United States General Accounting Office

GAO

Briefing Report to Congressional Requesters

May 1987

INTERNATIONAL TRADE

Libya Trade Sanctions

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533960

GAO/NSIAD-87-132BR

goods will be substantially transformed into a new product in another country before reexport to Libya and the new product will not be used in Libya's oil and petrochemical industry. The sanctions further allow foreign subsidiaries of U.S. firms organized under the laws of another country to continue trading with Libya. However, Treasury's regulations prohibit any transaction for the purpose of, or which has the effect of, evading or avoiding the prohibitions of the sanctions.

No goods or services of Libyan origin can be imported directly into the United States except publications and materials for news publication or broadcast. Products refined from Libyan crude oil can legally enter the United States as long as the refining was done outside of Libya.

Effect of Sanctions

In designing the export control portion of the sanctions program, the administration recognized the realities of the lack of Libyan dependence on U.S. products and the unwillingness of other countries to institute similar sanctions. It also wanted to avoid the type of extraterritorial problem encountered when the United States extended the Soviet Union oil and gas pipeline sanctions of 1981 and 1982 to foreign firms and U.S. affiliates.[1] Administration officials knew the sanctions applicable to U.S. exports to and imports from Libya would have minimal economic impact on Libya. However, they viewed these sanctions as necessary to distance the United States from, and demonstrate its opposition to, Libya for supporting acts of international terrorism and intervening in the affairs of neighboring states.

Although direct trade between the United States and Libya has been virtually eliminated, the impact on the Libyan oil and petrochemical industry has been minimal. Libya depends on oil for 99 percent of its export revenues. The departure of U.S. oil companies from Libya has had little effect because the oil previously produced and sold by these companies is now produced and marketed by the Libyans, providing them with additional revenues. Available data indicates that production levels of Libyan crude oil have remained about the same as they were before the imposition of the sanctions and, although the price of Libyan oil has decreased since January 1986, price declines are in line with the general worldwide decline in oil prices. In addition, the extensive foreign availability of oil field equipment, supplies, and services allows Libya to

[1]The United States unsuccessfully attempted to extend export controls for foreign policy purposes to foreign subsidiaries of U.S. firms and to foreign firms manufacturing goods under U.S. licenses. Implementation of the controls was blocked by several allied governments.

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-226687

May 21, 1987

The Honorable John D. Dingell
Chairman, Subcommittee on
Oversight and Investigations
Committee on Energy and Commerce
House of Representatives

The Honorable John Bryant
Subcommittee on Oversight and
Investigations
Committee on Energy and Commerce
House of Representatives

This report responds to your questions concerning the effectiveness of the Libyan trade sanctions, extent of continuing U.S. trade with Libya, and any options available for strengthening these trade restrictions.

The sanctions, which were imposed in January 1986 and amended in June and July 1986, cover import and export trade with Libya as well as other activities, such as landing rights, transactions relating to transportation to or from Libya, and financial transactions including the freezing of Libyan assets in the United States. These sanctions are the most recent in a series of controls beginning in 1978. Imports of Libyan crude oil were banned in 1982 and imports of refined products in November 1985. As agreed with your office, our review focused on the import and export provisions of the trade sanctions implemented by the Treasury Department in January and amended in June and July 1986. The results of our work are summarized in this letter and discussed in more detail in the appendices.

Reach of the Sanctions

The 1986 import and export trade sanctions generally prohibit all direct trade between Libya and the United States with exceptions for donated articles intended to relieve human suffering. These sanctions also place certain restrictions on U.S. goods and technology being incorporated into foreign products for subsequent use in Libya's oil and petrochemical industry. In addition, U.S. oil companies and oil servicing companies were required to cease their operations in Libya.

The sanctions allow the export of U.S. goods to Libya that first go to a third country for purposes other than predesignated reexport to Libya. Exports are also allowed if the exporter has reason to believe that the

meet its oil industry needs without having to rely on U.S. oil equipment and servicing companies.

According to American oil production and servicing companies that were required to cease operations in Libya, the Libyan trade sanctions have resulted in their losing revenue. Petroleum Intelligence Weekly, a publication reporting on oil industry news, states that the American oil companies earned in excess of $100 million in Libya in 1985.

While the U.S. sanctions are in effect, Libya can produce and market the oil that would otherwise have represented the U.S. oil firms' share. Subject to U.S. government decision, the resumption of U.S. oil companies' operations in Libya will be contingent on the negotiation of mutually advantageous terms between the Libyan government and the American oil firms. If such an agreement cannot be reached, U.S. oil firms could lose their equity interest of hundreds of millions of barrels of oil reserves.

Trade With Libya

Foreign subsidiaries of U.S. firms are allowed to trade with Libya and continue to do so. However, since January 1986 the level of such trade has declined significantly. In July 1986, the Treasury Department imposed a one-time reporting requirement on all U.S. parent companies whose foreign subsidiaries were doing business with Libya between July 1, 1985 and June 30, 1986. These U.S. firms were required to report sales to and purchases from Libya by their foreign subsidiaries during that year as well as anticipated business for the following 12 months.

For July 1986 to June 1987, it was estimated that 169 foreign subsidiaries of 80 U.S. parent companies would conduct about $266 million in trade with Libya. This represents an estimated 73.6 percent reduction from the previous year, which includes the 6 months immediately preceding the January 1986 Treasury sanctions. In both years most purchases by foreign subsidiaries involved petroleum and petroleum products.

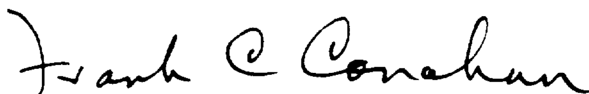
Alternatives for Strengthening the Sanctions

For the sanctions applicable to U.S. exports and imports to have a serious economic impact on Libya, European countries would have to impose similar sanctions. The administration's efforts to obtain multilateral support for similar trade sanctions have not been successful.

The administration has recognized the realities of the lack of Libyan dependence on U.S. source products and services and the unwillingness of other countries to parallel the U.S. sanctions. Foreign subsidiaries of U.S. firms have reduced their already small volume of trade with Libya. Any U.S. efforts to expand the reach of the trade sanctions to these U.S. subsidiaries in foreign countries, even if they could be successfully implemented, would not adversely affect Libya but would impose additional costs on U.S. firms.

As requested by your office, we did not obtain official agency comments. However, we discussed a draft of this report with officials from the Departments of Treasury, Commerce, and State and their comments were considered in preparing the final report. Our review was performed in accordance with generally accepted government auditing standards.

Unless you announce its contents earlier, we plan no further distribution of the report until 7 days after its issue date. At that time, we will send copies to the Secretaries of Commerce, Treasury, and State; the Director, Office of Management and Budget; and to interested parties upon request.



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Supplemental Information on U.S. Export and Import Provisions of the Libyan Sanctions Program

On January 7 and 8, 1986, President Reagan ordered specific trade sanctions against Libya, invoking the authority of several statutes, including the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.).[1] To carry out this order, the Department of the Treasury, in consultation with the Department of State, issued Libyan Sanctions Regulations. These regulations impose a freeze on Libyan governmental assets and generally prohibit the following actions.

1. Exports to Libya from the United States of goods, technology, or services.

2. Imports into the United States of goods or services of Libyan origin.

3. Transactions by a U.S. person relating to transportation to or from Libya; transportation services to or from the United States by Libyan persons, vessels, or aircraft; or the sale in the United States by any person holding authority under the Federal Aviation Act of any transportation by air which includes any stop in Libya.

4. Purchase by any U.S. person of goods for export from Libya to any country.

5. Performance by U.S. persons of contracts in support of projects in Libya.

6. Extension of credits or loans by U.S. persons to the government of Libya.

7. Transactions by U.S. persons relating to travel by U.S. citizens and permanent resident aliens to Libya or their activities within Libya.

This report focuses on the sanctions applicable to exports to Libya from the United States of goods, technology, or services and imports into the United States of goods or services of Libyan origin.

Reach of the Trade Sanctions

The administration, in designing the export control portion of the sanctions program, sought to recognize the realities of the lack of Libyan dependence on U.S.-source products and services and the unwillingness

[1]The Libyan Sanctions Regulations, 31 C.F.R. part 550 (51 Fed. Reg. 1354, Jan. 10, 1986; 51 Fed. Reg. 2462, Jan. 16, 1986; and 51 Fed. Reg. 19751, June 2, 1986) were issued by the Treasury Department in implementation of Executive Order 12543 of Jan. 7, 1986 (51 Fed. Reg. 875, Jan. 9, 1986) and Executive Order 12544 of Jan. 8, 1986 (51 Fed. Reg. 1235, Jan. 10, 1986).

of other countries to impose similar sanctions. It also wanted to avoid any extraterritorial problems, such as those encountered with the Soviet Union oil and gas pipeline sanctions of 1981 and 1982. Thus, the Libyan trade sanctions apply only to U.S. persons and cover those exports and imports which can be directly controlled by the United States.

Persons Covered

The sanctions apply to U.S. citizens, permanent resident aliens, juridical persons organized under the law of the United States, or any person in the United States. Treasury defines a U.S. juridical person as a corporation, partnership, or sole proprietorship organized under U.S. law. Foreign branches of U.S. companies are subject to the trade sanctions, but foreign subsidiaries organized under the laws of another country are not. U.S.-based subsidiaries of foreign companies are also subject to the sanctions.

Business Transactions Prohibited

Treasury's regulations prohibit any transaction for the purpose of, or which has the effect of, evading or avoiding the prohibitions of the sanctions. For example, a U.S. parent company is prohibited from transferring a Libyan contract to a foreign subsidiary to evade the sanctions or from suggesting to a Libyan firm that it transfer its business to the U.S. firm's foreign subsidiary. Foreign subsidiaries of U.S. corporations, however, can independently approach Libya with offers to contract for goods and services previously provided by the U.S. company and can accept contract offers initiated by the Libyans as long as the parent company is not involved in any capacity. Should foreign subsidiaries independently engage in contracts with the Libyans, the U.S. parent company is not permitted to provide financial, operational, or managerial support in the performance of the Libyan contracts. U.S. parent corporations may, however, receive dividends and profits from foreign subsidiaries' contracts with Libya.

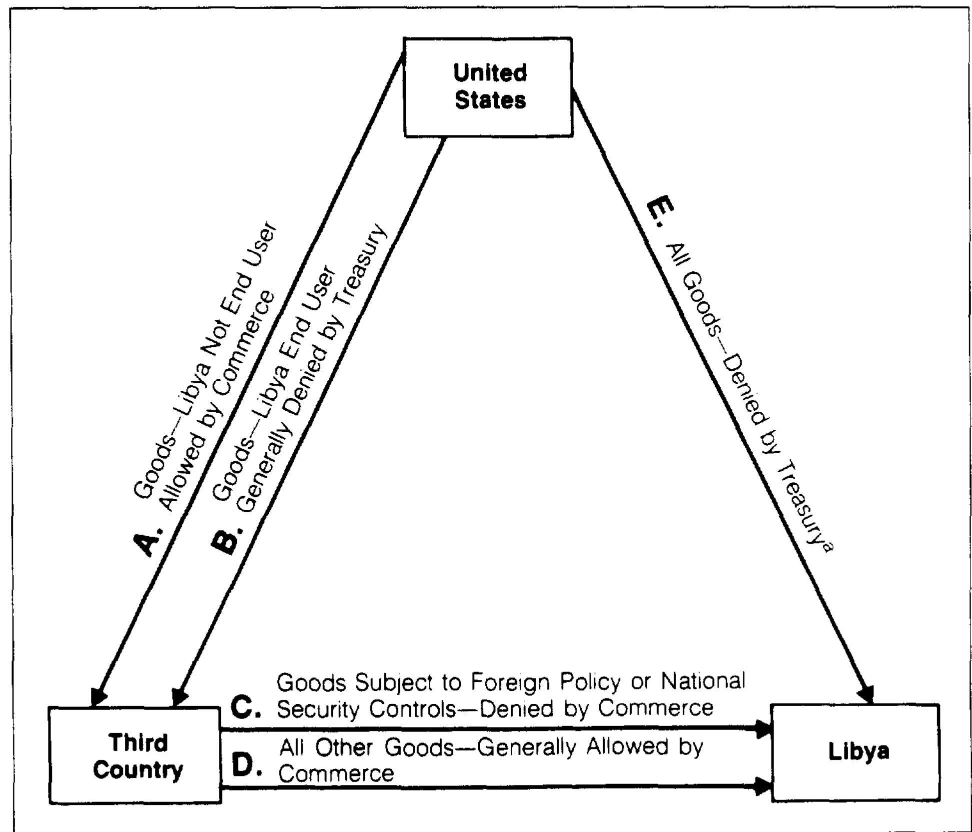
A U.S. parent corporation is also prohibited from sending U.S. employees to Libya or any other country to provide goods or services that will subsequently be used in Libya. Foreign subsidiaries of U.S. companies can send non-U.S. persons to provide services in Libya.

Export Licensing Authority

Licensing authority for the export of goods and technology to Libya is currently shared between the Departments of Treasury and Commerce (fig. I.1). Prior to January 1986, Commerce was responsible for approving all individual licenses for direct exports and reexports of

manufactured goods and parts and components to Libya. In January 1986, the Department of the Treasury was given authority to control licenses for all goods, technology, and services being directly exported to Libya. Although Commerce also continues to have licensing authority for exports, under this arrangement the Treasury license also serves as Commerce authorization. Commerce continues to have authority to issue licenses for reexports of goods and technology and for foreign products with U.S.-source parts and components.

Figure I.1: Licensing Authority and Policy for Direct Exports and Reexports to Libya



a Exports of publications and donated articles intended to relieve human suffering are allowed.

The division of licensing authority between the Departments of Commerce and Treasury has resulted in shared authority. While the authority for approving license applications for the direct export of goods and technology to Libya clearly rests with Treasury, Commerce and Treasury regulations apply in different circumstances when goods

are exported to third countries and eventually reexported to Libya, as shown in figure I.1.

As transactions A and B show, identifying a product's end user prior to its export to a third country is important in determining whether Commerce or Treasury will approve the export license. Once the goods are in the third country, their reexport to Libya is controlled solely by Commerce regulations (see transactions C and D). The following sections further explain approved and disapproved transactions.

Direct Exports to Libya

Goods, services, and technology exported directly from the United States to Libya must have specific Treasury Department licenses. Excluded from this requirement are publications and donated articles intended to relieve human suffering, such as food, clothing, medicine, and medical supplies. All applications for direct export of goods to Libya are reviewed by Treasury and are presently subject to a general policy of denial. (See transaction E in fig. I.1.) Although direct transfer of U.S. technology to Libya is controlled, Libya has access to some products of U.S. technology through foreign firms and subsidiaries of U.S. firms. These firms can provide Libya with goods and services which incorporate U.S. technology that was received under U.S. license and patent arrangements unless specifically prohibited by U.S. export controls.

Export of Goods to Third Countries for Possible Reexport to Libya

Although Commerce has the authority to license the export of goods to third countries, these transactions are also regulated by Treasury. The Libyan Sanctions Regulations, as issued in January 1986, permit the export of goods to a third country for reexport to Libya if those goods are substantially transformed in the third country. Treasury requires that, to meet the substantial transformation test, a new and different article of commerce must be created. In making this determination, emphasis is placed on the extent of value added, extent of third country processing, degree of U.S. content in the final product, identifiability of U.S.-origin components, and consistency of the final result with U.S. policy goals. Treasury regulations further permit the export of goods to Libya that first come to rest in a third country for purposes other than intentional reexport to Libya (see transaction A and B in fig. I.1). Under this exemption, an exporter can sell goods to a company in a third country to restock the inventory of a distributor. Treasury would not allow exports to a firm whose business is predominantly (50 percent or more) with Libya.

On June 23, 1986, Treasury amended its regulations to further restrict the shipment of goods to the Libyan petroleum and petrochemical industry. As a result of the change, even if a U.S. product will be substantially transformed in a third country, export to that country will be denied if the exporter knows or has reason to know that the final product will be used in the Libyan petroleum or petrochemical industry. This restriction also applies to general merchandise, such as computers and construction equipment.

Knowledge of the end user of an item is viewed by Treasury as "businessman's knowledge". The term "reason to know", as applied to the Libyan sanctions by Treasury, includes (1) prior dealings or contacts with the firm which lead the exporter to believe the goods will end up in Libya, (2) knowledge that the exported goods can be used only in Libya, or (3) awareness that the goods are being exported to a firm whose business is predominantly with Libya.

Reexport of U.S. Goods to Libya From Third Countries

Reexports involve the movement of goods from one foreign destination to another. The reexport of any U.S.-origin goods from a third country to Libya is controlled by the U.S. Commerce Department with advice given by the State Department and the Department of Defense. Some of these reexports to Libya are subject to U.S. national security and foreign policy export controls that were in place before the imposition of the January 1986 sanctions. Treasury's regulations did not affect Commerce's approval of reexport licenses.

Commerce policy is to generally deny the reexport of the following four groups of goods and technology to Libya.

1. Commodities controlled for national security purposes and related technical data and oil and gas equipment and related technical data not readily available outside the United States, except, on a case by case basis,

- goods and technology already outside the United States on March 12, 1982;
- U.S.-origin components of foreign products constituting 20 percent or less by value of the finished goods; and
- other unusual, albeit undefined, situations.

2. Goods and technology destined for the Ras Lanuf petrochemical processing complex, except, on a case by case basis,

- goods and technology already outside the United States on December 20, 1983, and
- U.S.-origin components of foreign products constituting 20 percent or less by value of the finished goods.

3. Off-highway wheel tractors with carriage capacity of 10 tons or more except in reasonable quantities for civil use.

4. Aircraft, helicopters, aircraft parts, and avionics if there is a high risk of conversion to military use (the effect of this, according to Commerce, has been to deny all aircraft, helicopters, and related items).

When commodities and technical data are subject to more than one type of control (e.g., national security, foreign policy, nuclear non-proliferation), the most restrictive standard is applied.

Under Commerce regulations, reexport of all other commodities to Libya will generally be approved, although reexport licenses are required. Valid licenses are required for all goods except (1) medicine and medical supplies, (2) food and agricultural commodities, (3) items permitted under certain special purpose general licenses, such as baggage and gifts, (4) non-strategic products of U.S. technology that are manufactured in foreign countries, and (5) strategic products of U.S. technology that are manufactured in foreign countries, as long as the U.S. technology had been legally exported before March 12, 1982.

Imports: Direct and Via Third Countries

The import of goods into the United States is regulated by the Treasury Department's Customs Service. Customs inspectors determine whether or not to allow goods to enter the United States at the border. Generally speaking, no goods or services of Libyan origin can be imported directly into the United States except for such items as publications and materials for news publication or broadcast.

Treasury regulations state that imports into the United States from third countries of goods containing Libyan raw materials, including oil, are denied except when the raw materials have been substantially transformed or incorporated into a manufactured product in a third country. As a result, refined petroleum products containing Libyan crude oil can be imported into the United States as long as the refining process takes place outside of Libya.

Impact of Libyan Trade Sanctions

The purpose of the trade sanctions was to distance the United States from and demonstrate its opposition to Libya's support of international terrorism. The United States has distanced itself from contributing directly to the Libyan economy, although, as expected, the impact of the sanctions implemented in 1986 on the Libyan oil and petrochemical industry has been minimal. Available data indicates that Libya has been able to maintain relatively stable oil production levels and is receiving additional revenues from marketing that portion of its oil production previously marketed by U.S. firms.

Impact on Libya's Oil Industry Has Been Minimal

Both U.S. and foreign statistics show that although Libya's oil production varied slightly during 1986, it achieved a stable level of approximately 1 million barrels per day. This is in keeping with its OPEC production quota of 990,000 barrels per day. Libya has also been able to successfully market its oil, including that portion of its oil production previously marketed outside the United States by U.S. companies. However, like other oil producers, Libya has received less revenue for its oil due to the decline in crude oil prices on world markets.

As shown in table I.1, five of Libya's major oil importers (Italy, Germany, Greece, Spain, and France) continued to purchase Libyan crude oil and refined products during 1986. Although France, Germany, and Greece purchased less crude oil and refined products from Libya in 1986 than in 1985, Italy and Spain increased their Libyan imports.

Table I.1: Total Imports of Libyan Crude Oil and Refined Products by Libya's Major Oil Importers

(thousand metric tons)

Country	1985	1986	Percent of change
France	3,399	2,934	−13.7
Germany	9,780	7,379	−24.6
Greece	3,005	2,092	−30.4
Italy	14,486	14,998	+ 3.5
Spain	4,700	7,251	+54.3

Source: Organization for Economic Cooperation and Development, International Energy Agency

In addition, Libya continues to market its oil to Eastern bloc countries, including the Soviet Union, through cash sales and barter arrangements.

The practical impact of the U.S. trade sanctions on Libyan oil production is minimal because of the extensive foreign availability of oil field equipment, services, and supplies. Although the United States was the

predominant source for such equipment, services, and supplies in the 1960s and 1970s, industry sources state that technology is now available worldwide. The discovery of oil in the North Sea was an impetus for developing industry knowledge and equipment-manufacturing capabilities throughout Western Europe. In addition, representatives of U.S. oil producing and servicing firms told us that Romania, Yugoslavia, Japan, and the Soviet Union have the capability to manufacture and service the equipment needed to run an oil field operation. Although such equipment may not incorporate the most sophisticated technology available, favorable production conditions in the Libyan oil fields lessen the need for such technology. Libya is currently meeting its OPEC production quota and appears to have the capability to expand production. In addition to the availability of foreign-source equipment, the recent oil industry recession has left a large inventory of spare parts from which Libya can meet its repair and maintenance needs.

Impact on U.S. Businesses

According to the American oil production and servicing companies that were required to cease operations in Libya, the Libyan trade sanctions have resulted in the loss of revenues. Any hope of regaining access to the billions of barrels of oil reserves left behind is contingent upon entering into mutually advantageous agreements with Libya, if and when the U.S. government permits the U.S. firms to resume operations.

U.S. oil firms have maintained an interest in Libya since significant oil reserves were discovered there in the late 1950s. Prior to 1973, U.S. firms had exclusive rights to the oil produced from Libyan fields in exchange for payment of rent, royalties, and taxes. In 1973, these U.S. firms were required to sell the Libyan government the majority (51 percent or more) of their equity interest. The Libyan National Oil Corporation, in joint venture agreements with the American firms, became responsible for providing a share of the cash required to operate the oil fields and took over majority responsibility for managing the operations. After the takeover, many U.S. oil field workers were replaced with Libyans and Western Europeans. The American role became one of providing technology, engineering, and financing.

When the Treasury restrictions were put in place in January 1986, five major U.S. oil companies were still operating in Libya under joint venture agreements. These firms were involved in two types of arrangements, concession agreements and exploration and production sharing agreements. Under concession agreements with the National Oil Corporation, U.S. firms received 49 percent of the oil produced and paid

49 percent of the operating expenses in addition to taxes, rents, and royalties. The National Oil Corporation paid the remaining 51 percent of the expenses and took 51 percent of the oil. Exploration and production sharing agreements differed in that a smaller percentage of the oil produced was received in lieu of paying rents, royalties, and taxes. Operating expenses were still shared on a 49 to 51 percent basis.

In both types of arrangements, the five American firms were primarily investors in the oil field operations, providing their share of the money required to run the operation and receiving the rights to sell a portion of the oil produced. They and the National Oil Corporation were each responsible for marketing and selling their shares of the oil. Management decisions were dominated by the Libyans and the day-to-day oil field operations were being run without American oil company personnel.

As a result of the January 1986 sanctions, the five American oil companies ceased any role in Libyan oil field operations by February 1, 1986. However, to avoid breach of contract, the companies subsequently applied for permission to continue operations in Libya. The Treasury Department granted them temporary licenses permitting certain limited transactions while trying to terminate their Libyan involvement under equitable terms. The companies were authorized to (1) continue ownership of their property, (2) sell Libyan crude oil at Libyan ports but not ship or distribute the oil, (3) participate in management decisions, and (4) continue paying their share of operating expenses. Companies could pursue the sale of assets to the Libyans but could not undertake new contracts or agreements in Libyan activities and had to place all profits in separate bank accounts in the United States. The licenses did not authorize the export of U.S.-origin goods, technology, and services to Libya.

On June 30, 1986, Treasury revoked the temporary licenses and authorized the American firms to enter into standstill agreements with the National Oil Corporation and the government of Libya. These standstill agreements allow for continued ownership rights for 3 years, although the American companies have no claim to the oil produced and no obligation to pay any operating expenses. Neither party can take action inconsistent with the other's interest and both sides have agreed to continue negotiating the sale of American assets to Libya. If U.S.-Libyan relations improve to the extent that the U.S. government authorizes the return of U.S. firms to Libya, both parties also agree to negotiate an agreeable basis for resuming joint operations.

The short-term effect of the sanctions on the U.S. oil companies has been a loss of revenue while Libya continues to reap the full benefit of their oil field operations. Oil company representatives note that annual profits lost on an individual company basis range from $2 million to $25 million. Because Libya has been able to maintain operations without U.S. support, the revenues previously received by U.S. firms are now being received by Libya.

Despite the short-term revenue loss, U.S. oil firms are more concerned about the long-term consequences of the sanctions. Total oil reserves in Libya are estimated at 22 billion barrels, making the potential loss of the U.S. firms' access to a portion of these reserves significant. Under the standstill agreements, U.S. firms have no rights to future reserves found in Libya. Even if the political situation changes, U.S. firms are guaranteed only the right to negotiate their return. If these negotiations are not successful, access to the Libyan oil fields would be permanently lost to U.S. firms.

Current Trade With Libya

Libya has not been a major trading partner of the United States. Between 1982 and 1986, the dollar value of U.S.-Libya trade fluctuated widely, but the amount of Libyan trade as a percentage of total U.S. trade remained at about two tenths of one percent or less. Since the Treasury restrictions were put in place, direct trade between Libya and the United States has been virtually eliminated. Also, U.S. firms have reported declines in Libya's trade with their foreign subsidiaries, even though the subsidiaries are not required to comply with the sanctions.

Direct U.S. Trade With Libya

As shown in table I.2, the 1986 Libyan sanctions greatly reduced direct U.S. exports to Libya. Exports fell to $46.2 million in 1986, an 85 percent reduction from 1985. According to Commerce trade statistics officials, these exports occurred before the effective date of the sanctions and primarily consisted of machinery and motor vehicles.

Table I.2: U.S. Trade With Libya, 1982 - 1986

	Exports		Imports	
	(millions)	(percent)[a]	(millions)	(percent)[b]
1982	$301.2	0.14	$533.2	0.21
1983	190.6	.10	.9	([c])
1984	200.2	.09	9.7	([c])
1985	311.0	.15	47.1	.01
1986	46.2	.02	1.6	([c])

[a]Libyan portion of all U.S. exports for that year.

[b]Libyan portion of all U.S. imports for that year.

[c]Less than .01.
Source: U.S. Department of Commerce

Crude oil and refined products accounted for 97 percent of all U.S. imports from Libya. When the United States placed an embargo on Libyan crude oil in 1982, the level of imports fell dramatically until 1985 when Libya opened its Ras Lanuf petrochemical processing complex. At this time, the United States increased imports of refined petroleum products from Libya until these products were prohibited in November 1985. The Treasury restrictions were imposed 2 months later. In 1986 imports from Libya fell to $1.6 million. Of this, $1.5 million was in U.S. goods returned to the United States.

Foreign Subsidiary Trade With Libya

Data collected by Treasury reveals that trade between foreign subsidiaries of U.S. firms and Libya has also declined since the sanctions went into effect. To help monitor compliance with the sanctions, Treasury imposed a one-time reporting requirement on all U.S. companies with subsidiaries doing business with Libya between July 1, 1985 and June 30, 1986. U.S. firms were required to provide data on sales of goods and services to Libya and purchases from Libya taking place during the 6 months before the sanctions (July 1 to Dec. 31, 1985, Period I) and the first 6 months of the sanctions (Jan. 1 to June 30, 1986, Period II). They were also required to provide similar information for anticipated business during the following year (July 1, 1986 to June 30, 1987, Period III). Table I.3 summarizes the data received by Treasury.

Total anticipated trade between foreign subsidiaries and Libya is estimated at $265.8 million for the period July 1986 to June 1987, a 73.6 percent decrease from the $1,006.3 million reported for the previous 12 month period. The expected 84.9 percent decline in purchases from Libya of goods and services is primarily attributable to decreased

purchases of crude oil and refined oil products. Over 95 percent of all purchases from July 1985 through June 1986 represented purchases of these goods.

The anticipated decrease in revenues from sales of goods and services to Libya is not concentrated in a single industry. Although the oil industry accounted for over 80 percent of revenues from sales of services from July 1985 through June 1986, only about 30 percent of sales of goods in the same period were related to oil. The remaining business included construction, management, and manufacturing services and sales of chemicals, fertilizers, metal products, non-oil-related equipment, food, medical supplies, and various other goods.

Table I.3: Trade With Libya by Foreign Subsidiaries of U.S. Companies

Dollars in thousands

	Period I (July - Dec. 85)	Period II (Jan. - June 86)	Period III (July 86 - June 87)	Percent change[a]
Number of:				
Companies reporting	110	100	80	
Foreign subsidiaries	250	219	169	
Volume of Trade:[b]				
Purchases from Libya	$473,707	$152,688	$66,252	−89.4
Sales of goods and services	214,438	165,418	199,514	−47.5
Total	**$688,145**	**$318,106**	**$265,766**	**−73.6**
Beakdown by industry:				
Oil and related	$603,467	$232,913	$134,740	−83.9
Construction	30,251	33,110	56,804	−10.4
Machinery	32,609	29,609	40,145	−35.5
Other	21,818	22,474	34,077	−23.0

[a]Annual percentage decline is Period III (July 1986 - June 1987) compared with Period I and Period II (July 1985 - June 1986).

[b]Purchases represent payments to Libya; sales represent payments from Libya for goods and services provided. Rent, taxes, and royalties paid are excluded from these figures.

Source: U.S. Department of Treasury

Objectives, Scope, and Methodology

We made this review in response to a request from Representative John D. Dingell, Chairman, and Representative John Bryant, Member, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, regarding the Libyan trade sanctions program. Our objectives were to:

- Identify the types of trade permitted and prohibited by the sanctions implemented in January 1986 and amended in June and July 1986, the administration's rationale for permitting certain transactions, and the impact of the trade sanctions on both U.S. oil firms and Libya's oil industry.
- Obtain information regarding U.S.-Libya direct trade and trade between foreign subsidiaries of U.S. firms and Libya as reported to the Treasury Department.
- Examine the question of alternatives for strengthening the trade sanctions.

The Libyan trade sanctions encompass not only export and import controls but also landing rights, transactions relating to transportation to or from Libya, and financial transactions. As agreed, the focus of our work was only on those sanctions instituted since January 1986 and applicable to U.S. exports to and imports from Libya. Also, because the Libyan economy depends primarily on revenues from oil exports, our report focuses on the impact of the sanctions on the Libyan oil and petrochemical industry.

We spoke to and obtained information from U.S. and foreign government officials, oil industry analysts, and U.S. and foreign oil company representatives. We did not discuss company specific information in this report because of business sensitivity considerations.

We also prepared an analysis of the trade provisions of the Libyan sanctions. Officials from the Departments of State, Treasury, and Commerce reviewed and commented on this analysis. We held extensive discussions with oil industry analysts as well as representatives of U.S. oil producing and servicing firms operating in Libya at the time the sanctions were implemented. These officials provided us with details about their operations in Libya before and after the sanctions as well as general information regarding the sanctions' impact during 1986. We also visited and obtained information from French and British government officials and their respective oil company representatives and from International Energy Agency officials.

As requested by your office, we did not obtain written comments from the agencies. However, we reviewed a draft of the report with officials at the Departments of State, Treasury, and Commerce and their comments were considered in preparing the final report.