

Libyan Situation Entering New Phase on Rebel Offensive

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Six months after a civil war broke out in Libya, the latest local situation is indicating new developments. Media reports say Libyan rebel forces have enhanced their offensive and have almost taken effective control of Zawiya, some 50 kilometers west from the Libyan capital of Tripoli, according to the claims of the rebels.

If Zawiya has come under control by rebels, as is claimed by them, it would be significant. Zawiya is close to Tripoli and has key oil facilities including an oil refinery (with a capacity of processing 120,000 barrels per day) that has been the only Libyan refinery in operation even amid the civil war. The city is also a strategic point for transportation between Tripoli and the border with Tunisia and others, assuming an important position for replenishment and logistics.

Petroleum products are indispensable not only for civil life and economic operations but also for military operations. Contained by domestic rebels and foreign NATO forces, the Gaddafi regime sees supply from the Zawiya refinery as vitally important. Given that Zawiya has played a key role in securing supply of military and other strategically important goods for the Gaddafi regime under internal and external containment, rebels' control of the city is expected to trigger a new phase in the Libyan situation.

In the Libyan civil war that started in February, rebels had initially taken an offensive and met a counteroffensive from the Gaddafi regime before NATO air campaigns. The war had been rather deadlocked since April. Even during the deadlock, rebels might have repeated severe clashes with government forces and gradually expanded their control. But the situation remains uncertain as various future developments are likely.

Some people argue that the Gaddafi regime still braces for diehard resistance against the rebel forces. Although rebels are approaching Tripoli, they say that the regime still maintains military arrangements to defend the capital city. Meanwhile, some reports say that the United Nations and France have been mediating negotiations between rebels and the Gaddafi regime. Rebels might have been taking advantage of reports on their control of Zawiya and other key points to cut into the Gaddafi regime or Tripoli-defending forces. Reports have thus been conflicting in a sense.

Overall, however, the situation has clearly grown severer for the Gaddafi regime, as symbolized by reports about the battle for control of Zawiya and about rebels' effective control of the city. In this respect, U.S. Defense Secretary Leon Panetta in a recent interview indicated an attention-attracting view that the Gaddafi regime has weakened and come closer to its end.

What implications or impacts does the changing Libyan situation have on the international energy market?

The Libyan situation, including crude oil supply interruptions, had greatly contributed to crude oil price spikes since February. As the Libyan situation had been deadlocked, however, the situation including the continued crude oil supply interruptions was no longer a factor to be taken into account in considering international energy problems including crude oil prices. If the Libyan situation reaches a new phase as described above, however, the Libyan problem may attract attention in the international energy market again. If rebel forces establish their full control of Libya with the Gaddafi regime collapsing, energy market players are expected to interpret such development as a favorable factor leading to crude oil supply recovery and market stability. Such development may thus exert downward pressure on crude oil prices. Even in the event of government change, however, the international energy market may take some time to recover Libyan crude oil supply. The problem is market perception. In this sense, the market is expected to welcome such Libyan development.

Over a longer term, the recovery of high-quality crude oil supply lost on the Libyan crisis and the resumption of Libyan natural gas supply to Europe may be significant for oil and gas supply and demand in Europe. In this sense, impacts of future Libyan developments on the North Sea Brent crude oil price may attract much attention.

Growing fears over the future course of the world economy have exerted great downward pressure on crude oil prices since early August. In the context of new Libyan developments emerging amid the market trend, we must look at the present situation. Depending on future

developments, the Libyan situation could be coupled with fears over the future world economy to drive down crude oil prices, shaking the international energy market again.

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