**Subject:** Libya -- Flash – EWG Meeting on 17/3/22 in Tripoli (Budget Execution and Priorities/Agenda attached below)

**FACTS**

* The EWG co-chairs (US, EU, UNSMIL, Egypt) convened above meeting to discuss budget execution and budget priorities against the backdrop of the current political crisis, in order to complement efforts by the Political Working Group to support stability and a perspective for elections in a political climate lacking mutual trust and transparency.
* In addition to the co-chairs, the meeting was attended by  Central Bank of Libya (CBL) Governor Kabir, Ministry of Finance (MoF) Deputy  Minister Akrah, and Deputy Assistant Secretary (DAS) of the US Treasury Eric Meyer; CBL Deputy Governor Hibri was represented by another CBL Eastern Branch official..
* The US (Ambassador Norland and DAS Meyer) stressed the importance of international support for the neutrality of the CBL as a Libyan sovereign institution, in order to shield Libya’s economy from possible damage by the ongoing political tensions. By the same token, Libya’s National Oil Company  (NOC) should preserve its apolitical nature to send a signal of stability for the country’s vital oil sector. Given Libya’s current political circumstances, there was no tangible perspective for a regular 2022 budget. Against this backdrop, and in order to strengthen the NOC, its funding through the CBL would require establishing a transparent mechanism safeguarding regular budget payments to the NOC to cover costs for the development  of additional production capacities. The fallout of the aggression against Ukraine on global energy markets is an opportunity for a positive Libyan role in this regard, while creating additional wealth for the Libyan people. In order to assist towards that end, the US co-chair would shortly share a so-called short term hydrocarbon management mechanism (SHMM). UNSMIL could adjudicate the process of reaching an arrangement over such mechanism, which would be very much in the interest of the US and the international community (IC). As the current status quo in this regard is not sustainable, with approx. 7 billion $ of oil revenues on hold at Libya’s foreign bank (FBL), there would be an urgent need for EWG to facilitate a dialogue with stakeholders to resolve the issue. Against this backdrop, the suggested mechanism would provide transparency and predictability for all main stakeholders (CBL, NOC, MoF). The  mechanism could also include an element to use additional revenue to address issues of public debt.
* UNSMIL (Coordinator Zenenga) underlined the crucial role of CBL, NOC, and MoF for Libya’s unity, as well as the necessity to protect the country’s crucial economically relevant institutions. He further confirmed the IC’s interest in bolstering Libya’s oil production capacities, which would require a transparent mechanism to finance such efforts. Therefore, UNSMIL is in a position to support the priorities of the EWG to that end, and stands ready to facilitate a relevant agreement between Libyan stakeholders, which would enable the NOC to bolster its production capacities and establish a regular automatic transfer of funds between CBL and NOC.
* CBL Governor Kabir gave an overview on budget execution, stressing the fact the CBL revenue influx from NOC for the current quarter remained zero to date, as over 7 billion $ were stalled at Libya’s Foreign Bank (LFB). As a result, the CBL was currently running a technical deficit of approx. 4 billion $. He further stressed that, in his view, the suggested SHMM would be at most a political necessity to oblige the NOC to effectuate transfers from the LFB, as the CBL could legally disburse revenues on a 1/12 basis of the last HoR approved budget.  He also clarified that the NOC’s measure to put oil revenues on hold at LFB was taken prior to a leaked HoR-Presidency letter to that end. In response to a question by EUD regarding the ongoing suspension of CBL board meetings as one of the core grievances of the CBL’s Eastern Branch, Governor Kabir argued that such board meeting could be facilitated by reaching an agreement with the HoR Presidency over some disputed board member appointments. Regarding the ongoing unification process of the CBL, which is assisted by Deloitte, Kabir gave a positive outlook, which was essentially corroborated by the participating CBL Eastern branch representative,  who confirmed that measures to secure the necessary cash flow for his branch were underway, and a solution for the re-activation of the mutual clearing system was within reach.
* MoF (DepMin Akrah) highlighted the fact that the NOC’s suspension of transfers from LFB to CBL  was undermining the MoF’s efforts to cover current expenditures for salaries, infrastructure  development, health  care, and the like. Therefore, the MoF would strongly advice to establish a mechanism, under which the NOC would automatically transfer revenues to CBL. In response to the NOC’s grievances regarding its own expenditure, and  in order to enable NOC to increase oil production, MoF suggested the establishment of a committee of stakeholders to look into viable solutions.
* Egypt (Ambassador Tamer) voiced support for the general objectives of the meeting, stressing the necessity to preserve the neutrality of CBL and NOC. He further suggested that Libya could use surplus oil revenues to establish a sovereign wealth fund.
* EUD (Ambassador Sabadell) highlighted the need for the EWG to actively encourage dialogue among all relevant stakeholders in order to reach a viable agreement on critical expenditures that should be transferred regularly and automatically from NOC to CBL, as well as on the management of additional revenue as a result of high oil prices.

**COMMENTS/ASSESSMENT**

* CBL Governor Kabir recently returned from a trip to the US where he met with several US officials including DAS Meyer.  He appeared slightly hesitant to fully  endorse the EWG’s new initiative and was mainly  focussed on creating momentum for a swift release of LFB held revenues to CBL for government spending in exchange for a regular NOC maintenance and development budget.
* The CBL  Eastern Branch representative underscored that the NOC should be obliged to produce a clear plan for its maintenance and development expenditures, before the desired mechanism could be put in place.
* MoF did not appear to be duly informed about the nature of  the above US initiative.
* However,  there was consensus among all participants that the current political crisis in Libya requires concerted efforts by the EWG members to strengthen the neutrality of the CBL as a Libyan sovereign institution, as well as the apolitical nature of the NOC. The IC should further help shielding Libya’s economy from possible damage and thereby create a signal of stability for the country’s vital oil sector.
* Against the backdrop of the recent developments that have further deepened the existing divide among Libya’s political actors,  the role of the EWG should be further utilized to  support stability by facilitating solutions for the country’s notorious budgetary deadlock situations.
* Shielding Libya’s economy and protecting the country’s vital oil sector is a task for which the EWG can provide valuable assistance. It is a timely opportunity to help creating positive momentum for Libya in order to make a welcome contribution in support of global oil market stability.

*Signed-off: José Antonio SABADELL, HoD*