates the Quadhafi-era on the domestic level; in theory, popular participation was promoted. However, it was only done so up to the point of disagreement with Quadhafi and the RCC, and the regime put institutions in place that ensured that it could never lose its position as the undisputed power hegemon.

3.3.2 The Radicalisation (1975-1985) and Years of Isolation (1985-1998)

It was therefore not at one specific point that the Libyan government became 'radical', although some of its actions and policies were quite radical from the very first days in power. However, as a response to several challenges in the 1970s and 1980s, Quadhafi and the RCC took action to gradually tighten their grip at the domestic level, and also took a more radical stand at an international level.

3.3.2.1 The Domestic Level

In 1975, the RCC once again made several institutional changes. One of these was the election of Basic People's Congresses at the intermediate level. Another important introduction was the creation of a new representative body at the national level, termed the General People's Congress, of which Colonel Quadhafi himself became Secretary General, with the other members of the RCC forming the General Secretariat. Two years later, in March 1977, Quadhafi finalised this part of the structural transformation of the Libyan political structure when he declared the formal establishment of the People's Authority (St. John, 1987:132; Chapin Metz, 1987). Moreover, when Quadhafi resigned from his position as General Secretary of the General People's Congress, he called for the establishment of Revolutionary Committees; a fusion of the most revolutionary factors of the Basic People's Congresses into a new level of organisation in which the members would more or less function as 'revolutionary watchdogs'[24]. These Revolutionary Committees were, according to Quadhafi, to exercise revolutionary supervision, to protect and defend the Great First of September Revolution, to activate and guide the People's Committees and the leadership of the Basic People's Congress, and to urge the masses to seize authority. According to St. John (1987:135), these Revolutionary Committees severely complicated both international and domestic affairs with their objective of revolutionary control.

From 1977, the Libyan government promoted an increasingly radical socio-economic policy[25], and the redistribution of wealth and power that followed had a direct impact on the economic well-being of several sectors of the population, thus promoting domestic tension and a latent political opposition. However, the opposition was badly fragmented and was faced with considerable support for the regime as well, particularly among the younger and poorer parts of society (St. John, 1987:137-139). But the Libyan opposition was not only present domestically. In the early 1980s, the organised opposition abroad became more visible, in accordance with the growing discontent and opposition at home. Quadhafi's widespread use of violence and torture to strangle the mounting discontent[26] with his regime also led to increasingly strained diplomatic relations with Western

[24] In an issue in May 1980 of *The Green March*, the Revolutionary Committees' official publication, the members of the committees are told that they are expected to have total commitment. Total commitment in this context implied that the Revolutionary Committees were to become suicide squads who were willing to sacrifice their lives for Arab unity, and for the elimination of reactionary idols (St. John, 1987:134).

[25] This radical policy included housing redistribution, and state takeover of all export, import and distribution functions (St. John, 1978:138)

[26] At the end of the 1980s, Quadhafi had been in charge for about twenty years, and consequently it was possible at this time to identify at least five generations of opposition groups, for example, the elite of the old regime; the conservative

government[27] (St. John, 1987:139; Chapin Metz, 1987). Moreover, during the 1980s there was a significant increase in defections, however, as St. John (1987:140) puts it: 'if they were united at all, it was in their opposition to Quadhafi. If they shared a single characteristic, it was their mistrust of each other'. Thus, it was not very likely at this point that a successful coup d'état would take place, although there were many attempts[28]. One of the coup attempts, in May 1984, was supposedly organised by Libyan exiles with the support of Libyans within the country. However, the failed coup was followed by a 'reign of terror' with several thousand Libyans being imprisoned, interrogated, tortured or executed[29], and the failed coup attempt only exacerbated the further growth of radicalism inside the Libyan power hierarchy[30] (Blanchard, 2009:11; US Department of State, 2011).

3.3.2.2 The International Level

Although the foreign policies of the RCC were quite radical from the very moment Quadhafi came to power, from the mid-1970s Libya's foreign policies became increasingly confrontational. As a result, their relations with the West became increasingly strained, and over the next years Quadhafi faced several challenges in the international arena. Libya's increasingly close relationship and cooperation with the Soviet Union, as well as its close ties to terrorist organisations, were at this point the major concern of the US and the Western world, and in as early as 1979 the US government designated Libya as a 'state sponsor of terrorism' (Blanchard, 2009:3-4; Chapin Metz, 1987; US Department of State, 2011).

A long-standing dispute between the Foreign Liaison Bureau and the professional diplomats at the Libyan foreign ministry, eventually led Quadhafi to announce that the Libyan embassies would be transformed into 'People's Bureaus'[31] where the professional ambassadors were to be replaced by

---

nationalists who supported the initial strong focus on Arab nationalist policies of the regime, but did not support the increasingly radical socio-economic policies; the religious leadership; and the technocrats (St. John, 1987:139).

[27] This will be further discussed in the section titled *The International Level*.

[28] In the period 1980-1983 alone, at least eight coup attempts against the Quadhafi-regime were reported, which is as many as in the previous ten years. From 1986 until 1987 a further six coup attempts were reported (St. John, 1987:137-138).

[29] In 1987, for instance, nine men were executed in public for conspiring against Quadhafi (St. John, 1987:137-138).

[30] Although these aforementioned incidents are signs of the Libyan regime's more radical policies, it must be noted that several attempts were made by Quadhafi to increase popular support throughout the 1980s. A number of domestic reforms were introduced, for example, reducing the revolutionary committee's power, releasing several political prisoners, and easing the restrictions on Libyans travelling abroad. Importantly, Quadhafi also allowed private businesses to operate again from the late 1980s (Vandewalle, 2006:192; US Department of State, 2011; Chapin Metz, 1987).

[31] The term 'People's Bureaus' was introduced by Quadhafi as part of his goal to portray Libyan foreign policy as expressing the popular will. Together with other Libyan institutions, companies, and communities abroad, their objective was to export Quadhafi's revolutionary philosophy (US Department of State, 2011).

People's Committees reporting directly to the Foreign Liaison Bureau (St. John, 1987:135; US Department of State, 2011). The members of these committees had, with almost no exception, no diplomatic experience. Thus, Libya's process of projecting the domestic revolution into the international arena proved to create significant problems, and when the US and French embassies in Tripoli were attacked by mobs in 1979 and 1980, it was a harbinger of Quadhafi's increasingly radical stand (St. John, 1987:135). The US closed its embassy, and in 1981 the US government also shut down Libya's 'People's Bureau' in Washington. The increasingly tense relations between Libya and the US were exacerbated the same year when a US aircraft was fired upon by Libyan jets in a routine naval exercise, after which the US aircraft shot down one of the attacking jets. Later in 1981 the US banned all travel to Libya for US citizens, and advised all US persons within the country to leave. Furthermore, in 1982 the US prohibited the import of Libyan oil (Chapin Metz, 1987; US Department of State, 2011).

In September 1982, Quadhafi stated that some of the Arab governments had lost their right to exist since they had been passive during the siege of Beirut, Lebanon, charging that it was the Revolutionary Committees' duty to destroy these governments. Moreover, in 1985 Quadhafi argued in a speech to the General People's Congress that it was his right to kill political dissidents both inside and outside Libya. Consequently, the Libyan People's Bureaus around the world were now being increasingly regarded as connected to state-sponsored terrorism (St. John, 1987:135-136). Further, a session of the General People's Congress held in Tripoli in 1986 included the formation of suicide squads to attack the enemies of Libya. However, the same session focused on the worsening position of the country's economy and discussed whether the Central Bank of Libya should seek assistance from other central banks in order to end the freeze on Libyan assets by the US (St. John, 1987:132). Thus, the contradictions in the Libyan foreign policy were very much present at this point, adding to the confusion of those dealing with the country in international affairs. The same year as this session was held, Libyan agents were implicated in the bombing of a discotheque in West Berlin frequented by US servicemen, and two Americans lost their lives in the attack[32]. Only two weeks later, the US answered the Berlin attack by bombing several targets in Tripoli and Benghazi[33], followed by stricter sanctions against Libya[34] (Vandewalle, 2006:169). The

[32] In 2001, four people were found guilty, and one of these was formerly employed at the Libyan embassy in East Berlin. The court established a connection to the Libyan government (US Department of State, 2011).
[33] According to De Sousa (2008), the objective of the US attack on Libya was most likely to eliminate Colonel Quadhafi. Although he survived, one of his daughters was killed in the attack (Vandewalle, 2006:169).

year after, Libya shot down a French airliner over the Sahara (De Sousa, 2008), and Libya was also behind the bombing in 1988 of Pan Am flight 103 over Lockerbie in Scotland, killing several hundred people. As a consequence, the UN imposed sanctions on Libya in 1992, and the UN Security Council passed resolutions in 1992 and 1993 that obliged Libya to fulfill several requirements, one of which was the payment of compensation to the Lockerbie victims' families, before sanctions would be lifted. Importantly, Quadhafi refused to comply with this, and this led to the economic and political isolation that Libya experienced for most of the 1990s (Blanchard, 2009:4-5; US Department of State, 2011).

3.3.3 The Big Transition: Libya as an Ally to the West (1998-2011)

Once the Soviet Union fell and the Cold War came to an end, Libya changed tactics and began developing diplomatic ties with developing states, as well as increasing commercial ties with East Asia and Europe. However, after the UN imposed sanctions on Libya in 1992, these relations quickly deteriorated, and Libya once again found itself isolated on the international scene, although several of the fellow Arab states were still considered to be allies. Yet in 1998, Quadhafi made it clear that Libya would resign from the pan-Arab ideas of Arab unity after an Arab League meeting where the other Arab states decided not to challenge the sanctions imposed by the UN. Instead, Libya started throughout the next decade to develop closer relations with its neighbours in North Africa and other African states. Over the next few years Libya became involved in multiple African conflicts, for example, in Somalia, Sudan, and the Democratic Republic of Congo (DRC), in addition to granting financial aid to other African states, such as Chad and Zimbabwe (Blanchard, 2009:5).

Having been isolated economically and politically for most of the 1990s, Libya took steps to improve relations with the West. Libya eventually decided in 1999 to surrender two of the Libyans suspected of the Lockerbie bombing for trial, and by doing this fulfilled one of the United Nations Security Council Resolutions (UNSCR) requirements. In 2003, Libya accepted full responsibility for the actions and agreed to compensate the victims' families, thus fulfilling the remaining requirements of the UNSCR. Consequently, the UN lifted their sanctions in September 2003.

[34] This included a total ban on direct export and import trade, commercial contracts, as well as travel-related activities. In addition, the US froze all assets of the Libyan government in the United States (US Department of State, 2011). Moreover, merely a few weeks after the US bombing of Libya, international cooperation was engaged, with the leaders of the G7 issuing a declaration to fight terrorism, singling out Libya as the main perpetrator and target (Vandewalle, 2006:169).

Further, in December 2003, Libya made an official statement announcing that it was ready to give up its weapons of mass destruction, as well as its programmes for long-range missiles. As recognition of Libya's positive actions, the US started the process of normalising relations with Libya. In September 2004, President Bush ended the economic sanctions imposed on Libya, signifying the end of the prohibition of US persons working in Libya, and thus the start of a re-entrance of American companies into the country. Hence, by 2004, Libya had gone through an unexpected transformation; the state previously regarded as highly unstable with the 'madman' Quadhafi in charge, suddenly found itself part of the 'good company'. As another result of Libya's apparent transformation, the US re-opened the embassy in 2006[35]. In the same year the US officially rescinded Libya's designation as a state sponsor of terrorism, and ironically, Libya started cooperating with the UK and US on counter-terrorism and regional security; thus, the former state sponsor of terrorism became one of the experts and allies in counterterrorism (Blanchard, 2009:5-10; EIA, 2011; US Department of State, 2011). In the years to follow, Libya also took on leadership positions in international organisations[36], and when US Secretary of State in the Bush administration, Condoleezza Rice, made her first official visit to Libya in September 2008[37], the country's full reintegration with the international community seemed to be complete (EIA, 2011; US Department of State, 2011; De Sousa, 2008) [38, 39].

3.4 History of the Petroleum-Industry in Libya

The sovereignty of a state over its natural resources always requires that such resources are placed under its control.

Muammar al-Quadhafi, cited in St.John, 1987:107

Although the history and development of the petroleum industry in Libya is closely related to its

[35] 2006 also marked the major point of return of MNOCs, after the long period of sanctions (EIA, 2011).
[36] From 2007-2008, Libya served on the Board of Governors in the International Atomic Energy Agency. Moreover, in 2008 and 2009 it represented the Africa group in the UN Security Council, and in 2009 Libya assumed the UN General Assembly Presidency. The same year, it chaired the African Union and was the host to multiple AU summits, and in 2010 Libya gained the presidency of the Arab League, and hosted several summits in this regard (US Department of State, 2011).
[37] Additionally, the US and Libya signed a Defense Contacts and Cooperation Memorandum of Understanding in January 16, 2009, and recently Libya was important in the efforts to obtain a ceasefire between Sudan and Chad, as well as the facilitation of humanitarian assistance to Darfur refugees in Chad. Finally, Libya and the US signed a Trade Investment Framework Agreement in May 2010 (US Department of State, 2011).
[38] The year after (2009), Quadhafi made his first ever visit to the United States, delivering Libya's speech at the UN General Assembly in New York. In his speech, he reinforced Libya's new position in the international arena, and the country's emerging importance on the African continent (US Department of State, 2011).
[39] From here on, the more current Libyan events and investment climate will be covered in the next chapter, as part of the main analysis of this research.

general history and political and economic development, it is deemed useful here to separate these as one of the main objectives of this research is to include industry-specific political risk factors in the analysis of political risk factors for authoritarian states. Thus, the following sections will discuss the development of the petroleum industry in Libya: from the very first exploration phase, to the relatively high status Libya enjoys today as a prominent oil-producing and oil-exporting nation[40].

3.4.1 The Beginning Years

Before oil was discovered in Libya, the country had poor economic promise for the future. The Italians first started geological studies of the country in 1926[41], however, hydrocarbons were not discovered until more than thirty years later. As a direct consequence of the role of the US and UK in Libya during and after the Second World War, companies from these states were given a leading role in the creation and further development of Libya's oil industry (Vandewalle, 2006:45; De Sousa, 2008). After oil was discovered in neighbouring Algeria, active exploration started in Libya in 1953 (SEPM, 2009). In 1955, the Libyan Petroleum Law came into effect as a governing mechanism of petroleum exploration and exploitation. By the end of this year, Libya had already granted forty-seven exploration concessions to a number of international companies[42] (Aburawi, 2009), and Libya was well positioned to strike oil.

The first exploration well was spudded the following year in the north-east part of Libya, but no oil was found at this point. Although the first successful hydrocarbon discovery was made at the end of 1957, it was not a commercial discovery. When a number of further drilling attempts failed over the next years the MNOCs were close to releasing their exploration acreages. However, just as most of the companies were ready to give up, the American MNOC, Esso (today ExxonMobil), made the first successful commercial discovery in 1959. Another giant hydrocarbon discovery was made later that same year by Waha Oil Company[43], and systematic drilling exploration was now being carried out in several parts of the country. Other MNOCs quickly noticed the advantage of achieving

[40] Once more it must be noted that due to space constraints the study will not be able to move in to depth in the information presented and discussed here. The major events will be covered, although in a simplified manner.

[41] The Italian Ardito Desio, assigned by the Italian Geographic Society, was assigned to explore the Giarabu, an area within the Libyan Sahara. From 1930 until 1933 he led geological and geographical expeditions in Libya, and he published several reports on his findings, with no oil discoveries being made at this point (SEPM, 2009).

[42] These concessions were distributed throughout the country's sedimentary basins, covering a total of 519,816 km2 – the equivalent of close to 90 North Sea quadrants (Aburawi, 2009).

[43] Waha Oil Company is today Libya's second largest oil producer, established in 1956. Today, it is owned by the National Oil Company (NOC) in a joint venture with three American companies; ConocoPhillips, Marathon and Amerada (Waha Oil, 2011).

significant transport savings by not shipping oil from the Gulf to Europe via the Cape of Good Hope, and very soon there was a rush of MNOCs into the Libyan market, leading to a number of further discoveries in the following years (St. John, 1987:107; Chapin Metz, 1987; De Sousa, 2008). Two years after the first successful discovery, oil flowed out of Libya to several international markets, and by 1961, a total of forty-two MNOCs had concession contracts and conducted exploratory and drilling activities in Libya, covering an area of 600 000km2. During the next years, Libya experienced a dramatic increase in both oil production and oil revenues. By 1965, Libya was already positioned as the world's sixth largest oil exporting nation, and by 1969 the country's daily oil production was similar to that of Saudi Arabia (St. John, 1987:107; Aburawi, 2009; Chapin Metz, 1987; SEPM, 2009). However, the next decades would prove that this would be Libya's oil production peak as since then it has been in decline (EIA, 2011). The next sections will address the reasons for this.

3.4.2 After the Revolution: Quadhafi's radicalisation of the Libyan oil industry

In 1968, the year before the revolution, Libya's National Oil Corporation (NOC) was established, positioning Libya to increase participation in all processes related to the production of oil. By 1970, Libya produced 7.5 per cent of the world's total production of oil, and 15.4 per cent of OPEC's total[44], resulting in an enormous increase in oil revenue for the country (Chapin Metz, 1987), and all was good at this point. However, the change of regime in 1969 would eventually prove to create enormous challenges for the MNOCs present in Libya. As discussed in the previous section, the RCC began a multi-level transformation of Libyan society almost immediately after the coup d'état, and it was soon evident that the investment climate would also change significantly, especially for the MNOCs.

The RCC's initial policy approach to petroleum-related issues was different from that in other policy areas. Once they gained power, they assured MNOCs and foreign governments that they were not about to make major changes, that they were interested in cooperating with them, and that there was no intention whatsoever of nationalising the oil industry (St. John, 1987:107-108). Their initial strategy also followed this line. However, while they preached conciliation and cooperation, it soon became evident that the new regime intended to increase its control of the Libyan oil industry; Libya under Quadhafi immediately became OPEC's most prominent promoter of greater host government

[44] At the end of the 1960s, Libya's oil production peaked at just over 3 million b/pd (EIA, 2011; De Sousa, 2008).

participation in oil concessions, and the nationalisation process started by first increasing cooperation with Algeria, which also was an early advocate within OPEC of strong host government control of the oil industry (St. John, 1987:108; Chapin Metz, 1987). Moreover, by January 1970, merely a few months after the coup d'état, Quadhafi said in a speech to the heads of the MNOCs that the Libyan people were not dependent on petroleum revenue: they had lived for centuries without it and could easily do so again, if they found it necessary. Naturally, Quadhafi's argument worried the MNOCs and from here on Libya continued to strengthen its radical approach (St. John, 1987:108).

Quadhafi's 'strong-man' policy approach and strategy for the oil sector was largely successful in his first years in power, partly as a result of the increased demand for oil in Europe. The Libyan government's strategy was to negotiate with the different MNOCs independently, giving Libya a stronger position than they would have by collective negotiations[45], which until then had been the norm in the international oil industry (St. John, 1987:108). After the revolution, Occidental was the first MNOC to come to an agreement with Libya in September 1970, and soon other MNOCs followed. The impact of these agreements was enormous on a worldwide basis. The oil companies were forced to agree to a considerably higher posted oil price, and this marked the first significant price increase since OPEC was established in 1960 as a measure to block downward movement of oil prices. Before this, OPEC had not achieved its main objective since the MNOCs had continued business as usual by blocking upward movement. However, the radical strategy of the RCC changed this situation immediately, and thus ended the prevailing myth that MNOCs alone could decide the posted oil price (Parra 2004:124-132; St. John, 1987:109-110). Thus, after the agreements with the MNOCs were finalised in September 1970, Libya suddenly emerged as the new leader of the OPEC-member states, with the other states beginning to negotiate similar settlements (St. John, 1987:111).
The MNOCs, suddenly finding themselves in a position of considerably less power, responded by creating a pact termedthe Libyan Producers Agreement; a pledge that they would stand together against the Libyan government, acting as a group in order to regain some of the power of the Libyan market. Moreover, in 1971 the MNOCs proposed a collective negotiation to all OPEC-member states. This suggestion was, however, immediately denied by the Libyan government as it fully realised the advantages of individual negotiations with the MNOCs, attacking them at their weakest points (St. John, 1987:111). Nevertheless, OPEC adopted a resolution that led to the Tehran

[45] The Libyan government focused specifically on Occidental, an American-based oil company, as Libyan crude oil was close to the only resources they had access to outside North America (St. John, 1987:109).

agreement signed in 1971. This agreement involved collective bargaining between the MNOCs and the OPEC member-states, and herein was an agreed increase in posted oil price that was to apply to all member-states. Thus, the role of Libya as a leader among the OPEC-nations was short-lived, with part of the reason being that the other member-states found Quadhafi's hard-line approach too extreme (St. John, 1987:112). However, in spite of the OPEC resolution, Libya started to negotiate privately with the MNOCs shortly after, and agreed on terms in the so-called Tripoli Agreement in March, 1971. Continuing their previous strategy, separate agreements were negotiated with each MNOC which enabled the Libyan government to get better terms[46] (Parra, 2004:132; St. John, 1987:113)[47].

One incident in particular set the stage for Libya's growing emphasis on government participation. In December 1971, the RCC announced its nationalisation of one of British Petroleum's (BP) concessions, replacing BP with the Arabian Gulf Exploration Company. Quadhafi claimed that his regime's actions were taken due to the British government's failure to intervene in Iran's occupation of the Greater and Lesser Tumb islands off the coast of the United Arab Emirates, arguing that this occupation was an attack on Arab territorial integrity (St. John, 1987:114-115). Parra (2004:150) describes Libya's actions towards BP and the UK as nothing but a 'mere act of misdirected revenge, seen as the path to control'. Hence Libya, in opposition to the existing norms in the oil industry, used politics as a 'weapon' in order to achieve what they wanted[48] – greater state participation in the Libyan oil industry (St. John, 1987:114-115).

Hereafter, Libya's first agreement with a MNOC of participation in a concession was made in 1972 with Eni, the Italian oil producer. After several rounds of negotiations over a two-year period, Libya agreed to 50 per cent state participation in the concession. The American company N.B. Hunt, however, refused a contract under the same terms, leading Libya to nationalise their share. Quadhafi stated that this was retribution for the US as a consequence of its support for Israel in the conflict against Palestine (St. John, 1987:115; Parra, 2004:159), thus once again using politics as the reason for the 'economic punishment' of the US. The Libyan government further described this nationalisation as a key step for all Arabs to end the Western drainage of Arab oil, and for Arabs to

[46] However, it was reported that the RCC in these negotiations often resorted to tactics of intimidation and threat to achieve what they wanted (St. John, 1987:113).
[47] By the mid-1970s, the Libyan government had achieved a total share of the country's oil production of 64 per cent, excluding royalty oil (St. John, 1987:116).
[48] This nationalisation process also included to freeze production of all MNOCs operating in Libya in order to stop them from supplying BP (St. John, 1987:114-115).

retain their own wealth. At one point, Quadhafi (cited in St. John, 1987:115) charged that 'the right to nationalize is one of the rights of the government which owns the oil. There is no law in the whole world which prevents the country that owns the oil from nationalizing oil resources and from handling oil operations or halting the pumping of oil, taking full control of all oil operations. At the same time, any people already moving in the road of the revolution cannot, in any circumstance, halt in the middle of the road'. In any case, the RCC's strategy was successful. In August 1973, the Libyan government signed agreements including 51 per cent participation with Occidental and Oasis, which at that point was the largest independent and major group producer. A few weeks later, the regime announced a general nationalisation accounting for 51 per cent of all assets and business conducted by the major producers and their partners who operated in Libya. The MNOCs tried several strategies, such as boycotting Libyan oil, yet with a shortage of petroleum elsewhere, the potential buyers were simply too many (St. John, 1987:116).

In another radical approach a few years after the revolution, the RCC made significant cuts in the production of several MNOCs, totalling about 800 000 barrels per day (b/pd)[49]. Together with several other tactical moves, such as imposing new port dues, nationalising the domestic marketing of petroleum products, and banning overseas payments by MNOCs to employees and contractors, the Libyan government sought to increase the uncertainty in the market. The immediate effect of this strategy was short-term scarcities in petroleum products, leading to an increased concern and demand for oil supplies in the consumer countries. Further, two other issues resulted from Libya's strategy; the oil price increase and freight rates led to an increase in the Libyan posted price of oil[50], which in turn led to decreased investments in exploration by the MNOCs. At this point, the risk of investing in Libya was relatively high, as there was great uncertainty around the 'new' Libya's oil policies. Consequently, the number of oil rigs in Libya dropped throughout the remainder of 1970 (St. John, 1987:109).

The oil crisis that erupted in the 1970s was a combined result of several different developments, for example, the increased confidence and power of the states versus the MNOCs, a direct result of

[49] Occidental, Esso, Mobil, and Oasis are examples of MNOCs that were forced to cut production at this point (St. John, 1987:109).

[50] Although Libya's radical oil price strategy was largely successful throughout the 1970s, it proved to be counterproductive in many instances. At times, the high prices resulted in economically damaging levels of production by the MNOCs, and Libya's radical political motives behind the price increases also resulted in considerable disagreement with the other OPEC member-states, who believed that price increases should be based on economic grounds alone, leaving political motives out of the negotiations (St. John, 1987:118-119).

Libya's radical policies and strategies; the increasing US dependence on oil from the Middle East; and the creation of the state of Israel in Palestine, an event bitterly opposed by the Arab world, but strongly supported by the US (Blanchard, 2009:4; St. John, 1987:116). In October 1973, Libya froze all exports of oil to the US in support of Saudi Arabia's restrictive measures to several states, and Quadhafi stated once again that this was due to their support for Israel in the conflict against Palestine (St. John, 1987:117). However, the Arab oil embargo on the US was ended by OPEC in March 1974, although Libya and Syria did not agree to this move (St. John, 1987:117; Parra, 2004:182). Yet, although the embargo was lifted, the high oil prices remained, with Libya continuing to be the biggest proponent[51].

During and immediately after the 1979 Iranian crisis, concern for significant shortages of oil resulted in panic buying, and Libya took advantage of this situation by joining the other member-states of OPEC in tripling the price of crude (St. John, 1987:118). However, when the oil supply surpassed the demand, it became difficult for Libya and other OPEC- members to find buyers for the oil. Thus, the end of 1981 and beginning of 1982 saw a dramatic decrease in oil exports, oil production and oil revenues for Libya, which experienced a 50 per cent decrease in oil income for about a year between 1981 and 1982. In a quick reaction to this, the country's government adopted a softer approach both with regard to foreign policy, as well as the relations and negotiations with the MNOCs. As mentioned previously, the relationship with the Reagan administration had deteriorated, and at this point Libya expressed a desire to improve this, at the same time offering the MNOCs a price reduction on oil purchases. This, however, was rejected as inadequate by the actors in the oil industry. Although Libya managed to somehow control its financial challenges due to its gold and cash reserves, the country was experiencing a severe shortage of cash, which led it to take up a significant Euroloan in order to establish a credit rating. However, the Libyan government defaulted several times on payments to contractors and importers during 1981-1982, and it was unable to market the expensive oil it was selling. This led eventually to a forced acceptance of a lower price, and the lower revenues from oil continued throughout the 1980s when the US introduced embargoes on Libyan oil, in combination with a world recession (St. John, 1987:120-121). Libya's international isolation at this point made it increasingly desperate, as the economy was quickly deteriorating. As mentioned, the production peak had been seen in 1969, and the Libyan oil

[51] In an interview in 1976, Quadhafi (cited in St. John, 1987:118) discussed the ideologies behind the Libyan oil price policy: 'It is surprising that the industrial states regret the increase of oil prices at the time when it should regret the Third World standards of living, whose blood is sucked and chocked *(sic)* amidst the first of the industrial world which wants to purchase at the lowest prices, while selling at the highest'.

industry did not develop as expected throughout the next three decades under Quadhafi's rule, mostly because of radical policies. The desperate economic situation eventually led the Libyan government to change tactics and from the late 1990s processes were undertaken to improve the relations with the West, as discussed previously in this chapter.

3.4.3 New optimism – Libya as a rising star in the oil industry

The potential of Libya's natural resources has always been evident. Since the first commercial oil was discovered in the Sirt Basin in Libya in 1959, twenty-two giant and over twenty-five large fields have been discovered, making this area one of the premium petroleum provinces in the world[52] (Aburawi, 2009). Moreover, and despite the international embargoes and sanctions imposed on Libya over more than three decades, in the period 1993 to 2002 oil was discovered at a 50 per cent success rate; in 136 wells out of 270 drilled, and by 2003 Libya was OPEC's eighth largest producer (SEPM, 2009). Furthermore, Libya's oil production grew moderately and was kept stable from 1992 until 2000 at 1.4 million b/pd (De Sousa, 2008). Hence, the international oil industry was waiting for a change in Libya's policies so that they could move in and exploit the extreme potential. After the previously mentioned re-introduction of Libya into the international society, marked by the UN and US lifting of sanctions in 2003 and 2004 respectively, as well as the US repeal of Libya as a state-sponsor of terrorism in 2006, the relations with MNOCs began strengthening again. Since then, oil production has increased moderately to 1.65 million b/pd in 2010 (EIA, 2011). Further, in 2008 the Libyan government announced its ambitious goal of attracting increased foreign investment to the oil and gas industry to increase production capacity from 1.4 million b/pd back to its peak of 3 million b/pd by 2012, although this was later delayed by the NOC until 2017 (EIA, 2011).

3.5 Conclusion

As seen throughout this chapter, Libya has experienced some dramatic changes in the last hundred years. Certainly the country's development in recent history has been marked by the anti-Italian insurgency, involvement in international wars, and complex relationships with its neighbours. The often seen resentment towards the West has, to a large degree, been shaped by the brutal Italian oppression in the period from 1911 to 1943. Moreover, Libya is a creation of the West, and this more or less artificial creation proved problematic once Libya became one nation due to the traditionally tribal society that has always characterised Libya. Although Quadhafi introduced

[52] See Figure 3 and 4 in Appendix F for an overview of Libyan oil production, and the top six proven oil reserve holders in Africa.

several strategic measures to increase popular participation, and through this, support for the regime, opposition grew in accordance with the RCC's radicalisation. The government's oppression of political opposition proves that it, in true authoritarian style, has been willing to do whatever it can in order to stay in power.

As seen in the section on Libya's oil industry, the country went through a major transformation in a short period of time after it struck oil. The transition from poor to rich did not come without challenges. The inadequacy of the King Idris regime to build proper institutions, along with the rampant corruption and failure of even wealth distribution, eventually led to his fall in 1969. Once Quadhafi and the RCC came to power, the changes in the petroleum sector that Libya initiated in 1970 eventually had the whole oil industry turned upside down, with the power moving from the hands of the MNOCs to the host governments. De Sousa (2008) states that 'there is much irony in Libya's history as an oil producer. If Colonel Quadhafi hadn't reached power, the country would have extracted most of its oil during times of cheap energy (as happened in most of Europe). While the country was forced into isolation for decades, Libya now reaches the twenty-first century with half of its oil reserves to extract and healthy foreign relations, looking set for what may be the country's 'Golden Age'. However, with the turn of events in 2011 this 'golden' promise has faded at least in the immediate future, and, more than ever uncertainty abounds for investors interested in the Libyan petroleum industry.

Chapter IV: Political Risk Analysis of Libya (2009-2011)

4.1 Introduction

In the previous chapters, this research has provided an introduction, background and theoretical foundation for the study, a conceptualisation of key terms and identification of political risk variables to be used in the analysis, and lastly, a historical narrative and contextualisation of Libya and the country's investment market for multinational oil corporations (MNOCs). Thus, the stage is now set for the main analysis of this research. The key purpose of this study is, as stated in Chapter 1, to revisit Albert Venter's study (1999) and apply his methodology in an analysis of key political risk indicators for authoritarian states. Thus, the overarching objective is to gain knowledge on the usefulness of major political risk variables with regard to forecasting future events which could increase political risk for an investor. Moreover, this research contributes to existing literature by adapting Venter's (1999) methodology to an industry-specific political risk analysis; hence, in this study a few variables considered to be specific for the petroleum sector *Expropriation/Nationalisation*, and *Adverse Government Regulations* – have been added to the aforementioned methodology.

As stated in Chapter I, one of the key questions asked in this research is: if the list of political risk indicators (presented in Chapter 2) had been used in the case of Libya, what would a summary of macro-political risks in Libya have revealed? Similar to Venter's (1999) study, this analysis will be conducted in the form of a simulated forecast thought to be conducted in 2009[53], for the period July 2009 to July 2011, that is, the two years before the outbreak of demonstrations and concurrent civil war in Libya. The political risk analysis will be conducted step-by-step, with calculations of political risk according to Venter's (1999) methodology, and the complete model with all risk factors presented in Chapter 2[54]. Finally, the total political risk will be calculated according to the modified version of Venter's (1999) risk scale[55].

4.2 Political Risk Analysis of Libya: 2009-2011

As mentioned, the Libyan investment environment for MNOCs looked very promising at the start of 2009. Some of the most important events for the re-entrance of MNOCs into the country from the

[53] As stated in Chapter I, this chapter is only using data that existed at the time the forecast is thought to be conducted (July 2009).
[54] See Figure 1 for the developed model on industry-specific political risk for MNOCs operating in authoritarian states.
[55] See Table 1, for the modified version of Venter's (1999) risk scale.

mid-2000s were that the international sanctions against Libya had been lifted, and the US had rescinded the designation of Libya as a state sponsor of terrorism. In short, Libya had come in from the cold and was now apparently part of the 'good company'. The 'rogue state' and former state sponsor of terrorism was also suddenly at the forefront as an ally in the 'war on terrorism', and had even undertaken leading positions in international organisations. Moreover, at the domestic level several economic reforms had been implemented successfully in recent years, and for the MNOCs, new concession rounds were being held regularly.

The following sections consist of a political risk analysis in the form of a hypothetical forecast conducted in 2009 for the following two-year period. The analysis uses Venter's (1999) methodology and the political risk variables he identified as common, in order to assess the near-future Libyan investment environment for MNOCs. As mentioned in the introduction, two political risk factors have been added to Venter's methodology in order to make the analysis more industry-specific for the oil sector, operating within authoritarian states, namely, *Expropriation/Nationalisation* and *Adverse Government Regulations*. At the end of each section a score/rating will be given reflecting the level of political risk; with a negative scoring system from 0 (no risk) to -5 (highest risk). Up to five penalty points could also be given on the basis of extra high degrees of risk on certain indicators. Finally, all ratings will be calculated according to the modified version of Venter's (1999) risk scale presented in Chapter 2; with six different levels of risk ranging from 'no risk' (score: 0) to 'very high risk' (score: -55). The final score then determines the total political risk rating for the Libyan investment environment in the period 2009-2011. It is important to note, as discussed in both Chapters 1 and 2, the danger of bringing an element of subjectivity to the analysis. The research study addresses this by using reliable data combined with Venter's well researched framework, which should ensure that the subjectivity is kept to a minimum.[56]

4.2.1 Bad neighbours/Regional political forces/Dependence on hostile neighbouring power[57]

With regard to regional power issues, there is currently no major hegemon in the region of North Africa that could pose a threat to the political economy of Libya. A distant hegemon is the US, which marked Libya as a security priority, particularly during the 1980s, when Libya was affected

[56] The subjectivity of the forthcoming analysis will be one of the topics for discussion in Chapter 5.

[57] As Venter (1999:4) stated, this variable was identified as vital by both the *Economist* and BERI models. It implies that the host state is under the influence of another state, an external power that uses force to dominate the country's peripheries.

by sanctions, embargoes and occasional military attacks. However, the relations between these two states have since the start of the 2000s been better than ever before. Libya is no Iraq, as St. John (2004) points out, and many regard the transformation of Libyan foreign policy in the late 1990s and early 2000s as a sign of Quadhafi being concerned over a US intervention, similar to that of Iraq. Yet, the sudden Libyan friendliness towards the Western world has worked it seems, since full diplomatic relations focused on economic cooperation have been established between Libya and the developed world. Thus no immediate risk emerging from this relationship or with any other Western states can be detected at the moment.

Libya's immediate neighbours in North Africa are Algeria, Chad, Egypt, Niger, Sudan, and Tunisia, and Libya's relations with these states are as diverse as they are complex. Throughout the decades under Quadhafi's rule, Libya has been in conflict with almost all of its neighbours, at times. However, no immediate threat for the next few years can be detected in these relations, and a brief elaboration on this is deemed necessary. As stated in Chapter 3, Libya has, since Quadhafi came to power, adhered to the pan-Arab ideas of Arab unity, been a member of the Arab League, and had close ties to the fellow Arab states in North Africa and the Middle East. After the end of the Cold War, Libya worked on improving these relations further, however, Libya apparently resigned from these ideas in 1998 after Quadhafi was angered by the other member states' declaration not to challenge the sanctions against Libya from the UN. Moreover, Libya changed tactics after the end of the Cold War due to shifting world power structures, and started developing diplomatic ties with developing states, both in Africa and elsewhere. Libya has throughout the decades of Quadhafi's rule involved itself directly or indirectly in several conflicts and armed insurgencies in neigbouring countries. It might seem that, at times, Libya has sought a role as the regional hegemon (Sturman, 2003). In previous years this was carried out by military interventions (directly or indirectly), for example, in Sudan, Somalia, and the Democratic Republic of Congo (DRC) (Blanchard, 2009:5; US Department of State, 2011). However, in recent times Libya has adopted a softer approach, exemplified by, for ecample, the granting of financial aid to fellow African nations (for example, Chad and Zimbabwe), facilitation of humanitarian assistance to Sudan, or by hosting and facilitating a peace agreement in Chad[58].

[58] In 2007, Quadhafi hosted talks between the Chadian government and different rebel groups in the country, resulting in a peace agreement. This agreement was, however, broken shortly after it was signed with the result of new clashes between the government and the rebels (BBC, 2007).

Libya's relations with Chad are highly complicated. Quadhafi began supporting the rebel guerillas with training, equipment and arms in the early 1970s, and continued to support different factions throughout the 1970s and 1980s. Moreover, due to several reasons[59], from the mid-1970s Libya occupied the 70,000 square-kilometer Aozou strip of northern Chad along the Libyan border. Libyan intervention in the area resulted in *de facto* control, however, and this led to three phases of open hostilities (in 1980/1981, 1983, and late 1986), in which thousands of soldiers from both countries were killed (Global Security, 2011; Pollack, 2004:376-389). In 1990, reports stated that Libya provided the Chadian rebels (led by Idriss Deby) with military equipment, and concern was expressed that Quadhafi used Chad as a springboard to project his and Libya's influence throughout the region (*Time,* 1990; Krauss, 1991). Quadhafi has allegedly also been involved in several instances of tribal warfare by supplying arms to rebel groups in Ethiopia, Rwanda, Mali and Niger (Krauss, 1991).

According to Eljahmi (2006), Quadhafi was helped into power in 1969 by Egyptian President Nasser, and stayed in power by adopting Egypt's Arab nationalist mechanism of bureaucracy. However, it was not long until the relations between Libya end Egypt became more conflicting, due to border clashes, rumours of intervention from both sides, as well as different views on the case of the Israel-Palestine conflict and the subsequent October war (Pollack, 2004:361-363). Libya's relations with Algeria have also caused occasional tensions, and the regional insecurity for many years is regarded as the main reason for Libya's military mobilisation and amassment of weapons of mass destruction (WMDs) (Takeyh, 2001:69). In recent years, however, the relationship between these states has been calm and more focused on economic cooperation. Libya and Algeria have been cooperating politically and economically on several levels ever since the Arab Maghreb Union[60] was established in 1989 (MEED, 2006a; AMU, 2011), although there were some tensions over the next years because of Libya's support for the Islamist opposition in Algeria (Anderson, 2006:45). Consequently, no immediate threat can be detected from these relations.

Although Libya and Darfur are separated by a wide stretch of desert, there have been close political, economic, and social links between Libya and Darfur for at least two hundred years. Yet, in recent

---

[59] For example, Quadhafi's territorial ambitions, as well as strategic importance and the presence of rich uranium deposits (needed for the development of atomic energy) in the area.

[60] The Arab Maghreb Union is a trade agreement between Libya, Algeria, Tunisia, Morocco and Mauritania. This trade union is, however, currently frozen as a consequence of for examplepolitical disagreements between Algeria and Morocco (AMU, 2011).

decades there have been several points of tension and hostility. Sudan's increasingly pro-Western foreign policies in the 1970s clashed with Quadhafi's anti-Western attitudes, and this resulted in several conflicts in the 1970s and 1980s between the two states. However, since the mid-1980s, as a result of Sudan's new strategy of building better relations with fellow Arab states, combined with Quadhafi's objectives of increasing Libyan influence in the African continent, their relations have expanded and improved significantly. At the start of the 1990s there were even talks of unification between the states, and although this did not materialise it resulted in greater economic participation (Chapin Metz, 1991). In recent times, Libya-Sudan relations have revolved around labour migration, most prominently migration from Sudan and Darfur to Libya, as Libya has been heavily dependent on a foreign workforce[61] due to its relatively small population. The severe conflict in Darfur, however, led to a closure of the national border between Sudan and Libya in 2003, which effectively stopped the flow of migrant workers. Many refugees from Darfur are stranded in Libya, living in poor conditions with little support from the Libyan government, and the situation has at times been quite desperate (Young et al., 2007:826-827).

According to a September 2007 article in the *Economist*, the entire northern parts of Niger (towards the Libyan border) were a battle zone, occupied by well-organised and well-armed nomadic rebel groups, which the Niger government accused Libya of backing. The Niger government dispatched more than 4000 soldiers into the area in 2007, and this rebellion is only the latest in a series of uprisings by the Saharan nomads. Their stated objective is justice, and a fairer slice of Niger's wealth. Reportedly, there is a danger that the Niger conflict could spread to other states in the region, with Libya being probably most in danger of such an event (The *Economist*, 2007). However, the Touareg rebel groups in Niger, and the Niger government, agreed on 7 April 2009 to make peace. The negotiations were led by Libyan leader Colonel Quadhafi, then chairman of the African Union.

In conclusion, Libya's relations with its neighbours are deemed to be calm and mostly focused on economic cooperation at the moment, although the southern borders towards Niger and Chad remain trouble zones. For MNOCs already in Libya or those considering an investment within the country over the next two-year period, the danger of increased political risk emanating from relations with neighbours is limited at the moment. Yet, the historical contextualisation of these relations, and that

[61] At most, an estimated 150,000 to 250,000 migrant workers from Darfur were in Libya (Young et al., 2007:826-827).

of Quadhafi's often radical foreign policies, implies that they should be aware of and monitor the situation continually. Perhaps particular attention should be given to the situation on the southern border towards Niger and Chad. **Score: -2 (little to medium risk).**

4.2.2 Islamic Fundamentalism/Radical Religious Forces[62]

As discussed in Chapter 3, Islamic fundamentalist forces have been both a part of Quadhafi's regime, leading to the designation of Libya as a state sponsor of terrorism, and a threat to his regime since the 1990s, when armed factions rebelling against his rule started emerging within the borders of Libya (Anderson, 2006:44). In particular, Al-Qaida cells have been deemed a threat by Quadhafi, operating in the same regions as the Niger Touareg rebels on the border between Libya and Niger (*Africa Research Bulletin*, 2009). In fact, Libya was the first state to officially issue a warning to Interpol about the threat posed by Al-Qaida in 1998 (Anderson, 2006:45), three years before the 9/11 attack against the US. The Libyan government still considers this group and its affiliates as perhaps the main threat against Quadhafi's regime, and this is one of the reasons for the earlier mentioned counter-terrorism cooperation between Libya and the US/UK, specifically aimed at neutralising the threat from Islamic fundamentalism and radical religious forces (*Africa Research Bulletin*, 2009).

According to Solomon and Swart (2004:21), Quadhafi has, since he came to power, supported Muslim movements (although not necessarily fundamentalist movements) in states such as the Philippines, Eritrea, Uganda, the Central African Republic, and Chad. However, the greatest challenge to Quadhafi's regime has been and still is Islamic militants, who reportedly are increasingly establishing links with the Libyan armed forces. Moreover, many believe that a post-Quadhafi era could be a new regime consisting of a union of the military and fundamentalist Islamic groups (Solomon and Swart, 2004:28). The typical issues causing Islamists to rise up against authority are economic stagnation, political corruption, unequal distribution of wealth, Western cultural penetration and degradation of true Islamic values (Solomon and Swart, 2004:29). All of these issues are present in Libya today, thus a great concern is whether the creation of an Islamic fundamentalist state could become the reality in Libya. As Solomon and Swart (2004:29-34) point out, several Islamic networks and fundamentalist groups have emerged on the political scene in

[62] As Venter (1999) argued in his research; this political risk variable is very powerful due to the significant increase in politically inspired Islamic fundamentalism since the 1990s. This has also been the case in the North African region, although some argue that it is in fact decreasing (Etheridge, 2000).

Libya in recent years, strongly opposing the regime as they are clearly not satisfied with the direction of development of their country. Their perception of Quadhafi seems to be that of a 'devil' who is now cooperating with the 'Zionists',while repressing and abusing his own people and moving further and further away from Islamic principles. Moreover, there is an increasing possibility of these groups managing to become organised at a level where they can truly threaten the established authority, and disloyalty of the armed forces has already been established through the numerous coup attempts over the past twenty years.

In conclusion, the threat of Islamic fundamentalism in Libya is very much present, although latent, both towards MNOCs' presence in the country and on a level where such groups can become a real threat to the established regime. Continued political corruption, economic stagnation, liberalisation and Westernisation, are some of the issues which can increase support of the most radical Islamic elements within Libyan society. In the short term,counter-terrorism cooperation with the West is likely to neutralise this threat. Still, for MNOCs in Libya it will be important to have access to updated information and intelligence on the development of Islamic fundamentalism. Since many of the MNOCs are from so-called 'Zionist' countries with often perceived contradicting values to the Islamic values, they could be one of the first targets for an attack. Moreover, the oil sector could be a target since it is by far the most important for the Libyan economy, thus also the main source of income for the ruling regime. **Score: -4 (high risk).**

4.2.3 Authoritarianism/Undemocratic Measures to Retain Power

Certainly, as discussed in Chapter 3, Libya must be regarded as an authoritarian state, and Quadhafi as an authoritarian leader using undemocratic measures to retain power. Muammar al-Quadhafi has been in power since the coup d'etat in 1969, and from the very first days of the revolution the Revolutionary Command Council (RCC) built state institutions which consolidated and strengthened the regime's iron-grip on power. As is often the case in authoritarian states, there have been many coup attempts against Quadhafi, particularly during the 1980s and 1990s, and internal dissatisfaction has increased in recent decades. The reasons for this will be elaborated upon, as well as the current level of opposition, since this is perhaps the main issue that could ultimately result in the Colonel being ousted – if this is to occur within the next two-year period, political risk is likely to rise to an unprecedented level.

Libyan policy-making and governance is still characterised by impotent formal institutions with the concentration of power in the hands of a few people and informal networks. Quadhafi does not hold a formal role, but enjoys the title Leader of the Revolution, yet he still exercises complete power and influence, and his word constitutes *de facto* Libyan policy. Thus, the Libyan form of government is still as confusing as ever, with a myriaddifferent bodies and agencies with relatively unclear responsibilities. This is probably one of the reasons for the Western World's frequent problems in understanding unpredictable Libyan policies. Formal institutions are only minor players in the political scene, and there is still a lack of proper legal institutions: the real centre of power lies in the informal networks created by Quadhafi since the very beginning of his rule. Family and fellow tribe members, along with the Revolutionary Committees Movement (RCM) all constitute key parts of the informal political establishment which influence Quadhafi's decisions. Moreover, as is true of a number of authoritarian rulers, the Quadhafi regime has, in recent decades, been characterised by a high degree of corruption, cronyism and nepotism (Braut-Hegghammer, 2008; The *Economist*, 2006a).

Civil liberties such as freedom of expression are still undermined and severely restricted. The Libyan government controls all media in the country, although some superficial efforts have been made to introduce 'independent' news broadcasters (*Amnesty International*, 2008a; The *Economis*t, 2006a). Citizens do not have the right to change their government, and all independent political organisation is strictly banned, along with bans on the Libyan people from speaking openly with foreigners, or criticising their leader on any level (US Department of State, 2008; The *Economist*, 2006a). Moreover, Libya continues to ignore or abuse human rights in several cases, for example, with the execution of foreign nationals[63], undermining offreedom of expression, disappearance of political prisoners and demonstrators, torture and arbitrary arrests of foreign nationals, discrimination against women and assassinations of at least one journalist (*Amnesty International*, 2008a; *Amnesty International*, 2008b). The case of the Bulgarian nurses and Palestinian doctor sentenced to death (The *Economist*, 2006c), combined with all the examples mentioned above, shows that the Libyan government is still characterised by some very radical elements, at odds with its new 'transformed' image. Further, the Libyan government does not adequately protect the rights of migrants, refugees or asylum seekers. Other problems listed in the 2007 Country Report on Human Rights Practices are corruption and lack of transparency, poor prison conditions, lengthy

[63] One recent example occurred in August 2009, when thirty Nigerian youths were allegedly executed in Tripoli after being accused of illegal entry. Reportedly, 220 more Nigerians faced execution at the time (Kobo, 2009).

political detention, impunity for government officials, denial of fair public trial, restrictions of freedom of religion, infringement of privacy rights, societal discrimination against women, foreign workers and ethnic minorities, trafficking in persons and restriction of labour rights[64] (US Department of State, 2008).

The Libyan national Mohamed Eljahmi[65] (2006) argues strongly that the Western World's acceptance of Libya into the 'good company' has been premature: 'domestic policy is a window into the character of rulers. In Quadhafi's case, it shows he has not changed his behavior or perspective. Rather than reform, he has sought only the image of reform', and despite rhetoric meant to attract foreign investment, there has been no real economic liberalisation. Quadhafi remains as resistant to reform as ever, and Eljahmi (2006) argues that if one understands his personality and knows the history of his rule it is evident that the Colonel is impervious to change: 'his evolution and political development suggest unrestrained megalomania'. His ultimate goal – to stay in power – remains unchanged. The decision to abandon WMDs was perhaps not a moral epiphany but rather a 'calculated attempt to launder his image in order to earn him an exemption from the US effort to democratize the Middle East' (Eljahmi, 2006). And so far, this strategy is working, evidenced by, for example, the mass return of MNOCs to Libya and the enormous increases in FDI in recent years. The assurances of Quadhafi's abandonment of terrorism may be fleeting, and this research agrees with Eljahmi (2006) in that real security and economic liberalisation of Libya will require democratic reform. This however, does not seem likely in the immediate future, as Quadhafi's grip on power seems to be stronger than ever before.

Nonetheless, it is undoubtedly possible that the apparent stability in Libya is – as Venter (1999) argued in the case of Indonesia – a sham stability. There are several signs of great internal political discontent, as was discussed in the previous section. This latent opposition could potentially erupt into riots and political violence, significantly increasing the political risk for the investor. Yet, a moderating factor is that Quadhafi has managed to stay in power for over forty years, with discontent among the population being a common characteristic throughout this time. The Colonel has survived several coup attempts, but seems only to grow stronger each time. Moreover, there have not been any real coup attempts since the mid-1990s. Further, the various opposition groups

[64] For all specific incidents on human rights abuses in recent years in Libya, see the full report (US Department of State, 2008).

[65] The author of this article is the brother of Fathi Eljahmi, one of the many imprisoned democratic dissidents in Libya. Fathi Elhahmi died in 2009 after falling into a coma in Libyan custody (*Front Line Defenders*, 2009).

are still highly fragmented and inadequately organised, and often have differing interests. Thus, it is likely that Quadhafi will manage to remain in power for at least a few more years, despite the rapidly increasing domestic opposition. Still, it is imperative for MNOCs in Libya to pay close attention and pick up early signals particularly of popular demonstrations or otherwise public expression of discontent with Quadhafi and the Libyan government. If an uprising is to materialise, it is likely to happen swiftly with little notice. Although the Libyan regime probably is able to suppress such an event (with their significant resources and history of using brutal force), the oil sector infrastructure or even MNOC employees could become potential targets of rebel groups' frustrations with their leader. **Score: -5 (very high risk).**

4.2.4 Staleness/Uncertain Leadership Succession

As with Venter's study (1999), the empirically-based argument presented under the explanation of this political risk variable in Chapter 2, seems to be the case also in Libya; that is, a leader must stay in power for about five years to a secure grip on power in a state, but needs about ten to twelve years in power before he begins to become detached and stale. Muammar al-Quadhafi had, in 2009, been in power for forty years and he is only the second leader of the state of Libya since it became an independent nation. Furthermore, there is no doubt that Quadhafi intends to remain in the position of *de facto* head of state. Since the level of authoritarianism under Quadhafi's rule must be regarded as very high, transfer of power in Libya will most likely be very problematic, and thus increase the potential political risk for MNOCs present in Libya or considering an investment in the Libyan oil sector.

Quadhafi has argued on many occasions that he does not hold an official position, and that Libya is ruled by the 'Authority of the People', hence, it is every Libyan citizen who is the ruler. Quadhafi's argument is that the Libyan regime has no domestic opposition, as it is illogical for people to revolt against themselves. Ronen (2005:141) argues that in practice, however, Quadhafi enjoys absolute power, and uses brutal force to suppress any opposition to his regime. Consequently, there are no demonstrations on the Tripoli streets, in contrast, for example, with Egypt, where demonstrations against President Mubarak have become commonplace in the streets of Cairo (Ronen, 2005:141).

The possibility of an Islamic fundamentalist uprising has been discussed in a previous section. Muslim intellectuals, along with several Islamic groups have called for an end to Quadhafi's rule, and impatience with his policies is increasing at a rapid pace (Solomon and Swart, 2004). One of the most popular theories of leadership succession, although he himself has denied it several times, is that power is transferred to Quadhafi's son, Saif al-Islam Quadhafi. It is widely believed by international media that he is the successor to Quadhafi's 'throne', and that his knowledge of Western culture and way of life has given him the reputation of being more friendly towards the Western world than his father is (Ronen, 2005:137; Anderson, 2006:47; Mpofu, 2008). Saif al-Islam Quadhafi has enjoyed growing importance and prominence in Libya's political scene since the early 2000s, and internationally and domestically he has established a good reputation (Ronen, 2005:136; Mpofu, 2008). Undoubtedly, Saif Al-Islam is one of the pillars of the country's elite. He is also regarded as one of the most prominent figures behind the solving of the Lockerbie crisis, and thus the start of the reconciliation between Libya and the West. On several occasions he has voiced his support for democratic values (Ronen, 2005:140-141). In 2002, Saif al-Islam (cited in Pargeter, 2006:222) stated that he would like '…Libya to be strongly linked to the developed World and to be a safe oasis for foreign investment and democracy, respecting the human rights and the environment'.. Ronen (2005:142) argues that 'Saif al-Islam's persistent efforts to abolish the powerful "revolutionary committees" attest to his determination to change the face of Libya. It also possibly indicates his attempt to smooth his way to the top position in the country's official leadership'.

However, the future of Libya's leadership remains uncertain. As discussed on several occasions in this research, opposition to Quadhafi is on the increase. Yet, it remains unorganised and scattered with different opposition groups having dissimilar objectives. Among these groups, there does not seem to be any natural successor to the current Libyan regime. Hence, as argued in the last section, it is not seen as very likely that Quadhafi will be overthrown within the next two years. It also seems unlikely at the moment that Saif al-Islam Quadhafi will take over in this period, as long as his father is leader of the Libyan population. Moreover, a political risk report by the *Economist* in 2008 (Mpofu, 2008) argued that the most significant concern over the future stability of Libya 'in the absence of any threat to his rule', remains the health of Colonel Quadhafi. At this point, however, there are no reports of Quadhafi suffering from any medical conditions. Nonetheless, if a sudden change is to materialise, either by mobilisation of the opposition or by Quadhafi's health, the levels of political risk are likely to soar for MNOCs in Libya. Most evidently, uncertainty will significantly increase with regard to the MNOCs' existing contracts and agreements, as a new power structure in Libya will probably herald different interests and ideas for Libya's further development.

Score: -5 (very high risk).

4.2.5 Ethnic/Religious/Racial Tensions[66]

The Libyan population of about 6 million is relatively unified with regard to ethnic and religious grouping; about 97 per cent of the population is regarded as Berber/Arabs with Sunni Muslim as the main religion. The remaining 3 per cent include, for example,Italians, Greeks, Egyptians, Tunisians, Pakistanis and Indians. About one fifth of the population lives in Tripoli (CIA, 2011). One issue of concern, however, is the large immigrant population in Libya[67]. Most of these people were invited into the country in the 1990s in order to assume positions that Libyans were reluctant to fill, particularly in the construction and informal sectors (IOM, 2003:37). Libya is also the largest destination in North Africa for transit migration to Europe, although this traffic has decreased somewhat in recent years (IADB, 2008:410-411). Importantly, in 2000 a xenophobia outburst resulted in over a hundred sub-Saharan migrants being killed by angry crowds of Libyan citizens. Thousands of migrants fled the country after this and returned to their countries of origin[68] (IOM, 2003:37). Moreover, Libya remains a destination and transit country for human trafficking for the purposes of sexual exploitation and forced labour. Although most foreigners in Libya are economic migrants, many are forced into prostitution or forced labour, or simply become beggars to pay off their smuggling debts. It has been estimated that between 1 and 2 per cent of Libya's foreigners may be trafficking victims[69] (UNHCR, 2009).

According to Maree (2008) there were widespread reports in 2008 of dozens of people being killed by the Libyan government in the southern town of Kufra. The nomadic Tabu tribe, the indigenous inhabitants of the area, number over 2 million and are spread across Libya, Niger and Chad. They have also previously been in conflict with the Libyan government, most evidently during the conflict with Chad in the late 1970s. The Tabu people were reportedly protesting against what they believe were discriminatory actions by the Libyan government, and Libyan government forces moved in to

[66]As stated in Chapter 2, societal tensions arising from ethnic, religious or racial tensions are recognised predictors of political turmoil or social upheaval, and thus increased political risk in a state. Such tensions necessitate government action in order to find a solution, and resources are then allocated for this purpose instead of being used on general economic development. In turn, this can potentially result in the fall of a government, and/or an open conflict within a society.

[67] There are about 1 million immigrants in total, which constitutes about 10 per cent of the total population, originating in particular from Nigeria, Ghana, Chad, Sudan and other Sahel countries (IOM, 2003:37).

[68] Although opinions on the cause the outbreak of violence differs, it has been described as a reaction by Libyan youths to the enormous increase in legal and illegal immigrants. The violence began after the government of Libya ordered a crackdown on employing foreigners, and Libya deported thousands of immigrants in the wake of the violence (Bald, 2000).

[69] Reportedly, the Libyan government has made some effort to deal with this issue, but still does not comply with the minimum standards for the elimination of trafficking, and the protection of trafficking victims is inadequate. Furthermore, widespread corruption in Libya may facilitate trafficking (UNHCR, 2009).

suppress the growing opposition. Moreover, there are concerns that this ongoing conflict could spread to Benghazi, and one member of an opposition group to the government stated that 'Benghazi is a time bomb…when there is an opportunity to revolt against the regime, Benghazi is usually the trigger' (cited in Maree, 2008).

The discussion above shows that there are a few points of concern for MNOCs with regard to ethnic, religious, or racial tensions: the xenophobia attack in 2000 could imply an underlying resentment towards foreigners. Although MNOC employees have not been the traditional targets for such attacks, there is a possibility that they could become targets in the future. Thus, MNOCs should pay close attention to any signs of mass resentment and xenophobia towards foreign nationals. Moreover, the ongoing tribal conflict on the borders of Chad and Niger must be recognised as a potential source of uncertainty for MNOCs. If it is to escalate further and spread to Benghazi, the city closest to the Sirte basin (the most oil-rich area in Libya), oil infrastructure could become a target for rebel groups. Yet, the danger of this occurring within the next two-year period does not seem to be very high at the moment. Normal cautions should still be taken by MNOCs present in Libya, keeping up to date on changing situations and specific incidents of such tensions in the country. **Score: -3 (medium risk).**

4.2.6 War, Instability, and Non-Constitutional Changes[70]

As already mentioned, under the rule of Colonel Quadhafi, Libya has been in conflict with almost all of its neighbours, including a four-day war with Egypt in 1977, failed invasions of Chad in the 1980s and the withdrawal from the Aozou strip (by order of the International Court of Justice in 1994), as well as territorial disputes with Niger, Algeria and Tunisia. Moreover, and as mentioned previously in this chapter, Libya has offered or given military backing to several rebel leaders in neighbouring states[71] (Sturman, 2003). In recent years, however, the relations between Libya and its neighbour states in North Africa have been relatively calm, and a conflict with either of the states above does not seem likely within the next two years.

[70] Venter (1999:4) states that a war or armed insurrection implies a disruption of a national economy, and in some cases it also means expropriation and nationalisation of assets belonging to the investor, and/or destruction of physical facilities.

[71] Examples are the backing of late Zairean dictator Mobutu Sese Seko in 1996, Jean-Pierre Bemba in the DRC, and elected President Ange Felix Patasse of the Central African Republic (Sturman, 2003).

Although liberalisation and economic reform apparently have been on Quadhafi's agenda for some time, with some successful implementations in recent years, progress in Libya has not been as fast as many expected after international sanctions were lifted. State institutions are still not fit to run the fast development process promised by the re-entry of MNOCs and other foreign investors (The *Economist*, 2006a). As the *Economist* (2006a) remarks: 'In fact, it is hard to identify any institution that works well, aside from the ubiquitous security services, which have handily blocked at least a dozen coup attempts'. Hence, some uncertainty derives from the already mentioned increasing domestic opposition towards the Libyan regime, which could well result in future instability: in particular, the tribal rebel groups and Islamic fundamentalist groups are potential sources of tension. An emerging conflict with these could imply a major increase in risk for MNOCs present in Libya, perhaps particularly with regard to the destruction of physical facilities or other damage to the oil infrastructure.

In total, it seems that Libya has adequate resources to hinder a war or instability within its borders in the immediate future. Additionally, in mid-2006 the UK and Libya signed a 'Joint Letter of Peace and Security', pledging that the UK will seek action by the UN Security Council if Libya is attacked by another state with chemical or biological weapons. Moreover, the UK pledged in this agreement to help Libya in strengthening its defense (Nguyen, 2006:34). Yet, uncertainty still abounds with regard to instability arising from domestic opposition. If this is to materialise, political risk for MNOCs is likely to increase significantly with danger of damage to oil infrastructure, expropriation of assets, or even MNOC employees becoming targets. Hence, MNOCs should pay close attention, particularly to the action of various opposition groups to Quadhafi. **Score: -3 (medium risk).**

4.2.7 Societal Conflict, Ideological Cleavages[72]

In 2008, Libya had one of the highest annual GDP per capita (about USD 13, 800) on the African continent (*EconomyWatch*, 2011a). This is mostly due to the small population combined with the high revenues from the country's petroleum industry. However, there are large differences within the relatively small population; a significant degree of income inequality, and most of the oil revenue does not reach the poorest segments of Libyan society (CIA, 2011). Further, from 2006 to 2008 there was a dramatic increase in the rate of inflation, from 1.44 per cent in 2006

[72] As stated in Chapter 2, this political risk factor represents those societal divisions that are not necessarily based on ethnicity, but rather on ideology or class, and represent a threat to consistency in social and economic policy.

(*EconomyWatch*, 2011c), to 6.2 per cent in 2007 (*EconomyWatch*, 2011b), and up to 10.4 per cent in 2008 (*EconomyWatch*, 2011a). Moreover, the unemployment rate is very high at around 30 per cent (2004 est.) (*EconomyWatch*, 2011d), and about one third of the population lives at or below the national poverty line (CIA, 2011).

As stated in Chapter 2, *civil/labour unrest,* and *civil disorder/environmental activism* have been added by this study as political risk indicators under this risk factor. In the case of Libya, environmental activism has never been a major issue, and no reported incidents of such activism directed towards the nation's oil sector and the foreign MNOCs can be found in recent years. In the case of civil unrest and disorder, the brutal oppression by the Libyan government and their secret services seems to have effectively strangled such incidents, although a few incidents have emerged in recent years. One example is from February 2006, when violent protests broke out in the city of Benghazi in response to the Danish cartoons of the Prophet Mohamed, which reportedly turned into a major riot against the government once the Bengazi police killed several protesters (Pargeter, 2006:219; The *Economist*, 2006a). Pargeter (2006:219) believes this 'reflected the simmering discontent and frustration that have long been building in the country's second city'. As mentioned several times, frustrations with the regime are becoming increasingly apparent much due to the regime's inability to improve living conditions of the general population, despite the significant increase in FDI to the country. There has been no real attempt by the Libyan government to tackle the problems that continue to curse Libya, such as high levels of poverty (despite having the highest GDP per capita in Africa), poor infrastructure, and a chaotic and largely ineffective bureaucracy (Pargeter, 2006:219-220).

Societal inequality and class cleavages are factors that typically cause unrest in a society, and these are some of the issues regarded in this analysis as potential sources of uncertainty and future political risk in Libya. Together with corruption, cronyism and other hegemonic abuses by the country's elite it blends into a dangerous combination fuelling resentment towards the current power structures. If this opposition becomes more organised, the threat to MNOCs emerges if Quadhafi is ousted, as this will severely increase uncertainty with regard to the MNOCs' situation in the country, and the contracts and agreements they have signed with the current regime. **Score: -4 (high risk).**

4.2.8 Rapid Urbanisation, Social Conditions, Population Explosion, Corruption[73]

Libya has experienced extreme population growth since the end of the Second World War, with a more than six-fold increase in fewer than sixty years[74], growing from 1 million people in 1950 to 5 million in 2000, and topping 6 million in 2008. Moreover, in 2025, UN forecasts show an expected population of 8 million people, and almost 8.5 million in 2030 (De Sousa, 2008). The total illiteracy rate is relatively high at about 14 per cent (2004 est., World Bank, 2011). Furthermore, the majority of the population reside in urban areas (78 per cent according to a 2010 estimate, by CIA, 2011) and the annual rate of change in urbanisation is estimated at 2.1 per cent (2010-2015 est., by CIA, 2011). With regard to age structure; a third of the population is 14 years or younger, 63 per cent is between 15-64, and 4.5 per cent is 65 years or over. The total median age is thus 24.5 years (2010 est. by CIA, 2011).

Quadhafi has on several occasions 'bought off' poor segments of the society in order to hinder a potential uprising. The question is for how long will they settle with this treatment: as long as their living standards are not raised despite the billions of dollars being washed onto the shores of Libya by the MNOCs. Despite the lifting of international sanctions and the consequent promises of great economic growth, the apparent ambition of the Libyan government to promote sustainable growth by diversifying the economy has largely been failing (Mpofu, 2008). Evidently, Quadhafi is very much aware of the growing discontent among the Libyan people. In an article from the *Tripoli Post* in 2008 (Zaptia, 2008), the issue of wealth distribution in Libya is discussed. Although the *Tripoli Post* is state-controlled and the journalists must be seen as merely 'spokesmen of the Revolution', the article points towards the same issues of concern as mentioned above by this research. Zaptia (2008) states that Quadhafi understands the grievances relating to unequal wealth distribution, and that Zaptia himself 'fully agrees with the Leader of the Revolution Muammar from the point of view that the Libyan people cannot accept the present status quo'. Moreover, he remarks that Libyans' expectations have risen, are rising and continue to rise. They see signboards being erected and construction projects going on all over Libya… They say to themselves there must be a lot of money about and ask when is it going to trickle down to them… This young population is full of expectations and needs vital investment in education, health and all the other sectors'. Moreover, Zaptia (2008) states that 'hence The Leader of the Revolution Muammar Al-Quadhafi is absolutely

[73] As mentioned in Chapter 2, when these variables are present in a society, they tend to imply increased corruption and crime, unemployment, drug-related issues, illiteracy and various health problems.

[74] See Figure 5; Appendix G, for an overview of population growth and population forecast for Libya.

right. We must continue to improve and increase our brand of democracy'. Thus, it might seem like Quadhafi gives the impression that the situation is being dealt with. However, it has been a common trait throughout Quadhafi's long rule to give assurances of better times to come, and to blame the government and the Libyan people themselves for the lack of development, or inadequacy on other issues. In the opinion of this research, it is not very likely that issues of wealth distribution will change significantly in the near future.

On another note, also briefly discussed earlier; corruption, lack of transparency and 'bureaucratic paralysis' are all factors severely hindering the economic development of the country, and Libyans are reportedly growing increasingly impatient (Mpofu, 2008; Pargeter, 2006:232). In 2008, Transparency International (2011) ranked Libya as number 126 (out of 180 nations, where number 1 is the least corrupt, and 180 the most corrupt) on the Corruption Perceptions Index. Hence, corruption is widespread on all levels of Libyan society, with implications for MNOCs doing business in the country or considering to do so. With the enormous potential of the Libyan oil sector and the consequent competitiveness of the market, some might be tempted to cut corners. Strict caution must be taken to follow international rules and guidelines in order to avoid becoming involved in any form of corruption, and all MNOCs should have in place their own rules of conduct for their employees.

In conclusion: undoubtedly, Libyan demographics with regard to the young population imply that an uprising could be in the making in the short to medium term. Most political risk indicators – the explosive growth in population, rapid urbanisation, and endemic corruptionall signify that this is a factor causing grave concern, both for Colonel Quadhafi and for MNOCs operating in Libya. The threat of an uprising by the opposition has been discussed several times already, but Quadhafi has managed to keep it in check so far, and he probably will do so in the next years as well; yet, the discontent seems to get closer and closer, and could explode at any point. MNOCs in Libya must therefore pay close attention to two issues in particular here: further signs of social discontent with the regime and Quadhafi, and the high level of corruption in Libyan society. **Score: -4 (high risk).**

4.2.9 Macro-Economic Circumstances of the Host State

This factor of political risk includes, for example, repatriation restrictions, exchange controls, imposition of tariffs, labour policy, and an 'acid test' for public finances. Moreover, one of the indicators of political risk added by this study to reflect the petroleum industry is *the importance of petroleum to government revenues and the overall economy*. Firstly, a brief overview of the Libyan investment environment in 2009 will be given, with discussions of the indicators above. Secondly, the 'acid test' will help to determine the total score and political risk level.

At the start of 2009, the Libyan investment environment for MNOCs was characterised by some repatriation restrictions, particularly controls and approval requirements for all transactions involving capital, credit operations, and direct investments (Heritage Foundation, 2011). According to the Central Bank of Libya (2011), Libya has gradually dismantled foreign exchange controls in light of the increasingly stable economy in the country, and as a means to attract foreign investors. With regard to tariffs, in 2006 Libya's weighted average tariff rate was 0 per cent, however, a flat 4 per cent 'service fee' was levied on most important products. The labour market was strictly regulated and subject to government directives (Heritage Foundation, 2011). Henry et al. (2008:92) report that largely due to exceptionally high oil prices, Libya managed to record a significant trade surplus and growth rate of 7 per cent in 2007. A total of seventeen FDI projects were made in the Libyan energy sector, and at this point it was looking increasingly attractive to foreign investors[75]. In fact, Libya emerged as the hottest spot in the whole MEDA-region[76] for foreign investments in 2007, as in this year alone Libya attracted close to 4 billion euros in FDI energy projects[77].

Most of the discussion above signifies positive macro-economic circumstances for the host state. On the surface, the Libyan investment environment seems to hold great promise. Libya has also in recent years been praisedby the IMF,for example, for the easing of trade restrictions, simplification

[75] A positive sign is the great diversity of FDI countries of origin; six of the projects were from European countries, four from USA/Canada, four from Russia, and one from Algeria. Moreover, in what was the largest FDI project in the MEDA-region in 2007, the Italian oil company Eni entered into an agreement with the Libyan oil company NOC worth USD 28 billion over ten years. Another major FDI project in 2007 was the investment by Petro-Canada in a joint investment programme with NOC, worth USD 7 billion, for exploration projects in the Sirte Basin (Henry et al., 2008:22-23). For an overview of Concessions in Libya, see Map 4: Appendix D. For an overview of Libya's oil exports by destination, see Figure 2: Appendix E.

[76] The MEDA-region consists of Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia,Turkey (Henry et al., 2008:4).

[77] Of the twelve most important energy projects in 2007, three of them were in Libya. Two of them havealready been mentioned (Eni and Petro-Canada), and the third project is BP's exploration deal with the Libyan government worth USD 900 million (Henry et al., 2008:52-53).

of investment procedures, and privatisation of several state-owned enterprises. In fact, in 2005, growth in the non-oil sector was strongest, with the best performers being the sectors of trade, hotels, transportation, construction and services (MEED, 2006b). However, there are many aspects of concern as well. Firstly, Libya remains extremely dependent upon the hydrocarbons sector, which exposes the country to downturns in international oil price and output cycles. This dependence also leaves public finances vulnerable to changing trends in international oil markets (Atkinson, 2009:4-5). What is needed is a further diversification of the Libyan economy; however, Pargeter (2006:223-224) argues that although some economic reforms have been successful in recent years, there are barriers within the regime which oppose any sort of change that might move Libya away from the centralised bureaucracy it is today. In particular, members of the Revolutionary Committees fear that their own interests and patronage networks may deteriorate with the introduction of a private sector economy. Hence, the reforms made in recent years should be regarded as more cosmetic than real: Libya remains more or less the same state as it has been in terms of political structure and policy-making.

The following section consists of the 'acid test' of the level of Libyan debt by international borrowing liabilities[78].

- **Payment of interest and principal**[79] (as a percentage of export earnings on goods and services, where the ratio should not exceed 25 per cent).
    - 2007: 2.3 per cent
    - 2008: 1.7 per cent

  Libya's numbers for payment of interest and principal are more than acceptable, and no problem is indicated.

- **Outstanding government debt**[80] (percentage of GDP, where debt divided by GDP x 100 should not exceed 40 per cent, as this indicates long-term financial problems).
    - 2007: 8.9 per cent
    - 2008: 9 per cent

[78] All data below in this section are collected from either *EconomyWatch* (2011a, 2011b, 2011c), or Atkinson (2009), unless otherwise stated.
[79] This is considered as a highly important and reliable measure of the burden of a country's external debt (Kern, 1985:23).
[80] Also called external debt, this is a measure of a country's overall debt burden relative to the size of its economy (Kern, 1985:23).

  - 2009 forecast: 15.5 per cent

Libya's situation of external debt is very solid, and no problem is indicated. A cause of concern, however, is the forecasted major increase from 2008 to 2009. This forecast derives from weak oil prices in the last quarter of 2008 (Atkinson, 2009:5), but levels of external debt will in any case remain far below the point where it becomes a concern to a MNOC.

- **Total debt**[81] (percentage of exports, should not exceed 100 per cent).
  - 2007: 9.7 per cent
  - 2008: 8.4 per cent
  - 2009 forecast: 20.7 per cent

As with the former risk indicator, the forecast for 2009 shows a significant increase. However, the percentage of total debt is far below the point of concern, hence no problem is indicated.

- **Current account deficit**[82] (amount and percentage of GDP, deficit should not exceed 7.5 per cent of GDP).
  - Current account balance 2007: USD 29.8 billion (50.4 per cent)
  - Current account balance 2008: USD 37.1 billion (53 per cent)
  - Current account balance 2009 forecast : 5 per cent

In both 2007 and 2008, Libya had a strong current account surplus. Thus no problem is indicated with this indicator. The forecast for 2009 reports an expected significant decrease.

- **Government budget deficit** (percentage of GDP, should not exceed 3 per cent of GDP).
  - 2007: Government budget balance: 28.6 per cent
  - 2008: Government budget surplus: 30.2 per cent)

In both 2007 and 2008 Libya had a strong government budget surplus, thus no problem is indicated with this risk indicator.

- **Tax**[83] (percentage of GDP should not exceed 30 per cent).

[81] Also called external debt/exports of goods and service, or liquidity gap ratio, this indicator relates to expected short-term increases in external indebtedness, by focusing attention on financial requirements over the year ahead (Kern, 1985:23).

[82] A sustained current account deficit in excess of 7.5 to 10 per cent of GNP normally indicates a severe degree of economic weakness (Kern, 1985:23).

[83] Also called tax burden/tax revenue (Kern, 1985-23-24). Should not exceed 30 per cent as this points to low government involvement in the economy and moderate government consumption (Venter:1999).

- 2007: 2.9 per cent
- 2008: 3.0 per cent
- 2009 forecast: 3.4 per cent (all these numbers are from OECD, 2008:378).

The tax percentages of GDP are far below the point of concern, hence no problem is indicated with this indicator.

In conclusion, Libya passed the 'acid test' without any problems indicated. Yet, the significant dependence on the oil sector, combined with the slow progress of economic reform and liberalisation is of concern. It must be noted, however, as discussed in Chapter 2, that Venter (1999:8) pointed out a weakness in his analysis, relating to the lack of transparency in the disclosure of government-generated economic statistics. He argued that this should be added as an additional political risk indicator, since that would strengthen the forecasting power of the model applied. In the case of Libya, lack of transparency and veracity in all government-related activities and government-generated statistics is undoubtedly of concern. Yet, enough statistical data are available to justify a conclusion that the country's economy is relatively strong. For MNOCs already in the Libyan market this implies that their investment is not very threatened by the host state's macro-economic circumstances, at least not in the short term. **Score: -1 (little risk).**

4.2.10 Expropriation and Nationalisation[84]

It would be natural to assume that it is unlikely that Libya will revert to either expropriation of MNOCs or increased nationalisation in the immediate future, when they in recent years have sought to liberalise and privatise the economy. Yet, in 2009 Libya introduced a directive requiring all foreign companies to appoint Libyan chief executives (Saleh, 2009). One of the reasons behind this move was most likely to increase the skills and capacities of Libyans, so that further nationalisation of the oil sector becomes possible at a later stage. At this point Libya is still dependent on the resources, skills and technology of the MNOCs; however, some believe that several decisions by the Libyan government in recent years point toward some kind of covert nationalisation and possible expropriation of MNOCs (Saleh, 2009).

[84] As stated in Chapter 2, this political risk factor includes indicators such as domestic ability to operate the industry; special bargaining advantages (with regard to technology, managerial skills, and services); price and monetary controls; and host government relations with a firm's parent country.

With regard to relations between Libya and MNOCs' home countries: at a gathering held in Tripoli in May 2006 to commemorate the 1986 bombings of Libya by the US, Ahmed Ibrahim, the Libyan parliament's deputy speaker stated that 'the United States is a damned country that deserves only to be cursed. It declares its own occupation of our lands legitimate, but brands our resistance as terrorists'. The statement came in response to the US decision at that point to keep Libya on the official list of state sponsors of terrorism (The *Economist*, 2006b). Statements and rhetoric like this, show that the Libyan view of the Western world, and the 'imperialist' US in particular, has not changed significantly despite the lifting of international sanctions. Hence, Libyan policy-making is still surrounded by uncertainty – and there is a slight danger that Libya could once again use politics as a 'weapon' against Western states and MNOCs to achieve their goals. One of these 'weapons' is nationalisation and expropriation of MNOCs.

Yet, at least on the surface, relations with the US, UK and other Western states have never been better and more civilised than they are at the moment. Several formal international agreements are also in place, such as the earlier mentioned cooperation on counter-terrorism, or the defense agreement between Libya and the UK. Moreover, Libya has on several occasions hired Western experts and advisors to help with economic reforms (Wallis, 2006). Additionally, MNOCs from all over the world are currently present in the Libyan market, many of them on long-term contracts, contributing greatly to Libya's national economy. Yet, the threat of expropriation and nationalisation is still present, and history shows that Quadhafi and the Libyan government are capable of making unexpected turns in policies. Naturally, expropriation and nationalisation would imply a critical situation for any large investment in Libya, hence MNOCs should be wary of all new directives or other signals that suggest that this is the direction in which the Libyan government is moving. **Score: -4 (high risk).**

4.2.11 Adverse Government Regulations

Many of the issues discussed in the last section account for this factor as well. In recent years, and as touched upon in the last section, the Libyan government has introduced several sudden directives and policy implementations that directly affect MNOCs in the country. The directive stating that all foreign companies must have a Libyan national as Chief Executive is extremely strict and an apparent sign of creeping nationalisation. Moreover, tougher conditions have been introduced on bidding and concession rounds, and there has been a forced re-negotiation of several MNOC contracts, where the oil companies involved have agreed to halve their share of production in return for contract extensions. Further, MNOCs have been forced to favour Libyan suppliers of equipment and services, and also to establish teams of design engineers in Libya rather than use their own units. Reportedly, part of the reason behind these policies is domestic criticism against the liberalisation of the economy (Saleh, 2009). Hence, MNOCs in Libya are still operating under circumstances of great uncertainty. Remembering the historical contextualisation in Chapter 3, parallels can easily be drawn between Quadhafi's first nationalisation process and the signs of creeping nationalisation in recent years, although forty years have passed. As such, adverse government regulations persist as a serious political risk factor for MNOCs. **Score: -4.**

4.3 Calculating Total Political Risk of the Libyan Investment Environment (2009-2011).

As in Venter's study (1999), this research will award some overall penalty points due to some of the risk factors representing potentially very high levels of risk. In this case, it is evident that the extreme level of authoritarianism in Libya, combined with the staleness and uncertainty of leadership succession, represents a major risk to MNOCs. Moreover, political risk levels are high due to the continued threat of Islamic fundamentalist forces; the significant growth in population and urbanisation, together with other social conditions; as well as the threat of adverse government regulations and creeping expropriation/nationalisation from a government and regime leader that have proved enough times that one cannot be certain that existing contracts and regulations will remain as promised. All of this, combined with the high levels of corruption and cronyism, signifies that it would be justifiable to add at least five penalty points to the total score, in order to better reflect the reality of the level of political risk in the Libyan investment environment for MNOCs.

Total Score on All Risk Variables		
Risk Factor 1	**Bad Neighbours**	-2
Risk Factor 2	**Islamic Fundamentalism**	-4
Risk Factor 3	**Authoritarianism**	-5
Risk Factor 4	**Staleness/Uncertain Succession**	-5
Risk Factor 5	**Ethnic/Religious/Racial Tensions**	-3
Risk Factor 6	**War/Armed Insurrection**	-3
Risk Factor 7	**Societal Conflict**	-4
Risk Factor 8	**Rapid Urbanisation/Social Conditions**	-4
Risk Factor 9	**Macro-Economic Circumstances**	-1
Risk Factor 10	**Expropriation/Nationalisation**	-4
Risk Factor 11	**Adverse Government Regulations**	-4
Penalty Points	**Penalty Points for high levels of risk**	-5
	Total Score: Medium High Risk	**-44**

Table 2: Total score on all risk variables for the Libyan investment environment (2009-2011).

4.4 Conclusion

If a forecast of the Libyan investment environment had been undertaken in 2009 for the next two-year period, a competent political risk analyst would have come to the reasonable conclusion that this period represented a medium high level of political risk for MNOCs. Hence, any MNOC considering an investment for this period in the Libyan petroleum sector should have been warned to use great discretion. Should the investor have decided to move forward with the investment despite the medium high level of political risk, the company would have been strongly advised to have adequate mitigation strategies in place in case any of the potential risks emerged, as they could have far-reaching consequences. According to this analysis, one of the major potential political risks was the extreme levels of authoritarianism in the state, with Colonel Quadhafi having been in charge of an oppressive regime for over forty years. Another major risk factor is the staleness of the Libyan regime, and the great uncertainty of the leadership succession. Some of the other factors which had high levels of risk were: Islamic fundamentalism – with Al-Quaida and affiliate groups still proving to be a significant threat both to Quadhafi and the Libyan government, as well as to Western interests in the area; rapid urbanisation and social conditions – with an extreme population growth in a relatively short period of time, a young and increasingly urban population with a relatively high illiteracy rate, the risk of a social revolt becomes more and more likely; and adverse government regulations – although Quadhafi and the Libyan government seem relatively 'friendly' towards MNOCs and foreign investors at the moment, history tells a different tale. One does not need to go far back to remember how Libya has ignored international conventions and norms, or used politics as a 'weapon' to pressurise investors and MNOCs in the country. It is only in the last few years that there has been an apparent move towards a more open and liberalised market, and there is a risk that a backlash could occur, resulting in increased uncertainty for MNOCs.

In Chapter 5, which consists of the final sections of this paper, the method and political risk indicators that have been used in this analysis will be discussed and assessed according to their forecasting ability. Against this background, it will be possible to present some recommendations for future studies within the increasingly important field of political risk analysis.

Chapter V: Conclusion and Evaluation

5.1 Introduction

The rule of an iron fist inevitably comes to an end.

Barack Obama cited in El Gamal and Gaynor, 2011[85].

This research study began with the wave of demonstrations and uprisings for democracy in North Africa and large parts of the Arab world in the first quarter of 2011, and ends with the death of Quadhafi, the former leader of the Libyan Revolution[86]. Certainly, the interest of and need for political risk analysis should increase with these events as well, and it is the hope of this research study that its efforts can contribute to the further development of the field of political risk analysis. This last chapter brings the thesis to its conclusion by, firstly, providing an overview of the progress of the research study, discussing the outcomes and findings of each chapter. Secondly, an evaluation of the research study will be conducted where the main focus will be to answer the research questions central to this study. Thirdly, and importantly, the chapter contains a discussion of implications and recommendations for future research, with regard to the findings of this study.

5.2 Progression of the Research Study

Chapter 1 served as an introduction to the research study. Herein the research problem was first identified: in the light of the Arab revolutions in 2011, and since a model of political risk analysis can only be as good as its components, this study aimed to assess the components of the most widely used political risk analysis frameworks. The objectives and relevance of the research was then stated, with the overarching purpose being to gain knowledge on the usefulness of major political risk variables with regard to forecasting future events that could potentially increase uncertainty and political risk for an investor. Another key objective is to contribute to existing literature by enabling the analysis to function as an industry-specific tool, carried out in practice by adding a few risk variables identified as common for political risk analyses of the oil industry. A third objective of this research study is to assess the applicability of the identified political risk variables on analyses of authoritarian states. Above all, the first chapter served to establish the research questions guiding the

[85] This statement by US President Barack Obama was made on 20 October 2011- the day of Quadhafi's death (El Gamal and Gaynor, 2011).

[86] The study remarked earlier that no information would be processed after September, 2011. However, the death of Quadhafi is considered to be an event that should be mentioned here, thus Chapter 5 will take this into account despite the fact that this occurred as late as 20 October2011.

study[87]. In order to answer these questions the research chose to revisit Albert Venter's study from 1999, adopting his framework of common political risk variables in a forecast of the Libyan investment environment for the period 2009 to 2011. Owing to the objective of enabling the framework to function as an industry-specific tool, the research also decided at this point to identify a few political risk factors considered specific for MNOCs operating in authoritarian states.

Further, the first chapter established the research method and research design of the study; a qualitative nature was chosen, with a critical and an inductive approach, allowing ideas and propositions to be formed and changed throughout the evolvement of the study. In addition, the research design was chosen to consist of a data-gathering method using mostly secondary data. It was established that the time period for the forecast and analysis was to be the period from mid-2009 to mid-2011, because at this point the Libyan investment environment seemed highly promising for MNOCs, after the lifting of international sanctions, several years of economic growth and liberalisation of the Libyan economy. The first chapter also contained a literature survey, presentating the academic works of some of the scholars, and other sources to be used in this research study. Importantly, this chapter also discussed limitations and delimitations to this research study. Of particular importance is the critique of the 'soft' and highly subjective nature characterising political risk analysis, resulting in the analysis being formed by probabilistic assessments[88]. Finally, Chapter 1 presented an outline of the remaining chapters.

Chapter 2 contained three different sections which all served to build a foundation for the research. Firstly, the field of political risk analysis was grounded in the theories of problem solving and decision making. It was established that uncertainty is particularly evident when a company or organisation is considering entering a developing market, or a market where political and socio-economic conditions are unstable or unfamiliar. Hence, in such markets political risk analysis must be regarded as an imperative tool in order to solve this problem by decreasing and managing the uncertainty, before making a decision as to whether or not an investment should be made. Secondly, this chapter contained a conceptualisation of all concepts considered key for this research. It was found that, in literature, the usage of the word *risk* and the definitions of the concept varies greatly dependent on the context in which the author is conceptualising it. In this study, risk was defined as

[87] This will be further addressed in section 5.3: Evaluation of the Research Study.
[88] How the research study addressed the common critique on the 'soft nature' of political risk is elaborated on in the evaluation section, later in this chapter.

'the likelihood that validly predictable direct and indirect consequences with potentially adverse values will materialize, arising from particular events, self-behavior, environmental constraints, or the reaction of an opponent or third party' (Vertzberger, 1998:22).
It was remarked that there is still an ongoing debate between scholars and practitioners regarding what the term political risk actually includes, and what it should exclude from its definitions. This chapter contained a review of some of the main elements of discussion, and sought, in particular, to clarify the difference between various concepts often used synonymously with that of political risk, such as political instability, political uncertainty, and country risk. Moreover, the chapter conceptualised several terms including risk and political risk, forecasting, and authoritarianism.

Importantly, Chapter 2 contained a thorough review of Venter's (1999) study and methodology. Venter's study shared similar objectives to this research as he sought to contribute towards an improved framework of political risk analysis, enhancing a company's ability to anticipate unexpected political risk events. Moreover, the case study he used, Indonesia and the fall of the authoritarian Suharto presidency in 1998, was at least on the surface very similar to the case of Libya and the uprisings in 2011; two authoritarian states characterised by many of the same traits, such as corruption and cronyism, both with leaders who had ruled with an iron fist over several decades, with increasing opposition at the domestic level. Importantly, Venter (1999:1-2) believed it was possible to reveal early warning signals of future risks on the basis of a descriptive analysis of a state's socio-political trends, and that although there is no consensus on which political risk indicators should be used in an analysis, it is possible to solve that problem by analysing past performance using the indicators. He (1999:8) concluded in his study that his restructured model clearly '[…] could be used with greater confidence in future political risk assessment of states', and his study then claims 'that the key indicators identified by Howell and Chaddick (1994), suitably modified and tested in use in the case study of Indonesia, can give a shorthand overview of the political risk faced by investors in a state'. Venter identified a few weak points in his analysis, and argued that in future research the circumstances of the host state should be made more sensitive, and lack of transparency in economic statistics generated by the host government should be added as a political risk factor. This research took Venter's recommendations into consideration in its analysis in Chapter 4, and added these elements to the methodology.

A final section in the second chapter was the identification of political risk variables for the oil industry. This was initiated by a review of literature specific on this topic, and although many of the factors were found to be similar to a more general analysis of political risk, some were identified as specific for the petroleum sector. Consequently, expropriation/nationalisation, and adverse government regulations were incorporated into the framework used in the analysis in Chapter 4. The framework used in this research then consisted of a total of eleven political risk factors, with several indicators under each factor. Venter's (1999:7) risk scale was slightly modified due to these additions, with a maximum points of 55 given.

Chapter 3 contained the historical contextualisation ofLibya, and of the petroleum industry in the country. It became evident that dramatic changes and transformation in the last hundred years has, to a large degree, formed the current investment environment, and many of the political risk factors present in Libya today can be directly connected to historical events. Libya's development in recent history has been marked by, for example, the Italian colonial campaign, involvement in international wars and African conflicts, and complex relationships with its neighbours. Moreover, in the contextualisation of Libya's oil industry, it became evident that the rapid transformation and transition from poor to rich did not come without challenges. The newly independent Libya failed to build institutions that could adequately manage the new found wealth, and along with the rampant corruption and failure of even wealth distribution, this resulted in the fall of King Idris in 1969. With Quadhafi and the RCC in power, initial statements were made that promised MNOCs no significant changes with the regard to existing contracts and agreements. However, it was not long until Libya became the prominent player in events which eventually had the whole oil industry turned upside down, with the power moving from the hands of the MNOCs to the host governments.

Chapter 4 contained the main analysis of this research study, namely a political risk assessment in the form of a forecast of the Libyan investment environment for the period 2009 to 2011. The methodology built on Venter's (1999) framework of common political risk indicators, with an additional two risk factors added by this study which were identified as specific for MNOCs operating in authoritarian states. The analysis was conducted step by step, and all eleven risk factors were given a score on a scale from 0 (no risk) to -5 (very high risk). In addition, the research added five penalty points for extra high levels of risk on some of the indicators, giving a total score of -44 points, which on the risk scale used signified that the Libyan investment environment represented a medium high level of political risk for MNOCs in the period 2009 to 2011[89].

5.3 Current State of the Libyan Investment Environment

As mentioned in the conclusion of Chapter 3, at the start of 2011 Libya seemed to be set for the country's 'Golden Age'. This was the result of the lifting of international sanctions and decades of both domestic and international challenges which had hindered the development of the extreme potential of the nation's natural resources, evident since the late 1950s. In fact, and as mentioned several times earlier in this research, as of January 2011 Libya held the largest proven oil reserves in Africa[90] (EIA, 2011). Moreover, the Obama administration in the US was set on renewing and developing the positive trend that had characterised the relations between the US and Libya in recent years (Blanchard, 2009:6). However, during the course of a few weeks the promise of a 'Golden Age' seemed to fade as the country's situation changed drastically. Popular demonstrations against authoritarian regimes in the neighbouring states of Tunisia, Algeria and Egypt soon spread to Libya as well – and the cries for democracy sparked a civil war which marked the beginning of the end of Quadhafi's over forty years in power, culminating with his death in October, 2011.

Although it is reasonable to assume that it will take a long period of time before a stable host government is in place (Adams, 2011), some of the MNOCs have reportedly already returned to the country and resumed production of oil (Winfield, 2011; Sherlock, 2011). The returning MNOCs are witnessing great setbacks to the infrastructure of the Libyan oil sector with damages to oil fields, oil pipes and installations (CNN, 2011). Consequently, it will probably take several years before crude production is back at the level it was before the uprisings began.

Although the NTC has been approved as legitimate by most foreign governments and the Western world (see, for example, NTC, 2011a; BBC, 2011a; Fabricius, 2011; Spegele, 2011), many have expressed concern as to its ability to govern Libya properly (Lewis, 2011; Strohm, 2011). Fears have also been expressed with regards to the NTC's alleged ties to Islamic fundamentalists (BBC, 2011b). Thus, uncertainty abounds for the MNOCs as to what the Libyan transformation means for their contracts and their future in the Libyan oil industry, although the NTC has stated that it will

[89] Chapter 4 will be the main point of discussion under section 5.4, thus it will not be discussed further at this point.
[90] Total proven oil reserves as of January 2011, was 46.4 billion barrels. Almost 80 per cent of these are located in the Sirte basin, which accounts for most of Libya's oil output (EIA, 2011).

honour existing oil deals and contracts with MNOCs (Morse and Lee, 2011). Even though this research does not find it very likely, some believe that a regime change in Libya implies that the country will split into two or more sovereign states, and if this happens there is no question that uncertainty for foreign investors will be significantly increased (Wade and Percival, 2011). Uncertainty is in any case enhanced, whether this happens or not; however, Wade and Percival (2011) rightly point out that 'any state contracts or international law treaties and conventions entered into by a state remain in force as a matter of international law notwithstanding changes of government'. Yet, it is not uncommon that new governments distance themselves from the economic dealings of the previous regime, including some times nullifying contracts entered with, for example,MNOCs. Although the foreign investors are, in theory, protected from such incidents under, for instance,bilateral investment treaties (Wade and Percival, 2011; Freshfields Bruckhaus Deringer, 2011), it still represents a risk at least of short-term losses in foreign direct investments (FDI).

Despite significant uncertainty, several positive signs are apparent for MNOCs in Libya. At the start of September 2011, an official statement by the NTC was released in which it was implied that some regulatory changes and reforms to the Libyan oil industry would undoubtedly be positive for the MNOCs if successfully implemented. In particular,this accounts for a more normalised structuring of the sector, with more clarity on responsibilities for the various institutions connected to the Libyan oil industry (*Oil and Gas Insight*, 2011). Furthermore, the NTC has made several promises to work for democratisation in Libya. On its website (NTC, 2011b) one can read that 'the NTC will only be working in its current capacity for an interim period, until such time as violence stops and Gaddafi and his political repressive regime are removed, and power can be handed over to a freely elected government governed by a genuinely democratic Constitution that will establish the capital in Tripoli'. Additionally, the NTC promises that none of their members will take part in any future elections in order to stay objective, and furthermore that, 'the NTC is therefore strongly committed to guiding the country towards democracy, through the organization of free elections and the establishment of a Constitution that will constitute/create a government based on the rule of law, respect for human rights, social justice for all without discrimination, full political and economic participation and women empowerment' (NTC, 2011b). Yet, remembering the historical contextualisation in Chapter 3 one could be justified in restraining the optimism, since this rhetoric could just as well be that of the RCC when they came in to power in 1969. There are several points of potential uncertainty with regard to the Libyan investment environment in the immediate future, for example, whether the stated objectives of the NTC and its members are sincere; whether there are institutions in place which can ensure such a transformation into a truly democratic state; and naturally, what the next years hold for foreign investors in Libya. Nonetheless, it is not the purpose of this research to find answers to such questions: these are challenges that must be addressed in a future analysis of Libya. This research is concerned with the content and components of common political risk analysis, and in the case of Libya, whether the ousting of Quadhafi and the consequent extremely high levels of political risk could have been forecasted by competent political risk analysis. In as early as 2001, the *Oil and Gas Journal* (2001:18-19) warned MNOCs against diving head-first into Libya if the sanctions were lifted, and encouraged them to consider keeping their distance as long as Quadhafi remained in power, despite the enormous potential of the Libyan oil prospects. Clearly, many of the MNOCs did not follow this advice. Thus it is reasonable to ask the following questions: were the MNOCs so eager to get their share of the Libyan pot of gold that they ignored (or thought they could adequately mitigate) obvious indicators of future political risk? Or was it not possible for a competent political risk analyst to forecast such incidents as were seen in 2011?

5.4 Evalution of the Research Study

This last section finalises the thesis with an evaluation of the research study. It consists of two main sections: one that focuses on answering the research questions, and one that discusses implications and recommendations for future research. Firstly, however, a few general notes will be presented.

The majority of the articles and studies presented in the literature survey in Chapter 1 were found to be very useful in serving as a foundation for this research. The use of primarily secondary data in the research study was not ideal, as some expert insight on the Libyan investment environment, or on political risk factors specific for MNOCs, probably would have improved the analysis. This could have been done, for example, by interviews with a few people who have hands-on experience of the Libyan market, or otherwise a very good knowledge of the country. Yet, the researcher did not face any major difficulties in finding credible data to be used in the assessment. There are several academics with expert knowledge on Libya, such as Ronald Bruce St. John (1987; 2008) and Dirk Vandewalle (1998; 2006), and there exists a great variety of organisations that are very up to date on the social, economic or political situations in the country, such as the UN, Amnesty International, World Bank, or various political risk corporations. Hence it is possible to conduct a simple forecast merely on the basis of secondary information, although MNOCs would be advised to supplement this with primary data where possible.

Although some quantitative elements were present in the main analysis, this research was of a predominantly qualitative nature with a critical approach. By keeping the study inductive, ideas and propositions were allowed to be formed and changed throughout the evolvement of the study, which proved useful once the research was under way. Indeed, the research process was one of continuous learning, and the rapidly changing situation in Libya was a generator of new perspectives on the Libyan situation and the reason for its occurrence, although it did not have a direct impact on this research since the forecast was for the period up until the uprisings. Yet, as will be further elaborated upon below, the revolution, civil war, and eventual death of Quadhafi can give valuable insight into the political risk factors and indicators that caused these events. Moreover, the fact that similar cases were seen all over the Arab world in a very short period of time, implies that an analysis of political risk variables for authoritarian states is highly necessary at this point.

The case study of Libya proved to be an excellent choice for this research, for several reasons, and so did the timeframe set for the analysis. At the start of 2009, Libya appeared to be a very promising investment target for MNOCs. It had the highest oil reserves in Africa, and vast areas of both land and sea largely unexplored for hydrocarbons. Moreover, since the start of the 2000s Libya went through major changes; from being regarded as a ‘rogue state’ and a state sponsor of terrorism, to becoming an ally to the West and an important partner in counter-terrorism efforts. Combined with promises (and some achievements in the last years) of economic liberalisation this resulted in the re-entry of a number of MNOCs into Libya. In this sense it is understandable that the great potential of the Libyan oil sector attracted a great number of investors throughout the 2000s. However, investing in Libya involves a multitude of challenges, which fits well into Venter’s (1999) framework of common political risk indicators; it was, for example, characterised by an authoritarian regime with uncertain leadership succession, corruption and cronyism, and had a history of regional tensions and instability. The historical contextualisation was also very useful as it made it possible to better understand the contemporary Libyan investment environment, such as the policies of the regime, the increasing opposition, and the country’s relations with neighbours and the Western world.

The common criticism of the field of political risk analysis for its soft and highly subjective nature, must be remarked upon once again. Yet, by using reliable data and a solid framework of political risk the analysis in this research study should be valid despite the subjectivity.In the main assessment, all political risk factors were given a rating based on the review of the researcher. In most cases it was relatively easy to choose an exact rating for the political risk factors, and this study finds it likely that another researcher would at least have come close to the observations and conclusions found here. Yet, such an assessment as was conducted in this research study is still highly subjective. Therefore, for a MNOC or another investor considering entry into a volatile market, subjective assessments of political risk should be complemented with, for example, expert judgements, or more thorough economic analyses of the host state in question. Although such information is also subjective, several independent analyses of one case should combine to form an objective assessment that gives a deeper understanding of what the challenges and potential pitfalls of the investment are.

5.4.1 Answering the Research Questions

The central research question asked in this study was whether political risk analysis as a discipline can be successfully applied as a tool to forecast a political situation within authoritarian states. In this case the *political situation* referred to the uprisings and civil war in Libya in 2011, which severely increased levels of political risk for MNOCs operating in the country. The sub-questions guiding the research were: which risk variables can be regarded as common for political risk within the oil and gas industry; and analysing the Libyan socio-economic and political situation from 2009, could political risk analysis have been used successfully to forecast the political unrest and concurrent heightened levels of risk in Libya in 2011?

The analysis in Chapter 4 found that Libya represented a medium to high level of political risk for MNOCs in the period 2009 to 2011. The factors of greatest concern were identified as authoritarianism, and staleness/uncertain leadership succession. Islamic fundamentalism, societal conflict, social conditions, expropriation/nationalisation, and adverse government regulations were also identified as being of significant concern for MNOCs. Owing to the medium high level of political risk, it was argued by this study that any MNOC considering an investment for this period in the Libyan petroleum sector should have been warned to use great discretion. If the investor had decided to move forward with the investment despite the medium high level of political risk, the company would have been strongly advised to have adequate mitigation strategies in place in case any of the potential risks emerged, as they could have far-reaching consequences.

As such, in answer to the research question, it is deemed justifiable to argue that political risk analysis as a discipline undoubtedly *can* be successfully applied as a tool to forecast a political situation within authoritarian states. This is argued on the basis of the analysis of Libya, since this could, as far as one can forecast an unexpected political risk event, foresee that several signs of a potential future uprising were present. With the end of the civil war and the death of Quadhafi, it is possible to review at least some of the indicators that resulted in the uprisings; firstly, there should be no question that one of the main indicators was the authoritarian and oppressive leadership of Quadhafi, along with the rest of the Libyan government and elite. Over four decades of building institutions that consolidated their grip on power while brutally oppressing the general population, significant opposition to the regime amassed. Moreover, the combination of high levels of corruption at all levels, the failure of even wealth distribution despite economic growth, and the increasingly young population, seemed to have been another main indicator of what was in the making. Yet, as this research discussed earlier, the Libyan opposition to the regime was always very fragmented and unorganised, and it faced a regime with powerful resources to oppress the slightest sign of an uprising. Hence the question is: what was different now from earlier attempts to oust Quadhafi? An evident response is that this time, the Libyan opposition was helped by the international community, with several NATO member countries providing air-strike support, military equipment, and tactical war training. In addition, and perhaps the eventual trigger of the revolution, was that regional instability in the form of uprisings in Libya's neigbouring states, Egypt and Tunisia, resulted in the fall of the heads of state, proving to the Libyan population that a mobilisation of opposition could, in fact, make such an event possible.

5.4.2 Implications and Recommendations for Future Research

As discussed in the previous section, this research study argues that political risk analysis as a discipline can be successfully applied as a tool to forecast a political situation within authoritarian states. Political risk analysis must be regarded in any case as an invaluable tool for an investor considering entering a state with authoritarian characteristics. There is no question that without a proper assessment one would be blindfolded and a negative return of investment would be likely. This argument, however, is based in this research on the usage of Venter's (1999) framework and methodology, which is a relatively simple model compared to many of the methods practiced today. Nonetheless, the sudden turn of events in the Arab world in 2011 made it evident, more than ever, that additional research is needed in order to identify key factors that ignite such uprisings. Moreover, political risk varies greatly between countries, industries, and companies; hence this research argues that political risk analysis should be focusing on both micro and macro circumstances of the host state. It should be specific for the investment that is to be made, for the host country it is to be made in, and ideally, specific for the investor making the decision. In particular, this should be the case for industry sectors that are high profile in the host country, such as MNOCs. In the case of Libya, a country deeply dependent on oil revenues, this is especially true. For that reason, and although more literature on industry-specific political risk has emerged in recent years, there is a dire need for quality research on micro-risk for the petroleum sector, as well as for other industry sectors that face similar challenges in this increasingly volatile world.

Finally, a discussion of risk mitigation and risk management was not included in this research. Hegre et al.'s (2001:34) argument, discussed in Chapter 2 of this research study, is strong in the case of Libya; namely, if a regime without well developed political institutions uses repression as a means to stay in power, civil violence is eventually likely to erupt. The challenge, however, is to forecast *when* the opposition will surface, resulting in increased levels of political risk for the investor. In the case of Libya, Quadhafi stayed in power for over forty years, using brutal techniques of oppression over a long period of time. Although there were several coup attempts during the later decades of his regime, the opposition was never strong enough to be an unmanageable threat to Quadhafi's regime – that is, until 2011. Hence, since it is not possible to forecast when such a political risk event will occur, it is imperative for those investing in authoritarian state markets to have adequate risk mitigation and risk management techniques in place. This is perhaps of particular importance for MNOCs, since they seem to be willing to accept a high degree of risk in order to enter promising markets at an early stage despite significant uncertainty with regard to ROI. Therefore, future research should take this into account and focus on developing integrative and protective techniques for political risk mitigation and management for MNOCs operating in authoritarian states. If Arab politics will never be the same, as Khouri (2011) argues, neither will the situation for MNOCs operating in this part of the world. Thus, the key for achieving a positive ROI will be to adapt to this modernisation process, by ensuring proper quality of political risk management tools used by the investor before, and throughout the investment period.

5.5 Conclusion

This research study began with the identification of a research problem related to the cries for democracy and consequent uprisings in North Africa and large parts of the Arab world in the first quarter of 2011. These events not only meant great challenges for the populations of these states, but the sudden nature of the revolutions also caused great concern for companies investing in the countries' markets, as the changing political environment could lead to changes in the conditions under which, for example, multinational oil companies (MNOCs) operate. For companies operating in the petroleum industry, increasing worldwide demand for energy combined with greater competition among MNOCs necessitate continuous search for new areas rich in hydrocarbons – and the greatest oil reserves have in many instances been located in so called backyards; that is, in less developed states, often characterised by, for example, authoritarianism, corruption, and dysfunctional institutions. Such investment environments often imply great uncertainty with regard to return of investment (ROI) for a MNOC, and the start of 2011 once again established the importance of proper political risk analyses in order to minimise potential losses occurring from unexpected events. Hence, in the context of the Arab spring of revolution this research study sought to contribute to existing literature on the field of political risk analysis by assessing the forecasting ability of commonly used political risk variables. The central question asked in this research was whether political risk analysis as a discipline can be successfully applied as a tool to forecast a political situation within authoritarian states. By adopting Albert Venter's (1999) framework of political risk indicators for authoritarian states, and enabling this to function as an industry-specific tool for the oil sector, this research found that the events in Libya could have, as far as it is possible to foresee such an unexpected event, identified several signs of an imminent revolution. The analysis could not forecast *when*, or even *if* it would happen, but the fact that several indicators pointed in the direction of increasing levels of political risk signifies that it could have been too early for MNOCs to return to the country in the mid-2000s.

Political risk analysis is an invaluable tool for any investor considering entering a market that signifies uncertainty with regard to return of investment. The usefulness of adequate assessments of political risk is in identifying possible future political events that could increase the risk for an investor. It should, however, be complemented with expert judgements and deeper analyses of macro-economic circumstances due to its possible subjective nature. This study recommends that future research be focussed on both micro and macro circumstances of the host state, and it should be specific for the investment that is to be made. Moreover, more research is needed on strategies of political risk management and mitigation for MNOCs operating in business environments with a high degree of uncertainty. Although competent political risk analysis can identify factors of uncertainty and indicators of a future political risk event, unexpected events, such as the revolution in Libya, cannot be predicted. Thus if one decides to invest despite high levels of political risk, risk mitigation and management strategies are of the greatest importance.

BIBLIOGRAPHY

Aburawi, R. 2009. 'Half a Century of Oil in Libya'. *GeoExPro, volume 6(issue 1), 2009.* Accessed July 29th, 2011 on: http://www.geoexpro.net/article/Half_a_Century_of_Oil_in_Libya/bc60d24d.aspx

Adams, B. 2011. 'Libya is not going to export oil any time soon'. *The Blaze, August 23, 2011.* Accessed September 25th, 2011 on: http://www.theblaze.com/stories/libya-is-not-going-to-export-oil-any-time-soon/

Africa Research Bulletin. 2009. 'Mali/Niger: Libya hosts peace'. *Africa Research Bulletin: Political, Social and Cultural Series.* Vol.46 (4):17940C-17941B. Accessed July 25th, 2011 on: http://onlinelibrary.wiley.com/doi/10.1111/j.1467-825X.2009.02333.x/abstract

African Energy, 2010. 'Libya's Energy Future'. *African Energy, 2010/11 special report.* Accessed June 14th, 2011 on: http://www.africa-energy.com/html/Public/Libya_Report/Libya.html

Alon, I. and Martin, M.A. 1998. 'A Normative Model of Macro Political Risk Assessment'. *Multinational Business Review, 2(6):10-19.*

Alon, I., Gurumoorthy, R., Mitchell, M.C., and Steen, T. 2006. 'Managing Micropolitical Risk: A Cross Sector Examination'. *Thunderbird International Business Review, 48(5):623-642.*

Amnesty International, 2008a. 'Libya – Amnesty International Report 2008: Human Rights in Socialist People's Libyan Arab Jamahiriya'. Accessed October 5th, 2011 on: http://www.amnesty.org/en/region/libya/report-2008

Amnesty International, 2008b. 'Possible enforced disappearance/possible prisoners of conscience/fear of torture or ill-treatment'. Accessed October 5th, 2011 on: http://www.amnesty.org/en/library/asset/MDE19/003/2008/en/87e41ae6-daf8-11dc-b4a6-0fa73a85cd41/mde190032008eng.pdf

AMU, 2011. 'History'. *Arab Maghreb Union, 2011.* Accessed September 9th, 2011 on: http://www.maghrebarabe.org/en/uma.cfm.

Anderson, 2006. 'Rogue Libya's Long Road'. *Middle East Report, No.241, Iran: Looking Ahead (Winter 2006):42-47.*

Atkinson, A. 2009. 'Country Review: Libya'. *Euler Hermes, June 5th, 2009.* Accessed May 24th, 2011 on: http://www.eulerhermes-aktuell.de/de/dokumente/country-review-libya-20090605.pdf/country-review-libya-20090605.pdf

Bald, M. 2000. 'Xenophobia in Libya'. *World Press Review, December 2000, 47(12).* Accessed October 5th, 2011 on: http://www.worldpress.org/Africa/1270.cfm

BBC. 2007. 'RFC rebels "in new Chad clash"'. *BBC News*, December 2., 2007. Accessed July 25th, 2011 on: http://news.bbc.co.uk/2/hi/africa/7123486.stm

BBC. 2011a. 'UK expels Gaddafi diplomats and recognises Libya rebels'. *BBC News, July 27th, 2011.* Accessed September 9th, 2011 on: http://www.bbc.co.uk/news/uk-politics-14306544

BBC. 2011b. 'Fears over Islamists within Libyan rebel ranks'. *BBC News, August 31th, 2011.* Accessed September 9th, 2011 on: http://www.bbc.co.uk/news/world-africa-14728565

Berlin, A., Irvin, A. and Vrooman, LLP. 2003. 'Managing Political Risk in the Oil and Gas industries'. *Oil, Gas & Energy: Law Intelligence, 1(2), March 2003.*

Blanchard, C.M. 2009. 'Libya: Background and U.S. Relations'. *Congressional Research Service, CRS Report for Congress, August 3, 2009.*

Blas, J. 2011. 'Oil groups prepare to close down in Libya'. *Financial Times, February 21, 2011.* Accessed August 29th, 2011 on: http://www.ft.com/cms/s/0/702f5730-3dd7-11e0-ae2a-00144feabdc0.html#axzz1Y9C3j9KN

Braut-Hegghammer, M. 'Libya's nuclear turnaround: perspectives from Tripoli'. *The Middle East Journal, 62(1):55+,* 2008.

Brink, C. H. 2004. *Measuring Political Risk: Risks to Foreign Investment.* Aldershot: Ashgate Publishing.

British Petroleum, 2007. 'BP Agrees Major Exploration and Production Deal with Libya'. *BP Online, Press Releases,* May 29th, 2007. Accessed May 10th, 2011 on: http://www.bp.com/genericarticle.do?categoryId=2012968&contentId=7033600

Bunn, D.W. and Mustafaoglu, M.M. 1978. 'Forecasting Political Risk'. *Management Science, 24(15).* November 1978:1557-1567.

Central Bank of Libya. 2011. 'About Us'. *Central Bank of Libya, 2011.* Accessed September 4th, 2011 on: http://cbl.gov.ly/en/home/index.php?cid=94

Chapin Metz, H. 1987. *Libya: A Country Study.* Washington: GPO for the Library of Congress. Accessed March 12th, 2011 on: http://countrystudies.us/libya/

Chapin Metz, H. 1991. *Sudan: A Country Study.* Washington: GPO for the Library of Congress. Accessed March 12th, 2011 on: http://countrystudies.us/sudan/

Chase, W.S. 1850. *1848, A Year of Revolutions.* New York: Huntington & Savage.

CIA, 2011. 'Africa: Libya'. *Central Intelligence Agency: The World Factbook, 2011.* Accessed January 9th, 2011 on: https://www.cia.gov/library/publications/the-world-factbook/geos/ly.html

CNN, 2011. 'Airstrike in Libya damages major pipeline'. *The CNN Wire, April 6th, 2011.* Accessed August 25th, 2011 on: http://news.blogs.cnn.com/2011/04/06/british-airstrike-in-libya-damages-major-pipeline/

ConocoPhillips. 2005. 'ConocoPhillips to Return to Libya'. *ConocoPhillips Online,News Releases, December 29th, 2005.* Accessed May 10th, 2011 on: http://www.conocophillips.com/EN/newsroom/news_releases/2005news/Pages/12-29-2005.aspx

De Sousa, L. 2008. 'World Oil Exports: Libya'. *The Oil Drum, September 18th, 2008.* Accessed August 20th, 2011 on: http://europe.theoildrum.com/node/4513

EconomyWatch. 2011a. 'Libya Economic Statistics and Indicators 2008'. *EconomyWatch, 2011.* Accessed August 5th, 2011 on: http://www.economywatch.com/economic-statistics/country/Libya/year-2008/

EconomyWatch. 2011b. 'Libya Economic Statistics and Indicators 2007'. *EconomyWatch, 2011.* Accessed August 5th, 2011 on: http://www.economywatch.com/economic-statistics/country/Libya/year-2007/

EconomyWatch. 2011c. 'Libya Economic Statistics and Indicators 2006'. *EconomyWatch, 2011.* Accessed August 5th, 2011 on: http://www.economywatch.com/economic-statistics/country/Libya/year-2006/

EconomyWatch. 2011d. 'Libya Labor Force by Occupation'. *EconomyWatch, 2011.* Accessed August 5th, 2011 on: http://www.economywatch.com/economic-statistics/Libya/Labor_Force/

The *Economist*. 2006a. 'Libya; Change is in the air but happens slowly on the ground: Under its still-eccentric leader, could Libya ever loosen up?' *The Economist, March 9th, 2006.* Accessed July 19th, 2011 on: http://www.economist.com/node/5609096

The *Economist*. 2006b. 'Another big hug: Why America is befriending the Libyan leader it long reviled'. *The Economist, May 18th, 2006.* Accessed July 19th, 2011 on: http://www.economist.com/node/6955022

The *Economist*. 2006c. 'Libya; Death to the nurses; Six foreigners have been sentenced to death for allegedly giving children AIDS'. *The Economist, December 19th, 2006*. Accessed July 19th, 2011 on: http://www.economist.com/node/8462874

The *Economist*, 2007. 'Niger: A radioactive rebellion: A combustible mix of rebellious nomads, uranium, oil and poverty'. *The Economist, September 13th, 2006.* Accessed July 19th, 2011 on: http://www.economist.com/node/9804417

EIA. 2011. 'Country Analysis Briefs: Libya'. *U.S. Energy Information Administration: Independent Statistics and Analysis, February 2011.* Accessed April 14th, 2011 on: http://www.eia.doe.gov/countries/cab.cfm?fips=LY

El Gamal, R. and Gaynor, T. 2011. 'Gaddafi killed in hometown, Libya eyes future'. *Reuters, October 21st, 2011.* Accessed October 21st, 2011 on: http://in.reuters.com/article/2011/10/20/idINIndia-60018820111020.

Eljahmi, M. 2006. 'Libya and the U.S.: Qadhafi Unrepentant'. *Middle East Quarterly, 8(1), Winter 2006:11-20.*Accessed August 10th, 2011 on: http://www.meforum.org/878/libya-and-the-us-qadhafi-unrepentant

Encyclopedia Britannica. 2011. 'Authoritarianism'. *Encyclopedia Britannica Online, 2011.* Accessed May 6th, 2011 on: http://www.britannica.com/EBchecked/topic/44640/authoritarianism

Etheridge, J. 2000. 'Fundamentalism Is on the Wane'. *ABC News, November 17th, 2000.* Accessed August 17th, 2011 on: http://abcnews.go.com/International/story?id=82008&page=1

Fabricius, P. 2011. 'AU will recognise Libya's NTC'. *IOL Daily News, September 15th, 2011.* Accessed September 28th, 2011 on: http://www.iol.co.za/dailynews/news/au-will-recognise-libya-s-ntc-1.1138287

Faucon, B. 2011. 'BP Halts Libya Onshore Preparations; Statoil Shuts Office'. *Fox Business Online, February 21st, 2011.* Accessed March 15th, 2011 on: http://www.foxbusiness.com/industries/2011/02/21/bp-halts-libya-onshore-preparationsstatoil-shuts-office/

Fitzpatrick, M. 1983. 'The Definition and Assessment of Political Risk in International Business: A Review of the Literature'. *Academy of Management Review, 2(8), 1983.*

FreshFields Bruckhaus Deringer. 2011. 'Investments in Libya: Potential claims under bilateral investment treaties and political risk insurance policies'. *FreshFields Bruckhaus Deringer, Briefing, March 2011.*

Front Line Defenders. 2009. 'Libya: Human rights defender Fathi El-Jahmi dies in mysterious circumstances'. *Front Line Defenders, 2009.* Accessed October 5th, 2011 on: http://www.frontlinedefenders.org/node/2049

Frynas, J.G. and Mellahi, K. 2003. 'Political Risks as Firm Specific (Dis)Advantages: Evidence on Transnational Oil Firms in Nigeria'. *Thunderbird International Business Review, 45(5), September-October.*

Global Security. 2011. 'Libyan Intervention in Chad, 1980-Mid-1987'. *Global Security Online, 2011.* Accessed September 27th, 2011 on: http://www.globalsecurity.org/military/world/war/chad.htm

Headlines Africa, 2011. 'The Rise and Fall of Moammar Gadhafi'. *Headlines Africa, September 6, 2011.* Accessed September 8th, 2011 on: http://www.headlinesafrica.com/index.php?option=com_hwdvideoshare&task=viewvideo&Itemid=2&video_id=5247

Hegre, H., Ellingsen, T., Gates, S., and Gleditsch, N.P. 2001. 'Toward a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816-1992'. *American Political Science Review, 95(1):33-48, March 2001.*Accessed May 4th, 2011 on: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.17.3586&rep=rep1&type=pdf

Henry, P., Abdelkrim, S., and de Saint-Laurent, B. 2008. 'Foreign direct investment into MEDA in 2007: The Switch'. *Anima Investment Network, Survey No.1, July 2008.* Accessed August 9th, 2011 on: http://www.animaweb.org/uploads/bases/document/Inv_Et1_Bilan-IDE-MEDA-2007_En_24-6-2008.pdf

Heritage Foundation. 2011. 'Libya'. *The Heritage Foundation, Index of Economic Freedom.* Accessed August 9th, 2011 on: http://www.heritage.org/index/country/Libya

Hough, M., Du Plessis, A. and Kruys, G.P.H. 2008. 'Threat and Risk Analysis in the context of strategic forecasting'. *ISSUP Ad Hoc Publication, no.45, November 2008*. Pretoria:University of Pretoria – Institute for Strategic Studies.

Houston Business Journal. 2005. 'ConocoPhillips, Marathon return to Libya'. *Houston Business Journal Online, December 29th 2005.* Accessed May 10th, 2011 on: http://www.bizjournals.com/houston/stories/2005/12/26/daily26.html

Howell, L.D. and Chaddick, B. 1994. 'Models of political risk for foreign investment and trade'. *Colombia Journal of World Business, Fall 1994.*

IADB. 2008. 'World Migration Report 2008: Regional Overviews'. *Inter-American Development Bank*, 2008. Accessed August 9th, 2011 on: http://www.iadb.org/intal/intalcdi/PE/2008/02382a17.pdf

ICG. 2011. 'Popular Protest in North Africa and the Middle East (V): Making Sense of Libya'. *International Crisis Group,* Middle East/North Africa Report No.107 – June 6th 2011. Accessed September 24th, 2011 on: http://www.crisisgroup.org/~/media/Files/Middle%20East%20North%20Africa/North%20Africa/107%20-%20Popular%20Protest%20in%20North%20Africa%20and%20the%20Middle%20East%20V%20-%20Making%20Sense%20of%20Libya.pdf

IOM. 2003. 'World migration 2003: managing migration challenges and responses for people on the move'. *International Organization for Migration, 2003.* IOM:Switzerland.

Iroanya, R.O. 2008. 'Political Risk Assessment of Africa' in Adar, K.G., Iroanya, R.O. & Nwonwu, F. (eds.). *Towards African-oriented risk analysis models: A contextual and methodological approach.* Pretoria: Africa Institute of South Africa.

Kern, D. 1985. 'The Evaluation of Country Risk and Economic Potential'. *Long Range Planning, 18(3):17-25, 1985*. Great Britain: Pergamon Press Ltd.

Khouri, R.G. 2011. 'Birth of a new Arab world'. *Toronto Star, February 14th, 2011.* Accessed March 5th, 2011 on: http://www.thestar.com/opinion/editorialopinion/article/938830--birth-of-a-new-arab-world

Kobo, K. 2009. 'Libya: 220 Nigerians face execution'. *Africa News, August 11th.* Accessed October 13th, 2011 on: http://www.africanews.com/site/Libya_220_Nigerians_face_execution/list_messages/26361

Kobrin, S.J. 1978. 'When Does Political Instability Result in Increased Investment Risk?' *Colombia Journal of World Business, 17(1):113-122.*

Kobrin, S.J. 1979. 'Political Risk: A Review and Reconsideration'. *Journal of International Business Studies, 10(1):67-80.*

Kobrin, S.J. 1981. 'Political Assessment by international firms: Models or methodologies'. *Journal of Policy Modeling, 3(2):251-270, May 1981.*

Krauss, C. 1991. 'The World; Qaddafi Plays Quietly, But He's Still in the Game'. *The New York Times, March 17th, 1991.* Accessed August 10th, 2011 on: http://www.nytimes.com/1991/03/17/weekinreview/the-world-qaddafi-plays-quietly-but-he-s-still-in-the-game.html

Lax, H.L. 1983. *Political Risk in the Oil and Gas Industry.* Boston: International Human Resource Development Corporation.

Lewis, A. 2011. 'Libya after Gaddafi: Who's in charge?' *BBC News Africa, September 13th, 2011.* Accessed September 24th, 2011 on: http://www.bbc.co.uk/news/world-africa-14901175

Linz, J.J. 2000. *Totalitarian and Authoritarian Regimes*. United States of America: Lynne Rienner Publishers, Inc.

Lynch, M., Glasser, S.B., and Hounshell, B. (eds.) 2011. *Revolution in the Arab World: Tunisia, Egypt, and the unmaking of an Era.* Slate Group: Washington. Special report from the Foreign Policy Magazine. Accessed on February 28th, 2011 on: http://www.foreignpolicy.com/ebooks/revolution_in_the_arab_world

Malone, B. 2011. 'Gaddafi killed in hometown, Libya eyes future'. *Reuters, October 20th,. 2011.* Accessed October 21st, 2011 on: http://www.reuters.com/article/2011/10/20/us-libya-idUSTRE79F1FK20111020

Maree, K. 2008. 'Signs of dissent begin to emerge: clashes in the southern town of Kufra are the latest example of growing opposition to the rule of Libyan leader Muammar Gaddafi'. *Middle East Economic Digest, Issue No.47:39, November 21-27, 2008.*

MEED, 2006a. 'Libya/Algeria team up on border field'. *Middle East Economic Digest, 50(39):16, September 29th, 2006.*

MEED, 2006b. 'Non-Oil growth praised'. *Middle East Economic Digest, 50(15):24, April 14th, 2006.*

Morse, E.L. and Lee, E.G. 2011. 'The Libyan Oil Tap: How to Get the Country's Production Back Online'. *Foreign Affairs, September 6th 2011.* Accessed September 24th, 2011 on: http://www.foreignaffairs.com/articles/68245/edward-l-morse-and-eric-g-lee/the-libyan-oil-tap?page=show

Mpofu, S.V. 2008. 'Country Profile: The Great Socialist People's Libyan Arab Jamahiriya'. *Credit Guarantee, March 2008.* Accessed April 6th, 2011 on: http://www.creditguarantee.co.za/Country%20Reports/Libya-%20March%2008-EXT.pdf

Nel, D. 2009. 'The predictive power of political risk forecast models: an empirical analysis'. *Strategic Review for Southern Africa, May 2009.*

Neuman, W.L. 2006. *Social Research Methods: Qualitative and Quantitative Approaches*. Boston: Pearson Education.

Newell, A., Shaw, J.C. and Simon, H.A. 1958. 'Elements of a theory of human problem solving'. *Psychological Review, 65(3):151-166.*

Newsmax. 2011. 'Gadhafi to Kick Out Western oil Firms, Turning to Russia and China'. *Newsmax Wires, March 17th, 2011.* Accessed March 21st, 2011 on: http://www.newsmax.com/Newsfront/gadhafi-west-oilcompanies-conflict/2011/03/17/id/389809

NTC, 2011a. 'International Recognition'. Accessed October 5th, 2011 on: http://www.ntclibya.com/InnerPage.aspx?SSID=6&ParentID=3&LangID=1

NTC, 2011b. 'Overview'. Accessed October 5th, 2011 on: http://www.ntclibya.com/InnerPage.aspx?SSID=32&ParentID=3&LangID=1

Oil and Gas Insight, 2011. 'NTC Talks up Regulatory Change and Exploration Potential in 'Free Libya'. *Oil and Gas Insight, September, 2011.* Accessed September 28th, 2011 on: http://www.oilandgasinsight.com/file/105349/ntc-talks-up-regulatory-change-and-exploration-potential-in-free-libya.html

Oil and Gas Journal. 2001. 'What now for Libya?' *Oil and Gas Journal, Editorial, February 12th, 2001.*

Oil Field Services, 2004. 'Shell signs landmark heads of agreement to re-enter Libya'. *Gulf Oil & Gas, Oil Field Services, March 25th, 2004.* Accessed May 10th, 2011 on: http://www.gulfoilandgas.com/webpro1/MAIN/Mainnews.asp?id=487

Ottman, W.A. and Karlberg, E. 2007. *The Libyan Economy: Economic Diversification and International Repositioning*.Berlin:Springer-Verlag.

Pargeter, A. 2006. 'Libya: Reforming the Impossible?'. *Review of African Political Economy, 33(108):219-235, North Africa: Power, Politics & Promise (June 2006).*

Parra, F. 2004. *Oil Politics: a modern history of petroleum.* New York:Palgrave Macmillan.

Pollack, K.M. 2004. *Arabs at War: Military Effectiveness, 1948-1991.* United States of America: University of Nebraska.

Quadhafi, M. 1976. *The Green Book*. Tripoli:Public Establishment for Publishing, Advertising and Distribution. Accessed March 17th, 2011 on: http://web.archive.org/web/20100820193107/http://www.geocities.com/Athens/8744/readgb.htm

Robock, S. 1971. 'Political Risk: Identification and Assessment'. *Columbia Journal of World Business (July-August, 1971):6-20.*

Ronen, Y. 2005. 'Libya's Rising Star: Saif al-Islam and Succession'. *Middle East Policy, 12(3), Fall 2005:136-144.*

Saleh, H. 2009. 'Oil groups face Libya ultimatum'. *Financial Times Online, September 3, 2009.* Accessed August 16th, 2011 on: http://www.ft.com/intl/cms/s/0/798f36e6-98b6-11de-aa1b-00144feabdc0.html#axzz1cF1PZg6y

SEPM. 2009. 'The History of Exploration of the Petroleum Geology of Libya'. *Society for Sedimentary Geology.* Accessed July 28th, 2011 on: http://sepmstrata.org/Libya-Hassan/Petroleum-History-Libya.html

Shaikh, S. 2011. 'We are witnessing today an Arab people's revolution'. *Liveleak, January 28th, 2011.* Accessed April 5th, 2011 on: http://www.liveleak.com/view?i=888_1296255980

Sherlock, R. 2011. 'Libya: exodus from Sirte as thousands flee rebel offensive'. *The Telegraph Online, September 28th, 2011.* Accessed September 29th, 2011 on: http://www.telegraph.co.uk/news/worldnews/africaandindianocean/libya/8794617/Libya-exodus-from-Sirte-as-thousands-flee-rebel-offensive.html

Simon, H.A. 1978. 'Information-Processing Theory of Human Problem Solving'. In Estes, W.K. (ed.) 1978. *Handbook of learning and cognitive processes*, Vol.1:271-295. L. Erlbaum Associates, 1978.

Simon, H.A. 1986. *Decision Making and Problem Solving: Report of the Research Briefing Panel on Decision Making and Problem Solving*. Washington, DC: National Academy of Sciences.

Simon, H.A., Dantzig, G.B., Hogarth, R., Plott, C.R., Raiffa, H., Schelling, T.C., Shepsle, K.A., Thaler, R., Tversky, A., and Winter, S. 1987. 'Decision Making and Problem Solving'. *Interfaces, 17(5):11-31, Sep.-Oct., 1987.*

Simon, J.D. 1982. 'Political Risk Assessment: Past Trends and Future Prospects'. *Colombia Journal of World Business 17(1):62-70, 1982.*

Simon, J.D. 1984. 'A Theoretical Perspective on Political Risk'. *Journal of International Business Studies, 15(3):123-143, Winter 1984.* Palgrave Macmillan Journals.

Simons, G.L. 2003. *Libya and the West: from independence to Lockerbie.* Centre for Libyan Studies: Great Britain.

Solomon, H. and Swart, G. 2004. 'Political Islam and the State in Africa'. *Centre for International Political Studies, Conference Paper.* Accessed August 5th , 2011 on: http://www.google.no/url?sa=t&source=web&cd=16&ved=0CEoQFjAFOAo&url=http%3A%2F%2Fwww.cips.up.ac.za%2Fold%2FPublications%2FHussein%2520conference%2520paper.doc&ei=8VeSToaGNZHYsgaKufwi&usg=AFQjCNFKQbrDt8_A3wo2jCXWQYjO5uCTrA

Spegele, B. 2011. 'China Recognizes Libya's NTC: Formal Nod to Libyan Rebels Follows Strain over Funds, Arms'. *Wall Street Journal Online, September 12th, 2011.* Accessed October 4th, 2011 on: http://online.wsj.com/article/SB10001424053111903532804576566691732240406.html?mod=googlenews_wsj

Statoil. 2006. 'Libya office officially opened'. *Statoil Online News, 2006.* Accessed May 10th, 2011 on: http://www.statoil.com/en/NewsAndMedia/News/2006/Pages/LibyaOfficeOfficiallyOpened.aspx

St. John, R.B. 1987. *Qaddafi's World Design: Libyan Foreign Policy, 1969-1987.* London: Saqi Books.

St. John, R.B. 2008. *Libya: From Colony to Independence.* Oxford: OneWorld Publications.

St. John, R.B. 2011. *Libya: Continuity and Change.* London: Routledge.

Strohm, C. 2011. 'As Qaddafi's Government Comes Apart, New Concerns for U.S.'. *National Journal, August 22nd, 2011.* Accessed September 6th, 2011 on: http://www.nationaljournal.com/nationalsecurity/as-qaddafi-s-government-comes-apart-new-concerns-for-u-s--20110821

Sturman, K. 2003. 'The Rise of Libya as a Regional Player'. *African Security Review, 12(2), 2003.* Accessed July 27th, 2011 on: http://www.iss.co.za/Pubs/ASR/12No2/C2.html

Takeyh, R. 2001. 'The Rogue Who Came in from the Cold'. *Foreign Affairs, 80(3):62-72, May-June, 2001.*

Time, 1990. 'Chad The Devil Behind the Scenes'. *Time Magazine, December 17th, 1990.* Accessed July 27th, 2011 on: http://www.time.com/time/magazine/article/0,9171,971950,00.html?iid=chix-sphere

Transparency International. 2011. 'Corruptions Perceptions Index 2008'. *Transparency International Online.* Accessed July 29th, 2011 on: http://www.transparency.org/policy_research/surveys_indices/cpi/2008/cpi_2008_table

Tripoli Post. 2011. 'Al Qathafi Loyalists Kill 15 After Attacks on Ras Lanuf Oil Port'. *The Tripoli Post, September 12th, 2011.* Accessed September 19th, 2011 on: http://tripolipost.com/articledetail.asp?c=1&i=6894

UNHCR. 2009. *Trafficking in Persons Report 2009 – Libya.* United Nations High Commissioner for Refugees, June 16th, 2009. Accessed August 9th, 2011 on: http://www.unhcr.org/refworld/country,,USDOS,,LBY,456d621e2,4a4214a923,0.html

US Department of State. 2008. 'Doing Business in Libya: 2008 Country Commercial Guide for U.S. Companies'. *United States of America Department of Commerce, May 5th, 2008.* Accessed July 25th, 2011 on: http://libya.usembassy.gov/uploads/images/Ctlb_B9GauiYq1ai9cp4AQ/021108_-_2008_Country_Commercial_Guide.pdf

US Department of State. 2011. 'Background Note: Libya'. *US Department of State, Bureau of Near Eastern Affairs, July 7, 2011*. Accessed July 10th, 2011 on: http://www.state.gov/r/pa/ei/bgn/5425.htm

Vandewalle, D. 1998. *Libya since Independence: Oil and State Building*. London: Cornwell University.

Vandewalle, D. 2006. *A History of Modern Libya*. New York: Cambridge University Press.

Venter, A. 1999. 'The 1998 fall of Suharto: A Vindication of Key Political Risk Indicators'. *Strategic Review for Southern Africa, Nov. 1999.*

Vertzberger, Y.Y. 1998. *Risk Taking and Decisionmaking: Foreign Military Intervention Decisions.* Stanford: Stanford University.

Wade, S. and Percival, Y. 2011. 'Libya: Regime change and State contracts'. *Commodities Now, August 22nd, 2011.* Accessed September 4th, 2011 on: http://www.commodities-now.com/commodities-now-news/general/7503-libya-regime-change-and-state-contracts.html

Waha Oil. 2011. 'Company Profile'. *Waha Oil Company*. Accessed August 30th, 2011 on: http://www.wahaoil.net/profile.htm

Wallis, W. 2006. 'New blueprint for overhaul of Libyan economy'. *The Financial Times Online, February 9th, 2006.* Accessed September 5th, 2011 on: http://www.ft.com/intl/cms/s/0/7a20b8a8-9911-11da-aa99-0000779e2340.html#axzz1cF1PZg6y

Walt, S.M. 2011. 'Why the Tunisian revolution won't spread'. *Foreign Policy Online, January 16th 2011*. Accessed March 15th, 2011 on: http://walt.foreignpolicy.com/posts/2011/01/15/why_the_tunisian_revolution_wont_spread

Walt, V. 2005. 'Libya's New Face'. *Time Magazine, January 2nd, 2005.* Accessed May 10th, 2011 on: http://www.time.com/time/magazine/article/0,9171,1013205-2,00.html

Widdershoven, C. and Payne, T. 2007. 'Capital Expenditure – North Africa'. *Exploration & Production: The Oil and Gas Review 2007, Issue II, November 2007*. Accessed August 15th, 2011 on: http://www.touchoilandgas.com/capital-expenditure-north-africa-a7700-1.html

Winfield, N. 2011. 'Eni, Total resume oil production in Libya'. *The Washington Times Online, September 26th, 2011.* Accessed September 29th, 2011 on: http://www.washingtontimes.com/news/2011/sep/26/italys-eni-oil-production-resumes-libya/?page=all

World Bank. 2011. 'Data: Libya'. *The World Bank, Country Data.* Accessed July 16th, 2011 on: http://data.worldbank.org/country/libya

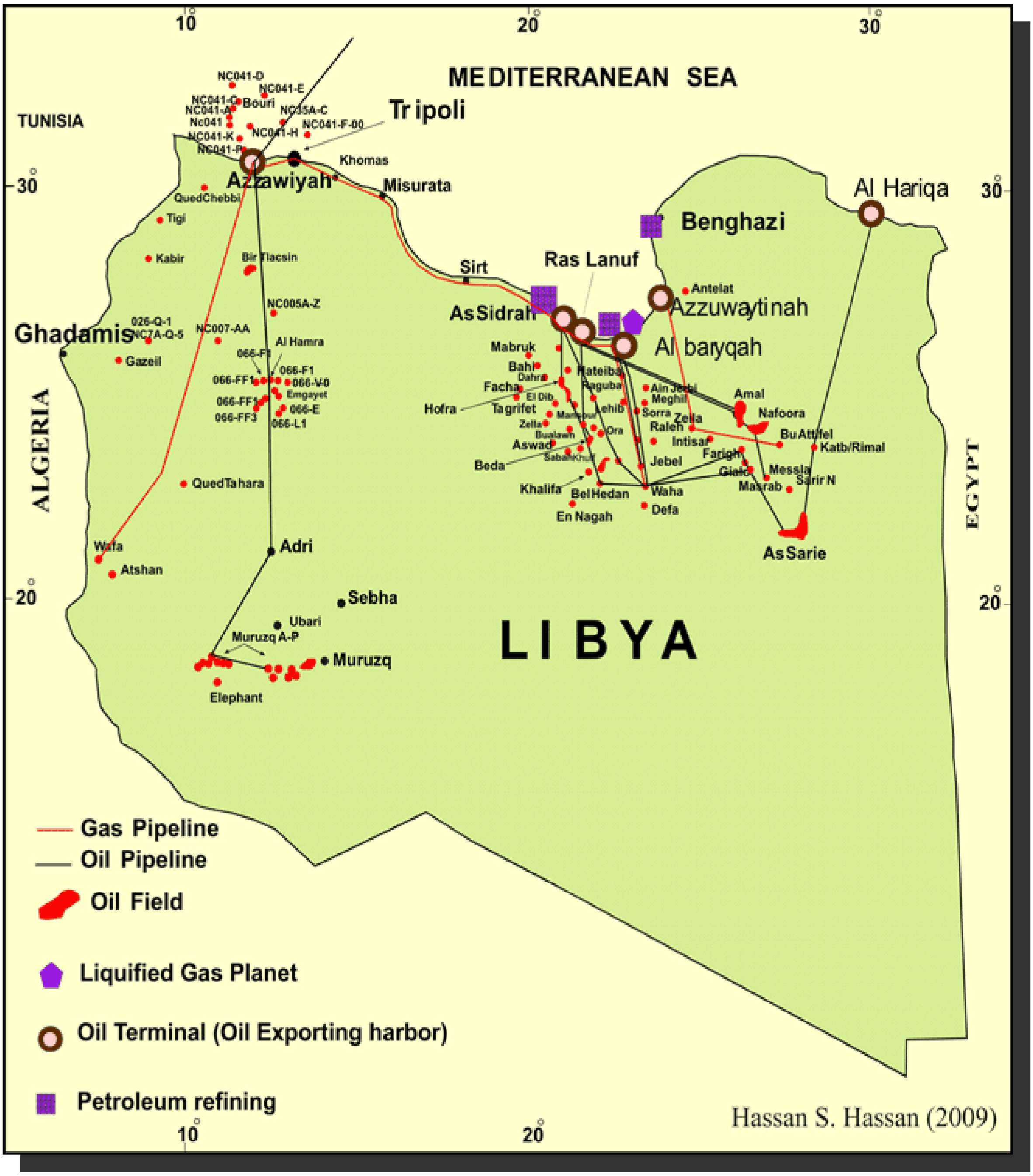
Young, H., Osman, A., and Dale, R. 2007. 'Darfurian Livelihoods and Libya: Trade, Migration, and Remittance Flows in Times of Conflict and Crisis'. *The International Migration Review, Winter 2007, 41(4):826-849.*

Zaptia, S. 2008. 'Opinion: On the Distribution of Wealth in Libya'. *The Tripoli Post, November 22., 2008.* Accessed September 8th, 2011 on: http://www.tripolipost.com/articledetail.asp?c=5&i=2558

APPENDIX A: MAP 1

Map 1: Libyan Arab Jamahiriya (IGC, 2011).

APPENDIX B: MAP 2

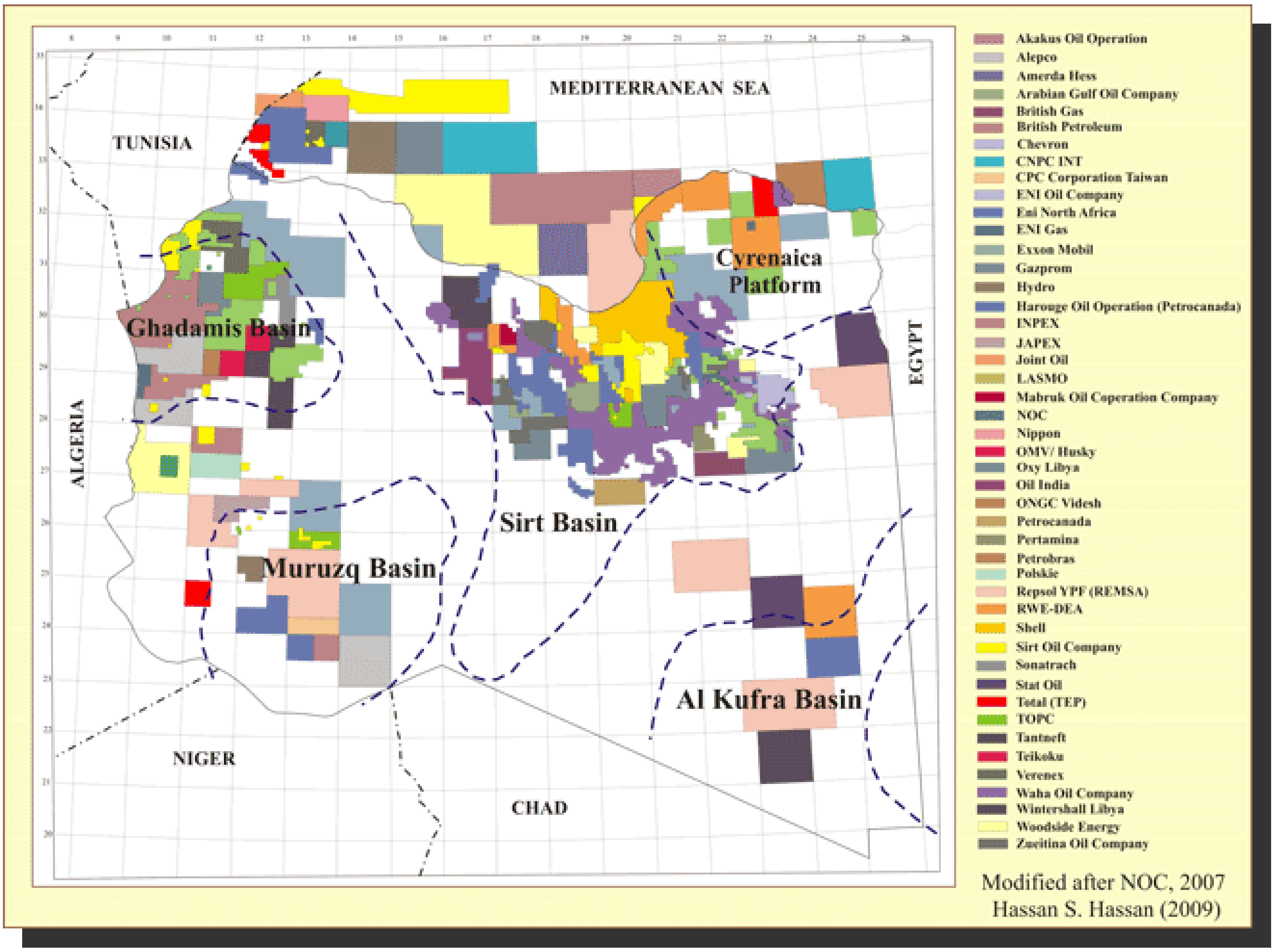


Map 2: Libyan major pipelines, refineries and oilfields (SEPM, 2009).

APPENDIX C: MAP 3

Map 3: Map of Libya with oil Installations (African Energy, 2010).

APPENDIX D: MAP 4



Map 4: Concession Map of Libya (SEPM, 2009).

APPENDIX E: LIBYA'S OIL EXPORTS BY DESTINATION

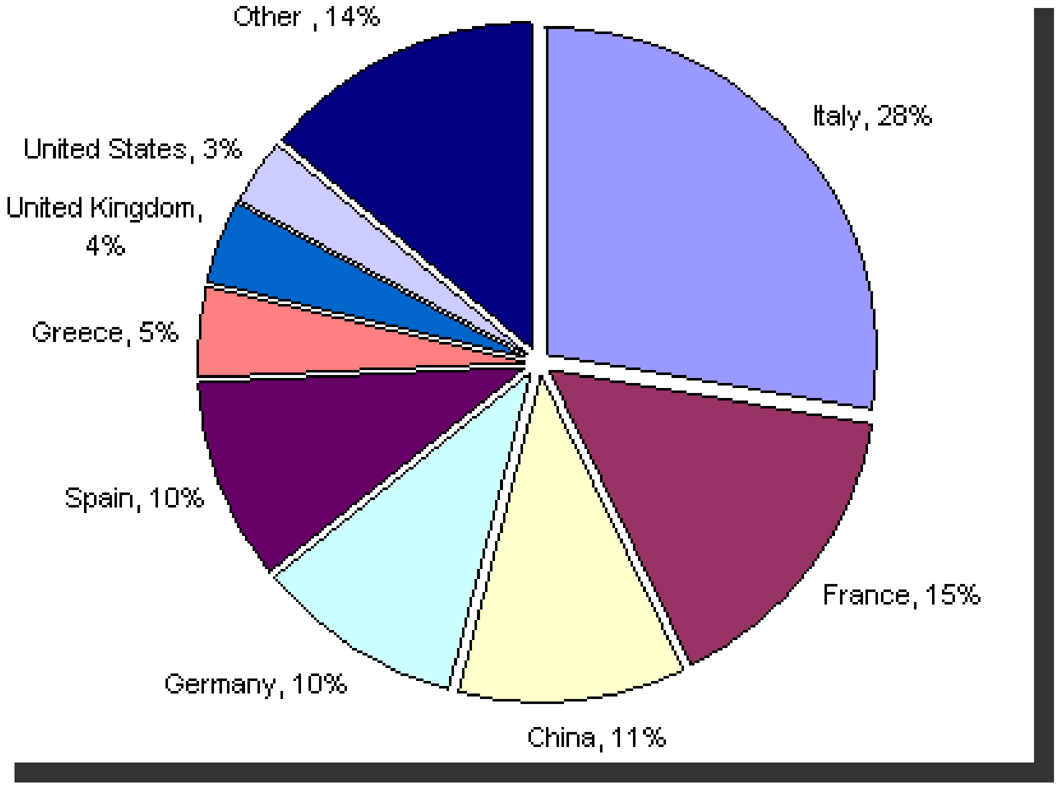


Figure 2: Libya's Oil Exports by Destination, January-November 2010 (EIA, 2011).

APPENDIX F: LIBYAN OIL PRODUCTION AND OIL RESERVES

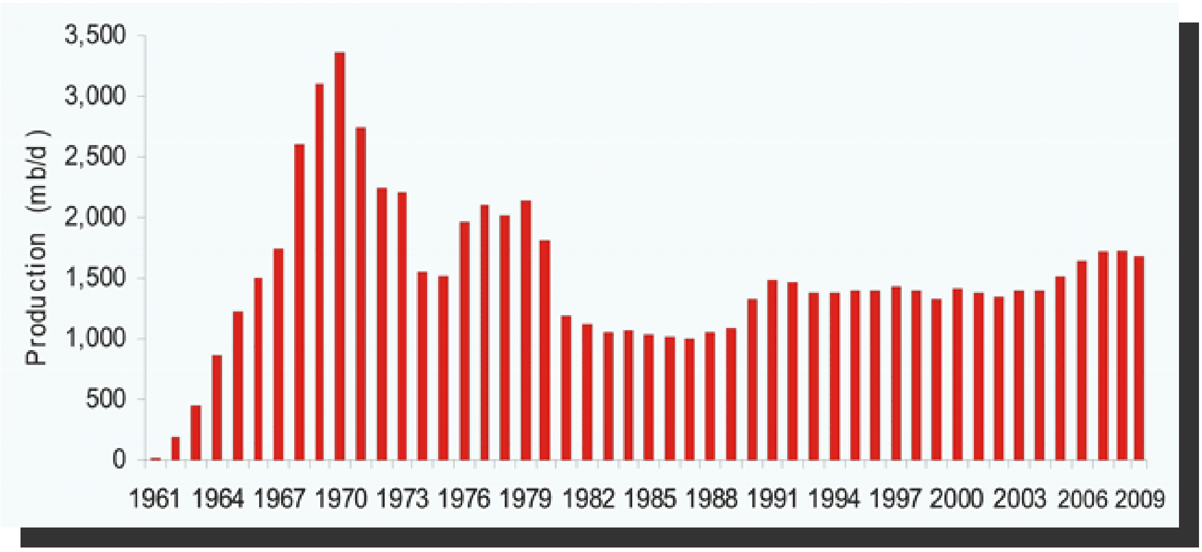


Figure 3: Libyan oil production in (in million barrelse per day) in the period 1961 to 2009 (SEPM, 2009).

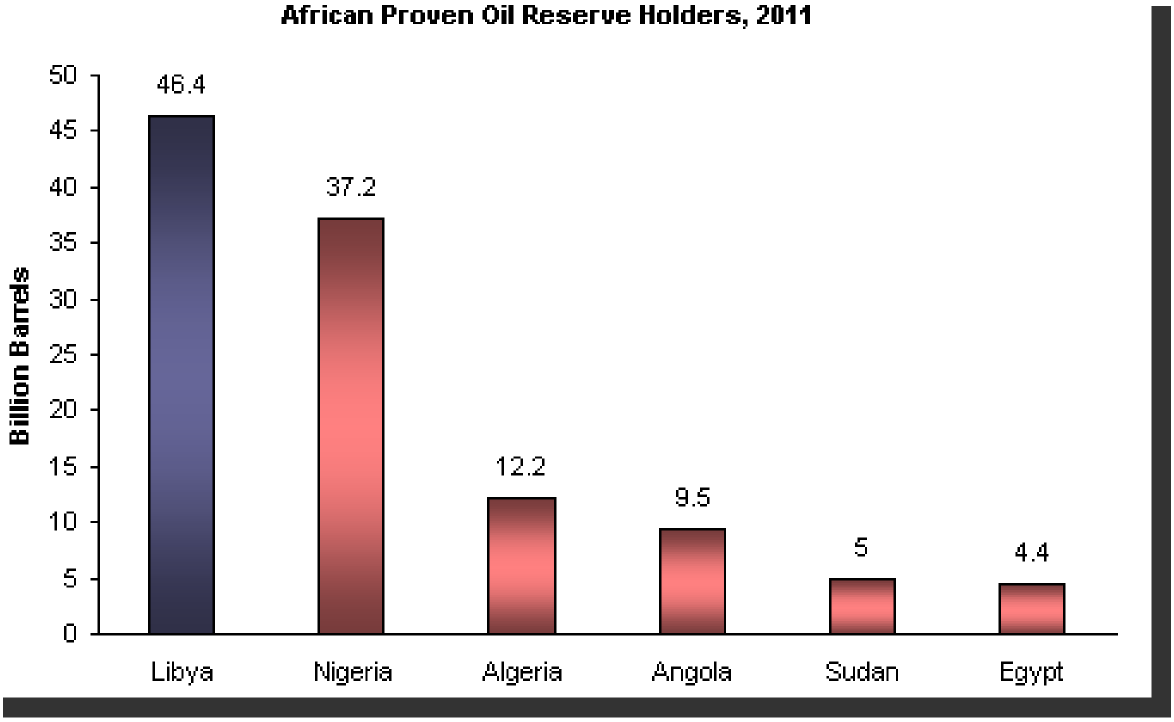


Figure 4: Top six African Proven Oil Reserve Holders (in billion barrels) (EIA, 2011).

APPENDIX G: ACTUAL POPULATION GROWTH AND POPULATION GROWTH FORECAST FOR LIBYA

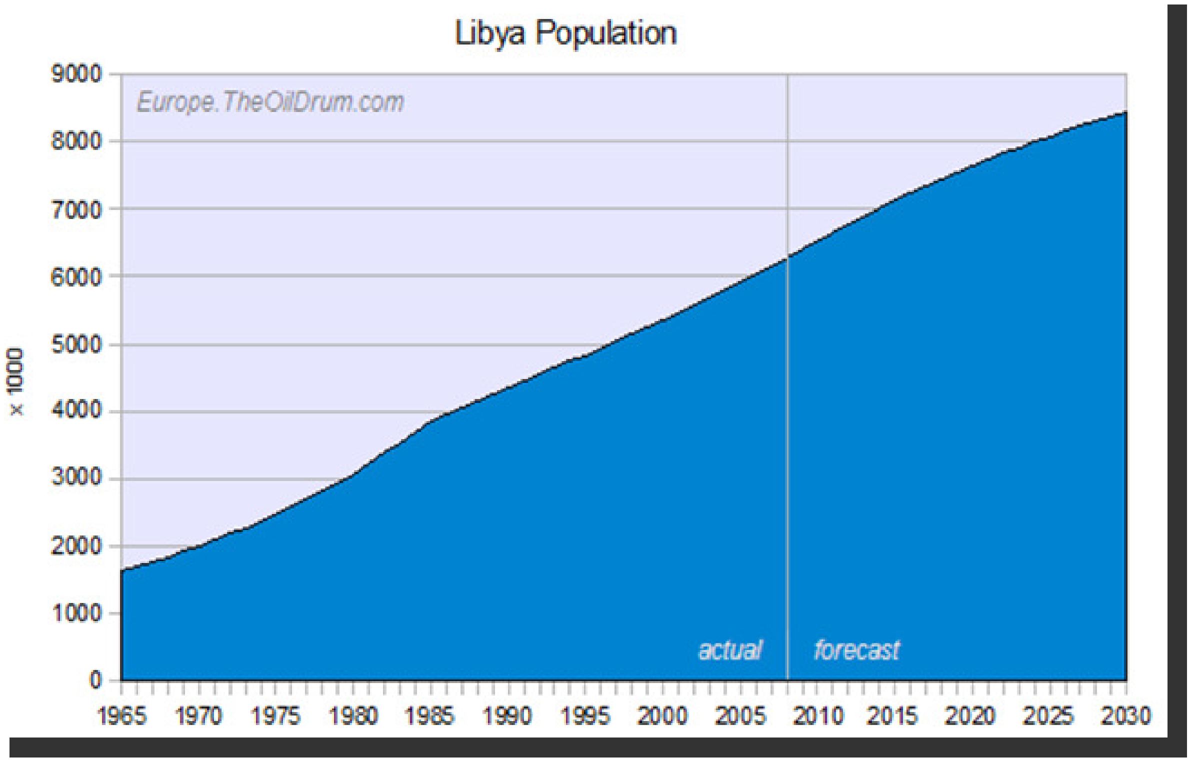


Figure 5: Libya Population Forecast, according to UN's forecast (De Sousa, 2008).