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Guest post: Libya after Gaddafi

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The complete fall of the Libyan regime and the end of Colonel Gaddafi's 42-year rule is opening a new chapter for the country. Its small population (5.5m people), large oil resources (exports of oil and gas reached $44bn in 2010) and the dire need for substantial reconstruction spending hold great appeal for international companies. But the challenges facing the governing National Transition Council and the risk of new rounds of instability and violence are substantial. How to define the right path forward?

Here are three critical elements to monitor, as they will send clear signals on the short to medium term outlook for Libya: the political composition of the new governing bodies, the extent to which the most extreme Islamist fighters can be marginalised, and the schedule for the resumption of oil production.

A country coming out of 42 years of authoritarian regime through civil war and still pretty much characterized by tribal affiliation should not be expected to find its institutional balance quickly. So far, the NTC has announced a two-year transition process starting with elections to a constitutional assembly in eight months. The constitution will then be put up to a referendum, allowing for the new regime to be set up if voted in.

A first priority, and a critical signal on the NTC's intentions, is to address the imbalance in the council's composition, where we have today nine representatives from Benghazi versus five for the more populous Tripoli.

The NTC indicated that the latter number would be increased to 11: this should be done rapidly and bring in a diverse range of representatives, as the risk of internal dissent and division are at the core of the country's long-term stability. This also points to the pressing need for reorganizing the rebel armed forces to create a unified, legitimate, obedient and structured police and military to replace rebel groups and city militias, some of which have charismatic leaders already expressing opposition to the NTC. The large amount of small arms in their possession, the lack of authority and the desire for revenge all contribute to instability.

Another source of dissension within the rebel forces comes from Islamist fighters, the exact proportion of which among the NTC-led forces remains unknown. However, their presence and capabilities were exposed when general Abdel Younnis Fatah of the NTC was killed by Islamists in Benghazi in July. Should they withdraw their support for the CNT due to their demands not being met (for an Islamic state, a constitution based on Sharia law, or a change in international relations with western powers), they could become a highly destabilizing force in the country, even though the Libyan population is fairly moderate in its practice of Islam. A better view of Islamists' strength and willingness for compromise should be available soon and will be a key message for the medium-term prospects of stability.

The third critical element is the speed at which oil production and exports resume. Of the three major oil production sites of the country – the Sirte (not related to the city), Murzuk, and Pelagian basins – Sirte is the largest but was also the most damaged during the conflict. The Pelagian basin is offshore and is expected to resume production and shipment soon. Installations in the Murzuk basin in the south west are reported as not being damaged but the pipeline delivering crude to the Azzawiya refinery close to Tripoli was cut last June, and the extent of repair needed is unknown.

The fact that rebel forces have already started to repair heavy damages to the installations and that international companies (Eni of Italy, Wintershall of Germany and Total of France) are already on the ground and saying they expect to resume production soon are positive indications. Our mildly conservative assumption is that production should reach between 400,000 and 500,000 barrels per day as soon as February 2012, close to 1m bpd at the end of next year and the pre-war level of 1.8m bpd in the first or second quarter of 2013.

The combination of rapidly increasing oil revenues and substantial foreign assets held by both the central bank and the Libyan Investment Authority (with a total estimated today of $125bn to $135bn, of which around $35bn was frozen in the US, Canada and the UK during the war) should ensure the new administration's ability to pay, so there should be few financial constraints on the reconstruction and repair of oilfields, infrastructure and housing.

As the economic and financial imbalances prior to the conflict were quite limited, positive signals on these three fronts would suggest a positive outlook and therefore encourage investors and companies to start looking again at their Libyan operations and investments. But any strongly negative signal on any one of these three critical issues – reconciliation and representativeness, role of Islamists and oil production – would point to a substantial risk of renewed difficulties and tensions.

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