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SCENESETTER FOR SECRETARY RICE'S VISIT TO LIBYA

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REASON: 1.4 (b), (c), (d)

1. (C) Embassy Tripoli and the Government of Libya are looking forward to your historic visit to Tripoli September 5. Coming on the heels of NEA A/S Welch's successful finalization of a comprehensive claims settlement agreement in Tripoli August 14, the GOL views your visit as a signature event in its decade-long effort to achieve reintegration into the international community, and as a tangible benefit of its strategic decision in 2003 to abandon its WMD programs and renounce terrorism. Key issues for your visit include:

-- Internal political issues

-- Bilateral relations

- Human rights

- Counter-terrorism cooperation

- Sub-Saharan Africa

- Regional issues, including Iraq and Iran

- Energy sector and commercial opportunities

INTERNAL POLITICAL ISSUES

2. (C) Your visit comes days after the 39th anniversary of the September 1, 1969 military coup that brought Muammar al-Qadhafi to power. It is expected that al-Qadhafi will outline in his Revolution Day speech how the GOL will implement dramatic government restructuring and privatization he advocated in a key address in March. Al-Qadhafi's plan could represent his most radical experiment in governance since the late 1970's. Ordinary Libyans are concerned about the rising costs of food, fuel and other staples; privatization would strike a direct blow at the tacit pact - oil revenue-financed, cradle-to-grave subsidies in exchange for political quiescence - that has underpinned the regime for decades. Drawing a line between reform and greater participation by Libyans in governance, Saif al-Islam al-Qadhafi, Muammar al-Qadhafi's son and heir apparent, called for a more robust civil society, judicial reform, greater press freedoms and respect for human rights in a major speech August 20. A new legal code, which would be the first major change to Libya's judicial system since the 1950's, is currently under review. Saif al-Islam implicitly criticized past decisions of his father's regime, claimed he had achieved much of his own reform agenda and said he would withdraw from politics to focus on civil society and development work. Expected to clarify government reform efforts and his own political future, Saif al-Islam's speech has instead confused Libyans, raising doubts about the long-term viability of the reform agenda and calling into question whether he is ready for a formal leadership role. The issue of who might succeed Muammar al-Qadhafi looms large. The conventional wisdom is that it is Saif al-Islam's job to lose; however, some observers interpreted the appointment of another son, Muatassim al-Qadhafi, to the newly-created position of National Security Adviser in early 2007 as a sign that Muammar al-Qadhafi was hedging his bet.

BILATERAL RELATIONS

3. (C) Your visit - the first by a U.S. Secretary of State since John Foster Dulles' trip in 1953 and the most recent Cabinet-level visit since then-Vice President Nixon was here in 1957 - is viewed as the key component of a "grand opening" in U.S.-Libyan bilateral relations, as compared to the "soft opening" between re-establishment of diplomatic ties and finalization of the claims agreement (i.e., 2004-2008). The GOL also wants to see a fully-accredited U.S. ambassador posted to Tripoli and full visa services at the Embassy. The fact that most Libyans must currently travel to Tunis to apply for non-immigrant visas (the Embassy's security posture/infrastructure have not permitted broader visa operations to date) is perceived as a slight. Anxious to avoid the public perception that U.S.-Libya ties are chiefly about counter-terrorism cooperation, prospective military-to-military ties and hydrocarbon resources, the GOL is keen to emphasize cooperation in education (it wants to send more students to study in the U.S.), science and technology and culture. The GOL wants to be able to purchase lethal military equipment and would like to sign a civilian nuclear cooperation agreement. Despite high-level rhetoric, limited GOL capacity will significantly constrain efforts to quickly expand bilateral cooperation and engagement in all these areas.

4. (C) Libyan reaction to news of the recently finalized

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U.S.-Libya claims settlement agreement has been a mixture of relief and high expectation. Coverage in state-owned media has been positive, but muted; we're told the GOL did not publicly trumpet the agreement to avoid questions about the deal's parameters (it has not publicized the agreed amount of compensation to be distributed by the humanitarian fund) and to avoid criticism that it capitulated to U.S. demands. A recent editorial in the "Ouea" newspaper, owned by Saif al-Islam al-Qadhafi, expressed cautious optimism that bilateral relations had turned a corner and welcomed U.S. assistance in education and technology transfers, but squarely blamed the U.S. for past contretemps and cautioned against U.S. "interference" in Libyan internal affairs. Libya has balanced re-engagement with us by actively pursuing closer ties with Russia. Then-president Putin visited in March and resolved a thorny Soviet-era debt issue that paved the way for lucrative commercial contracts; he is expected to send his deputy to attend the September 1 Revolution Day festivities. In recent remarks, Saif al-Islam al-Qadhafi described Russia as "a key strategic partner" and said the GOL

would support Russia in its position on Georgia. Libya is conflicted about re-engagement with the U.S. Conservative regime elements are still wary that our ultimate goal is regime change, while ordinary Libyans are genuinely pleased that a key political irritant in the bilateral relationship has been resolved. Many hope that expanded political and economic engagement with the U.S. will help solidify recent Libyan economic reforms.

HUMAN RIGHTS & POLITICAL FREEDOMS

5. (S) There are high expectations in some quarters that the U.S. will pressure al-Qadhafi and the GOL more publicly and directly to urge greater respect for human rights and open further political space in what remains a closed, tightly-controlled society. A number of Libyans are disappointed that this did not occur immediately after relations were re-established in 2004. The GOL has expressed tepid interest in a high-level human rights dialogue; however, they have cautioned that they view discussion of individual cases as improper interference in their internal affairs. The case of detained human rights activist Fathi el-Jahmi, viewed by many as a symbol of courageous resistance against an illegitimate regime, is a key bilateral irritant. Embassy officers visited him several times in February-April 2008 and a Human Rights Watch/Physicians for Human Rights team visited him in March 2008. Embassy officers have been denied access to him since April and the GOL falsely claimed he had been released from their custody (he remains in hospital under guard). Claiming to speak for Saif al-Islam al-Qadhafi, senior regime figure Abdullah Sanussi disparaged the Embassy's involvement in el-Jahmi's case and warned of the "potentially catastrophic effects" on bilateral relations of Post's democracy and human rights outreach efforts. We've also been told that Muammar al-Qadhafi has personally followed el-Jahmi's case and is upset that the U.S. keeps raising it.

6. (C) Embassy officers were also criticized for improper behavior after meeting in early 2007 with self-described regime critics led by Dr. Idriss Boufayed on the eve of a planned peaceful demonstration. The GOL arrested fourteen individuals to pre-empt the demonstration - two were released in May 2008, 11 were convicted in June 2008 and given sentences of 6 to 25 years imprisonment and one has not been seen since his arrest. Among the charges on which the 11 were convicted was having unauthorized communications with an official of a foreign government (i.e., the U.S. Embassy). Boufayed is terminally ill with cancer; the Qadhafi Development Foundation and European

governments have argued for his parole on humanitarian grounds. Saif al-Islam al-Qadhafi has publicly acknowledged past abuses and called for national reconciliation; however, human rights remains a neuralgic issue for the GOL. Absent a clear message that engagement on human rights will be a necessary adjunct of an expanded U.S.-Libya relationship, meaningful progress in this area is unlikely.

COUNTER-TERRORISM COOPERATION & EXTREMISM

7. (S) Libya has been a strong partner in the war against terrorism and cooperation in liaison channels is excellent. Muammar al-Qadhafi's criticism of Saudi Arabia for perceived support of Wahabi extremism, a source of continuing Libya-Saudi tension, reflects broader Libyan concern about the threat of extremism. Worried that fighters returning from Afghanistan and Iraq could destabilize the regime, the GOL has aggressively pursued operations to disrupt foreign fighter flows, including more stringent monitoring of air/land ports of entry, and blunt the ideological appeal of radical Islam. The Qadhafi

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Development Foundation brokered talks with imprisoned members of the Libyan Islamic Fighting Group (LIFG) that led to the release earlier this year of about 130 former LIFG members. The GOL considers the program an important means to signal willingness to reconcile with former enemies, a significant feature of Libya's tribal culture. Libya cooperates with neighboring states in the Sahara and Sahel region to stem foreign fighter flows and travel of trans-national terrorists. Muammar al-Qadhafi recently brokered a widely-publicized agreement with Tuareg tribal leaders from Libya, Chad, Niger, Mali and Algeria in which they would abandon separatist aspirations and smuggling (of weapons and trans-national extremists) in exchange for development assistance and financial support. Libya also cooperates closely with Syria, particularly on foreign fighter flows. Syria has transferred over 100 Libyan foreign fighters to the GOL's custody over the past two years, including a tranche of 27 in late 2007. Our assessment is that the flow of foreign fighters from Libya to Iraq and the reverse flow of veterans to Libya has diminished due to the GOL's cooperation with other states and new procedures. Counter-terrorism cooperation is a key pillar of the U.S.-Libya bilateral relationship and a shared strategic interest.

SUB SAHARAN AFRICA

8. (C) Having largely abandoned pan-Arab leadership aspirations, the GOL places a heavy premium on maintaining its perceived role as a leading state in Africa. Libya spearheaded establishing the Community of Sahel-Saharan States (CEN-SAD); the 10th anniversary of CEN-SAD's founding in September 1999 will occur shortly after your visit. Libya is deeply frustrated with its inability to deliver a sustainable peace between Chad and Sudan. Despite abortive UN/AU-led Darfur talks in Libya in October 2007 and the stillborn October 2007 Libya-brokered Chad cease-fire, the GOL remains actively involved in Chad-Sudan mediation efforts (it played a key role in re-establishing Chad-Sudan diplomatic relations in July 2008). But Libya recognizes it cannot broker peace unilaterally. The GOL views skeptically calls for an international observer force on the Chad-Sudan border under the March 2008 Dakar Accord and refers instead to the February 2006 Tripoli Accords (which also called for joint military observation of the Chad-Sudan border) and the October 2007 Sirte process as the platforms for a viable peace process. Hard experience - despite personal appeals by Muammar al-Qadhafi, the GOL failed to entice Darfur rebel leaders to attend the October 2007 Sirte conference - has prompted Libya to realize it is better positioned to pressure the regimes in Ndjamena and Khartoum than rebel movements. Libya believes the key to "fixing" Chad is to pressure Deby to address the deep, popular opposition to his government. The GOL has facilitated humanitarian relief through a key overland corridor running from Kufra, in southeast Libya, to Darfur. After years of failed unilateral intervention, Libya appears to appreciate UN/AU leadership of the Darfur political process and U.S. partnership in efforts to promote peace in and between Chad and Sudan. A visit by Special Envoy Williamson could help reinvigorate Libya's support for stalled international mediation efforts. On AFRICOM, the GOL has argued that any foreign military presence, regardless of mission, on the African continent would constitute unacceptable latter-day colonialism and would present an attractive target for al-Qaeda. AFRICOM's Deputy Commander visited Tripoli for low-key talks in January 2008 and General Ward plans to visit in October/November.

REGIONAL ISSUES

9. (S) Iraqi spokesman Ali Dabbagh recently met with Muammar al-Qadhafi, who expressed interest in pursuing closer relations with Iraq. It was agreed that a Libyan delegation would visit Iraq soon. Libyan-Iranian relations are complicated and increasingly contentious. Iranian First Vice President Davoudi, the highest ranking Iranian official to visit Tripoli in 25

years, signed a number of cooperation agreements during his January 2008 stop here as part of an apparent effort to garner support in the UNSC for heading off a third resolution on Iran's nuclear activity. Libya wanted Iran's help in smoothing over ties with Lebanon, which have been strained since the disappearance of Imam Musa Sadr during a 1978 visit to Tripoli. Iran's decision to demur appears to have factored into Libya's decision not to oppose a third UNSCR on Iran. Al-Qadhafi recently disparaged publicly Iran's nuclear aspirations, which prompted an angry rebuke in the Iranian press. Nonetheless, there are concerns about possible ties between state-owned Libyan banks and Iranian entities of particular concern. Ties with Syria are less contentious; Libya's new sovereign wealth fund announced last week that it had invested \$200 million in a Syrian cement production venture. Claiming that it wants to

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emulate Dubai in its development approach, Libya has recently pursued closer ties with Arab Gulf states. A \$500 million joint investment fund was announced during the August 2008 visit of Oman's Sultan Qaboos, his first since 1972. A number of similar investment projects have been established with the UAE, Qatar and Bahrain during a flurry of visits over the past year. Relations with Saudi Arabia remain strained.

ENERGY SECTOR & COMMERCIAL OPPORTUNITIES

10. (C) Libya's economy is almost entirely dependent on oil and gas. Libya has the largest proven oil reserves (43.6 billion barrels) and the third largest proven natural gas reserves (1.5 billion cubic meters) on the African continent. Libya currently produces about 1.7 million barrels/day of oil; only Angola and Nigeria produce more in Africa. Oil and gas infrastructure suffered during the sanctions period. The lifting of sanctions has opened the way for new exploration and improved production. New technology and refined management techniques introduced by international oil companies (IOC's) are a key part of Libya's plan to increase oil production to 3.0 million barrels/day by 2013. Most of Libya's oil and natural gas are exported to Europe - Italy, Germany, Spain and France are key customers. Major U.S. energy companies active in Libya include Amerada Hess, ConocoPhillips, Marathon, Chevron, ExxonMobil and Occidental. Joint ventures involving U.S. companies currently account for about 510,000 barrels/day of Libya's 1.7 million barrels/day production. A large number of small to mid-sized U.S. oil and gas services companies are also working in Libya.

11. (C) After years of isolation under sanctions and limited spending by the GOL, Libya is currently in the midst of an economic boom, partly driven by a desire to complete large-scale infrastructure projects as tangible symbols of the regime's achievements in advance of the 40th anniversary of al-Qadhafi's revolution on September 1, 2009. High oil prices have helped fuel the outlays. Western companies, eager to establish a position in what is expected to be a lucrative market, are arriving in sizeable numbers. A temporary pause prompted by adoption of the Lautenberg Amendment in January 2008 and concern about asset seizure is coming to an end on news of the comprehensive claims agreement. U.S. companies recently secured lucrative contracts for infrastructure development and construction contracts - AECOM and the Tennessee Overseas Construction Company have the largest non-energy cohorts of expatriate Americans here - and are competing in a variety of other sectors, including communications and aviation. Despite great promise, Libya remains a challenging business and investment environment. Contradictory regulations, inefficient government bureaucracy, limited human capacity and rampant corruption (in 2007, Transparency International ranked Libya 133rd out of 180 countries in terms of being most corrupt) are significant challenges that could hamper greater investment.

AL-QADHAFI & HIS FOREIGN MINISTER

12. (C) Muammar al-Qadhafi is notoriously mercurial. He often avoids making eye contact during the initial portion of meetings, and there may be long, uncomfortable periods of silence. Alternatively, he can be an engaging and charming interlocutor, as he was during NEA A/S Welch's meeting on August 14. A self-styled intellectual and philosopher, he has been eagerly anticipating for several years the opportunity to share with you his views on global affairs. We've been told that issues he might raise include Sarkozy's Union for the Mediterranean proposal (which al-Qadhafi opposes), the Georgia conflict, illegal migration (Libya is a key transit country), Iran, Iraq and the Arab-Israeli conflict (including his "Isratine" one-state solution), and Africa. Intellectually curious and a voracious consumer of news - trusted advisers are tasked with summarizing in Arabic important books and articles printed in other languages, including your recent article in Foreign Affairs - al-Qadhafi will be well-informed and more inclined to focus on strategic views than pragmatic measures. Foreign Minister Abdulrahman Shalgham, whom you met in Washington, is also expected to meet with you during your visit

STEVENS

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