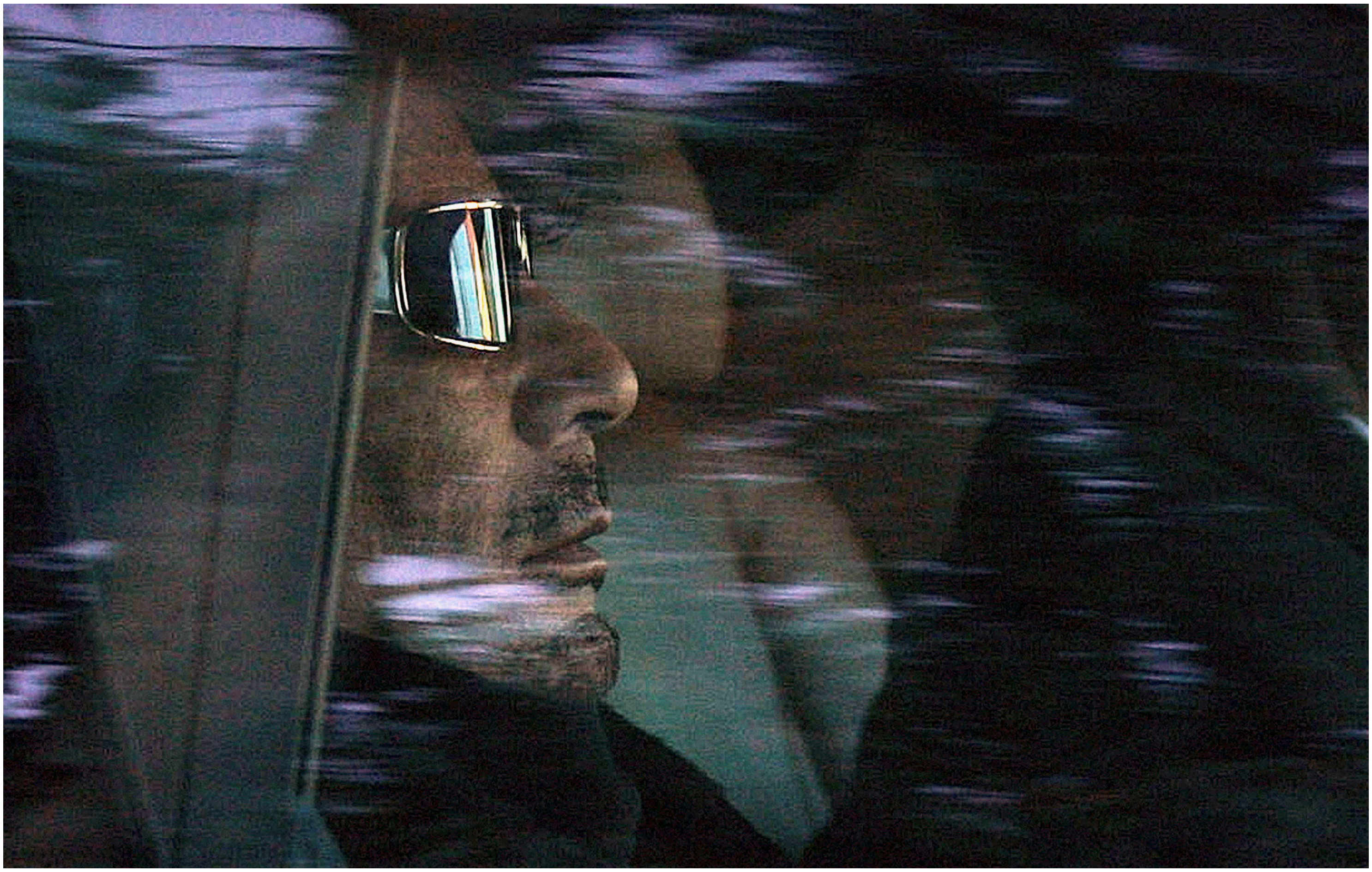


REUTERS/JAVIER BARBANCHO/FILES

SECRETS: The Libyan oil industry under Muammar Gaddafi, pictured here in 2007, was shrouded in corruption

The Gaddafi oil papers

BEFORE THE REVOLUTION, LIBYA KEPT RECORDS OF ALLEGED ABUSES IN ITS OIL INDUSTRY. SOME OF THEM HAVE NOW COME TO LIGHT

BY JESSICA DONATI AND MARIE-LOUISE GUMUCHIAN
TRIPOLI, DEC 23

OVER AN ESPRESSO in Tripoli's five-star Corinthia Hotel, lawyer Samir Al Sharef is discussing a document he helped produce – one that he says offers insight into the underhand oil dealings of the fallen regime of Muammar Gaddafi.

He holds up a hand and draws forefinger and thumb together, leaving a few millimetres of space in between. "What was written in the report was only a tiny, tiny fraction of the reality - a window into corruption," he says.

That there was graft in Libya under Gaddafi would be no surprise. The North African country languishes in 168th position out of out of 182 in Transparency International's Corruption Perception Index.

What is surprising is that Libya was monitoring it.

Every year a report would be presented to the unelected legislature, the People's Congress, but not to the public. The revolution has brought one of these out in the open. It gives a rare insight into the oil trade in a highly secretive region.

Two copies of the Arabic report, titled "The Annual Report by the Control Board for 2010," were made available to Reuters by separate sources. Produced by Gaddafi's government – the Ministry for Inspection and Popular Control – the 40-page document is remarkable in many ways.

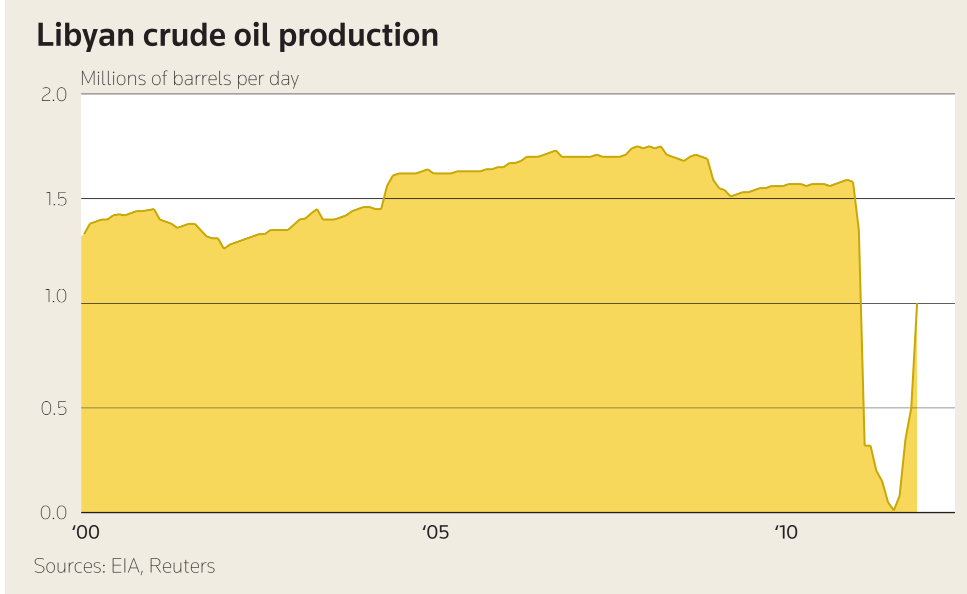
First, the fact it was written at all. Many Libyans viewed Gaddafi's government as a thoroughgoing kleptocracy. The report appears to have been an effort by the regime to show it was serious about improving transparency, although it is unclear if any past disclosures had an impact.

Then are its contents. The document, along with private letters, contracts signed with foreign partners and the results of other investigations carried out by the ministry over the years, catalogues allegations of shoddy dealings, particularly in oil. These include tardy financial reporting, false dates on contracts, multiple bank accounts, undervalued assets and oil or money gone missing.

Some of the claims in the papers stem from an oil industry executive who says she tried for years to expose shortcomings, only to be threatened by the very government she


REUTERS/ISMAIL ZITOUNY

LAWYER: Samir Al Sharef, seen here in November, said presenting allegations of wrong-doing to the People's Congress was a farce



sought to alert.

Many of the papers' claims could not be verified; some have been denied by those involved. But their very existence shows what a huge challenge Libya's new government faces. Oil is the lifeblood of Libya's economy. That gives the industry deep political power and may make it all the more difficult to purge lingering practices from the old regime, says Al Sharef, who was hired as a consultant to help compile the reports.

The head of Libya's oil industry has changed since the revolution, he said. "But he won't succeed if he doesn't change his staff, because they still operate under the same system based on contracts between friends."

NAJWA AL BESHTI, a former head of crude oil contracts at Libya's state-owned National Oil Company (NOC), was one of the report's main contributors. But she didn't know that, and she didn't even know of the report's existence, for years. Then she had an accident.

It was November 2010 and she was heading home from work when she says a car hit her vehicle. She had the green light at an intersection, but the other car did not stop. It slammed into the side of hers. Beshti was taken to hospital with an injured arm.

Soon afterwards, she says, state security officials visited her house with a chilling message: the next time could be fatal. Beshti has kept copies of what she says are anonymous threats she received at her workplace and home. One states: "Your fate is black … if you leave the country you will see who we are. This is the last warning." Her account could not be independently corroborated.

She believes such messages were in retaliation for frequent complaints she had made about the NOC's crude oil department.

A woman with 15 years' experience in the oil industry and an MBA from the London Business School, Beshti first wrote to her managers on the subject in 2008. She complained that NOC executives were breaking the law by not specifying dates on which oil should be delivered, by selling oil direct to Asia-based trading houses instead of to refineries, and by signing deals without authorisation.

The trading houses included Unipec, the trading arm of Chinese refining giant Sinopec. Unipec declined to comment.

When Beshti's managers did not react, she wrote to the government. Eventually, in April 2009, she sent the first of three letters to Saif al-Islam Gaddafi, at the time the most prominent and reform-minded of Gaddafi's sons.

Initially her complaints triggered official probes by the ministry, but then she believed they were ignored.

IN FACT, ALL THE while they were being collated in the ministry's report, which Al Sharef had agreed to edit on condition he would be allowed to write freely. He worked with Rafik Derbi, a government official who had spent nearly two decades at the national audit bureau in Benghazi, the heart of Libya's richest oil-producing region.

But even though the men's work was not censored, they never expected it to make any difference.

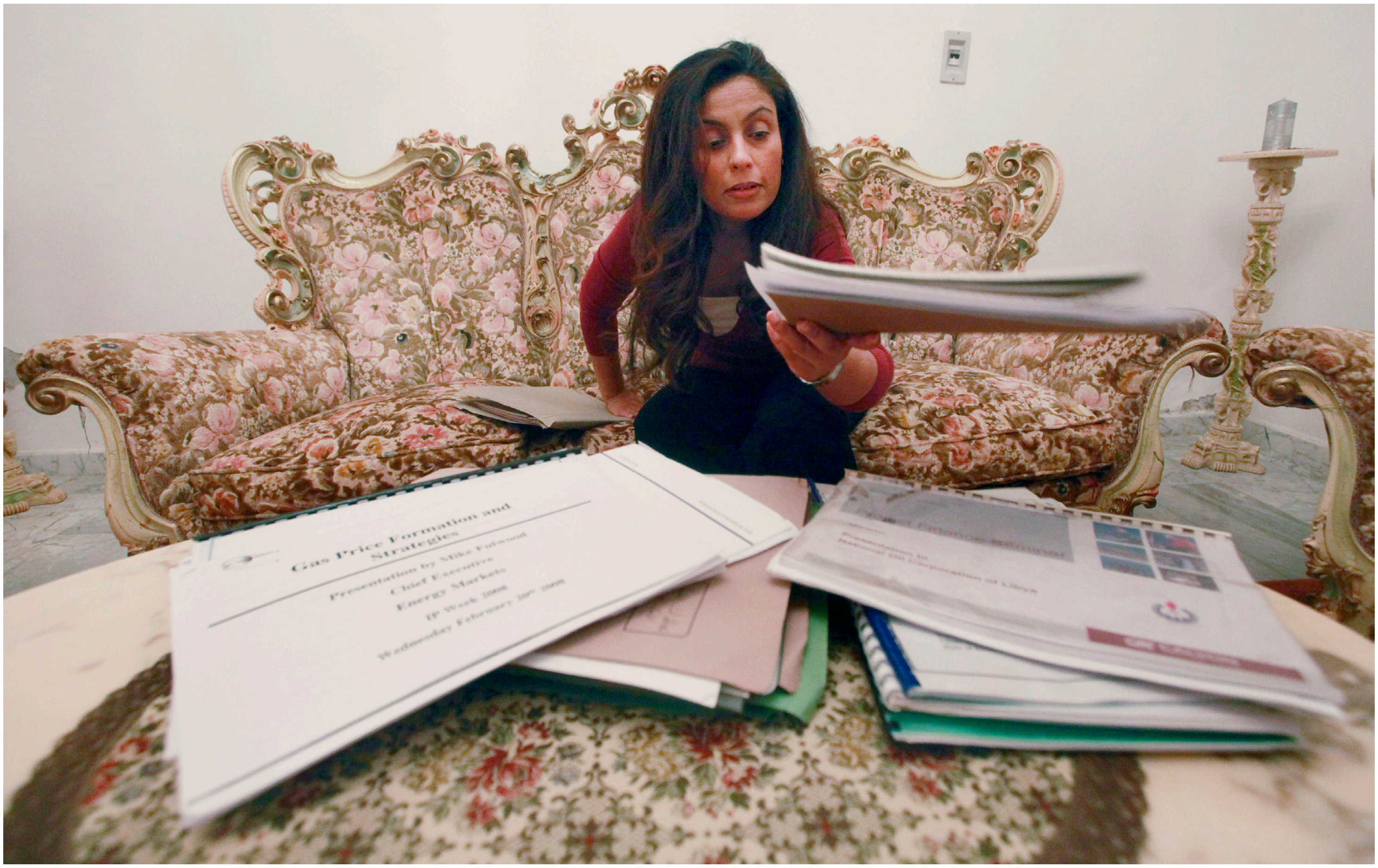
"All our comments and notes were sent to the heads of the various organisations involved, who buried the reports because they were part of a filtering system," said Sharef, who is now a director at a new state-run organisation to promote financial transparency. "Corruption started from the top."

Over the years, Sharef says, he would make presentations to the People's Congress. "It was like going to the theatre. I knew how it was really managed. I'd go there and laugh."

Derbi, who met a reporter for Reuters in Benghazi in November, said he also expected Gaddafi's men would simply sit on the reports. "Our philosophy at the time was that we are writing for history," he said. "One day we knew something would happen."

BEFORE GADDAFI FELL, the official in charge of the Ministry for Inspection and Popular Control was Huda Ben Amer. A hardline Gaddafi loyalist, her brief was to promote transparency through investigations into alleged wrong-doing. However, according to several people who worked for her, the ministry's reports also served to collect incriminating information on people the Gaddafi clan feared may be a threat.

Ben Amer certainly had the reputation of an enforcer. In her early days in 1984, she became known to Libyans as "Huda the executioner" because she pulled on the dangling legs of a Gaddafi opponent as he was hanged at a crowded stadium. Beshti



REUTERS/SUHAIB SALEM

WHISTLE-BLOWER: Najwa Al Beshti, pictured here in October, says she received anonymous threats after complaining about the NOC's crude oil department

says Ben Amer personally warned her that her life may be in danger, and advised her to leave the NOC.

The Gaddafi loyalist could not be reached for comment. There were reports she was arrested in September, but there has since been no word in Libya of her whereabouts. Some believe she has fled the country, others that she is in prison awaiting trial.

Beshti and others say Ben Amer's political loyalties point to an agenda behind her ministry's reports: they could be used to control wayward executives who got ideas above their station. Even if the reports were politically motivated, these people believe the documents raise questions some former NOC managers should address.

Much of the material concerns mismanagement. For instance, the 2010 report says the NOC fell short of its mandate to promote investment in Libya by international oil companies including PetroCanada, RWE, Wintershall, Shell and Eni. It says many of these firms stopped or reduced exploration and surveying activities in the country in the first half of 2010.

Contacted by Reuters, officials at these firms either said they had not stopped drilling, declined to comment or denied they had any complaints. One person at one of the companies said no firm with long-term interests in Libya could be expected to make a statement that might risk upsetting Libya's new government.

Officials at another company, one of Libya's largest oilfield services firms, did describe frustrations faced by international firms. These included being asked to carry out unnecessary maintenance, or to deliberately neglect infrastructure to ensure certain parts would need replacement.

"Libya was a very punitive environment where speaking publicly against the regime could result in a company being punished, marginalised or sidelined," said Geoff Porter, a U.S. independent expert on Libya.

THE 2010 REPORT also says the NOC may have broken the law. For example, in its concluding statements, it says the company's accounts were not completed in accordance with "the state's fiscal law, the budget's bylaw and the accounts and warehouses bylaws."

Some contracts with foreign oil firms weren't signed until months after a trade had taken place, and were then post-dated by as much as six months.

These included agreements with companies including PetroChina and Unipec. In both cases, contracts were signed in June 2009 - six months after a half-year period during which hundreds of thousands of tonnes of crude oil had been delivered.

The holdup could, in principle, enable a customer to postpone payment for the oil, earning interest the seller would otherwise collect. Also, oil deals are normally agreed for delivery on a specific date. If none is set, the buyer may wait until the market dips before collecting the shipment.

By not insisting that dates be specified, editor Derbi said the NOC could have lost millions on each shipment. In the report, the editors concluded that oil sales "did not include terms and conditions aimed at guaranteeing the best price for NOC." This "led to loss of interest for the public treasury and gain of the same for the clients."

A spokesman for PetroChina said he had no knowledge of backdated contracts. Unipec declined to comment.

Shokri Ghanem - Libya's Prime Minister from 2003-6 and oil minister and chairman of the NOC from 2006-11 - defected several months after the revolution began. He said he did not know of any contracts being backdated, and such a practice is not corrupt.

"I think it could happen, agreements are made by fax or telex. It could be normal, there is nothing wrong as long as a shipment was taken and payment took place," he told Reuters during a spirited telephone call from Vienna.

Oil traders who deal directly with the NOC say bureaucratic delays often mean contracts with Libya are backdated by weeks. A six-month delay is exceptional.

Mohamed Al-Kilani, who was at the NOC for 27 years and head of its legal department until 2002, said that in his time at the company, there were regulations against backdating contracts: it could only happen in exceptional circumstances approved by the board. "It is a violation of the practice of the organisation," he said.

Mahmood Mukhtar, a partner at Tripoli law firm Mukhtar, Kelbash, & El Gharabli, said backdating contracts is against Libyan law. "It is completely illegal," he said. "On what basis then would the NOC deliver the quantities without a contract in hand?"

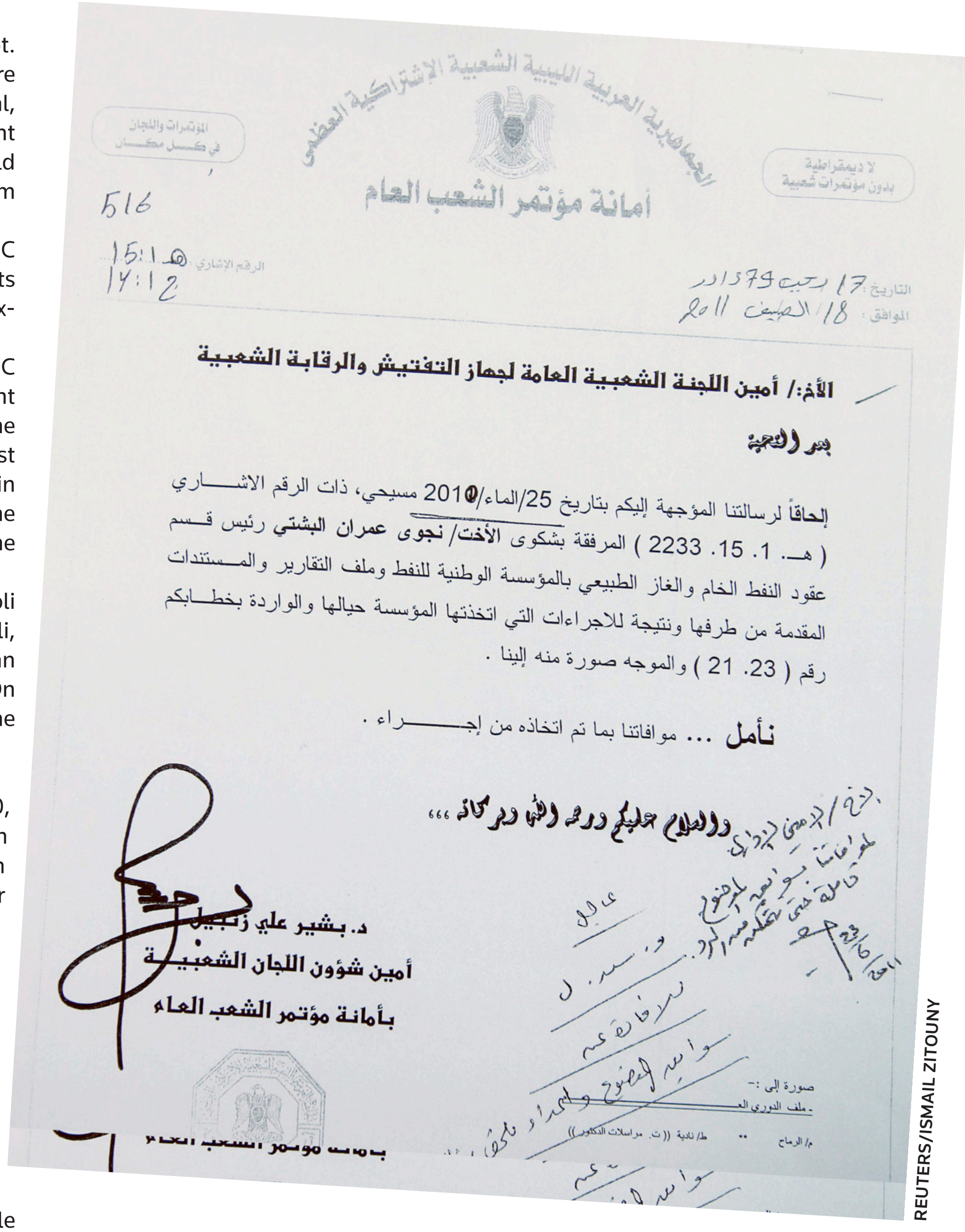
IN A SEPARATE REPORT published in 2010, Ben Amer's ministry said almost five million barrels of oil worth around half a billion dollars had disappeared from a particular field in 2008.

That report said its investigation was triggered by information from Beshti. Ghanem, the oil minister and head of the NOC at the time, said he did not know about the missing oil; he depended on departmental heads for information and the NOC could not control the activities of its subsidiaries. He believes Beshti was motivated by a personal grudge.

"When you are in charge of 45,000 people you are going to make enemies," Ghanem said, adding that in Libya's current climate, witch hunts are inevitable as individuals struggle for power. "People will come up with rubbish stories just to tarnish others for personal revenge."

The 2010 report also found millions of dollars in payments for oil had been erratic and difficult to trace. This was partly because multiple bank accounts had been opened in the NOC's name. On top of that, deals had been cut by individuals without authorisation.

"The Director of the Crude Oil Department used to sell instant shipments on his own and without referring to ... even his own superior officer," the report says. The crude oil manager at the time, Khaled Nashnoush, is also the signatory of at least one of the allegedly backdated contracts. He could not be reached for comment, and no one at the NOC could say where he is now.



الجماهيرية العربية الليبية الشعبية الاشتراكية العظمى

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الموافق: 18 الصيف 2011

الأخ:/ أمين اللجنة الشعبية العامة لجهاز التفتيش والرقابة الشعبية

بعد التحية

إلحاقاً لرسالتنا الموجهة إليكم بتاريخ 25/الماء/2010 مسيحي، ذات الرقم الاشاري (هـ. 1. 15. 2233) المرفقة بشكوى الأخت/ نجوى عمران البشتي رئيس قسم عقود النفط الخام والغاز الطبيعي بالمؤسسة الوطنية للنفط وملف التقارير والمستندات المقدمة من طرفها ونتيجة للاجراءات التي اتخذتها المؤسسة حيالها والواردة بخطابكم رقم (23. 21) والموجه صورة منه إلينا .

نأمل ... موافاتنا بما تم اتخاذه من إجراء .

والسلام عليكم ورحمة الله وبركاته ...

د. بشير علي زنبيل

أمين شؤون اللجان الشعبية

بأمانة مؤتمر الشعب العام

صورة إلى :-

- ملف الدوري العام

REUTERS/ISMAIL ZITOUNY

DOCUMENTARY EVIDENCE: Ali Zanbeel Bacheer, the secretary of the General People's Congress of Libya, wrote this letter to the Ministry for Inspection and Popular Control asking for information on the outcome of an investigation into a whistleblower's complaints.

Ghanem said it would be unreasonable to expect him to monitor the activities of all individuals. "Otherwise what is the point of having a head of department?"

THE REPORT ALSO examines a deal struck in March 2009 between Ghanem and a powerful United Arab Emirates businessman, Essa Al Ghurair, for the sale of Libya's biggest oil refinery. Ghurair's empire is one of the largest in the Middle East.

Ras Lanuf can process 220,000 barrels of oil per day, almost two-thirds of Libya's online refining capacity. It was shut after fighting started earlier this year but is expected to

REUTERS/ESAM AL-FETORI

WRITER FOR HISTORY: Rafik Derbi, pictured here in December, says he wrote for the long-term, expecting Gaddafi's men to ignore his findings

REUTERS/YOUSSEF BOUDLAL/FILES

OUT OF THE SHADOWS: Ras Lanuf refinery, pictured here in November. The 2010 report says it was undervalued

restart early next year.

According to Libya's 2010 report, the refinery's assets and operations were assigned in the 2009 deal to a new company, the Libya Emirates Refining Company (Lerco). Lerco is a joint venture between the NOC and Trasta Energy, part of the Al Ghurair empire. The agreement included an upgrade of the 1984 refinery which would be a $2 billion investment.

However, according to the report, the sale was based on an undervaluation of Libya's main oil asset. "The assessment ... was based on its book values, which were very low," concluded the editors.

Asked to comment, Ghanem said any deal would have attracted contrasting views, and London-based law firm Ashurst had been hired to complete the evaluation. Ashurst declined to comment.

The report makes further criticisms of the deal. It says 25-year agreements were put in place to supply Ras Lanuf with 200,000 barrels of oil daily, but no official price was specified. The price that was later set gave the refinery access to "unjustified discounts" on the crude. A separate investigation by the ministry in 2010 said the formula for pricing had been inappropriate, and the NOC lost money as a result.

REUTERS/REMO CASILLI/FILES

MOVED ON: NOC head Shokri Ghanem, pictured here in June 2011, left Libya a few months after the revolution

Ghanem said the price had been set by a committee and at the time it had seemed like a good deal for the NOC. "Whether the committee is competent or not, I inherited them," he said. "If the committee doesn't understand, what can I do?"

Muhssn Abdulhafid Almaswry, who joined the NOC in September as new marketing manager for crude oil, confirmed the deal had gone ahead without a price being agreed for all the oil. But he said he did not think the refinery was supplied too cheaply, and it wasn't up to him to judge whether its assets had been undervalued. Almaswry was recruited to the NOC from the Ras Lanuf joint venture.

Payment for the oil was also a problem, according to the report. Investigators found the joint venture had not met its 30-day payment terms, which may enable the refinery's owners to pocket the interest on over $2 billion in unpaid bills.

Essa Al Ghurair, the United Arab Emirates businessman, declined to comment. Speaking on his behalf, an official for Trasta, the refinery's other parent company, denied the refinery had missed payment dates. Lerco "always paid the invoices for crude received from NOC within the contractual requirement", the official said in an email.

Assertions that it received its crude oil too cheaply were "way incorrect", the official added. "Lerco has never used any discount on crude."

ONE OF THE new leaders of the Libyan oil industry is Ahmed Shawki, who has spent 35 years in the business either in the ministry or at the NOC, and was made NOC's head of international marketing in July. Asked about the reports of backdated oil contracts, he said only that this was the "first time I hear of such practice in NOC!"

If any problems were to emerge with the Ras Lanuf deal, "we will investigate it, and if we find any evidence of bad practice we will try to revise the agreement," he added.

The NOC also has a new chairman, Nuri Berruien, a petroleum engineer who spent part of his career in London working at an NOC subsidiary. He deferred retirement to take on the task of hauling Libya's oil industry back to its feet.

Berruien said 10-15 NOC managers had been moved since the revolution. He declined to say if any had been removed for corruption, but said those who were suspected had been shifted out of positions of power.

Berruien says he doesn't know how long he will stay at the NOC. Diplomats in Libya say he faces an extremely tall order trying to change working practices which have become ingrained over decades.

Earlier this month, the country's interim government set up a committee to look into allegations by Libyans that millions of dollars were misappropriated from the oil sector by Gaddafi-era officials. Berruien says corruption is the biggest challenge for Libya's new government.

"Past corruption needs to be investigated by a specialised committee," he said this week. Beshti, the NOC whistleblower, would like to help.

(Additional reporting by Emma Farge in London, Humeyra Pamuk in Dubai, Ali Shuaib in Tripoli, Chen Aizhu in Beijing)

REUTERS/YOUSSEF BOUDLAL/FILES

CONTROLLER: Inside Ras Lanuf refinery in November. Libya needs its oil industry to rebuild

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