



Weighing the Cost of Libya's Smuggling Racket

Fuel smuggling helps maintain peace between Libya's rival elites but drains the treasury. In this excerpt from the Watch List 2026 – Spring Edition, Crisis Group illustrates how the EU and member states can staunch the haemorrhaging of public funds and strengthen economic governance.

Though Libya's deadly civil war ended in 2020, the country remains divided between two rival governments, based in Tripoli and Benghazi, respectively, and each backed by its own military coalition. The post-2020 peace is fragile, but it holds, relying largely for its survival on the willingness of both sides to share revenue from oil sales as well as turn a blind eye to other sources of unofficial income that both tap into. These include the smuggling of imported fuel, which is purchased by Libyan authorities at international prices, sold at heavily subsidised prices locally and then resold on the black market abroad. While these practices shore up the peace in Libya, they come at huge cost to the country's coffers, stunt economic growth and entrench the two competing sets of elites by removing all incentives for reunification. The fuel smuggling racket, along with other embezzlement schemes, also indirectly undermines international mediation

initiatives aimed at ending the country's long-standing division.

Given its geographical proximity to Europe, and its dual role as a transit country for migrants heading across the Mediterranean and a hydrocarbons supplier, Libya remains strategically important for the European Union. Brussels and EU member state capitals should strive to help improve management of Libya's public finances and create the conditions for eventual political reunification by reinforcing efforts to stop fuel smuggling and train Libya's maritime security forces. To achieve these goals, the EU and its member states should aim to strengthen the EU's naval mission in the Mediterranean.

A Nation Split in Two

Fifteen years after Muammar al-Qadhafi's fall, Libya remains divided between an internationally recognised government in Tripoli, headed

by Prime Minister Abdelhamid Dabaiba, and a rival executive based in Benghazi, led by Osama Hamad. In practice, however, power in the east rests with Field Marshal Khalifa Haftar and his sons.

Though the two camps present themselves as adversaries, behind closed doors they maintain a transactional relationship based on shared oil revenue and, especially in the country's east, off-the-books funding schemes. These financial flows allow them to bankroll their administrations, pay salaries, buy political loyalty and consolidate authority in their respective zones. This arrangement appears to suit both sides well. It also removes any real urgency from the pursuit of difficult compromises on elections and reunification.

While large-scale war has not resumed and, for now, Libya's rival leaders appear reluctant to rekindle violence, insecurity remains widespread. In western Libya, the Tripoli-based government has gradually brought more armed groups under its control, yet deadly clashes between rival militias competing for local influence and resources still erupt. In the east, forces led by Haftar, now known as the Libyan Arab Armed Forces, govern with a heavy hand, as reports of arbitrary arrests and extrajudicial killings have shown. In the south, armed groups loosely affiliated with either side periodically confront one another, while criminal networks involved in drug and fuel trafficking, as well as migrant smuggling, operate with total impunity.

The lingering insecurity has combined with economic mismanagement to worsen living conditions. Misallocation of public funds and gross overspending are draining the state treasury, which depends almost entirely on hydrocarbon revenue. Parallel financing mechanisms established by the eastern authorities, who have issued unauthorised treasury bills to cover their expenses, are depleting hard currency reserves, forcing the Central Bank to devalue the dinar. Devaluation has in turn driven up living costs and eroded purchasing power in Libya's import-dependent economy. Roughly one third of the

population in this oil-rich country struggles to make ends meet.

Prospects for change appear slim. The UN-led political mediation process, supported by the EU and its member states, seeks to unify the country through nationwide elections, but has made no meaningful progress in five years. Elections were to have been held in 2021. But they were derailed by legal disputes over whether to appoint a new unified government before voting or wait for the results at the ballot box to form a new executive; and whether to hold both presidential and parliamentary elections, and, if so, in what sequence, or simply opt for a legislative ballot. These same disagreements continue to block consensus. The eastern parliament's July 2025 decision to establish a rival Supreme Constitutional Court in Benghazi, challenging the writ of the Supreme Court in Tripoli, is the latest in a long series of rifts that have dimmed the prospect of holding national polls. With no recognised high court covering the whole of Libya, credible judicial oversight of any vote would appear impossible.

Constitutional and judicial disputes benefit Libya's current leaders by delaying elections and silencing calls for political renewal. Numerous rounds of UN-led mediation over the past decade have focused on laying the groundwork for nationwide polls, either by drafting a new constitution or agreeing on electoral laws. Aside from a brief interlude in 2021 that saw Dabaiba appointed prime minister of a UN-mediated unity government – an arrangement that later collapsed – the emphasis has mainly been on preparing the ground for a national vote. The underlying assumption has been that Libya's rival governments have lost legitimacy, either due to overstaying their mandates or lacking full recognition, and that only a popular vote can restore it.

The UN has generally encouraged members of the rival assemblies to lead discussions in this direction, but to little avail. In its most recent initiative, the Structured Dialogue launched in late 2025, the UN attempted a

novel approach, bringing together experts and representatives from different parts of the country to discuss four tracks: governance, economy, security and reconciliation/human rights. Though it has produced recommendations, ruling elites have been indifferent to the initiative and little action has been taken. These developments have eroded the public's confidence that polls will take place. Many Libyans have grown disillusioned with parliamentarians who seem primarily interested in preserving their positions. Signs of fatigue with the long wait for elections are also emerging among foreign powers. Washington has lately pursued an approach putting security and the economy first, launching its own parallel mediation effort in the second half of 2025 that sidelined thorny political questions. Washington's envoy, Massad Boulos, convened members of Prime Minister Dabaiba and Khalifa Haftar's families for closed-door talks, which reportedly led to agreement on joint military training initiatives and a unified development funding mechanism.

Prolonged political deadlock presents dilemmas for Libya's foreign partners, particularly European states. Elections no longer appear to be a realistic solution in the short to medium term to address Libya's impasse, whereas less ambitious alternatives, such as agreements on budgetary issues or joint security training of rival forces, appear more feasible. Nor is it clear who should take part in future mediation between the sides: the rival legislative bodies (the House of Representatives in Benghazi and the Tripoli-based High State Council), current leaders Dabaiba and Haftar or their representatives, or independent experts less entangled in the political system but also less influential.

At the same time, removing the prospect of national reunification as an immediate goal sends a signal to ruling elites that they are free to remain in power and enrich themselves and allied interest groups. Official data from the Central Bank, Audit Bureau and National Oil Corporation point to systematic and large-scale waste of public funds over the past five years, with little tangible benefit for the Libyan people

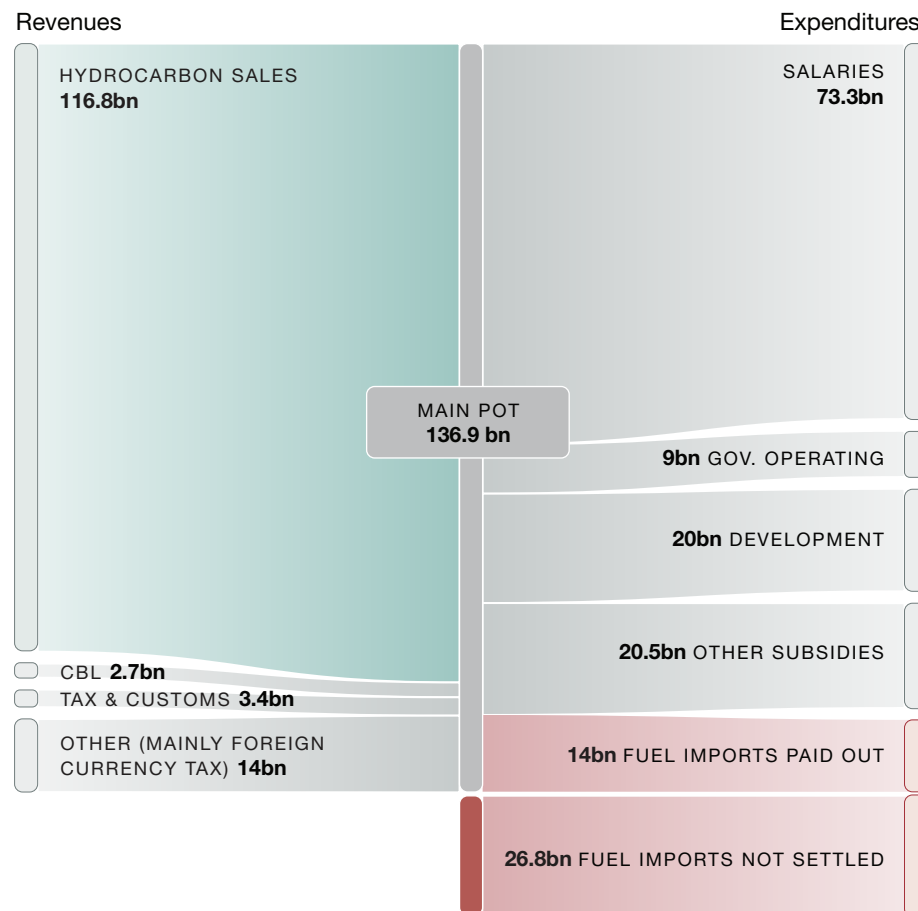
and no attempt to diversify the country's oil-dependent economy. The informal division of power between two corruption-prone administrations may have contributed to curbing violence in the short term, but it risks sowing the seeds of future instability as Libyans grow increasingly frustrated with the scale of graft as their own hardship deepens.

The Fuel Import Racket

Libya's soaring fuel import bill is a central piece of the new political setup. Available data indicate that, since 2022, Libya has nearly doubled its annual spending on imported diesel and gasoline. Most of it comes from Europe, around 50 per cent of it from EU member states and 25 per cent from Russia (though imports from Moscow have reportedly declined significantly in 2026 to date). The Libyan state pays for the fuel in full, before selling it at a heavily subsidised price on the domestic market. These imports far exceed the needs of a country with a small population and minimal industrial activity, especially one that has refineries of its own. According to official Libyan sources, including from the Audit Bureau, between 2022 and 2024 roughly 40 per cent of the imported fuel was eventually smuggled abroad, primarily across the Mediterranean. Subsidies sustain this trade: gasoline costs about \$0.02 per litre in Libya, compared to roughly \$2 per litre in Europe, creating enormous profit margins for traffickers. Foreign analysts and Libyan sources believe that most of the trafficked fuel departs from Benghazi with coordination by people tied to the Haftars. Most is sold in international waters in ship-to-ship transfers, but cargo is known to have reached Italy, Albania, Türkiye and Greece.

Estimates of the racket's total cost to Libya vary enormously. According to the Audit Bureau, in 2024 fuel import costs exceeded \$9 billion, equivalent to roughly 30 per cent of the country's gross hydrocarbon revenues, or about the same proportion of total annual state expenditure. Other sources point to lower figures. As for fuel trafficking, some Libyan and

■ The Libyan state foots the entirety of the country's huge fuel import bill, which was equivalent to about 30 per cent of government revenues in 2025.



CBL refers to the Central Bank of Libya. All figures are in Libyan Dinar (LYD) billions, using an average exchange rate of LYD 5.24 / USD 1 for 2025.

Sources: Central Bank of Libya and National Oil Corporation.

foreign analysts suggest that it generated \$6-7 billion annually between 2022 and 2024, while the public prosecutor has offered a more conservative estimate of \$1.5 billion per year.

These multi-billion-dollar sums suggest that fuel smuggling has become a vital component of the arrangement between eastern and western authorities. Libya's leaders tolerate and, in some cases, encourage these illicit financial schemes because they are a means of cultivating patronage networks and funding off-budget expenses, especially in the east. Foreign capitals are aware of this racket and other parallel funding schemes that cost the state billions of dollars, but they have so far preferred to keep quiet about the matter. Their belief is that this

money will ensure that Libya's peace does not unravel and that crude oil exports from areas under Haftar's control will continue.

What is at Stake for the EU

Libya is strategically important to the EU. Its location in the centre of the Mediterranean basin, just across the water from Italy and Greece, make it a potential security liability. A number of countries at odds with various European states, including Russia and Türkiye, have forces stationed in the country, at least half a dozen bases and airfields, under the umbrella of one Libyan military coalition or the other. Libya also remains the main transit point for migrants seeking to enter Europe via the

central Mediterranean route. Lastly, the country is still a major hydrocarbon supplier. Though the EU's dependence on Libyan oil and gas has diminished in recent years, imports from Libya still help offset the fall in imports from Russia after its all-out invasion of Ukraine.

The EU has certainly not been inactive. In March 2025, it expanded the mandate of its Common Security and Defence Policy naval mission EUNAVFOR MED IRINI (hereafter, Irini) to address illicit trafficking of items other than arms, including monitoring, surveillance and information gathering related to illegal exports of oil and refined fuel products from Libya. Both Irini and the EU's border assistance mission in Libya, EUBAM, have trained Libyan border control agencies, including the coast guard, and they are considering stepping up joint training of law enforcement personnel from Libya's east and west, in the hope that an integrated, nationwide security apparatus might foster a greater spirit of political compromise.

But the EU and its member states have otherwise struggled to translate their priorities into tangible results. Libya's persistent institutional divides and the Europeans' limited leverage vis-à-vis other, more assertive players, such as Egypt, Türkiye and the UAE, have reduced the impact of EU policy in Libya. Tackling migration flows has been especially complex, not least because of domestic political considerations in EU member states and because Libyan authorities have exploited migrants as a form of coercive diplomacy, leveraging control of routes to extract bilateral concessions.

As a result, EU member states have had to make difficult policy compromises. They have generally found it easier to focus on bilateral relations with Libyan authorities rather than work together through Brussels. For example, they were forced to seek the cooperation of Khalifa Haftar and his sons after 2024, when it became apparent that a growing number of migrants heading to Italy were coming from the east. Following demands from the Haftar camp, Italy began offering military training in Italy to

his security personnel, breaking with previous policy under which they would only train forces affiliated with Tripoli.

Europe's struggles to establish an effective policy toward Libya continue. As it reconsiders its priorities, it should consider turning its focus to stopping fuel smuggling and the haemorrhaging of Libyan public funds, which pose long-term risks of political instability and rising public discontent. Compared with the U.S. Treasury, which plays a central role in overseeing dollar-denominated transactions in the oil sector, the EU has limited leverage over financial decision-making in Libya. But the EU and its member states have repeatedly reaffirmed that they are committed to stopping fuel smuggling in Libya: the 2017 Memorandum of Understanding between Italy and Libya on fighting illegal migration puts cooperation against fuel smuggling among its objectives, while the Irini naval mission lists countering fuel smuggling as its secondary mandate. Until now, however, the conditions under which the mission works have militated against efforts to combat fuel smuggling. In particular, its mandate does not allow for interception of vessels on mere suspicion of smuggling fuel. Additional Security Council sanctions measures do permit interdiction if the designated Libyan government contact signals that the cargo is suspect. But no such signal has arrived in recent years, despite the massive smuggling of subsidised fuel, largely because of the complicity of government agencies and their political bosses.

At the same time, the bloc and its member states should act only when they are prepared for the likely consequences of trying to stymie the racket. One possible type of backlash could be a resurgence of migration flows under the watch of eastern Libyan authorities aggrieved by Europe's interference in its funding streams. Eastern authorities might also be provoked into reigniting hostilities with Tripoli. For these reasons, any stronger EU push to curb fuel trafficking should be part of a comprehensive and internationally coordinated approach that would ideally bring together UN- and U.S.-led

mediation efforts to put Libya's state finances in order. Simultaneously, the EU could also seek to coax both rival Libyan governments into cooperating by helping improve the country's paltry maritime security infrastructure, complementing U.S.-backed efforts to promote joint military training of Libyan forces from the east and west of the country. This assistance would also be in line with the EU's view that the Mediterranean is a strategic maritime domain that requires sustained European attention.

The EU and its member states should:

- **Increase policy coherence.** The EU and its member states should work more consistently through EU structures in Brussels and in coordination with the UN to push for progress in the governance, economy, security and reconciliation/human rights tracks of any UN-led initiative, be it the Structured Dialogue or other future talks. Holding nationwide elections should not be the immediate goal of these initiatives. Instead, the priority should be to achieve incremental successes, especially in matters of financial governance and security cooperation, so as to create the conditions for a future political transition.
- **Work with others to encourage economic governance reform.** In coordination with regional powers like Egypt, Türkiye and the UAE, and relevant international financial institutions, such as the IMF and the World Bank, the EU and its member states should ask the UN mission in Libya to work more proactively on improving Libya's public financial management with the aim of curbing the haemorrhaging of state funds
- and bolstering economic governance. They should also encourage the U.S., which is already playing a role in overseeing and convening discussions on Libyan finance-related matters, to coordinate more with the above countries and institutions, including the EU.
- **Counter fuel smuggling.** As part of these coordinated efforts to improve Libya's economic governance, the EU and its member states should also advocate for changing the UN Security Council resolution on Libya to permit interception of vessels suspected of smuggling fuel in international waters, even in the absence of notification by Libyan officials. With such licence from the Council, the EU could take a more proactive role in countering fuel smuggling across the Mediterranean by expanding Irini's mandate and placing greater resources at its disposal.

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