Fuelling the World – Failing the Region?

Oil Governance and Development in Africa's Gulf of Guinea

samoskill@yahoo.com

FRIEDRICH EBERT STIFTUNG

IMPRESSUM

First Printing: August 2011

Published by:
Friedrich-Ebert-Stiftung
Abuja Regional Office
12 Marrakesh Street, Wuse II, Nigeria
Phone: +234-(0)9-4137977
Web: www.fes-westafrica.org
Email: abuja@fes-westafrica.org

Edited by:
Michael Roll, FES Berlin
Sebastian Sperling, FES Abuja

Layout by:
Werbestudio Zum weissen Roessl, Schäpe, Germany

Printed by:
bub – Bonner Universitäts-Buchdruckerei

ISBN: 978-3-86872-882-8
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Preface

Since the 1960s *Friedrich-Ebert-Stiftung* (FES) has maintained offices in several countries of the oil-rich Gulf of Guinea region.[1] Over the decades, we have witnessed oil and other natural resource bonanzas in many of these countries. As an organisation committed to the values of social democracy, we have critically observed the often negative impacts of natural resource extraction on stability and peace, social justice, human rights, economic development and democratic governance. One of FES' more recent activities in this field was a conference in Yaoundé, Cameroon in 2003, titled: "Oil Policy in the Gulf of Guinea: Security and Conflict, Economic Growth, Social Development". A volume with the same title containing selected papers presented at this conference was published one year later (Traub-Merz and Yates 2004).

Since then a number of things have changed in the region: its geostrategic importance in terms of oil and gas reserves has grown, new oil and gas discoveries have been made, new countries have joined the oil-exporting countries' club, new initiatives for promoting better resource governance have been implemented for some time and new consumer countries have become involved in the latest 'scramble for Africa'. These dramatic changes within a short period of time led FES to take this topic up again at the regional level. Against the background of the 2004 contributions, a workshop for regional experts was organised in 2009 in Accra, Ghana. The focus of this forum was on regional oil and gas governance approaches and policy responses to the recent changes outlined above.

Based on this event, an international conference followed in Abuja, Nigeria, in May 2010. The papers presented at this conference provided the latest analyses of oil and gas governance in the Gulf of Guinea, the region's current global position and especially innovative solutions to breaking the 'resource curse', particularly in the areas of security, development and governance. This conference, titled "Fuelling the World – Failing the Region? New Challenges of Global Energy Security, Resource Governance and Development in the Gulf of Guinea" brought together representatives of governments, regional organisations, international organisations, parliamentarians, researchers, civil society activists and journalists from more than a dozen countries in the region and beyond.[2]

A strong focus on three particular features distinguished these two FES-events from other conferences on the topic. The first one was the focus on the potential and scope for action of national governments and regional organisations in the Gulf of Guinea. Unlike at most other conferences, representatives of the *Economic Community of West African States* (ECOWAS) as well as the *Gulf of Guinea Commission* participated in both events, for example. The second feature was more methodological. Especially with regards to the Gulf of Guinea, the international academic discussion about resource governance and national policy debates and decision-making exist in isolation from each other. The actors in one field hardly take notice of what is going on in the other field and remain unconnected. Therefore, we wanted to bring together researchers and policy-makers as well as other practitioners and provide a forum for exchange and public discussion of results and experiences. The third particular feature of both conferences was the focus on current and new, innovative solutions to the resource curse. Overall, the conferences as well as this book focus less on the macroeconomic and instead more on the political and governance aspects of natural resources.

Participants at the conferences stressed the necessity for more regional and international exchange on both the analysis of the challenges as well as the experiences with innovative solutions. By making findings and suggestions of the conferences available to a larger audience, this volume seeks to contribute to that. While no chapter addresses the national and regional scope for action on resource governance explicitly, the conference results are integrated into some of the chapters and the conclusion. The official report of the Abuja conference, edited by Charles Ukeje based on the work of Gerald Ezirim, can be found in the annex.

The authors have different professional backgrounds (scholars, civil society activists, trade unionists), different academic backgrounds (political science, sociology, economics, history) and come from different places of the world (some from the region, others from Europe, America or elsewhere). This diversity explains the differences in style, in approach to the topic and allows for a telling variety of perspectives and opinions.

[1] Of the Gulf of Guinea countries, FES maintains offices in Côte d'Ivoire, Ghana, Benin, Nigeria, Cameroon and Angola. Guinea and Togo are covered by offices in neighbouring countries while the Cameroon office is also responsible for the Central African region.

[2] Oil companies were invited as well but did not attend.

FES will continue to facilitate international, intra- and inter-regional discourse on improving resource governance. The volume at hand will hopefully serve its purpose in this regard, by triggering further discussion. We are grateful to all partners, experts and authors who have enriched this book and the above mentioned meetings in one way or the other, to all colleagues who helped in the editing of this book and to all FES offices around the world who have made this initiative possible.

Sebastian Sperling

FES Regional Office Abuja

Michael Roll

FES Africa Department, Berlin

Introduction: Resource Governance, Development and Democracy in the Gulf of Guinea

By Michael Roll[3]

Several international expert panels have identified the availability and allocation of natural resources as a key security risk for the 21st century.[4] For many people living in poor but resource-rich countries, the natural resource wealth is not a risk but has long become a fact with disastrous consequences. This is especially the case in the world's poorest resource-rich region: the Gulf of Guinea along the West and Central African Atlantic coast.[5] From this region, the oil rigs have indeed fuelled the world and keep on doing so, with its global relevance steadily increasing.[6] On the other hand, these exports have more than just 'failed' the very same group of countries. Many of those exporting oil have some of the worst development indicators in the world. In areas like Nigeria's Niger Delta for example, decades of oil production[7] have virtually destroyed the environment, many people's livelihoods and their hopes for a better future. Will natural resources, particularly oil and gas, from the Gulf of Guinea continue to fuel the world but fail this region in the 21st century? Which possible solutions exist at the domestic, regional and international level

[3] Michael Roll works at the Africa Department, Friedrich-Ebert-Stiftung Berlin.

[4] See, for example, the security strategy of the European Union (European Council 2003), the report of the United Nations (UN) High Level Panel on Threats, Challenges and Change (United Nations 2004) or a recent report of the UN Environment Programme (UNEP 2009).

[5] According to the broader use of the term we refer to in this volume, the Gulf of Guinea region encompasses the following countries: Guinea-Bissau, Guinea, Sierra Leone, Liberia, Côte d'Ivoire, Ghana, Togo, Benin, Nigeria, Cameroon, Equatorial Guinea, São Tomé and Príncipe, Gabon, the Republic of the Congo as well as the Democratic Republic of the Congo, Angola and the landlocked countries Chad and the Central African Republic.

[6] Since oil is the Gulf of Guinea's most important and most prominent natural resource for the outside world, in this introduction the term is often used interchangeably with 'natural resources' to refer to natural resources beyond oil and natural gas more generally.

[7] 'Oil production' is a problematic term because in many of the countries concerned, oil is simply being extracted from the ground but not further processed. Nigeria for example is a net importer of petroleum and diesel despite being the biggest crude 'producing' country in sub-Saharan Africa.

to make oil and gas work for economic development, social justice and democratic governance? These are the key questions the contributions in this volume seek to answer.

This introduction is structured as follows. The next section introduces critical empirical and theoretical perspectives on and eventually a modification of the 'resource curse' thesis. The subsequent section provides information on how the Gulf of Guinea region has changed with regard to natural resources in recent years and what the current scramble for this 'new' Gulf looks like. The section that follows then presents and assesses some approaches for helping countries escaping the resource curse which have been promoted during the last decade. Some more recent developments in this field are discussed next. The final section introduces the structure of this book and summarises the chapters.

Beyond the 'resource curse'

The "resource curse" (Gelb 1988; Auty 1993) or "paradox of plenty" (Karl 1997) thesis basically says that countries rich in natural resources are less well off in terms of economic growth and development more generally than countries without such an abundance of natural resources.[8] Both terms have since become catch-all phrases for the bundle of negative developments in resource-rich countries such as persisting poverty, lack of economic diversification, rising inequality, growing corruption and violent conflict. Although resource wealth is often simply assumed to have caused these outcomes, empirical evidence supports the links between resource wealth and relatively slower economic growth (Sachs and Warner 2001), civil war (Collier and Hoeffler 2004) and authoritarian rule (Ross 2001; Jensen and Wantchekon 2004)[9]. Another important connection that will not be further dealt with in this book but is essential enough to be mentioned is the one between oil export-based growth and the persistence of patriarchal norms and greater gender inequality (Ross 2008).

[8] Kolstad and Wiig (2008a) rightly point out that it is not the abundance of or the wealth in natural resources per se but rather the rents it produces which cause these effects (Kolstad and Wiig 2008a: 10). Keeping this in mind, we will nevertheless continue to use the terms 'natural resource abundance' and 'resource wealth'.

[9] See Rosser (2006: 8-13) for a critical discussion of these studies and their conclusions. His paper provides an excellent overview of the extensive resource curse literature.

Three particular mechanisms through which the resource curse is supposedly working are often distinguished: the 'Dutch Disease' mechanism, the expansive spending mechanism and finally the 'rentier state' mechanism. The Dutch Disease mechanism refers to the massive inflow of resource-based state income driving the real exchange rate and wage levels up. Productive and trading sectors, especially manufacturing and agriculture thus become less competitive on the world market. Through this mechanism the resource-rich country's economic structure is fundamentally transformed from a manufacture- or agriculture-led – if it was one before – to a resource extraction-led economy. This leaves the country less productive, more exposed to sudden commodity price changes and with a significantly lower number of jobs than before.

The second mechanism refers to expansive spending often accompanied by excessive borrowing against expected future oil income. With oil rents suddenly flooding in like manna from heaven, the elites of the newly resource-rich states often go on a spending spree. Whether the money is invested in infrastructure or public services or wasted on luxurious prestige projects, money is being spent on a large scale where this has not been the case before. This sudden increase in spending may increase inflation and have an impact on the exchange rate. It may also lead to a massive accumulation of debts as soon as the terms for the repayment of the loans turn less favourable.

These are the two classic economic mechanisms through which the resource curse works. They have been studied extensively and approaches have been developed to deal with them effectively. The third mechanism, here called 'rentier state' mechanism, is of a different nature. It is not economic but political and refers to the effects of the income from natural resources on politics and political institutions. We agree with George Soros when he writes that it is this political factor "that needs to be better understood, especially as its impact is far greater than that of the other two [economic factors; M.R.]" (2007: xi)[10]. That is why this book focuses on these political challenges rather than on the macroeconomic side. The 'rentier state' approach claims that countries which derive a high proportion of their revenue from rents, that is unearned income, differ from those who have to 'earn' their revenue, for example by taxing citizens. The massive inflow of unearned income has several effects. First of all, it makes the governing elite more autonomous from their citizens. It also allows them to strengthen the state and security apparatus which may result in a more authoritarian political system. Perhaps most importantly, it turns the state apparatus, including both politics and the bureaucracy into a rent-distribution bazaar. The focus of state action shifts from service delivery to allocation tussles and consumerism. Conflict, corruption and other symptoms of bad governance often thrive in such an environment.

[10] Soares de Oliveira makes a similar point when he writes: "it is primarily its [oil wealth; M.R.] impact on institutions, mentalities and the quality of governance rather than macro-economic trends that one must look at in order to account for the predicament of the petro-state" (2007: 35). Ross (1999) was one of the first to point out that the political dimension of the resource curse was relatively underexplored compared to the economic dimension.

While the resource curse thesis and the three particular mechanisms described seem plausible and are frequently referred to in the resource governance debate, they are problematic and have come under increasing criticism lately. Economists and political scientists have argued that the methodological approaches used for testing – and largely confirming – the resource curse thesis, have not paid sufficient attention to important details and country differences. Using more elaborate statistical cross-country analyses and other methods they arrive at results which modify and sometimes contradict outright the resource curse thesis. Looking at the resource wealth-growth nexus, for example, Cavalcanti et al. (2011) conclude that oil wealth often has a positive effect on short-run economic growth and long-run income levels. On the link between resource wealth and regime type, Haber and Menaldo (2011) find that "oil and mineral reliance does not promote dictatorship over the long run. If anything, the opposite is true." (Haber and Menaldo 2011: 25). Based on both, quantitative and qualitative methodology, Thad Dunning arrives at a more cautious yet also surprising assessment by claiming that "[r]esource rents can promote authoritarianism or democracy, but they do so through different mechanisms." (Dunning 2008: 4)

An older argument challenging the natural resource thesis is the observation that some resource-rich and formerly poor countries exist which have actually grown or have indeed become more democratic or better governed – or have at least not regressed significantly. Responding to this empirical challenge and explaining why the likes of Norway, Botswana and Indonesia do actually exist, researchers have argued that a number of more detailed distinctions have been made and context conditions taken into account when assessing the impact of resource wealth on growth and governance (Basedau 2005; de Soysa 2006). The important details include the particular type of natural resource the country possesses, the costs of extracting them and the country's degree of resource dependence. Some of the most crucial context conditions include the quality of institutions of a country before oil wealth arrives, the involvement and response of international actors, the degree of social fragmentation along ethnic, religious or other lines, the vulnerable or rather consolidated position of the ruling elite, and socioeconomic conditions more generally. These modifications of the original resource curse thesis have enhanced our understanding of the impact of resource wealth. However, at least implicitly many of them tend to be somewhat deterministic and retain a path dependency or 'lock-in' notion.

Based on this discussion our own modified theoretical understanding of the resource curse is as follows. Resource wealth does not have an independent impact on a country's polity and economy. It is not destiny and it is certainly neither an automatic blessing nor a curse. Instead, depending on the particular type of natural resource, two mediating factors are crucial: the quality of institutions before the natural resources are discovered and political coalitions. While the important role of the first factor is by now widely acknowledged, the impact of the second factor is less well understood.

The pre-resource extraction quality of institutions is both an enabling and a constraining factor.[11] It enables the particular government to develop a resource governance framework with some degree of legitimacy and to implement this framework, drawing on a minimum level of administrative capacity. However, 'enabling' does not mean that they will actually make use of this potential. At the same time, high-quality institutions may also constrain government. They can do so by actively contributing to the development of a resource governance framework, by criticizing and legally challenging government's plans or by refusing to subordinate administrative procedure to political influence.[12]

The second mediating factor is political coalitions (Poteete 2009), especially those in and around government. It is within these coalitions where the decisive incentives play out and eventually shape the decisions. In this process, the coalitions are constrained by the existing institutions. But it is they who decide to what extent they make use of institutions or attempt to pass over the constraints erected by them. Moreover, these coalitions can change and erode existing institutions or – although this is much more difficult – establish and strengthen them. In short: While institutions set the stage when resource wealth arrives, political coalitions can eventually alter that very stage.

[11] Authors differ with regard to which particular institutions they regard as relevant and include in their empirical studies (see Kolstad 2007). Property rights, the rule of law more generally and administrative effectiveness are some of the most frequently included institutions.

[12] Going beyond institutions, for the case of Botswana, Poteete emphasises that "[i]nstitutional legacies, ethnic identities, and socioeconomic conditions did not ensure success in Botswana but they did limit the options facing politicians." (2009: 564).

We conclude that no such thing as an automatic resource curse exists. The impact of resource wealth on growth and governance as mediated primarily through institutions, politics and policies varies with context conditions and can even change direction over time. Going beyond simplistic conceptions of the resource curse, it is this contextualised political economy of resource politics perspective that is required.[13] A more detailed discussion of the relevant factors for such a political economy framework is provided in the concluding chapter of this book. We will nevertheless continue using the term 'resource curse' in this book in a non-deterministic understanding to refer to the empirical phenomena it describes. Translating our academic findings into a message to politicians boils down to the following: Depending on the institutional context, resource wealth and its wider impact can be controlled and managed.

How can we reconcile these theoretical conclusions with the sad reality in the Gulf of Guinea? Many of the natural resource-exporting countries in this region have disastrous development records as measured by human development indicators. Most can be found close to the bottom of these tables. Ricardo Soares de Oliveira argues that the Gulf of Guinea is the "worst-case scenario" among resource wealthy states:

> "Every structural prerequisite is missing for sound use of oil revenues; severe pathologies already characterized the politics of many states before the arrival of oil rents, and most of their economies were already fragile and badly run; and what could go wrong with decision-making did go wrong. Oil has exacerbated previous shortcomings and created new ones." (Soares de Oliveira 2006: 83)

[13] Some very interesting comparative studies or case studies have recently emerged which illustrate this perspective's enormous value. On Nigeria and Indonesia, see Lewis (2007); Smith (2007) compares Iran and Indonesia, Rosser (2007) analyses Indonesia and Moses (2010) does the same for Norway while Poteete (2009) takes a fresh look at Botswana. On the Gulf of Guinea see Gary and Karl (2003) and Soares de Oliveira (2007) as well as individual country case studies that are too numerous to list here. The concluding chapter of this book will draw on the findings of some of these studies.

Weak states, troubled economies and dysfunctional state-society relations allowed oil and other resources to attain the prominence and power they now have. In these contexts, resource wealth often further deepened existing structural problems, although at the same time protecting states from collapsing. Instead, it maintained them – and will continue to do so for some decades to come – as "successful failed states" (Soares de Oliveira 2007: chapter 1).

The scramble for the new Gulf of Guinea

Even if oil and gas cannot alone be made responsible for the dire state of development in the Gulf of Guinea, it was, is and will continue to be an important factor helping to explain it. The international geostrategic importance of the oil and gas reserves in the region is bigger today than ever before. There are several reasons for this. First of all, the oil found in the Gulf of Guinea is of very high quality. It can also be conveniently shipped to all major markets from there. Furthermore, the governing regimes ensure a relatively safe oil production environment. The fact that most new fields discovered are deepwater fields contributes to security and interruption of production being of less concern to oil companies than previously. Another reason for the increasing importance of the region is that the conditions stipulated in the contracts are often more profitable for oil companies than elsewhere. Moreover, while some Latin American countries have moved towards stronger state control and nationalisation of their oil and gas industries, the Middle Eastern regimes are currently shakier and less reliable than before. Russia on the other hand uses oil strategically to strengthen its role as Europe's dominating energy provider. For all these reasons, both old and new global oil customers such as China and other Asian countries are increasingly looking to the Gulf of Guinea for oil and gas production contracts.

It is expected that the United States of America (USA) will import 25 per cent of its oil from Africa by 2015, up from 19 per cent in 2007, and almost all of it from the Gulf of Guinea. Already in 2006 Angola has become China's biggest oil provider. Proven massive natural gas reserves in the region, much of which has not yet been touched, hold an enormous potential in the future. Only one example for this is the debate about building a Trans-Sahara pipeline (see Augé 2010). Europe is interested in reducing its energy dependence on Russia through this pipeline which may bring natural gas from the Niger Delta to Algeria and further

on to Europe. Russia decided not to sit back and hope that these plans do not materialise, but instead intensified its collaboration with the Nigerian government and other countries involved in the region. The energy giant has made it clear that in case this pipeline will ever be built, it wants to control it. Memoranda of Understanding have already been signed between Nigeria's president and both, the European Commission and Russia's president about supporting the Trans-Sahara pipeline project. In 2009 a joint venture between Gazprom and the Nigerian state oil company, Nigerian National Petroleum Corporation (NNPC) was established for consolidating closer cooperation between the two sides.[14] It will be interesting to watch whether there will be any progress in the negotiations about this project in the near future and if so, which partners will be the ones pushing ahead.

The Gulf of Guinea's importance might increase even faster now than it has done so far given the Arab Spring uprisings in North Africa and the Middle East and the accompanying uncertainty about future oil and gas exports from these countries. The Gulf of Guinea is a special case in Africa: it is the only region on the continent which is of significance in international economic and financial flows. International investment and companies are pouring into the respective countries and will continue to do so for the next decades.

While oil companies from new consumer countries such as China, India, South Korea and others have joined the long-established European and American firms in the last years, new oil producers in the Gulf of Guinea have also emerged. Ghana and Niger have been the latest newcomers and others are already waiting.[15] In many of the region's oil-exporting countries, oil is of significant importance for the domestic budgets. It often accounts for more than 90 per cent of export earnings and more than half of total government revenue. This high share explains the political power of the oil industry as well as the emerging or already existing natural resource dependence of exporting countries. In conclusion, stronger international interest, increasing fear of depleting overall resources globally and new producing countries push the importance of oil and gas for the region to new and unprecedented heights.

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[14] The name given to this child seems to have been chosen in a hurry and without paying attention to its pronunciation. It is called 'Nigaz' which was not well received by the Nigerian public.

[15] Formally, Niger does not belong to the Gulf of Guinea. Outside West and Central Africa, other countries on the continent are currently becoming oil and gas exporters. Uganda is one of the most recent cases.

It is unlikely, however, that this new interest in the region's resources will change the way the resource incomes are being managed and invested. Many countries' development indicators are lower today than they were at independence. National economies are anything but diversified and the oil business is run by small and super rich elites. Politics often is all about corruption, the distribution of rents and the quick sale of oil and gas blocks. In most countries in the region public service delivery is non-existent, poverty widespread and the state functions only where it is relevant for selling oil. However, these states are anything but 'weak' in the sense of being remote-controlled by or helpless victims of international actors.[16]

One exception to this rather depressing picture in the region is Ghana. Oil has started to flow in December 2010 in Africa's poster child of democratisation and relatively successful economic development. The years ahead will tell whether at least this country with relatively favourable pre-oil context conditions and advanced institutions will manage to avoid the negative impacts of oil and instead use it for consolidating its achievements.

The 'new' Gulf of Guinea essentially remains the same as the old one. It is the fragile, oil-exporting poorhouse of the continent. However, the scale on which all this is happening has changed dramatically and will continue to do so in the coming years. Both, in the interest of the people in the region who will be affected by this and in the interest of global energy supply the actors involved in this should think harder about solutions to the piling problems and tragedies that play out in the region every single day.

Current solutions to the resource curse

In this section some approaches for solving the resource curse which have been promoted in the last decade up to now are reviewed. Three particularly prominent solutions to the resource curse can be distinguished. These are the macroeconomic approach, the Corporate Social Responsibility (CSR) approach and the transparency approach. Although not a solution approach in itself, a fourth point which has shaped the international community's stance towards reforms in oil-rich poor countries significantly will also be discussed. This is the World Bank's involvement in the Chad-Cameroon pipeline project.

[16] A recent study of oil-for-infrastructure deals between Asian national oil companies and the governments of Nigeria and Angola confirms that neither "fit the stereotype of weak African states being ruthlessly exploited by resource-hungry Asian tigers" (Vines et al. 2009: 3).

The first approach is the response to the analyses of the two economic mechanisms through which the resource curse is assumed to work as presented above ('Dutch Disease' and expansive spending). It includes careful management of currencies, income and expenditure management, the establishment of stabilisation, saving and other future funds as well as other macroeconomic and fiscal instruments.[17] This approach is relatively straightforward and international organisations as well as the Norwegian government in particular are very active in advising new natural resource-exporting countries on how to establish them.[18]

Companies involved in natural resource extraction and export came under increasing international public pressure from the late 1990s onwards. Some of them responded by partly accepting that they could not just ignore what was going on in the areas they were extracting oil from. They adopted the CSR approach and used some of their large profits to provide infrastructure and services directly to the respective 'host communities'. This approach has been heavily criticised as insufficient since it does not even rudimentarily make up for the massive structural, especially environmental and economic damages done to the people in these areas. Moreover, many of the CSR activities were found to be mainly PR activities for the respective companies.

The transparency approach is the most recent of the three approaches introduced here. It emerged around 2002 in the context of the international anti-corruption movement. Non-governmental organisations such as *Global Witness* as well as the NGO-consortium *Publish What You Pay* have been at the forefront of establishing this approach. They argued that the revenue flows from international oil companies to governments particularly in poor countries need to be made transparent so that they can be monitored and corruption be reduced. A government-led initiative to

[17] See the contributions in Humphreys et al. (2007) for detailed discussions of many of these instruments.

[18] The *Norwegian Agency for Development Cooperation* (NORAD) even has a dedicated "Oil for Development" programme. The focus of this programme is however more technical and managerial than political. See Kolstad and Wiig (2008a: 9-10) for a critical assessment.

make the resource-related financial flows between companies and governments more transparent followed in 2002. This is the much touted *Extractive Industries Transparency Initiative*, EITI (see chapters 6 and 7 for assessments of EITI). Many donor- and NGO-sponsored programmes and initiatives have also focussed on enhancing transparency in the natural resource sector.

This 'transparency movement' has probably been the most influential global initiative in response to the growing attention paid to the resource curse problem. What makes it particularly interesting but also calls for a closer look is the fact that this approach has been adopted by all actors involved: governments, oil companies, donors, NGOs and organised civil society at large. There can be no doubt that a sector veiled in secrecy such as the natural resource sector needs to be made more transparent. To varying degrees, EITI and other programmes have been very successful in doing that over the years with the support of many progressive civil society organisations in the countries concerned (see, for example Dykstra 2011). A constant criticism has however been that EITI for example, is voluntary, its reporting standards are flexible (Gillies 2011) and that the results mostly have no consequences. Some authors argue that companies as well as governments like initiatives such as EITI so much because they provide them with positive reputation and PR for some years without them having to change anything fundamentally (Gillies 2010).[19] With regard to donors and NGOs working on resource governance, one could argue that they find the transparency topic attractive because it provides them with an opportunity to transform a messy socio-economic problem into handy, implementable and reportable project-pieces.

Going beyond the individual transparency initiates, almost ten years after the transparency movement has taken off, the question remains whether 'transparency' really is the key issue it has long been presented to be for responding to the resource curse. We argue that it surely is and remains important but that on its own it is grossly insufficient. Moreover, the strong focus on transparency had the unintended consequence of other elements being overlooked. Without them, however, more transparency might not translate into better accountability,

[19] For more critical assessments of the EITI, see Aaronson (2011), although with a somewhat distorted conception of EITI as a public-private partnership. In the category resources/research the EITI website also provides links to many external studies and reports.

not to speak of development and more democratic governance (see Kolstad and Wiig 2008b; Lindstedt and Naurin 2010). Amongst others, such elements may include the citizens' capacity to use the information provided, the existence of free and critical media, an educated public, civil society organisations which can mobilise effectively, a capable parliament as well as political parties. We will get back to this important discussion and the lessons to be learned from it in the conclusion.

One particular natural resource reform project in the Gulf of Guinea attracted widespread international attention in the last decade and therefore cannot be ignored here. The experiences made in this project have also shaped the international community's – and certainly the World Bank's – attitude towards attempts to reform natural resource governance in poor countries from the outside. The *Chad-Cameroon Petroleum Development and Pipeline Project* was the largest private sector investment project in sub-Saharan Africa ever. It involved constructing a more than 1,000 kilometres long pipeline from Chad to Cameroon's coast. The World Bank not only partly financed this project and provided international backing for it, but also tried to turn it into a model for reforming resource governance for the benefit of the poor in a developing country. It did so through sponsoring massive capacity-building, advising the government on macroeconomic policy, agreeing with Chad's government that oil income should be predominantly spent on identified priority sectors for poverty reduction, negotiating the establishment of a Future Generations Fund, and through requesting the establishment of bodies monitoring environmental and social impacts as well as oil-revenue expenditures. With the World Bank withdrawing from the project in September 2008, this noble attempt ended with "the abject failure of the international community's most significant attempt yet to confront the resource curse." (Pegg 2009: 311).[20]

After the massive investments had been made and oil started to flow, the Chadian government not only changed its positions on almost all agreements entered into with the World Bank but also the international oil companies (see Pegg 2009 for details). Despite previous scepticism and warning voices (see, for example, Gary and Reisch 2005), the World Bank learned its lesson the hard way since it

[20] Our 2004 volume mirrors both the optimism (Ngankam 2004; Valle 2004: 56) and the scepticism (Assingar, Nkotto and Mekombe 2004) toward this project.

> "grossly overestimated its ability to alter … existing institutional patterns and … failed to appreciate the extent to which oil wealth would amplify many of Chad's pre-existing problems such as corruption and political instability." (Pegg 2009: 312).

The World Bank in particular and the international community more generally have since become more modest in the assessment of their own leverage on resource governance in developing countries. While technical advice and loans are still provided it is unlikely that such a comprehensive and ambitious externally driven 'oil-for-poverty reduction' project will be attempted any time soon. The lesson has been learned that external influence is very limited and that in the end domestic politics rules.

New solutions to the resource curse

This section discusses some recent developments concerning poor resource-rich countries which might lead to new solutions to the resource curse. It provides the context for the chapters assessing current or introducing new approaches in this volume. Apart from these individual chapters, a more extensive overview and discussion of suggestions for new, innovative solutions will be provided in the concluding chapter. In this section we will therefore focus on only two recent developments that are of significant importance for resource-rich poor countries. The first one is a revolutionary new law in the United States (U.S.) on mandatory extractive industries payment disclosure, the *Cardin-Lugar Energy Security Through Transparency* law. The second important development is the global climate change debate combined with the explosive growth of the renewable energy sector.

The *Cardin-Lugar Energy Security Through Transparency* provision is part of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, passed by the U.S. Senate in July 2010. It requires all extractive industries companies listed on U.S. stock exchanges to disclose their payments to governments for oil, gas and mining activities in their *U.S. Securities and Exchange Commission* (SEC) filings from 2012/2013 onwards. These disclosures have to be broken down by country, by project and by payment stream which is more detailed than required by EITI. The filed documents are publicly accessible online. This provision is a major breakthrough for the extractive industries transparency movement, especially the U.S. *Publish What You Pay* coalition which has been lobbying for it for many years. This provision certainly is one of the more positive outcomes of the recent global financial and economic crises. In his 2007 book, Soares de Oliveira still wrote that it would be very unlikely that "transparency preconditions for company listings on Western stock exchanges" would become reality in the foreseeable future (2007: 307). Fortunately, on this he was wrong.

The provision is the first ever mandatory extractive industries payment disclosure and transparency requirement. According to Ian Gary of *Oxfam America*, around 90 per cent of all internationally operating oil companies, both US and foreign, are affected (Gary 2010). With regard to the Gulf of Guinea, most international oil companies active in the major oil-exporting countries, Nigeria and Angola as well as many others are covered by the new law. It will therefore provide unprecedented information and details about payments from resource extraction companies to governments. This information is a powerful new tool for NGOs in natural resource-consuming as well as producing countries. Moreover, the law serves as a model that might hopefully be followed by other countries and the European Union with similar legislation.

The consequences of the second new development are less immediate. The climate change debate and the massive growth of the renewable energy sector across the globe make even the hardest denier realise that the end of the 'oil age' is a forthcoming fact. However, this end is a matter of decades and not years. In the Gulf of Guinea region oil and especially natural gas extraction and export will still be increasing in the years to come. But while the world is building up infrastructure for the 'post-oil age' the countries along Africa's west coast navigate themselves ever deeper into the 'oil trap'. Unlike more diversified oil and gas exporting countries like Norway or even the Persian Gulf countries which are making massive investments to prepare themselves for the post-oil period, nothing similar is on the horizon in the Gulf of Guinea countries. The 'real' resource curse might therefore be awaiting these countries as soon as demand or the reserves begin to dwindle – whichever comes first. In principle, this scenario could be a powerful argument for making the Gulf of Guinea leaders start to rethink how they use the resource income. But given the region's political economy and the history of hundreds of billions of petro-dollars stolen by politicians and stashed away in foreign bank accounts, it is unlikely that the prospects of dwindling oil income in a few decades will make them change their behaviour now.

The continuing centrality of oil for the world economy and the shocking state of human development in the Gulf of Guinea region at the same time will make the resource curse issue an ever more pressing global problem. While, theoretically, there may be no such thing as a resource curse, the developmental tragedies in the Gulf of Guinea are very real. The main responsibility for this sad state of development certainly lies with the political leaders of the respective countries. However, it cannot be denied that the global interest and investments in resource extraction in the region in the context of the existing political structures fuels not development but most often further regression in living standards and political liberty. Like it or not, international oil companies as well as governments of oil-importing countries and even the individual consumers have become 'partners in exploitation and repression'. Governments and companies are very much aware of that. In the context of the ongoing Arab Spring uprisings, ambassadors and oil company representatives have become much more discreet in their often shameless wooing of leaders such as Equatorial Guinea's dictator-president Obiang. While the oil keeps on flowing smoothly, all-too public appearances, photos and statements with him and others will have to wait until the revolts further north and north-east have slowed down and dropped below the threshold of Western public attention.

As Soares de Oliveira has argued convincingly by calling the region's oil exporting countries "successful failed states" (2007: chapter 1), it is the very interest of oil consuming countries in this resource which allows these otherwise weak states and rulers to exist and survive. It enables incumbents to "build a political order that is violent, arbitrary, exploitative" (Soares de Oliveira 2007: 61). By making the government largely autonomous from external as well as domestic pressure, consumer countries and companies assist in maintaining anti-developmental and anti-democratic regimes. It is this 'co-responsibility' which is as real as the interest in oil which has to push consumer country governments, international organisations and oil companies to intensify their contribution to helping the countries and citizens escaping the multiple resource-related 'curses'. We hope that the contributions in this book offer some new insights and ideas on how domestic and international actors can contribute towards this aim.

Summary of chapters

The first part of the volume contains chapters which analyse elements of the challenges facing the resource-rich states in the Gulf of Guinea region. The evident security focus of these contributions mirrors the strong attention paid to this dimension of resource governance, especially in academic circles. Other relevant topics such as market prospects for the region's oil exporters or the leverage of regional organisations in oil and gas governance were also discussed at the conference. Since very busy politicians or practitioners had been invited to present inputs on these topics, no paper-length contributions are available in this volume. The arguments made at the conference are partly covered in this introduction, the conclusion and in the conference report (see annex).

In chapter 1, **Indra de Soysa** claims that post-Cold War liberalisation and globalisation have overall improved the policy environment for resource-rich poor countries and therefore made economic diversification, trade and increasing foreign direct investments possible. According to him, there are indications that several aspects of governance have improved through this such as internal peace, human rights and environmental conditions. Nevertheless, he concludes that while such general improvements are welcome, they are far from sufficient. He therefore calls for more explicit policy interventions by the international community, especially rich states, to help African countries diversify their economies and guarantee the much talked-about 'human security' to the poor in these countries. **Nnamdi Obasi** covers the topic of oil bunkering in the context of organised crime in the region. While in his discussion of the forms, scope and context of the phenomenon he focuses on the hot-spot Niger-Delta in Nigeria, the second part of his paper on policy measures against illicit bunkering includes the regional and international dimensions and actors. His overview covers more traditional security measures at the national and regional level to reign in illicit bunkering and shipping of oil. With regard to the international community he also mentions the proposal of developing a 'fingerprinting' system for controlling the sources of exported oil similar to the principles on which the *Kimberley Process Certification Scheme* for diamonds is build. Given the recent new oil finds in the region, **Matthias Basedau and Annegret Mähler** assess in chapter 3 whether they imply new conflict risks. They show that in the past the impact of resource wealth on internal, regional inter-country and international peace and security has been far from uniform. Depending on the context and policy, it can spur or mitigate conflict at all levels. From the experience of long-standing oil producers they distil some lessons that have been learned and based on these formulate recommendations to various actors. Some of their key recommendations include the implementation of good governance, expectation-management related to oil income, the establishment of stabilisation funds, a cautious fiscal policy, economic diversification, the promotion of transparency in the oil sector and initiatives against the illegal trade in oil and weapons.

While some chapters in the first part of the book have already started doing this, the contributions in the second part explicitly focus on assessing existing approaches for countries to escape the resource curse or suggest new ones. The contributions cover issues as diverse as the challenges of the development and democratisation of petro-states, the role of regional organisations, the achievements and limitations of EITI as well as civil society and trade union perspectives on these challenges.

Based on a paper presented at the FES workshop on regional oil and gas governance in Accra in 2009, **Cyril Obi** discusses the challenges of democratising West African petro-states in chapter 4. After a brief conceptual part on the state-oil nexus in the Gulf of Guinea, he analyses the case of Nigeria as a typical petro-state. He shows that while oil had an important impact on Nigeria's development, it has been politics and elites driving oil politics rather than the other way round.[21] While the historical experience of oil-rich countries in the Gulf of Guinea is rather negative, he argues that this existing space for human agency implies that things can actually be changed by the actors involved. In line with this optimistic assessment he spells out some of the steps required for democratising petro-states. The forging of a new social and political contract between citizens and political leaders in the oil-exporting countries is at the centre of his argument. He closes by calling for two significant changes. The first one is more involvement of regional organisations in oil and gas governance. His second concern is the "de-securitisation" of the discussion about solutions to the resource curse in Africa and going back to the roots of the problems. While no chapter explicitly discusses the role of regional organisations in oil and gas governance in the Gulf of Guinea, chapter 5 provides an overview of some existing regional organisations which could become active here. Since much of this information is difficult to find or access **FES** has compiled key data on the origin, objectives and status quo of the respective organisations.

[21] For a more detailed study of Nigeria and the role and impact of its petroleum industry, see Obi (2010).

The performance of the most prominent global initiative to improve transparency in the extractive industries sector, the *Extractive Industries Transparency Initiative* (EITI) is the topic of chapters 6 and 7. **Peter Eigen**, until March 2011 the chair of the EITI board, begins by discussing whether there is a need for an "EITI reloaded". He argues that the initiative has to maintain its narrow focus with which it has been very successful in building trust between governments, oil companies and civil society and providing information and a platform for further discussion. **Dauda Garuba** counters this opinion. He agrees with Peter Eigen on many of the achievements of EITI but also mentions some limitations. Among them are, according to Garuba, EITI's narrow transparency focus which did not translate into accountability, the diversity of EITI criteria as well as its exclusive focus on revenues and ignorance of the expenditure side. His recommendation essentially is to reassess and broaden EITI's objective to include some of the aspects which so far have been left out.

In order not to lose focus of some of the positive experiences outside Africa, chapter 8 presents the Brazilian experience with managing its oil wealth which has been growing significantly in the last few years. After providing some historical information, **Ildo Sauer** introduces the state oil company, *Petrobras* and the reform debate about different ownership models in light of the newly discovered reserves. One of the most interesting lessons of this case for African oil-rich countries includes the strong and competent role of *Petrobras*, controlling and partly being involved in exploration, production and sale. In the Gulf of Guinea, state-owned oil companies are often driven by competing private interests. Therefore, they tend to be chaotic and simply remain dependent on international oil companies by giving out contracts to them instead of having a more active role themselves. However, while the *Nigerian National Petroleum Corporation* (NNPC), strongly resembles this image (Burgis 2010), the Angolan state oil company, *Sonangol* is more competent. Another interesting point from Brazil is the participatory process of law making in which inputs from social movements were welcomed. Again, this is in strong contrast to the back-room deal- and decision-making often encountered in the Gulf of Guinea countries. While the chapter presents the pre-election situation in Brazil in May 2010 when the laws were not yet passed, the broad societal discussion of various stakeholders with different positions and policy proposals is a lesson that most Gulf of Guinea countries can learn from.

In chapter 9 **Michael Roll** presents a new proposal of how countries where no accountability link exists between government and citizens could use oil income to (re-)establish this link. This proposal is based on some form of direct distribution of a share of the oil revenues to citizens, combined with more effective taxation, including the distributed revenue share. He argues that this model, apart from distributing substantial amounts of income to citizens and contributing to strengthening state institutions, can help "breaking" the political resource curse. It may do so by re-establishing the accountability link between governments and citizens. The oil income shares distributed to them could provide citizens with an incentive to be more active in holding the government to account. This in turn could make governments manage oil income, tax revenue and expenditure more responsibly than presently. Roll closes by arguing that the obvious counter-arguments against the establishment of such a scheme are often less insurmountable than one might first think. **Steve Manteaw** takes the reader on a tour de force through Ghana's past approaches to managing its natural resources, particularly gold and other minerals. He does so from a civil society perspective to draw lessons for Ghana's management of its new oil wealth. According to him, in the process of arriving at a legal framework for its oil extraction and management, the country has fulfilled many hopes that it could learn from its own and other countries' mistakes. While the jury is still out on whether that leads to better resource governance or not, the process, as well as some of the preliminary results, at the time of writing (May 2010) look promising. Perhaps the most important lesson is that Ghana has made systematic efforts to learn from the experiences of its neighbouring countries, of other countries further abroad and of its own experiences with resource governance so far. Although the country has been heavily supported in this by many international organisations, this systematic policy learning approach is often missing in the policy-making process in countries in the region. The focus of chapter 11 is on labour rights in the oil and gas industry in Nigeria. **Louis Brown Ogbeifun** discusses some of the realities and challenges, workers in the sector as well as their unions are facing at present. While it is of vital importance that the relatively few workers employed in the oil sector in the Gulf of Guinea countries enjoy fair working terms and conditions, it should not be forgotten that much more than this needs to be demanded. It is the trade unions' job to fight for those who have employment contracts already. However, together with governments, trade unions, civil society organisations and even oil companies have to ensure that many more jobs are created for citizens in the oil-producing countries. The aggressive formulation and implementation of local content policies is therefore key (Burgis and Wallis 2010). On the other hand, that implies that the government has to provide the necessary conducive business environment, infrastructure and training, so that an increasing share of processing steps in the downstream sector, especially

the refining of crude oil, as well as accompanying services can be offered in-country. The labour rights situation in this sector should therefore not be looked at in isolation from its job-effect.

In the conclusion, **Michael Roll** reviews and discusses some of the new suggestions made in the chapters for governing the resource curse successfully. He puts them into a broader context and suggests additional innovative approaches at the international, regional and domestic level. Beyond the policy level, he takes a look at the political economy of solving the resource curse. He presents some factors which together help to explain why some countries affected by the resource curse have successfully adopted reforms while most have not. Understanding this better might take us a step closer to ensuring that, eventually, oil and gas wealth is governed in a way that benefits the citizens of the countries concerned and brings about a truly democratic Gulf of Guinea region.

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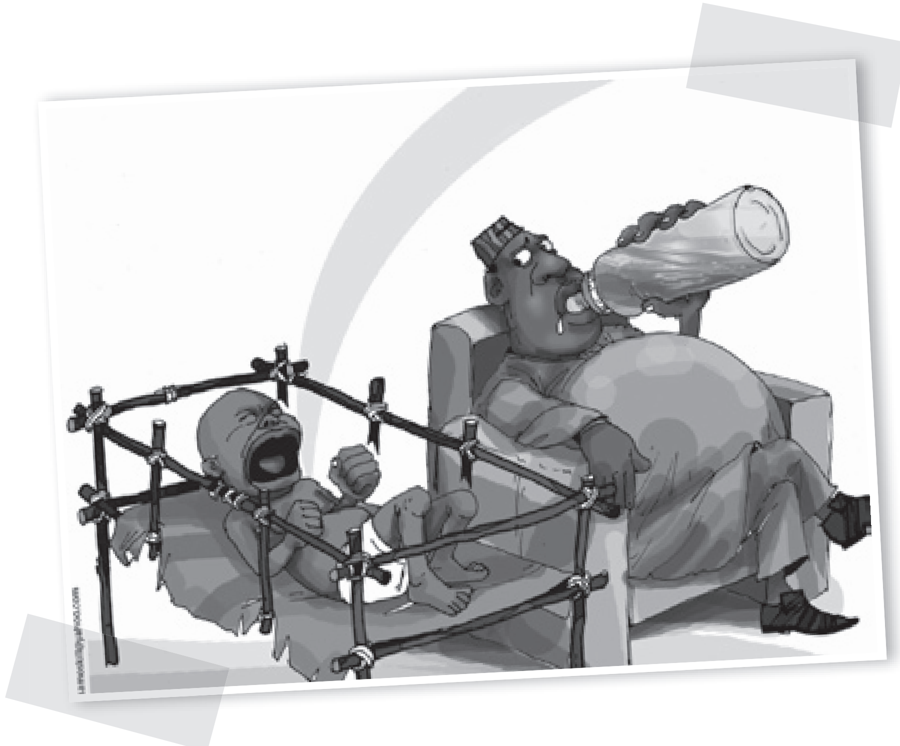
PART I

Analysis of the challenges



Chapter 1

The Natural Resource Curse and State Failure: A Comparative View of Sub-Saharan Africa

Indra de Soysa[22,23]

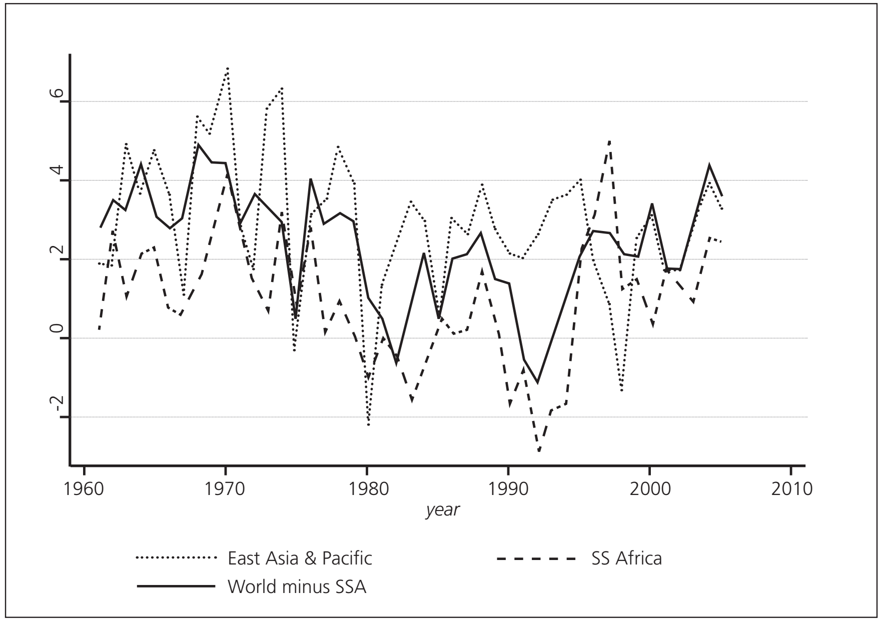
Sub Saharan Africa (SSA) ranks as one of the poorest regions in the world. In 2005, the World Bank listed 34 SSA countries among the 48 lowest income countries (World Bank, 2007). Of the 159 countries for which the World Bank reports per capita income data for 2005, Malawi has the lowest income with US$ 593 (PPP in constant 2000 international $) whereas the richest country, Luxembourg, shows an income of US$ 53,583 per capita, roughly 90 times more! Of course, SSA has a lot of regional variation. For example, Botswana and Mauritius have reported some of the fastest growth rates in the past 3-4 decades and are included in the Middle Income country group.[24] However, as Figure 1 illustrates, SSA countries have continuously performed much lower than non-SSA countries, and East Asia and the Pacific in particular, showing a long downward spiral in the average growth rate since the 1970s, which bottomed out in the early 90s.

[22] Director, Globalization Research Program, Norwegian University of Science and Technology & Associate Scholar, Center for the Study of Civil War, Peace Research Institute (PRIO), Norway

[23] I thank Nils Petter Gleditsch for excellent comments and suggestions and Halvard Buhaug for the use of a map of conflict. Neither is to blame for the way in which I have made use of their good advice.

[24] In fact, the Seychelles, Botswana, and Mauritius are the richest countries in SSA with over US$10,000 per capita income.

Figure 1: Comparative Per Capita Economic Growth Trends, 1960 – 2005.



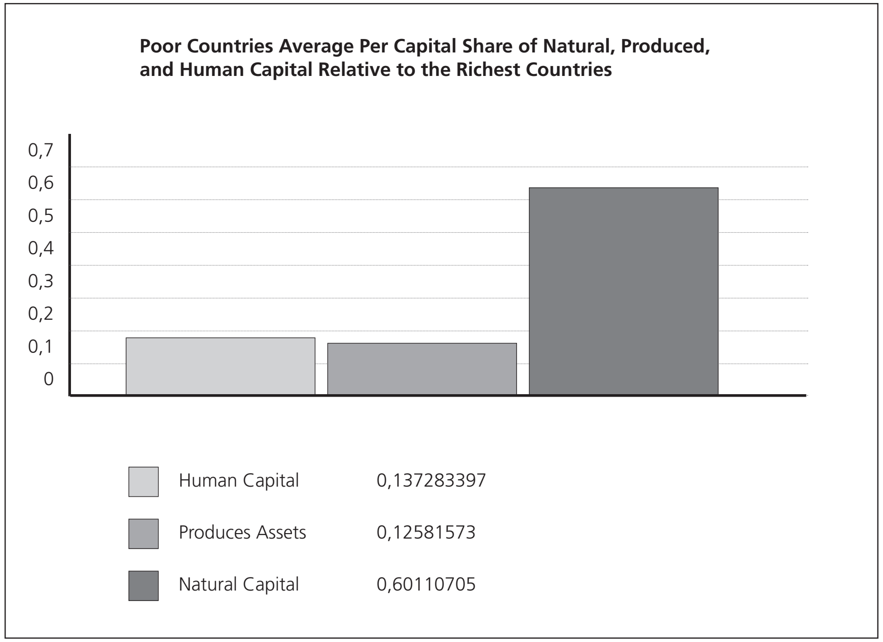
Source: World Development Indicators, CD-Rom (World Bank, 2007).[25]

Recently, the region is seeing a sustained upward movement in income growth, which is encouraging. However, consider that Ghana, which had US$ 500 more in per capita income than Vietnam in 1985, is poorer than Vietnam by about the same amount in 2005. What accounts for SSA's relative economic and political failure in the past decades? This essay will focus particularly on the question of the 'natural resource curse' that may underpin Sub Saharan Africa's economic and political woes. First, this essay examines the theoretical and empirical foundations of the 'resource curse', relative to other possible explanations of African failure. Second, the study will examine the security implications of natural resource wealth in Africa and argue that the changes since the end of the Cold War have been positive for the region. The essay concludes with some policy recommendations for alleviating harm from the resource curse.

[25] Figure generated by author. The regional classifications are from World Bank (2007).

The issue of the resource curse as an explanation for Africa's failure has been highlighted in several prominent studies (Collier et al., 2003, Lal and Mynt, 1996, Auty, 2001). Sub Saharan Africa is natural resource rich, compared with other regions of the world, and resource wealth looms larger compared with other forms of capital within these countries, such as human and physical capital. As Figure 2 reveals, the poorest countries in the world, among whom SSA is well represented, have a very high share of the richest natural capital, but not physical and human capital.

Figure 2: The poorest countries' average per capita share of natural, produced, and human capital relative to the richest countries.



Source: (World Bank, 1997).[26]

[26] Figure generated by author. The income classifications are 'least developed group' and the 'rich' group classifications from World Bank (2005).

Thus, the issue is not so much whether natural capital is abundant, but how much it dominates other forms of available capital. Canada, Norway, and the United States have also been blessed with natural resources, but they also had access to other forms of capital, including institutional capital that have by and large allowed these countries to manage their wealth in ways that have had long-term positive consequences. Norway, in particular, chose not to consume its oil wealth and built institutions to keep the money out of the hands of politicians. Sub-Saharan African countries wealthy in natural capital, such as Botswana, have also by and large escaped the curse of resources despite other stark failures in the region, such as the Democratic Republic of Congo, Nigeria, and several others. I explore this issue by looking at theory and evidence on the resource curse, which allows us to better understand the variance in performance under conditions of natural resource abundance. How has SSA failed relative to resource poor regions, particularly resource poor East and South East Asia?

How much of the economic and political fortunes of countries can be explained by the relative abundance of natural wealth? This question is so paradoxical that it generally commanded gradual and halting attention, with the exception perhaps of some economists, who flagged poor economic performance among resource-wealthy countries – dubbed "the Dutch disease" (Auty, 1990, Sachs and Warner, 1995, Humphreys et al., 2010). Extracting natural wealth can reduce growth (Sachs and Warner, 1995, Sachs and Warner, 2001). A resource boom will raise a country's real exchange rate relative to its trading partners', driving up the prices of exports, which has knock-on effects across the rest of the economy. Quite simply, resource wealth makes you expensive and prices you out of the manufacturing and service markets where future growth lies (Sachs and Warner, 2001). Apparently, as a long-term consequence, resource-wealthy countries lose out on 'learning by doing' since manufacturing industries cannot expand, and the increased consumption and production booms are invariably followed by periods of bust due the terms of trade that work against primary good exporters in the long-run (Rodríguez and Sachs, 1999). The 'Dutch disease' explanation essentially dooms countries to lower economic performance due to nature's unkindness by yielding too much – the curse of plenty. The empirical evidence for lower economic growth among resource-wealthy countries relative to resource-poor counterparts is quite numerous (Dell, 2004). This is true in the case of highly sophisticated econometric analyses as well as careful comparative case-study based research (Sala-I-Martin, 1997, Lal and Mynt, 1996).

In comparison with the simple 'Dutch disease' story, others offer more nuanced stories that consider types of resources as well as forms of policy responses that have led to differing outcomes at different times (Auty, 2000, Auty, 2001). The effects of resources are not automatically economic, but are moderated by social and political factors. Many suggest that the economic problems from resources can be handled by sound policy and design (Weinthal and Luong, 2006). Apparently, the quality of institutions, particularly economic institutions, net of the type of regime (i.e. democracy vs. autocracy) matters (Bellin, 2004). The resource curse literature challenges models of governance and development that assume that welfare and revenue maximizing politicians are constrained from doing good because they lack financial resources and autonomy (Ross, 1999). Rather than autonomy for doing good, natural resource rents, particularly those that are easily captured, such as oil and minerals, create perverse incentives that allow rulers to do badly without facing punishment. High rents dissuade the right policies for competitive industrialization, which in turn has long-term repercussions for economy and society (Auty, 2001).

In short, access to easy money removes the conditions driving the rise of "developmental states" which have the will and capacity to implement development-friendly policies (Leftwich, 2000). The effects are apparently both cognitive (spend, consume mentality) and strategic, where natural wealth encourages grabber-friendly institutions and behavior rather than producer-friendly ones (Ross, 1999, Mehlum et al., 2006). Resource rents create factional political states, where rent capture allows politicians to survive by dispensing rents, rather than making hard choices about reform (Torvik, 2002). Political survival dictates profligacy and waste, rather than public goods provision (Gylfason, 2000). In fact, the 'paradox of plenty' is driven by policy failure – man's folly and vanity rather than destiny! Several point out how institutional factors can either mitigate or exacerbate the economic effects of having large natural resources (Robinson et al., 2006).

Another subtle view of outcomes under resource-wealthy conditions is the so called *rentier state* effect. According to this view, easy money drives bad economic outcomes because rulers simply buy stability by spreading the largesse of resource wealth. The vanguard of democracy, the so-called professional and middle classes, enjoys no tax burden and are thus bought off by rulers who control the resource rents (Beblawi, 1990, Chaudhry, 1997). Economic policy

failure, for some scholars, might in fact be political success (Basedau and Lacher, 2006, Smith, 2004). Regimes that are resource-wealthy have the finances to buy social consent and stave off violent political conflict. These scholars suggest that there are at least as many stable oil-rich countries as there are unstable ones. These studies suggest that the discrepant findings might be due to conceptual and measurement confusion about what resource wealth actually means – dependence versus abundance – where dependence is decided by other endogenous factors affecting growth. They suggest that the best way to measure "abundance" is the per capita value of resources, not per GDP (Basedau and Lacher, 2006).

Yet another view of why natural resources matter for conflict is the mechanism of state capacity. Much depends on the related question of how state institutions around taxation and public goods provision develop because when institutions around taxation are underdeveloped, states are institutionally and bureaucratically weakened, which in turn affects the ways in which rulers are able to weather hard times, or respond to societal demands and pressures (Karl, 1997, Karl, 1999, Fearon and Laitin, 2003). Such a process also leads to the degeneration of social capital, where people are unconnected by concerns of public decisions that affect productivity-enhancing public goods (Woolcock et al., 2001) and larger questions of political freedom (Ross, 2001). Thus, bad governance, corruption, autocratic regimes, and violent conflict may coalesce in a vicious trap because resource wealth weakens state institutions and the bureaucratic apparatus required for strong and effective governance.

The most odious and worrisome aspect of having abundant resources is that it might directly lead to large scale civil and international violence, regardless of other factors (Klare, 2008, Collier and Hoeffler, 2004). Sustained violent armed conflict is costly and requires finance. Natural resources may act as a 'honey pot' that attracts predation. Resource wealth will also allow groups to overcome financial constraints of organizing large-scale violence by forming on the basis of looting natural wealth (Collier et al., 2003). Conflict can be self financing due to the high value of 'capturable' natural resources, such as diamond (Sierra Leone, Angola) and oil (Nigeria). Whether or not the exact mechanism driving conflict is looting (availability of finance), state capacity (weak institutions), or other political and social maladies related to poor governance remains to be explored more systematically, both in terms of theory and empirics (Collier and Hoeffler, 2005, Fearon, 2005, Ross, 2006), but these explanations certainly pose considerable challenge to "rentier-state" theories that seem to suggest that political stability can be bought by resource-wealthy states, even in bad times (Smith, 2004). What is the relative strength of the available empirical evidence?

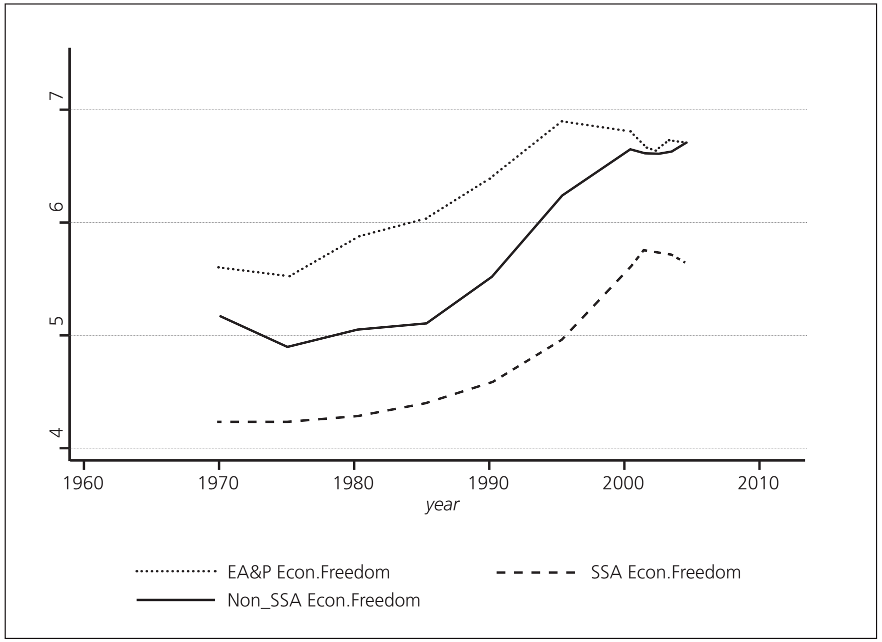
Some recent empirical studies using alternative data, methods, and models find considerable support for the view that oil wealth is associated with civil war, net of other factors such as regime type, per capita income, and numerous other controls, including more theoretically precise measures of state capacity (Fearon, 2005, de Soysa and Neumayer, 2007, Fjelde and de Soysa, 2009). There does not seem to be strong evidence to suggest that other natural resources, such as all minerals, or timber, matter as a general rule for onsets of civil war even though all 'lootable' resources, including narcotics may matter for financing wars once they get started. Diamonds might be an exception, but even here the evidence is somewhat mixed (Ross, 2006, Lujala et al., 2005). Oil may in fact be special (Kaldor et al., 2007).

If rentier-state theories are correct and rulers of resource wealth are able to buy peace, then even if rentier economies do badly in terms of growth, or the lack of democracy, one might still view this as successful policymaking, or even good statesmanship, because peace might be bought in a perverse form of guns versus butter. However, if stability is being achieved with high levels of social repression – i.e. there is considerable social dissent that opposes the state – then one might think of patronage spending as wasted money, both instrumentally and normatively, and that rulers that rely on such forms of governance are in fact only fooling themselves, sowing the seeds of state failure and violence. Using data on human rights violations by governments and the incidence of genocide, however, at least two studies report independently that petroleum and mineral resource-rich countries suffer higher levels of state terror on citizens (de Soysa and Binningsbø, 2008, Kisangani and Nafziger, 2007). Thus, even if some governments may be able to buy themselves peace by deploying the wealth from their abundant resources, society may still be paying a high price in the form of higher levels of human rights violations against political dissenters, which can only lead to state failure as was the case with Mobutu's regime in the Congo, not to mention Saddam Hussein's Iraq, Venezuela under Hugo Chavez, and several African states. However, as we argue below, the

changes since the Cold War have improved the global climate for developing under conditions of natural wealth as it improves the conditions for better institutional changes.

The explanation offered here as to why recent years show a positive trend in African performance can be traced to greater liberalization of markets and politics. As some have suggested, Africa has had 'bureaucrats' not markets (Easterly, 2005). While natural resources have been a curse in all the ways discussed above, it has also allowed African states to overlook markets as ways of extracting taxes since natural wealth provided convenient 'resource streams' for states. A convenient resource stream renders social bases of taxation superfluous, which leads to semi-privatised states that will be disinterested in providing the optimal level of public goods and investing in people and institutions that safeguard markets, as has been the case in East and South East Asia (Humphreys et al., 2010). Resource wealth also allows states to close their economies and practice industrial substitution policies, which some have referred to as 'precocious Keynesianism' for state-building along nationalist lines (Waldner, 1999). The Cold War international climate and ideology allowed states to practice these policies with disastrous effect. In an age of globalisation, the technology and capital required for diversification of economies away from dependence on monoculture development is available to a greater extent than ever before, which is promising. Thus, systemic factors are better today than they were during the Cold War. As Figure 3 demonstrates, SSA has historically lagged behind others in terms of free markets and encouragement of entrepreneurial talent, although the trend is in the right direction in recent decades. As de Soysa & Binningsbø (2009) report, countries that have high natural assets and have a higher level of economic freedom tend to have lower levels of political dissent and repression of human rights.

Figure 3: Regional Comparison of Trend in Economic Freedom from The Economic Freedom Index, 1970 – 2004.



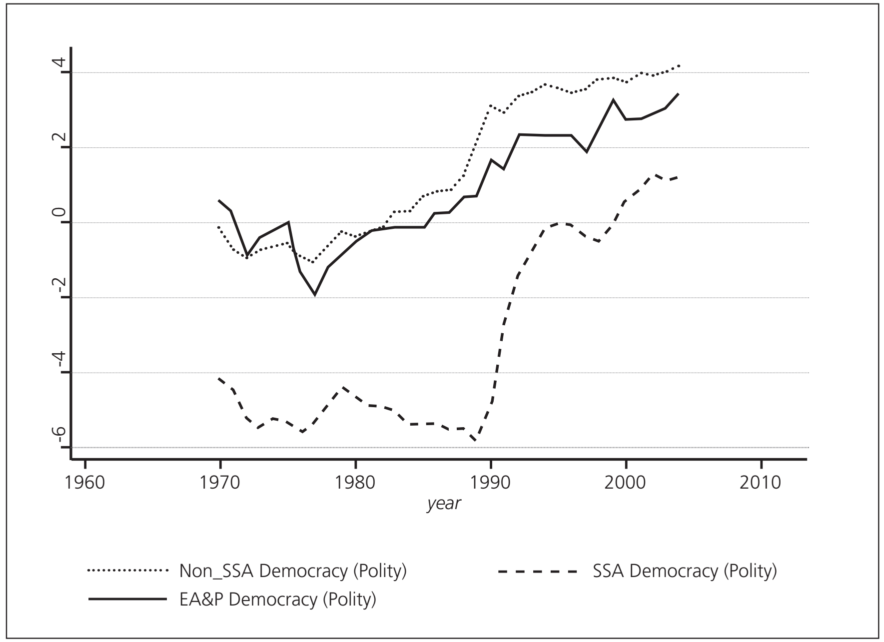
Source: The Fraser Institute.[27]

The same might be said for political liberalization. During the Cold War, African leaders, who looked to the East, implemented communist, one-party dictatorships, in the name of socialist development. Those who looked to the West, also tended to be dictatorial, and nascent democracy after independence was soon snuffed out. As figure 4 demonstrates, however, this trend has reversed drastically with the end of the Cold War. The African deficit in democracy has closed rapidly despite it having a long way to go to catch up with the rest.

[27] Figure generated by author. The Economic Freedom Index is calculated from 22 variables measuring the friendliness of government policies towards private economic activity. Data available at http://www.free-theworld.com/

The same trend is evident in the trend on human rights, which is the liberal component in liberal democracy (see figure 5).[28] Some argue that despite the growth of formal democracy in recent years, there is considerable violation of basic rights of people by states (Zakaria, 1997).

Figure 4: Regional Comparison of Trends in Institutional (electoral) Democracy, 1970 – 2006.

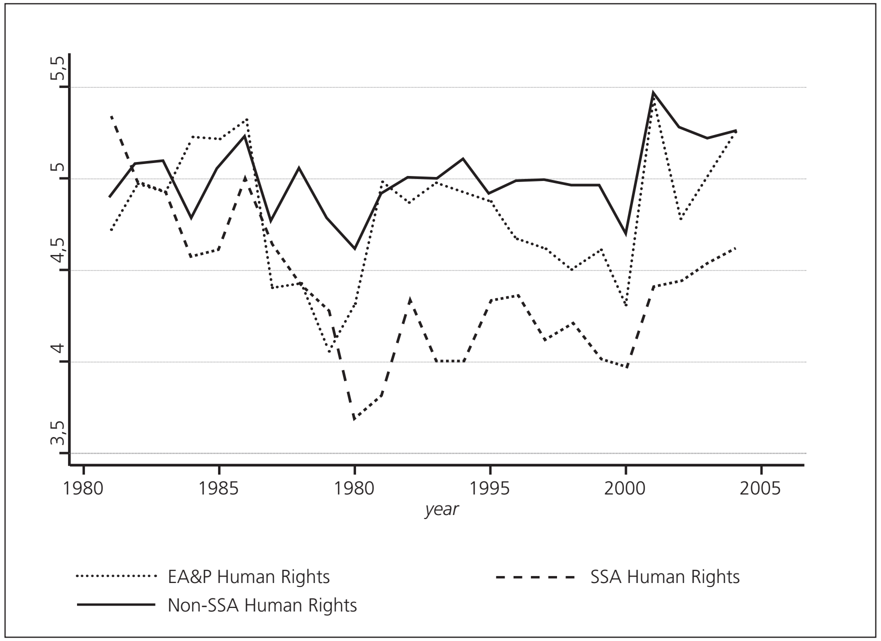


Source: Polity IV data.[29]

[28] The Human Rights data are collected by David Cingranelli and David Richards based on Amnesty International and US State Department reports of violations of the physical integrity of people on such dimensions as disappearances, torture, political murder etc. For more information, visit: http://ciri.binghamton.edu/.

[29] Figure generated by author. Data available at: http://www.systemicpeace.org/polity/polity4.htm

Figure 5: Regional Comparison of Trends in State Respect for Human Rights, 1981 – 2004.



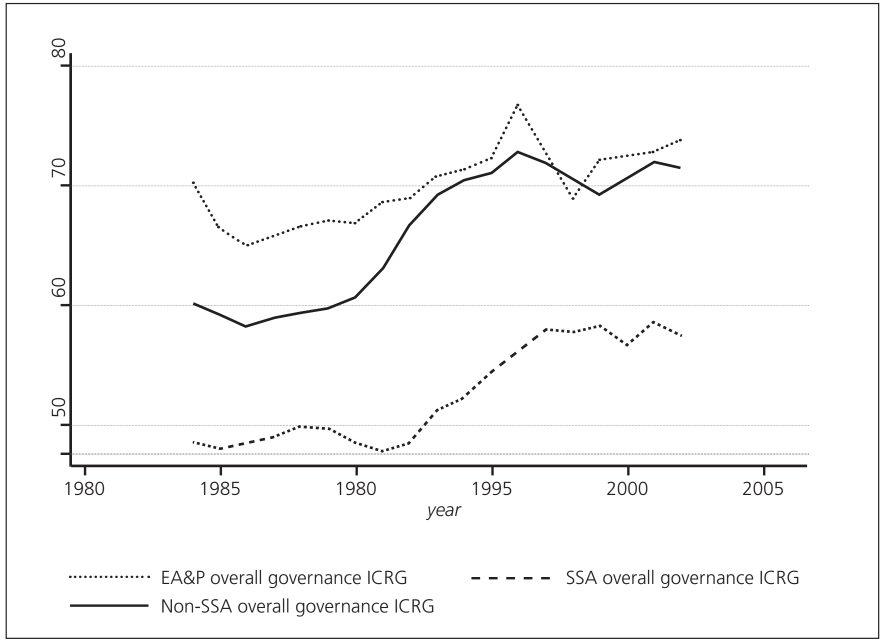
Source: CIRI data (Cingranelli and Richards, 1999).[30]

Figure 5 shows that, as with the trend in democracy, SSA is moving up as a region despite being lower on the 'respect for physical integrity rights' compared with East Asia and the Pacific and the rest of the World.

Finally, a measure of overall governance developed by the International Country Risk Guide also shows an optimistic picture for the SSA region in recent years, which supplements what we have seen for political and economic liberalization. As figure 6 illustrates, Africa's performance is increasing over time, but a massive gap still remains relative to the rest of the World and East Asia and the Pacific in particular.

[30] Figure generated by author. The CIRI data measure the level of state violations of the physical integrity of people measured as political killing, imprisonment, torture, disappearances etc. The data are available at http://ciri.binghamton.edu/

Figure 6: Regional Comparison of Trends in Governance, 1984 – 2004.



Source: (World Bank, 2005).[31]

Discussion & Conclusion

The natural resource curse poses considerable risks for the Sub Saharan African region. However, natural wealth is not destiny because there is considerable room for human agency to correct the risks posed by the paradox of plenty (Humphreys et al., 2010). This is particularly true when it comes to designing institutions for properly managing resource wealth. These possibilities were considerably constrained due to ideological and international factors during the Cold War. The era of globalization promises much for development under conditions of resource wealth. The conditions of globalisation are ostensibly driven by increased trade

[31] Figure generated by author. The overall governance measure provided by ICRG takes into account corruption and other risks for international business. The ICRG data are collected for commercial use and are available for purchase at http://www.prsgroup.com/

between states and across regions. Growing trade is also supplemented, supplanted, and complemented by foreign investment (FDI).[32] These aspects are generally seen as the hard drivers of globalisation (Keohane and Nye, 2000, de Soysa, 2003, Simmons et al., 2004). Today, poor countries, which were once against global liberalism, have changed their minds (Krasner, 1985), a point exemplified most clearly, in the economic realm at least, by the Chinese reversal, Vietnam, or even Cuba (Clapham, 1995). What poor countries lack is capital and technology for improving their trading position, diversifying away from primary commodity dependence, and creating the necessary economic growth. Globalisation helps since trade and investment benefits poor country growth (Dollar and Kraay, 2000, Collier and Gunning, 1999, Bhagwati, 1999, Srinivasan and Baghwati, 1999, de Soysa and Oneal, 1999). Trade dependence and FDI may improve conditions of human rights (Busse, 2004, Richards et al., 2001, Apodaca, 2001), social conditions facing labour (Neumayer and de Soysa, 2005, Neumayer and de Soysa, 2004, Garrett, 1998), environmental conditions and economic sustainability (de Soysa and Neumayer, 2005, Yu, 1994, Garrett, 1999), and even internal peace (de Soysa, 2002, Krause and Suzuki, 2005, Weede, 2004, Barbieri and Reuveny, 2005, Bussmann et al., 2005, de Soysa and Fjelde, 2010).

This essay has contended that conflict and development are consequences largely of policy. Thus, better policy environments locally and globally promise to make a difference. Better governance does not easily come about, however. It has to be affected through incentives. Most studies of development and conflict in recent years have tended to discount the disruptions caused in Africa due to the bi-polar nature of global politics that was unhelpful. The end of the Cold War and all the attendant political, ideological, and strategic considerations no longer exist. In this era of globalisation, the opportunity for building a better environment for development and peace exists. Most countries around the world seek to be more globalised, although as some suggest, Sub-Saharan African countries may still suffer from internal biases against open markets and domestic rent-seeking coalitions that prevent better policies that would move many of these countries away from resource dependence and insecurity (Moss et al., 2004). The incentives that large natural resource rents provide state authorities, however, are very difficult to affect and will still need to be handled through various external policy interventions. The international policy community, and perhaps also the academic communities, could work to increase transparency and awareness around how globalisation can benefit these countries. The empowerment of civil society with increased levels of democracy goes some distance towards creating greater transparency and preventing rent-seeking, leading to greater openness of these countries to trade (Milner and Kubota, 2005).

[32] I focus below on direct investment (FDI) rather than portfolio capital, which is a tiny part of capital flows to the poorest countries because of underdeveloped capital markets.

The crucial task for global policy would be to direct aid, trade, and investment policies towards diversifying African economies away from extractive activity. The problem, as some pessimists on globalisation claim, is not that Africa is captured by global markets hungry for resources, but that policies in these countries prevent resource rents from being translated into sustainable development that benefits people. In fact, resources are being wasted rather than being deployed for productive investment. Angola, Nigeria, and the DRC could be some of the richest places on the planet if wealth is properly managed. It still remains to be seen whether the new partnerships between fast-growing giants, such as India and China and many resource-wealthy SSA countries translates into healthy economic development.

Overcoming the 'resource curse' is a worthy challenge for global policy to address. Unfortunately, while governments pay lip service to the issue, very little is done. The private sector initiatives, such as Corporate Social Responsibility (CSR), are a start, but the incentives to shirk (cheat) are so great that only time can judge its success. Besides these initiatives, institutions of global governance, such as the International Financial Institutions (IFIs), could step in to devise programmes that help states manage their wealth better, such as the management of rents from the Chad oil pipeline.

The onus is not purely on the poor world. Rich countries should also do their part. Paradoxically, when the former colonies are becoming more open to global markets, the rich are cutting them off with tariff and non-tariff barriers (Bhagwati, 1997). Apparently, jobs are being lost to the South, but consider that the rich world spends over, 600 billion per annum on defence, 300 billion dollars on agricultural subsidies, and only 60 billion on aid. One is forced to ask how this allocation improves the security for the rich. Clearly, local and global rent-seeking hinders proper management of wealth, increases inefficient allocation, and perhaps hinders the prospects for development and peace. It is quite right that the 'international community' focuses more and more on human security. It might be that future acts of global governance adjust the rich countries' policies that violate the 'human security' of the poor, the most odious kind of exploitation. Concerted global governance that addresses these imbalances are now more imperative than ever.[33]

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[33] Institutes such as the Center for Global Development measure the commitment of the rich countries to helping the poor. See www.cgdev.org for their index.

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Chapter 2

Organised Crime and Illicit Bunkering: Only Nigeria's Problem?

Nnamdi K. Obasi [34]

The Gulf of Guinea, stretching through West and Central Africa, does not yet rank in the same league of criminal notoriety as the waters off Somalia, but it is now increasingly identified as one of the world's most poorly governed maritime stretches. From Senegal where human traffickers seek to ship thousands into Europe annually, to Guinea-Bissau through which drug traffickers trans-ship narcotics from South America into Europe, to Nigeria where oil-related crimes are continually big business, the region is emerging as a new frontier of organised crime. According to the International Maritime Bureau, IMB, the waters off the coast of Nigeria now rank as the second most dangerous in the world after Somalia's. Nigeria's maritime troubles include illegal fishing in the country's waters, seaborne attacks on shipping and arms smuggling, but the most paramount concern is about illicit bunkering.

This paper examines illicit bunkering as an organised crime in the Gulf of Guinea, focusing specifically on Nigeria[35]. First, it offers a brief clarification of the concepts of organised crime and bunkering. Secondly, an attempt is made to explain the dynamics of illicit bunkering in the region, in terms of its driving factors and enabling environment, the nature and scope of the operations as well as the actors. Thirdly, the paper assesses the impacts of illicit bunkering on human security in the region, specifically in terms of economic, environmental and physical security, as well as the wider implications for international energy security. Finally, it reviews

[34] Senior Analyst, West Africa Project, International Crisis Group, Abuja, Nigeria

[35] This paper is based on the author's experience in the Niger Delta region of Nigeria, where he has worked with Nigerian government research institutions including the National Defence College, civil society networks and independent research organisations, notably International Crisis Group. It is also informed by interactions with Nigerian military and other security officials, members of non-state armed groups and officials of the national and transnational oil companies. Although the author is a Senior Analyst on the International Crisis Group's West Africa Project, this presentation represents strictly his views, not those of ICG.

efforts that have been made to arrest this phenomenon over the years and outlines what needs to be done at national, regional and international levels in order to address it more effectively.

Conceptual Definitions of Organised Crime and Bunkering

Organized crime has been an element of human civilization for hundreds, if not thousands of years. According to Woodiwiss, "Organized crime…is as old as the first systems of law and government and as international as trade. Piracy, banditry, forgery, fraud, and trading in stolen or illegal goods and services are all ancient preoccupations that often involved the active participation of landowners, merchants and government officials".[36] In spite of its antiquity, there is not yet a universally accepted definition of what constitutes organised crime. As an extensive discourse on the numerous definitions in literature is not the concern of this paper; it may be sufficient to highlight a few definitions and draw out their most relevant features.

Woodiwiss states that "organized crime is systematic criminal activity for money or power";[37] the important point here being that it involves systematic rather than impulsive or isolated actions. Beare describes it as a process or method of committing crimes, and then illuminates this by stating that it usually involves "an ongoing criminal conspiracy, with a structure greater than any single member, and the potential for corruption and/or violence to facilitate the criminal process".[38] She adds that criminal organizations involved in such conspiracies "operate secretly to avoid arrest and conviction, ... insulate their leadership from direct involvement in illegal activities and ... pursue financial rewards as their main objective". Albanese, summing up the current state of the argument over definitions, identifies a consensus on four primary elements: a continuing organization; an organization that operates rationally for profit; the use of force or threats; and the

[36] Woodiwiss, Michael. *Organized Crime and American Power,* Toronto: University of Toronto Press, 2001; cited in Holly Richter-White, *The Direct and Indirect Impacts of Organized Crime on Youth, as Offenders and Victims*, Research and Evaluation Branch Community, Contract and Aboriginal Policing Services Directorate, Royal Canadian Mounted Police, Ottawa, Canada, March, 2003. p. 5

[37] Ibid.

[38] Margaret Beare, *Criminal Conspiracies: Organized Crime in Canada*, Toronto: Nelson, 1998.

need for corruption to maintain immunity from law enforcement. Criminal groups operating on the basis of these principles vary substantially in size, ranging from two to three person teams operating a baby-food racket, to hundreds of members of a cartel involved in drug trafficking operations.[39]

The term bunkering derives from the word "bunkers" which refers variously to the "fuel consumed by the engines of a ship, or the departments or tanks in a ship for fuel storage", "fuel used to power a ship" or simply "a ship's fuel".[40] Thus, the act of bunkering or oil bunkering involves feeding a ship's engines or tanks with oil. Illicit bunkering, therefore, refers to the act of supplying or loading a ship with fuel without requisite statutory licences or other valid documents, in violation of the laws and guidelines made by the state institutions regulating shipping, oil transactions and national security. It is in this sense, that illicit bunkering is regarded as a criminal activity. However, in Nigeria, "illicit bunkering" has become a generic term encompassing not only unauthorised loading of ships, as defined above, but also all acts involving the theft, diversion and smuggling of crude oil.

Incidence and Scope of Illicit Bunkering in Gulf Of Guinea

Several countries produce and export oil in the Gulf of Guinea, with Nigeria and Angola as the leading exporters. However, oil bunkering as an organised criminal activity appears to be largely, if not exclusively, limited to Nigeria. Other bad practices, including massive corruption are undoubtedly taking place in the oil industries of all producers and exporters in the region. In Equatorial Guinea, for instance, the oil industry has remained so closeted by the ruling Obiang Mbasogo clique that there are no indications of what is officially exported, what is accounted for, and what is stolen. However, nowhere are these practices as evident as they are in Nigeria.

[39] Jay Albanese, "The Causes of Organized Crime". Journal of *Contemporary Criminal Justice*, November 2000.

[40] Mike Igbokwe, "Need to review national policies, laws to check bunkering", *The Guardian*, Lagos, Nigeria. 26 May 2004. p. 43

Illicit bunkering in Nigeria is carried out, to varying degrees, in the six major hot zones of the country's territorial waters. These are:

- Sombreiro-Bonny-BOT/Andoni-Opobo region in Rivers State;
- Escravos-Forcados-Ramos-Dodo in Delta State,
- Fishtown-Brass-Bartholomew-Barbara area in Bayelsa State,
- Awoye-Aiyetoro-Benin River which straddles Ondo and Delta States,
- Qua Iboe/Calabar/Rio Del Rey area of Cross River State.
- Lagos-Lekki axis in Lagos State.[41]

Based on accounts from various sources, the Sombreiro-Bonny area may be ranked first, in terms of the sophistication of the operations, while the Escravos and Forcados axis appears to be the most dangerous in terms of the involvement of armed groups and the ferocity of duels between rival organised criminal organisations.

Enabling Environment and Contributory Factors

Organised crime usually thrives best in an environment of weak governance, instability and conflict. These conditions are amply evident in the Niger Delta, in particular, and Nigeria's coastal regions in general. The specific factors that are enabling and driving illicit bunkering in the region, but are by no means limited to these are the following:

- The complex geography of the region, with a labyrinthine network comprising thousands of creeks and swamps.
- Lack of proper monitoring and accounting procedures in the oil industry, and corruption among oil industry officials and staff.

[41] These six zones are also confirmed by the President of the Nigerian Trawler Owners Association (NITOA) Margaret Orakwusi, in her testimony before the Inter-Agency Maritime Security Task Force (IAMSTF) panel in December 2008. Orakwusi also identified Badagry and Bakassi Peninsula as Nigeria's maritime domains where the cases of pirate attacks and sea robberies 'are very recurrent'.

- Poor maintenance of the nation's refineries, along with poor road and water transportation systems in the Niger Delta, resulting in erratic supplies of petroleum products to communities in the region.[42]
- Poor maritime governance arising from inadequacy of security arrangements in the oil producing areas, ineffectiveness and corruption of law enforcement agents, and low conviction rates for suspected illicit bunkerers.
- Mass poverty and high levels of youth unemployment in the oil producing areas.
- Lack of any community stake-holding in the oil business and grievances over exclusion from its proceeds which locals believe they are entitled to.
- The atmosphere of lawlessness engendered by a long history of agitation and militant activities by communities and youths protesting environmental pollution and demanding a fairer share of oil production benefits.
- The patronage offered and the protection provided by senior government officials and politicians who often use bunkering as a source for funding their political campaigns
- High international demand for Nigeria's low-sulphur, low viscosity, low-vanadium content, and low-density crude oil worldwide.
- Existence of an established international market for stolen oil which involves partners in the Gulf of Guinea (Cote D'Ivoire, Gambia, Liberia, Sao Tome and Principe) and in Greece, France, Morocco, Netherlands, Lebanon, Greece and Venezuela.[43]

[42] As one report notes "buying a vehicle in some parts of the Niger Delta is simpler than getting fuel to run it". The report further notes that "while a litre of petrol officially sells for N65 and is available in many parts of the country, in the Niger Delta, particularly in some parts of the region, a litre sells for N140. It is a classical case of what Chinua Achebe described, in *Things Fall Apart*, as "living by the riverbank yet washing hands with spittle".

[43] Judith Burdin Asuni, *Blood Oil in the Niger Delta*, Special Report 229, United States Institute of Peace, Washington DC, August 2009. p. 4

Nature of Illegal Bunkering Operations

Three forms of illegal bunkering are identifiable in the region. The first are small-scale operations, carried out mostly by local gangs who steal crude oil, condensates or refined products intended for the local market. These small scale activities (theft and smuggling) also involve diverting trucks, already loaded with refined products, to unauthorised destinations within Nigeria, but also across borders especially to Benin and Niger Republics. Industry sources estimate that these usually amount to no more than 30,000 barrels per day.

Secondly, there are higher scale operations typically involving larger quantities of crude oil. The gangs obtain the crude by piercing pipelines (an operation known as "hot tapping") or uncorking well heads, attaching a hose and siphoning the oil into relatively small barges, which are then taken out to feed bigger trawlers offshore, before such trawlers then sail out to international markets and delivery points. The amounts involved vary significantly from month-to-month, but may be as high as 10 per cent of Nigeria's exports, sometimes nearly 200,000 bpd.

The third form involves excess lifting of crude oil beyond licensed amounts. These illicit exports are sometimes based on fraudulent paperwork ("vrai-faux" contracts), organised at the high levels of the Nigerian National Petroleum Corporation (NNPC) or its subsidiaries and the oil companies.

Actors in Illegal Bunkering

Illegal oil operations involve a complex array of actors, both local and international. On the local front, the key actors are the organised criminal groups, comprising masterminds of the business ("The Barons") and the armed young men who actually carry out the operations in the creeks ("The Boys"). Several sources indicate that at the inception of the illegal business, the barons were largely non-Niger Delta elite, mostly from the northern and south-western parts of the country, who recruited local Delta youth to carry out the operations. With time, however, that picture has changed: some of yesterday's boys have become today's barons, and many more young elite from the Delta have joined the trade.

Beyond the core criminal groups, are a wide array of collaborators, facilitators and other accessories. The first line of collaborators involves the local people, especially youths, in the riverine communities. First, there are "Host communities" in whose domain an illicit bunkering operation takes place. Then there are "Passage communities" through which the small barges must pass, on their way out to the high sea. In most of these communities, youths who are aware of the illicit activity often team up, and disallow the loading of barges or passage of such vessels through their territories unless they are paid ("settled").[44]

A second line of collaborators involves some elements of the police, military and other security operatives deployed to the region. While the commanders of various units officially declare zero tolerance for such collaboration, many personnel, acting individually are involved. Some are intimidated by the local youth to turn a blind eye to their activities or risk dire consequences; others are actually bought over and collaborate with the key actors wilfully for a fee. Other domestic actors include the local people who buy crude products for their illicit refineries, and the management or individual employees of some haulage companies, who conveying the stolen oil or refined products to illegal destinations, including across national borders. Early in March 2010, Governor Rotimi Amaechi of Rivers State directed the State Commissioner of Police to redeploy all the Divisional Police Officers (DPOs) in the four Ogoni Local Council areas, following complaints that the security agents, particularly, the police, were aiding illegal oil theft in the area.[45]

The international actors include nationals of several countries. Among foreigners arrested by Nigerian security operatives over the years, Russian, Ukrainian, Romanian, Greek and especially Filipino sailors have been frequently involved. A single operation could involve a multi-national network of actors working together. For instance, in one case in July 2008, 14 Filipinos were arrested by the Joint Task Force (JTF) in Bayelsa State, with 150-160 metric tonnes of stolen crude. While the operation was going on in Nigeria, the men were communicating on radio with their boss in Greece.

[44] This culture of criminal extortion or "settlement" now applies to virtually every extractive and construction activity in many parts of the region. For instance, in relation to the fishing industry, Orakwusi observes that "communities and their leaders along the fishing grounds now demand for huge money before vessels would be allowed passage. The pirates have constituted themselves into republics where settlements and clearance have to be made before vessels are allowed to fish without hindrance. This is a republic within a Republic of Nigeria."

[45] Chido, Okafor et al, "Dangerous crude oil refinery craze in the product-starved Niger Delta" *The Guardian*, 19 March 2010.

The vessel that was used for the bunkering, *MV Lina*, was flying a Panama flag, but was registered and owned by a Greek shipping company, called Corinthian.

Oil companies are also involved in the illicit business. In one incident a few years ago, a naval surveillance team discovered an oil firm in Westminster, Lagos that had devised its own pipe with 12 nooses and welded it onto the pipeline delivering oil to the NNPC's pipeline. The effect was that when oil products were pumped via the NNPC pipelines, its metre would read far less than the quantity originally pumped from the source. For instance, when the NNPC metre read 300 litres of oil products pumped, more than 1200 litres had already been pumped into private tanks operated by the company. According to the report, such a practice was not exclusive to that company, but common among almost all oil companies operating in the country.

Scope of Illegal Bunkering

An attempt to estimate the amounts of oil stolen or smuggled in Nigeria faces several challenges. First, being an illicit business, records of these transactions are seldom kept, even by the leaders of criminal organisations. Secondly, estimates provided by government or even oil industry officials sometimes mix up production losses resulting from conflict-related shut-ins with losses actually due to bunkering.

The many figures quoted over the years, show that the amounts stolen have ranged from 30,000 to 300,000 barrels daily. Also from these figures available, illegal bunkering seems to have attained its highest peaks in 2001, 2002 and 2007.

While huge quantities of the products are shipped to the international market, smaller quantities are traded locally. In particular, as condensate stolen from pipelines is passed off as kerosene, this adulterated product is sold extensively in the Niger Delta. Informed sources point to the Shell Petroleum Development Company (SPDC) fields at Otorogu West fields as a major source of the condensate in the open markets in the region. Once in the hands of unscrupulous criminals, the condensate is then mixed with petrol or kerosene. Sellers of these adulterated substances can be seen in many cities and even in the remote local government areas of the region. In Port Harcourt, they are common on Niger, Gambia and Victoria Streets, around Marine Base.

Impacts of Illegal Bunkering on Human Security

Illegal oil bunkering has had significant impacts on the Nigerian state, and particularly on human security in the Niger Delta region. The most manifest of these impacts have been on the economic, environmental and physical security of communities and individuals in the region.

The first impact of illicit bunkering has been on the Nigerian economy and, by implication, on the economic well-being and security of its people. Figures available show that since 2003, Nigeria has lost between \$2.4bn and \$6.3bn worth of oil annually. The total loss over these 6 years has been estimated between \$24bn and \$100bn.These estimates, however, do not reflect other losses, such as the cost of equipment vandalised in the course of the bunkering operations, the cost of anti-bunkering security and judicial processes, and the great humanitarian cost of explosions and other disasters resulting from the theft of petroleum products.

Illegal bunkering also has significant impacts on environmental security. First, spills resulting from the activities of the illegal bunkerers damage the environment. These spills are particularly a serious problem because oil companies are often not forthcoming in accepting responsibility for clean-ups caused by sabotage. Sometimes the location of the spills may be deep in forests that are not easily accessible to oil spill detection and clean-up agencies.

In terms of impact on physical security, illegal bunkering has contributed significantly to the state of lawlessness, insecurity and physical violence that have prevailed in the Niger Delta for much of the past decade. Bunkering groups have used money earned from the business to acquire vast arsenals of weapons. Struggles for control of lucrative waterways or bunkering turfs have sometimes resulted in conflicts between youth gangs from neighbouring communities, often with very bloody consequences. Disputes over sharing the proceeds of bunkering operations have sometimes provoked violent clashes between rival factions of the same syndicates. While government's security forces are deployed to the region to curb criminality, the syndicates involved in illegal bunkering have used the huge profits from their operations to compromise security officers; over time security personnel are becoming part of the trade, thus further aggravating the threats to both national and human security.

Indeed, illegal bunkering has been a key factor in sustaining the cycle of conflict in the Niger Delta. While agitation and militancy in the region have well-known ideological origins, the attraction of illicit oil has led to the emergence and splintering of organised and armed criminal syndicates, with no political or economic ideology, dealing in illicit oil and attacks on shipping (piracy). This has also been accompanied by the continuing smuggling and proliferation of small arms in the region. According to a report by Shell, „The criminalisation and political economy of conflicts in the region mean that the basis for escalated, protracted and entrenched violence is rapidly being established". This not only threatens Nigeria's national security, but also endangers the operations of transnational oil companies in the region and their ability to meet the energy security needs of many oil-importing countries.

Illicit bunkering has also resulted in the proliferation of so-called "cottage refineries" across the region, along with extensive use of adulterated products. Hundreds of such mini-refineries now operate in countless locations across Delta, Rivers and Bayelsa States. The local implements used in these refineries consist of large plastic receptacles, empty drums, firewood and cooling water. The crude oil is placed in the drum and put to intense heat. At a point, the vapour generated is piped through a cooling system into a plastic receptacle to condense into petrol. The resultant petrol lacks quality control and, therefore, can never be of the same grade as that produced in the industrial environment of the large state-owned refineries. When produced in standard refineries, crude oil gives off several by-products such as petrol, kerosene, diesel, aviation fuel, greasing oil, plastic enamel and others. Local refiners may not know these or do not care. Their gaze is on petrol for which there is a ready and lucrative market.

A tragic consequence of the piercing of pipelines and the use of adulterated products has been the major explosions and fires that have occurred frequently in the region. Between 1998 and 2008, more than a dozen major pipeline fire incidents were reported. No doubt, some of these were caused by lack of maintenance of pipelines and negligence on the part of NNPC, which is supposed to govern and supervise all actors in the industry – and ensure standards. However, most were caused by thieves who ruptured pipelines to siphon oil, followed by local villagers who gather in thousands to scavenge for the leaking fuel. The total number of persons killed by these disasters is estimated at well over 2,000, with many more injured or unaccounted for. Domestic explosions and other accidents arising from the use of adulterated kerosene have also claimed over 2000 lives in Nigeria since 2001, with the Niger Delta worst hit.

Measures against Illicit Bunkering

a. National Responses:

Enactment of Laws Against Bunkering: Nigeria, over the years, has enacted national legislation prohibiting bunkering, theft and smuggling of crude oil, gas and refined products. These include the Minerals Act 1969; Petroleum Production and Distribution (*Anti-sabotage*) Decree (1975); the Special Tribunal (*Miscellaneous Offences*) Decree No. 20 (1984). Since the return to democratic rule in 1999, further measures have been introduced. These include the creation of new legislative and institutional arrangements. In 2004, at the instance of the executive arm, the National Assembly passed the Economic and Financial Crimes Commission (EFCC) Establishment Act 2004. The EFCC has since been involved in prosecuting some cases of illegal bunkering. The Nigerian Security and Civil Defence Corps (NSCDC) also now has, as a very important part of its mandate, to patrol petroleum pipelines, apprehend suspected fuel thieves and hand them over to the police.

Arresting and Prosecuting Bunkerers: Over the years, hundreds of persons have been arrested on charges of illicit bunkering. Since the creation of the EFCC and strengthening of the NSCDC's mandate, the number of arrested persons has increased. However, this has not had any significant deterrent effect. Those arrested have been low level operators, including foreign sailors; the real masterminds of these operations, both locally and internationally, have never been targeted and arrested.

Reforming security arrangements: Recognising that the incidence of illegal bunkering is also a consequence of deficiencies in the nation's maritime security arrangements, the government has made effort at addressing the challenges facing Nigeria's maritime security. The military Joint Task Force (JTF), the government's coordinated response to militant attacks on oil installations and personnel in the Niger Delta, initially concentrated in going after militants. With time, however, it recognised that bunkering was sustaining militancy in the region, and especially that the militants in the mangrove forests were running their speedboats and generators with fuel from "cottage refineries". Thus, since 2008, JTF has been spotting the "refineries" and destroying them.

In 2009, JTF announced it had destroyed over 300 "cottage refineries" in the region. Between October and December 2009, the Task Force again discovered and destroyed over 1,500 illegal refineries. Even at that, the outfit estimates that there are twice more outfits in different parts of the region. In March 2010, over 100 illegal refineries were destroyed in a marshy forest near Ogbekobor village in Burutu Local Government Area of Delta State. In Rivers State, about 700 operators of the illegal outfits, on their own accord, gave up their tools and equipment to a government committee set up to mop the state of the make shift refineries.

In November 2005, then President Olusegun Obasanjo set up the Inter-Agency Maritime Security Task Force (IAMSTF) to investigate diverse maritime security threats and recommend strategies to check all illegal activities and security breaches in the country's coastal waters. Chaired by Rear Admiral Dele J. Ezeoba, the task force, which commenced sitting November 25 and had a 90 days timeframe to do its work, was saddled with the mandates to:

- Review and strengthen the operations of security operators and regulatory agencies in the country's ports;
- Investigate and monitor the activities of licensed private jetty operators and sanction those found to be engaged in acts of illegalities;
- Ensure immediate closure of all unlicensed and illegal private jetties;
- Investigate and monitor the activities of oil and gas companies in the country's maritime area;
- Arrest erring individual and organisations involved in security breaches;
- Liaise with all security agencies and identify personnel who have overstayed in the ports and direct redeployment;
- Determine the conformity of midstream discharge and trans-shipment of cargoes in Nigerian waters in accordance with extant laws;
- Ensure enforcement of maritime laws;
- Articulate measures that world ensure sustained maritime security/safety;
- Consult any other relevant agency that assist the task force work; and
- Make any other necessary recommendation.

Membership of the Task Force included representatives of the Nigeria Armed Forces, Nigeria Police, Nigeria Custom Service, State Security Service and Nigerian Maritime Administration and Safety Agency (NIMASA) among others. The committee submitted its findings, and a Presidential Implementation Committee on Maritime Security (PICOMS) was established; but several of the IAMSTF's recommendations are yet to be implemented.

Introduction of NEITI: In seeking to achieve greater transparency in the operations of the oil industry, the Nigerian government inaugurated the Nigerian Extractive Industries Transparency Initiative (NEITI). That initiative initially raised hopes of opening up the oil industry to better scrutiny and more effective governance. But in the years since then, NEITI has failed to live up to its initial promises.

b. Regional Responses

Initiating the Gulf of Guinea Energy Security Strategy: In 2005, the then President Olusegun Obasanjo initiated a Gulf of Guinea Energy Security Strategy (GGESS) involving countries of the region and partners from the wider international community. There has been some discussion of setting up a region-wide energy security arrangement, including a radar system for tracking ships. But there has been a lull in dialogue under this arrangement, and there is yet no evidence of concrete progress.

Proposal of a Gulf of Guinea Guard Force: Maritime countries in the region have navies and customs patrols designed to check illicit and criminal activities in their coastal waters. However, these security forces are largely under-resourced, ill-equipped and also often too corrupt to respond to the current challenges effectively. Angola, current chair of the Gulf of Guinea Commission, has previously called for a common regional security mechanism to tackle shared threats. In 2007, Nigeria's Minister of State for Defense, Ambassador Thomas Aguiyi-Ironsi, indicated that Nigeria had initiated and was spearheading the formation of an eight-member Gulf of Guinea Guard Force (GGGF) to monitor and protect their common maritime interest in the region.[46] In April 2008, then President Umaru Yar'Adua called for accelerated action towards establishing a Gulf of Guinea Guard Force to provide additional security for member countries of the Gulf of Guinea Commission, and especially their energy resources.[47] Speaking at bilateral talks with President

[46] "West Afrcan countries raise special force to guard Gulf of Guinea", Xinhua, 2007.
[47] Ben Agande, "Yar'Adua, Mbasogo Hold Talks on Gulf of Guinea", 11 April 2008.

Obiang Nguema Mbasogo of Equatorial Guinea, Yar'Adua called for an urgent meeting of the Commission's Ministerial Council to work out modalities for the establishment of the Force. He urged an early follow-up summit by Heads of State of the Commission to ratify the ministerial council's recommendations and authorise implementation.

In a related development, on 5 May 2009, Cameroon's Defence Minister announced that four countries of the Gulf of Guinea, namely Cameroon, Equatorial Guinea, Gabon, and Sao Tome and Principe would join forces to fight rising crime along their coastlines. It is not clear whether this is part of the proposed Gulf of Guinea Guard Force or a different initiative altogether. More significantly, however, is the fact that till date, there are no clear indications of movement towards actualising setting up either of these arrangements. Even if regional neighbours are committed to cooperating, as they have claimed, it will be very difficult to do so with their current naval capabilities, which are severely limited.

c. International Community Assistance

Discussions towards developing a "Fingerprinting System": There have been discussions over the years about developing a "finger-printing system" that will facilitate the identification and tracking of oil from the delta, but again, there are no concrete steps yet to establish this system.

Appealing for international cooperation: At the 2008 G8 summit in Japan, President Yar'Adua spoke forcefully about the problem of illicit bunkering, saying stolen oil fuels conflict much the same way that illicit diamonds fuelled conflict in other African countries such as Sierra Leone in recent years, even calling it "blood oil".[48] But these appeals have not been followed up by the necessary diplomatic vigour.

[48] "Nigeria Seeks to End 'Blood Oil'", BBC News, 8 July 2008.

The Way Forward: What Needs to be Done

The Nigerian government needs to lead the way by demonstrating the political will to curb illicit bunkering in its maritime zone, and then other measures that can be taken. [49]

It must take on the powerful interests that are involved in bunkering, as such large-scale operations are undoubtedly supported by politicians, admirals and others.

The Nigerian Government needs to commit greater resources to ensuring that security for petroleum sector facilities, infrastructure and personnel is improved. The JTF has done well in bursting illegal refineries; but there are also increasing allegations that soldiers are themselves involved in bunkering. The Force needs to purge itself. Since Nigeria depends on hydrocarbons, fisheries and maritime environment to sustain her economy and external trade, strategists are seeking a well-funded naval force with outposts in strategic locations on Nigeria's internal waters and high seas to ensure safety and security and launch anti-sea crime campaigns when need arises.

There is need for greater aerial survey and patrol with helicopters, better training for security personnel in the Niger Delta environment, and the provision of advanced radar coverage of fishing grounds to monitor the activities of illicit bunkerers and pirates, as well as search-and-rescue services, in accordance with international conventions which require all coastal countries to assist vessels in distress. In addition, a case is also made for the establishment and adequate funding of Nigeria Coast Guards to enable them cope with the maritime challenges. As proposed, this entails the provision of facilities, equipment, platforms and all necessary logistics to be in place to combat piracy and sea robbery attacks.

The Nigerian Government should implement the report of the Technical Committee on the Niger Delta, submitted on 1 December 2008. Niger Delta development must proceed with all haste so that the local population no longer feels that "bunkering is legitimate local resource control", as was mentioned previously. Reducing bunkering will mean that additional revenues are made

[49] These suggestions are in part from Dele Cole, "Guest Column: Why Choke the Goose?", *Financial Times*, 23 June 2008.

available directly to rural communities. State governments in the region must ensure that the oil producing areas development commissions are effective in delivering development to targeted communities. The Niger Delta Development Commission (NDDC) which, by most accounts, has not performed optimally,[50] needs to be restructured so that it can prioritise its focus on the people of the Delta who have suffered most from the effects of oil and gas production and so that management is judged on results, including sustainability of project success over at least the medium term. Priorities for the NDDC should be established by local input, at least in part, and claims for success by the NDDC should require endorsement of the local communities that they are supposed to benefit.

The Nigerian Government should encourage and mobilise the international community towards stopping or minimizing the flow of illicit oil. A tracking system can be implemented, with chemical fingerprinting done, that can trace crude to particular flow stations. An inspection process should be set up that stops ships and has the power to confiscate unproven oil until its legitimacy can be verified. The late President Yar'Adua once mentioned the Kimberly process to stop "conflict diamonds" as a possible model.[51] Even if the system cannot completely eliminate bunkering, making bunkered oil more risky to purchase will reduce profits for smugglers, as the oil will have to be sold at a greater discount.[52] International support for these measures must be built; the government's plan to launch an international campaign to criminalise blood oil may be helpful in building such support.[53]

Member Countries of the Gulf of Guinea must act to improve their cooperation and coordination on Security.

The International Community should offer greater assistance to maritime security capacity in the Gulf of Guinea: The international community has offered assistance towards improving the capacity of countries in the region to cope with

[50] Author's interviews with oil industry managers and Niger Delta leaders, December 2007-February 2008.

[51] At the 2008 G8 Summit, as noted in William Wallis and Matthew Green, "UK and Nigeria Join Forces on Oil Theft", *Financial Times*, 16 July 2008.

[52] Dele Cole, "Guest Column: Why Choke the Goose? *Financial Times*, 23 June 2008.

[53] Chinwe Ochu, "FG to Criminalise'Blood Oil' – Maduekwe", This Day (Lagos), 14 October 2008.

challenges to their maritime security, including oil-related criminality. For instance, in January 2009, the *USS Nashville*, a 17,000-tonne amphibious transport ship turned floating classroom, with her crew of 420, stopped off at five ports along the West African coast to help train local navies. An international team on board led by American service people and civilians, hosted training courses on topics ranging from oil platform protection and fire-fighting to maritime law, intelligence gathering and hand-to-hand combat, small-boat maintenance to anti-terrorism. The aim was to help the region's navies monitor their own waters better.

The visit of the *Nashville* is part of the "Africa Partnership Station", an international security idea promoted by America but including training teams from Europe. Spain, in particular, is keen to back plans to curb illegal migration. Italy, whose oil company Agip operates in Nigeria, is helping to train locals to protect oil platforms. The partnership predates this but is now linked to AfriCom, an American military command headquarters devoted solely to Africa. But AfriCom is still based in Germany, because African leaders rejected requests by George Bush's administration to build a permanent military base and headquarters on the continent.

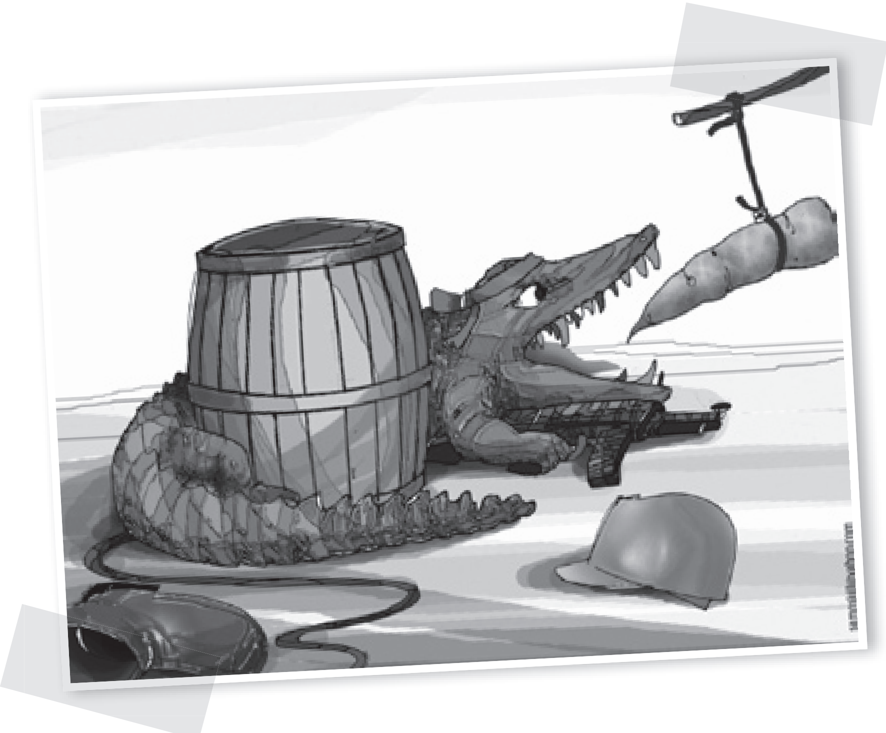
Nigeria's security agencies need greater international assistance to police the Niger Delta and the Gulf of Guinea as a whole. But such assistance must be weighed carefully and to ensure that it does not contribute to the suppression of legitimate protests or to further human rights violations in the Niger Delta. In July 2008, UK Prime Minister Gordon Brown publicly proposed his government examine how it could assist the Nigerian government in preventing oil theft and promoting stability in the Delta. This offer prompted threats on British interests by militant groups and a tepid response from the Nigerian government, which only seemed interested in obtaining assistance for patrolling international waters.[54] International law enforcement should prioritise shutting down the international criminal network running the stolen oil trade, while also ensuring that the Nigerian military in the region is more professional, accountable and respectful of citizens' rights.

[54] William Wallis and Matthew Green, "UK and Nigeria Join Forces on Oil Theft", *Financial Times*, 16 July 2008.

Conclusion

Oil bunkering remains a major form of organised crime, concentrated in the Nigerian stretch of the Gulf of Guinea. This criminal enterprise has far-reaching ramifications for human security in the oil-producing Niger Delta region of Nigeria.

While initiatives have been made over the years, through legislative, security and bilateral initiatives towards arresting this phenomenon, it is clear that such efforts have almost all been hobbled by poor political will and crippled by conflicting interests. The Nigerian Government therefore still has a major responsibility to ensure this problem is eliminated or at least brought to a minimum. The Goodluck Jonathan administration needs to recognise illicit bunkering as an important challenge, both in the context of fighting corruption, restoring peace to the delta, and improving on the conduct of elections in the region. It must work hard to address this phenomenon, if maritime security threats, continued revenue loss and perceived external subversions must be averted.



Chapter 3

New Oil Finds in the Region: New Risks for the Region?

Matthias Basedau and Annegret Mähler [55]

Introduction [56]

Oil is the most strategic resource in world economy and world politics. As of 2008, oil constituted one third of global energy consumption, clearly before other energy resources such as natural gas, coal and uranium. In simple words: the world economy, particularly the industrialized countries, cannot do without oil. At the same time, fears are on the rise that shrinking oil reserves and growing demand by industrial powers as well as emerging powers such as China and India will increase global scarcity. Hence, oil-producing regions throughout the world have become strategically more important. One of these regions is the Gulf of Guinea in which recent oil finds have raised hopes for both the international community and the countries in the region to benefit from the black gold. However, oil is also considered a dangerous raw material. Oil has already attracted foreign interest in the Gulf of Guinea. The US has declared African oil as strategic to US national interest and Chinese investment in the fuel sector has been on a sharp rise in recent years. Moreover, oil and its related income may constitute motive and opportunity for civil war as well as indirect economic, institutional and other causes of organized violence and further security threats.

This paper deals with the possible risks connected to recent oil finds in the Gulf of Guinea and proceeds as follows: We first provide a brief overview on the current oil and gas producers as well as recent oil finds in the region and then turn to the following questions:

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[55] Matthias Basedau is Head of Research Programme "Violence and Security" at German Institute of Global and Area Studies, GIGA. Annegret Mähler is a political scientist and research fellow also at GIGA

[56] Though natural gas is also an important resource in the Gulf of Guinea, this article concentrates on oil.

Why are oil and gas risky in general? What resource-related conflicts have emerged within the region in the past and are still unresolved today? Which countries have been affected?

What threats in connection with resources may evolve in the future? Which of the countries with new oil discoveries maybe at what risk in the future?

Taking this balance sheet into account: What can be done about the risks? What has been tried and proven (un)successful? What can be recommended to new comers?

1. Current Oil Producers and New Oil Finds in the Gulf of Guinea – A Brief Overview

The wider Gulf of Guinea – according to our understanding – comprises altogether 14 countries: Angola, the Democratic Republic of Congo, Congo-Brazzaville, Gabon, Equatorial Guinea, São Tomé and Príncipe, Cameroon, Nigeria, Benin, Togo, Ghana, Cote d'Ivoire, Liberia and Sierra Leone.

Eight of these countries currently produce substantial quantities of oil (see Table 1). Angola and Nigeria belong to the bigger producers worldwide and have an output of around 2,000,000 barrel/day. Angola has substantially increased its production in recent years. Congo-Brazzaville, Gabon and Equatorial-Guinea have extracted between 240,000 and 350,000 barrel/day. Equatorial Guinea started its production only in the mid 1990s but Gabon is a long-standing oil producer. Cameroon's oil production has been on the decrease in recent years and is currently about 77,000 barrel/day (2009). It less known that both the Democratic Republic of Congo and Cote d'Ivoire are also oil producers. Their current output stands at relatively little 16,400 and 57,900 barrel/day respectively.

Table 1: Reserve and production data for countries bordering the (wider) Gulf of Guinea

Country	Year of first oil and/or gas discovery	Year of first production	Oil reserves in 2009 (billion barrels)* (recent finds not included)	Crude oil production in 2009 (1000 barrels per day)	R/P ratio (Years)
Angola	1955	1956	9.0	1,906.4	12.9
Benin	1968	1982	0.0	0.0	0.0
Cameroon	1955	1978	0.2	76.9	7.1
Congo, DR	1970	1975	0.2	16.4	33.4
Congo, Rep.	1951	1957	1.6	267.8	16.4
Côte d'Ivoire	1970s	Late 1970s	0.1	57.9	4.7
Equatorial Guinea	(1991)	(1992)	1.1	322.0	9.4
Gabon	1956	1957	2.0	242.1	22.6
Ghana	1977	1978 (substantial: 2010)	0.0	6.0	0.0
Liberia	-	-	0.0	0.0	0.0
Nigeria	1956	1958	36.2	2207.8	44.9
São Tomé and Príncipe	(2006)	(2012)	0.0	0.0	0.0
Sierra Leone	(2009)	-	0.0	0.0	0.0
Togo	-	-	0.0	0.0	0.0
Total			50.4	5,103.3	10.8
Total Africa			117.7	9,811.8	32.9

Notes: The reserves to production (R/P) ratio measures how many years it would take to deplete the known reserves of a given year assuming that the production of that year were to continue at that rate. Years in brackets are estimates on the basis of available reserve and production data and country reports. The production data includes lease condensates.

Sources: PRIO/CSCW (2007): Petroleum Dataset. Country Profiles (September 2007), http://www.prio.no/CSCW/Datasets/Geographical-and-Resource/Petroleum-Dataset/Petroleum-Dataset-v-12/, download: 7.4.2010 (year of first discovery and production); EIA (U.S. Energy Information Administration): International Energy Statistics, http://tonto.eia.doe.gov/cfapps/ipdbproject/IEDIndex3.cfm, download: 8.4.2010 (crude oil reserves and production; BP (2009): Statistical Review of World Energy 2009. Historical data, http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622, download: 7.4.2010; Economist Intelligence Unit: Country Reports (different years); Petroleum Africa (different years).

Regarding proven reserves, only five countries have substantial reserves according to official estimates: Nigeria stocks 36.2 billion barrels while Angola has at least 9.0 billion [57] barrels of oil reserves (2.9% respectively 0.7% of the global oil reserves). Congo-Brazzaville, Equatorial Guinea and Gabon have reserves that exceed one billion barrel. If estimates of reserves are correct – and production rates stay the same – , some countries are running out of oil in a couple of years. Particularly, in Cameroon, Côte d'Ivoire and Equatorial Guinea reserves could be exhausted in less than 10 years.

In four countries, there has not been substantial oil production thus far. However, in three of them, Ghana, São Tomé and Príncipe, and Sierra Leone (see also Annex, Table A1), discoveries have been made in recent years. In the deep waters of São Tomé and Príncipe, a state consisting of two islands, oil was found (though not yet definitely proven) in the late 1990s offshore. In 2006, quantities of up to 1 billion barrels were proven. Oil production is likely to begin in 2012. In Ghana, the British company, Tullow has discovered since 2007 reserves in the "Jubilee" field that amount up to 1.8 billion barrels. Oil exports are set to start by the end of 2010. At the shore of Sierra Leone, an oil field ("Venus"), stocking around 200 million barrels, was discovered in September 2009. It is just Benin [58], Togo and Liberia where currently no substantial oil production takes place or substantial discoveries have been made.

2. Oil as a Security Risk in the Gulf of Guinea

2.1 Oil and Conflict in the Gulf of Guinea Thus Far

According to quantitative studies, oil production apparently significantly increases the risk of civil war (Ross 2004; Dixon 2009). However, the link between oil (or other resources) and conflict is far more complex than assumed in the public eye (Basedau 2008; Basedau et al. 2009; Le Billon 2008). Before assessing the situation in the countries in the Gulf of Guinea we must keep in mind a number of important aspects:

[57] These are EIA estimates. BP estimates 13.5 billion barrel reserves.

[58] Benin had produced some small quantities of oil in the past years. However, as of today, Benin does not belong to the group of oil producing countries.

First, conflict because of resources may emerge, endure or intensify due to three major causal mechanisms: (1) Conflict may take place because the benefits or cost of resource production create motivation for actors to engage in violent conflict. (2) Resources, particularly their income, may also provide opportunity to finance warfare by rebels or governments. (3) Finally, resources may not directly impact on the likelihood of conflict but do damage on other areas such as economic development, general welfare, the quality of political and other institutions which, in turn, makes the emergence of violence likelier.

Second, we must keep in mind which actors may be involved in conflict and in what exact constellations. (1) Conflict can emerge within resource producing countries, major actors are the government and the opposition but also national and multinational resource companies. Conflict over resources is not confined to the countries themselves. (2) It can also happen between two (would-be) resource-producing countries when for instance newly found reserves are contested between the countries. (3) It is also possible that foreign countries intervene in resource rich countries in order to gain control over profits or the resources as such. It may be particularly dangerous if two countries develop a rivalry over the resources in a country.

Third, resources do not automatically create conflict. The emergence of violent conflict depends on existing conditions. Put differently, , context matters' with regard to resource-specific conditions. It is particularly risky, when there is not so much oil revenue to distribute, and the money disappears into the pockets of governments and companies instead of being used to develop the country. It may also be problematic when resources are produced in an ethnically distinct area of the country but the resource producing region suffers from the burden of production without getting its fair share. It can also be risky, when the government overwhelmingly relies on the exports of oil. Sudden price shocks may provoke deep economic crisis, which in turn makes conflict more likely. On the other hand, the effects also depend on other conditions, which are not directly related to resources. Risky conditions are for example a low level of development, tensions between ethnic identity groups or the little effectiveness and legitimacy of institutions as well as intransigent and confrontational elite behaviour. These conditions can create violence independently of oil. Yet, it is very likely, that the combination of resource-specific and "general" risks will be particularly dangerous.

Table 2: Oil and Conflict in the Gulf of Guinea (since 1990)

Country	Current oil production	Violent conflict since 1990	Current conflict(s)?	Have oil and gas "fuelled" conflict?	Have oil and gas contributed to peace?
Angola	Yes, massive	Yes (Gov. vs. UNITA: 1975 – 2002; Cabinda: 1975-??)	Yes, low intensity in Cabinda only	Yes, Cabinda demands greater oil share, gov. financed warfare vs. UNITA through oil money	Yes, oil money for gov. contributed to peace in mainland
Democratic Republic of Congo (DRC)	Yes, substantial	Yes	Yes, ongoing violence in the east	No, indirect at best, conflicts related to other resources (coltan, diamonds, gold etc.)	No
Congo-Brazzaville	Yes, substantial	Yes (1997-2007)	No	Yes, internal rivalry intensified through international rivalry and intervention (US, France, Angola)	Possibly, after 1997 and before 1990
Gabon	Yes, substantial	No	No	No	Yes, oil has bought peace
Equatorial Guinea	Yes, substantial	No (1 coup attempt)	No	No	Yes, oil has bought peace
São Tomé and Príncipe	No, substantial in the future	No (2 coup attempts)	No	-	
Cameroon	Yes, substantial	Yes (conflict with Nigeria in Bakassi-Island 1996)	No	Possibly, Bakassi said to be rich in oil & gas, but conflict internationally resolved	Possibly, oil bought peace
Nigeria	Yes, massive	Yes (conflicts with Cameroon, in Niger Delta and Middle-Belt)	Ongoing violence in Delta and Middle-Belt, though reduced due to the peace efforts since August 2009	Yes, but depending on conflict (Direct: Delta, Bakassi peninsula said to be rich in oil & gas; Middle-belt, Indirect at best	No
Benin	No	No	No	No	No
Togo	No	No	No	-	-
Ghana	No, substantial in the future	No (only intercommunal)	No	-	
Cote d'Ivoire	Yes, some	Yes (2002-2007)	No (uneasy peace)	No, former conflict mostly related to other resources (cocoa, land)	No
Liberia	No	Yes (1989-1997; 2000-2003)	No	No, former conflict related to other resources (diamonds, timber)	-
Sierra Leone	No, substantial in the future	Yes (1990-2001)	No	No, former conflict related to other resources (diamonds)	-

Source: Authors' compilation

If, however, resources and the context show favourable features this may even be conducive to peace, security, stability, development and democracy (though we will focus on peace). Thus, it is particularly favourable when there is a high potential of resource income in relation to the population size allowing to buy peace through oil (as, for example, in the oil emirates in the Persian Gulf), if resources are broadly distributed and negative consequences such as ecological damage or deprivation of resource regions are avoided.

This complexity makes it difficult to assess the actual impact of resources in a country, however, the positive potential and the context-dependence of effects are a blessing because – as we will show below – we can work on the conditions in order to make resources (and oil and gas respectively) work for peace and development in general.

What do we observe in the long-standing oil producers? Out of eight long-standing oil producers six countries have experienced armed conflict since 1990. The current balance sheet is slightly better since only four countries are affected by violent conflict, of which two are at rather low intensity levels.

Three countries, Nigeria, Angola and Congo-Brazzaville, have been massively affected by oil-related conflicts. In *Nigeria* we observe at least three major armed conflicts. In the Middle Belt and the North of the country bloody clashes between Christian and Muslim ethnic groups as well as the clashes between state security forces and extremist Muslim sects keep on making headlines. However, these conflicts are rather marginally connected to oil and gas. The bloodshed between Muslim and Christian ethnic groups is rather over political power or the access to land. The conflict with Cameroon over the Bakassi peninsula that went violent in several years (highest intensity: 1996) may be partially reinforced by oil and gas because the area is said to be rich in these resources. The central causes of the conflict yet stem from the pre-oil era. In 2002, the International Court of Justice ruled that the peninsula rests with Cameroon. This ruling, however, has not been fully accepted by Nigeria. Little doubt on a resource-conflict link is observed in the Niger Delta (Mähler 2010). Here, a multitude of unfavourable conditions and causal mechanisms are at work. The region demands a greater share of the (current 13%) oil revenues and protests against the conditions of resource production including ecological damage (oil spills) and insufficient compensation. Moreover, clashes between different ethnic groups within the Delta have repeatedly been intensified by the struggle over the distribution of oil money. Oil does not only

provide motive but also financial opportunity. The rebel militias, such as the Movement for the Emancipation of the Niger Delta (MEND), tap pipelines and regularly kidnap personnel from resource companies. The rough terrain of the delta makes it difficult for security forces to effectively fight the rebels; moreover, parts of the security forces, as well as other national and international actors contribute to the duration of the rebellion by selling arms to the rebels or by participating in the illegal oil trade. Oil (and gas) is likely to pose further future threats, not only in the Delta. Nigeria remains heavily dependent on oil as a source of income. With 150 million Nigerians the per capita wealth in oil is much less impressive than often assumed. The distribution of revenues will persist as a contested issue between the different communities in Nigeria.

In *Angola*, we also find problems within a major resource-producing region. In the exclave of Cabinda, the rebels of the Front for the Liberation of the Enclave of Cabinda (FLEC) (and several offshoots) demand a greater share of the oil revenues and more political autonomy. The rebels have proven unable to threaten the mostly off shore oil production facilities and the government forces have succeeded in marginalising the rebellion through a mixture of a “divide et impera” strategy, partial peace accords and military repression. However, this has not ended the rebellion completely, as the attack on the Togolese football team in February 2010 sadly showed. The bloody civil war in the Angolan mainland (1975-2002) was also – at least partially – connected to oil. While the UNITA-rebels benefited from diamonds, the MPLA government could maintain its warfare through oil money. The prospect of controlling these rich resources may also have added to the motivation of the rebels (and the government). However, oil money also contributed to ending the conflict in 2002. Increasingly, the balance of the resources between the warring factions had altered. Income from oil for the government had increased while rebel revenues from diamonds had decreased. This facilitated the end of the conflict that – after the death of UNITA-leader Jonas Savimbi in February 2002 – proved to be government victory. Yet, the country remains heavily dependent on oil. Given rising production and relatively high oil prices this has been to the benefit of the country in recent years, but the country remains vulnerable to price shocks and shows classical features of a rentier state: Massive corruption, a rather authoritarian regime – backed by petro-dollar – are combined with still abject poverty with huge parts of the populations. These characteristics may become particularly risky once oil is running out. According to estimates, reserves will be exhausted in less than 20 years.

A substantial international component characterized the civil war in *Congo-Brazzaville* (or Republic of Congo). The country had lapsed into political turmoil at the beginning of the 1990s, partly due to the drop in prices for oil on which the Republic of Congo heavily relies on. Multiparty politics were introduced in the early 1990s and two (and one smaller) ethno-regionally based political camps emerged. The long-standing president, Denis Sassou Nguesso was ousted and his successor, Pascal Lissouba attempted to negotiate new oil deals with American companies. In 1997, a short civil war broke out resulting in the military victory of Denis Sassou Nguesso backed by Angolan military and, apparently, French support. Sassou-Nguesso has been a close ally to Paris and closely connected to the French oil company Elf Aquitaine (now part of Total). Low intensity resistance against Sassou Nguesoo continued until 2007. The last remaining rebel leader from Congo's civil war, Frédéric Bitsangou (known as Pasteur Ntoumi), has returned to Brazzaville and taken up the ministerial post that he had been offered as part of a peace settlement reached with the government in 2007. International rivalries seem less pronounced today, but the lack of legitimacy of the regime and the politicisation of ethnicity – combined with oil – make peace appear fragile in Congo-Brazzaville.

In *Cameroon*, only the conflict over the Bakassi peninsula with Nigeria can be counted as an armed conflict. As mentioned above, it has probably partly been connected to oil and gas. Otherwise, the country has been spared from violent conflict and one might argue that oil has even contributed to the stability of the regime. However, many classical "ingredients" for future conflict are present in Cameroon. First, the country is running out of oil which may undermine the economic basis of the regime. Second, the tensions between the Anglophone and the dominating Francophone part are not resolved and are also partly resource related since the Anglophone part of the country is rich in oil. Third, the question who will succeed the aging President Paul Biya has not been addressed thus far and makes a power struggle likely. Finally, potential rebel leaders could draw on many additional grievances in the country either related to the lack of social development or the blocked democratisation of the regime.

In two countries, the *Democratic Republic of Congo* (DRC) and the Côte d'Ivoire oil is produced in considerable quantities and there have been violent conflicts. However, these conflicts are rather connected to other resources:

In the Eastern Democratic Republic of Congo, resources such as diamonds, coltan, gold as well as copper have not only financed various rebel groups, these resources have also attracted foreign interest and military intervention by neighbouring countries such as Rwanda and Uganda. Oil has had a very limited impact though; it is produced in the Western part of the country.

In *Côte d'Ivoire* the civil war, that broke out in September 2002, was related to cocoa (and land). Cacao prices had plummeted in the 1980s resulting in an economic crisis of the country. When the elites tried to block a substantial transition to democracy at the beginning of the 1990s, the citizenship of the many immigrants in the country, pulled by demand for workers on the cocoa fields, became politicized. Thus, cocoa indirectly impacted on conflict. Oil is rarely attributed to the onset of the civil war. However, the current government relies heavily on oil revenues as a financial basis (including military) and it might be argued that the oil money has contributed to the sluggish implementation of the peace accord in 2007 because the transitional government has little interest in losing access to oil income after a possible election defeat (Guesnet, Müller, Schure 2009). Given new oil finds (see Annex, Table A1) and the generally fragile political situation, oil might add to further conflict in the future.

Equatorial Guinea and *Gabon* are two cases in which no violent conflict emerged. Political instability is confined to a coup attempt in Equatorial Guinea and violent demonstrations in Gabon. Rather, oil money has been used to buy peace through a number of mechanisms such as repression, patronage and re-distributional policies (Basedau/Lacher 2006). There is also evidence that both countries enjoy outside protection. Particularly, in Gabon, a French garrison has protected the Bongo Regime. In the early 1990s it saved the regime from being overthrown. In both cases, it is important to understand that the countries have very high per capita revenues from oil. Given their small populations, the per capita income is much higher than, for instance, in Nigeria. These high amounts enable the governments to buy peace – at least thus far (for further details see Basedau/Lay 2009).[59] Potential for conflict does, however, exist. Though Gabon apparently successfully managed the succession of Ali Bongo to his father Omar, after his father's death, many grievances persist.

In Equatorial Guinea, the regime has apparently failed to share the wealth with its population, the country may face serious crisis soon as it is running out of oil;

[59] In multivariate cross-country regressions, the authors show, that these oil "rich" countries in contrasts to oil countries, which are highly dependent on oil but which have got little oil revenues per capita, are hardly prone to internal violence. In the case of Equatorial Guinea this can be explained by state repression and a well equipped security apparatus plus private security firms paid by oil money (Frynas 2004).

according to estimates (see Table 1) oil reserves will be exhausted in less than 10 years. Finally, both countries have a maritime border conflict with each other over three small islands that may be rich in oil and gas (EIU 2010).

Summarizing our quick *tour d'horizon* of the current and long-standing oil producers, the first finding refers to the fact that oil and gas have very differently impacted on peace and security. While in two cases (Equatorial Guinea and Gabon) oil has rather contributed to stability, in two cases (DRC, Côte d'Ivoire) conflicts are rather unrelated to oil, but result from other resources in connection with unfavourable contextual (non-resource-specific) conditions. Contextual conditions are also decisive for at least three countries (Angola, Congo-Brazzaville, Nigeria) in which the impact of oil (and gas) has proven overwhelmingly problematic. In all three countries oil and ethno-regional identities have produced a particularly dangerous combination. In Angola and Nigeria we find secessionist or autonomy conflicts. In Congo-Brazzaville and Angola (mainland) warring factions also fought for the control of the central state, which is directly connected to the control of resources (and their revenues). In all three countries, we also find negative side effects of dependence on oil production, which might have contributed to risks indirectly. Generally, resource management is rather weak in these countries. International conflict has emerged in two cases. Cameroon and Nigeria went to war over the Bakassi peninsular while in the civil war in Congo-Brazzaville international actors probably intervened due to oil.

Taking the above balance sheet into account: What threats in connection with resources may evolve in the future and where? Certainly, oil is not always and necessarily connected to conflict but for all countries risks persist. Risks for internal conflict in the long-standing and current oil producers are high in countries, which already show classical (non resource specific) risk factors for conflict such as existing tensions between identity groups, weak states, shortcomings in political legitimacy and persisting development problems. These problems can multiply when resource income is relatively low or suddenly plummets because of price shocks or because the countries are running out of oil. If expectations related to oil remain high, revenues are unfairly distributed and not invested for development of the country additional grievances may emerge. International rivalries between oil thirsty outsiders may increase when oil is getting increasingly scarce and expensive at the global level.

2.2 Who is at Risk in the Future – And Why?

The three countries São Tomé and Príncipe, Sierra Leone and Ghana are not yet (substantial) oil exporters. However, as outlined above, in all three cases substantial oil reserves have been discovered offshore. In the following we will briefly assess the respective risk these countries may be facing once production of oil begins. We will particularly consider which contextual conditions may trigger causal mechanisms linking oil to violence.

In recent years, *Ghana* has been labelled a show case of development, democracy and good governance in West Africa. Growth rates have been stable. Ghana's democracy has passed the two "turn over test" at the ballot box; in 2000 and 2008 power was peacefully transferred after elections. Hence, oil production, scheduled for end of 2010, may have positive effects when we assume that the quality of institutions at the beginning of resource extraction is decisive for its effects. Yet, Ghana's governance performance is less impressive at second glance. Corruption remains rampant and the oil finds at Ghana's shore are not as voluminous as the estimated 1,8 billion barrels suggest. If we assume an oil price of US$ 75 per barrel (roughly the crude oil price in late September 2010) every Ghanaian could expect a maximum of around 6.750 US$ from oil for the whole period of oil extraction (which does not take into account the production costs and the share of the companies).[60] This could be particularly dangerous when expectations are high. The finance minister Kwabena Duffour may have added to these high expectations by stating "In 10 years time Ghana will be a very prosperous nation". Also, there is potential for conflict between identity groups within the country as many countries in the Gulf of Guinea Ghana's society suffer from a North-South divide. Recently, intercommunal conflict has erupted in the Brong Ahafo region (middle Ghana). However, secessionist conflict seems less likely, given the off shore location of the oil fields. Internationally, a maritime border dispute over the ownership of the oil fields has emerged with the Côte d'Ivoire. Ghana's elites are aware of the risks and the new petroleum law (see below) signals that Ghana's leaders want to avoid the bad examples from neighbouring countries. Oil production will be a decisive litmus test for the quality and integrity of Ghana's elites.

[60] Please note that these are rough estimates and not precise predictions.

Compared to Ghana, *Sierra Leone's* prospects as an oil producing country seem more challenging. The country is still recovering from a devastating civil war from 1990 to 2000. The general level of development is extremely low, Sierra Leone is found at the bottom of the Human Development Index with high rates of unemployment. Two elections have been organized since the end of the civil war, including one turnover. However, tensions between political elites persist and there is also a North-South divide (and further ethno-regional diversity and rivalry). Corruption is also rampant and following the CPI (Corruption Perception Index of Transparency International) it is much worse than in Ghana (scores of 2.2 vs. 3.9). Hence, there are numerous grievances and divides escalation could build on. Oil production is still relatively far away in the future (finds in late 2009 only). If estimates of around 200 million barrel in "Venus" field are correct, the amount of oil will not turn Sierra Leone into a Kuwait – comparable to Ghana's oil. At an oil prize of 75 US$ per barrel every Sierra Leonean could expect a maximum of less than 3.000 US$ for the whole period of oil production. In sum, Sierra Leone is not particularly likely to relapse into violence because of its oil, but the risks are certainly more pronounced than in Ghana.

São Tomé and Príncipe is a small country in the Gulf of Guinea with a total population of around 150,000 inhabitants only. Oil had been discovered in the late 1990s – though not yet definitely proven – but it is still unclear how much oil could be exploited in the future. Given its small population, generally, a Gabon or Equatorial-Guinea scenario is likely with regard to inner peace. Although the country's politics are far more turbulent, politics are at the same time far more democratic than in the two aforementioned rentier states; it seems probable that oil money might contribute to stability because it will be fairly high with regard to the population size and the government will likely be able to buy peace. Corruption and clientelism may rise but there are only two, rather modest threats to security for the island state. First, the military has staged two coup attempts since 1990 (1995; 2003), mainly over dismal living conditions of the soldiers – which could be sorted out easily through oil money. Second, competition between regional and international powers for influence in São Tomé and Príncipe is rising in response to the country's increasing strategic importance as a potential oil producer (EIU 2010). At the regional level, Nigeria has played the most decisive role in past years, but Angola has increased its involvement in the oil sector in recent years. At the international level, the US is also showing increasing interest in São Tomé, motivated by its strategic interest in the oil resources in the Gulf of

Guinea.[61] Relations with Taiwan, which has in the past provided substantial aid in exchange for diplomatic recognition, will prove increasingly problematic as China is set to become the main investor in the archipelago, through the entry of a Chinese firm, Sinopec, to the nascent oil sector. Though this may indicate a potential rivalry between different powers, it does not seem likely that this will spur violent conflict in the country.

Summing up the findings, three major future risks can be named: First, conflict over costs and benefits and indirect consequences of oil production may spur conflict within the current and future oil countries. Second, international conflict between the countries in the region may emerge over contested reserves. Third, foreign, extra-regional interest from China, France or the US may provoke international conflict, particularly in an environment of growing global scarcity and increasing rivalry over the supply with fuels. However, negative consequences depend on contextual conditions and are hence not inevitable. Thus, the question arises: What can be done about the risks?

3. What Can Be Done About the Risks?

Worldwide there is a growing awareness of the risks associated with the endowment with natural resources. As a result, national and international measures to avoid pernicious impact of resources, and particularly oil dependence, have increasingly been discussed and partly been implemented. These measures include stabilisation funds, special sub-regional development initiatives for the affected-regions, revenue sharing regimes, as well as transparency initiatives such as the "Extractive Industries Transparency Initiative" (EITI) or "Publish what you Pay" (PWYP). The following section presents some evidence from what measures and policies to improve resource management have actually been tried thus far in the Gulf of Guinea – and to what extent they have worked.

[61] There is a radar facility in Sao Tomé. Rumours that the US would establish a naval base have proven unsubstantiated.

3.1 Evidence from the Long-Standing Oil Producers: A Mixed Balance Sheet

Categorizing the oil countries in the Gulf of Guinea, there is first of all one group of countries, in which there have been very little initiative and novel measures to reduce the risks associated with resource endowment so far. We will take a closer look at three of these countries.

In *Angola*, for instance, there are hardly any substantial government efforts to use oil revenues for a sustainable development of the country. While much of the oil money continues to be used for funding corrupt politicians, there is still no broad distribution policy – though some minor trickle-down effects have occurred during the last years of the booming oil prize (Basedau/Neumann forthcoming). Despite several public announcements, no stabilisation fund has been established yet to reduce the risk of vulnerability to price shocks and shrinking oil reserves. Corruption in the oil sector is very high and the country has widely resisted (international) pressure in relation to issues of transparency and oil revenue management. When, for example, in 2001 the British petroleum company, BP, announced it would publish what they had paid to the government of Angola, they were rapidly restrained by the Angolan national oil company, Sonangol. Finally, in order not to risk their investment, BP did not publish details of their payments (Alexander/Gilbert 2008: 22-23). Lately, there has apparently been a slight progress towards more transparency, however. Sonangol now discloses the payments made by oil companies to it, and the sums that it gives to the government.[62] Nevertheless, the level of corruption still is tremendous; so in 2009 Angola was ranked 162 out of 180 positions of the *Corruption Perception Index* of Transparency International and is not a member of EITI (see Annex, Table A2).

Similarly, in *Equatorial Guinea* there are few signs of a more sustainable resource management. Despite the increasing oil revenues during the last years, social spending has declined and continues to be quite low (HRW 2009: 47-48). Moreover, although Equatorial Guinea had been a candidate in EITI since 2007, corruption keeps on being endemic and the political will of the autocratic regime to improve transparency seems to be low.[63] In April 2010, the EITI board even suspended the candidacy of the country due to its missing of the validation deadline. Official plans of anti-corruption initiatives remain on paper, and a Human Rights Watch report from 2009 explicitly underlines that "transparency and accountability are particularly weak [in Equatorial Guinea]" (HRW 2009: 43). High oil revenues per capita – notwithstanding further negative impacts of the oil dependence – allow buying peace and the risk of internal conflict is still rather limited. However, as indicated above, the country's oil reserves might be exhausted in less than 10 years.

In *Gabon* – at least until very recently – there are not many measures against the risks associated to oil either. Dependence on oil exports remains still very high, and processing capacity within the country continues to be low. Nevertheless, recently, first steps towards diversification of the national economy have been initiated. There are new, ambitious plans of expanding ecotourism, which shall increasingly replace the oil economy. Yet it is too early for a substantiated evaluation of these plans as actual implementation remains to be seen in the future. While traditionally the country has been marked by endemic corruption and there has been little anti-corruption policy, in 2004 Gabon signed EITI and it was accepted as candidate in 2007. Moreover, in March 2010, the new president, Ali Bongo Ondimba, announced that urgent measures would be taken to improve fiscal management to reduce corruption (EIU 3/2010: 13).

The case of *Nigeria* somewhat differs from the above presented petro-states in the Gulf of Guinea. Many efforts have been made to counter negative consequences of oil. Therefore, we will elaborate a little bit more in detail in the following. Since decades Nigeria seems to be cursed by its oil. The mobilisation of the local population against the various harmful consequences of oil exploitation for the first time became more internationally known in the 1990s with the foundation of the Movement for the Survival of the Ogoni People (MOSOP) by Ken Saro-Wiwa. After the Nigerian regime had brutally annihilated MOSOP and temporarily suppressed the protest movements, conflicts in the oil-region Niger Delta have grown increasingly violent during the last years. At the same time, there have also been intensified attempts at peace building, conflict prevention and a more sustainable regional socio-economic development by reforms within the resource management. Thus, the "Derivation formula", which determines the share of revenue that is refunded to the regions where the oil is extracted, had been increased from 3% up to 13% in 1999. Several regional socio-economic development initiatives have, moreover, been initiated, such as the foundation of the Niger Delta Development Commissi-

[62] Another example is the adoption of the UN Convention against Corruption in 2006. However, implementation is still lagging far behind.

[63] As Schuhmacher reports, large portions of the country's oil revenues have been kept under the president's direct control in an offshore account (Schuhmacher 2004: 2).

on (NDDC) in 2000, the creation of the Niger Delta Regional Development Master Plan (2007) and the launch of a Technical Committee on the Niger Delta in 2008. Furthermore, in 2004 a stabilisation fund, the Excess Crude Account (ECA), was established. Finally, Nigeria participates, since 2004 (official candidacy since 2007) in the "Extractive Industries Transparency Initiative", EITI, and has introduced various national anti-corruption initiatives.

However, there has been rather limited success of all these initiatives. The NDDC has initiated several local development and infrastructure projects, but large parts have been abandoned in connection with poor funding (Omeje 2006; ANEEJ 2004). The implementation of the Niger Delta Regional Development Master Plan has continuously been delayed and the plan has up to now never been fully implemented. Recently, there has been some minor progress in the socio-economic development in the Niger Delta. For example, poverty has somewhat decreased during the last years.[64] Nevertheless, the improvements cannot be considered substantial, and the Niger Delta is still characterized by very poor infrastructure endowment and extremely high unemployment, which is even worse than in the rest of the country.

Moreover, the created Excess Crude Account is not voluminous enough to have a decisive impact. It furthermore crashed down to US$ 460 million in 2009 (SWF Institute 2010) after several irregular deductions of the Nigeria government, which have been possible because of the poor institutional framework of the fund, especially lacking control mechanisms.[65] With reference to the intensified transparency initiatives, during the first years, there had been a more eager political will to implement the international initiatives such as EITI and "Publish What You Pay". Yet, efforts have slowed down since 2008. Moreover, there is a more effective implementation of all anti-corruption policy at the central government level than at the states and local level. On the whole, although some progress has been made, there is still a huge gap between the official government anti-corruption discourse and the practice of actually fighting corruption effectively. Nigeria's position within the Corruption Perception Index has slightly improved during the last years, but it still ranks among the most corrupt countries in the world. In addition,

[64] A decrease from 59.0 percent to 50.5 percent of the population. Still, the poverty level rests above the 1980s levels (UNDP 2006: 35).

[65] According to latest news the existing Excess Crude Account will be replaced by a new *National Sovereign Wealth Fund* (NSWF), which shall have a stronger institutional framework (This Day, 21 April 2010: „NEC seeks sovereign wealth fund to replace ECA").

the different initiatives have not succeeded in curbing the internal violence in the Niger Delta. Indeed, violence had further increased, at least until August 2009, when a fragile peace initiative was initiated, which meanwhile is threatened again by several acts of sabotage and violence.

Central causes for the failure of the initiatives to tackle the resource curse and to contribute to long-term peace building are, first, conceptual deficits in the design of the initiatives. Thus, on the one hand, the simplistic approaches do not adequately address the more complex causes of the conflict. Particularly, they do not sufficiently approach the indirect negative impact of socio-economic distortions caused by the oil industry on employment. On the other hand, the initiatives are inadequately sensitised to conflict-promoting ethnic cleavages, and especially the interplay of these aspects with oil-related risks. On a broader level, a further – structural – constraint stems from the fact that the prevalent general weakness of political institutions of the country fundamentally undermines the political output of the initiatives – also independently from the effect of oil.

Moreover, the effective implementation of the existing efforts is hindered by the vested interests of parts of the security forces, politicians, local authorities and international actors, all of whom are involved in a prospering economy of violence fuelled by, first, the illegal oil bunkering and, to a lesser degree, by kidnapping and arms trade. These actors are hardly interested in changing the established situation or in ending a certain level of low intensity violent conflicts. Finally, the successful implementation, especially, of the development initiatives is undermined by the government's military intervention in the delta, which has been marked by disproportionate use of violence, and thereby has drawn considerable parts of the Niger Delta population into active or passive support for militant groups. So, even though Nigerian governments – in contrast to the aforementioned countries – have launched a number of initiatives to reduce violence and improve socio-economic conditions in the oil producing area, these efforts have had quite little success so far.

Which tendencies finally seem to loom in the oil-newcomers in the Gulf of Guinea? As the awareness of the risks associated with oil dependence has increased, these newcomers – at least theoretically – could be better prepared for the coming oil boom.

One of the examples of risen awareness seems to be Ghana, where the oil production will start by the end of 2010. Ghana plans to create petroleum funds (a short-run stabilisation fund as well as a future generation fund (EIU 2010: 12)) and has initiated an advisory cooperation with oil producing Norway to avoid potential risks of oil production. The country is furthermore already a candidate of EITI and at least the base level of transparency is distinctively better than in many other oil-countries in sub-Saharan Africa (see Annex, Table A2). The Ghanaian government has repeatedly underlined that future oil revenues shall be used for the diversification of the national economy, for example through the promotion of the petrochemical industry and the boosting of agricultural development.

Although these are actually positive signs, still, counter-measures have to be put in practice. Temptations of bypassing the rules of resource-revenue management will be strong, and conflicts over the distribution of oil-money already loom ahead. Traditional chiefs have claimed at least 10% of the revenues (Engelhardt 2008: 4) and offshore oil reserves are, as already indicated, partly contested between Ghana and neighbouring Côte d'Ivoire.

3.2 Lessons Learned: What Should Future Oil Countries Do About the Risks?

Studies by Le Billon (2008) and UNEP (2009) illustrate that appropriate natural resource management may avoid the risks combined with oil. Actually, resources may even contribute to peace-building and sustainable development processes. As the previous section has shown, the reality in most African oil producing states has been quite different. Up to now, far too little, has been done to create sustainable or at least non-harmful resource management.

The future risks for new oil producers in the Gulf of Guinea should therefore not be underestimated. Thus, a first step is to **create awareness of the problems** connected to oil and other resource production.

Counter-measures thereby indispensably have to be designed according to the complex causal mechanisms – and related contextual conditions – through which oil and violent conflicts are connected. Hence, a **systematic analysis of the different resource-specific and non-resource specific risk factors and their interplay** in a given country is a necessary precondition for the design of counter-measures. Otherwise, it seems highly probable that resource management initiatives will fail, as the case of Nigeria has clearly underlined. A successful therapy requires a correct diagnosis.

It is also crucial to ensure **actual implementation**. Poor implementation renders the best concept meaningless. It is also important to identify obstacles to implementation of measures – such as the vested interest of veto-actors who benefit from a given situation, as, for instance, in Nigeria.

Moreover, especially in new oil countries such as Sierra Leone and Ghana, where oil abundance per capita is limited, realistic calculations of how much oil revenues will actually be available for future redistribution is highly important for **avoiding unfounded expectations** of wealth.

Beyond these general ideas, we might give the following concrete – although certainly not exhaustive[66] – recommendations for a more successful and sustainable resource management. These recommendations refer to African governments but also to extra-regional governments and multinational oil companies.

To governments of oil producing countries:

Governments need to avoid possible **grievances connected to oil production** in the producing regions (and elsewhere). Particularly, if oil is not exclusively produced deep offshore, an adequate share of the revenues should be given to the producing regions. Generally, the population should benefit from the oil money. Moreover, ecological damage should be avoided and local communities have to be adequately compensated for land etc. used in oil production.

Government should give high(er) priority to establish **good governance** in the oil sector, especially with regard to fair and transparent distribution of the resource revenues. For ensuring an effective implementation of the measures, integration into broader anti-corruption policies is of crucial importance, including for example the public release of all government accounts and identifying the location of foreign accounts.

Also, governments have to maintain **firm control over production sites and transport routes** in order to prevent oil bunkering or tapping of pipelines by civi-

[66] We do not consider measures such as direct cash-out or Visa sanctions against corrupt politicians given their contested character.

lians and particularly (potential) rebels; in doing so governments have to address the problem of corrupt security forces.

Furthermore, governments should **establish voluminous stabilisation funds**, which should be complemented by **cautious fiscal policy.** Oil revenues should be spent for physical infrastructure, health care and education rather than to engage in large-scale re-distributional policies in order to create or maintain support. In this (and other) context, the advisory assistance of successful oil countries like Norway (as, for example in Ghana) seems to be a promising approach.

The indirect, negative economic effects of oil dependence have to be taken seriously into consideration. In the long run, alternative branches of economy have to be actively promoted in order **to diversify the national economy** and to address the structural problem of high unemployment.

Finally, if resource reserves are located across borders, governments should seek **international resolution of disputes** about the ownership of the resource reserves.

To multinational oil companies (even in their long-term own interest):

MNCs should negotiate **fair contracts** with African oil countries, giving an adequate share to their African partners.

Companies should, moreover, **be careful about negative side effects** of the oil production such as socio-economic and ecological stress.

Companies should also **practice transparency** and reveal their payments to governments.

To international governments of oil-importing countries, particularly the US, European countries and China:

International governments should **avoid rivalries** with other importers and refrain from supporting rival factions within a country; this bears the risk of conflicts with each other but also fuelling (violent) conflicts within resource countries.

International governments should **practice and pro-actively promote transparency**, including initiatives such as EITI and PWYP.

The oil-importing countries should also actively assist **international initiatives against illegal trade in oil and weapons**; at the regional level in the context of ECOWAS (*Economic Community of West African States*), but obviously also on the global level within the framework of the United Nations. Moreover, peace initiatives such as the momentary amnesty initiative in the Niger Delta should be supported.

International governments should finally support and facilitate **brokering of conflicts over resource reserves** between countries in the producing area.

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Appendix

Table A1: Oil finds in new (or future) producers since 2000: Côte d'Ivoire, Ghana, São Tomé and Príncipe, Sierra Leone

Country	Year(s)	Concession/Permit (Exploration well)	Location	Main resource	Reserve estimates	Operating Company
Cote d'Ivoire	2005	CI-27 (Mahi-1)	Offshore	Gas	Natural gas: 32m cu ft per day, condensate: 250 bpd	Foxtrot
Cote d'Ivoire	2001	CI-40/Baobab (Baobab-1X)[67]	Offshore	Oil	oil: 700 million barrels (of which 200 million barrels are recoverable)	Canadian Natural Resources (formerly: Ranger Oil)
Ghana	2010	Cape Three Points Deepwater Block (Dzata-1)	Offshore	Oil and gas	-	Vanco Energy
Ghana	2009	Cape Three Points Block (Sankofa-1A)	Offshore	Oil and gas	-	Vitol Upstream, GNPC
Ghana	2007, 2008, 2009	West Cape Three Points/Jubilee field (Mahogany-1 to Mahogany-4)	Offshore	Oil	oil: 600 million barrels (with 90% certainty), >1 billion barrels (with a 50% possibility), according to recent estimates altogether up to 1.8 billion barrels	Tullow Oil
Ghana	2009	Tano license (Tweneboa-1)	Offshore	Oil	-	Tullow Oil
Ghana	2008	West Cape Three Points/Tano Basin (Odum-1)	Offshore	Oil	Confirmed 2009/2010 by other exploration wells	Tullow Oil
Ghana	2007, 2008	Tano license (Hyedua-1, Hyedua-2)	Offshore	Oil	-	Tullow Oil
Ghana	2008	Tano license (Ebony-1)	Offshore	Oil and gas	-	Tullow Oil
Ghana	2000, 2002	Western Tano (WTX1X, WTX2X)	Offshore	Oil	oil: 200 million barrels, gas: 300 million barrels of oil equivalent (both unconfirmed estimates)	Dana Petroleum
São Tomé and Príncipe	2010	Block 2 (Bomu-1)	Offshore	Oil	unproven reserves of 274m barrels of oil	SINOPEC
São Tomé and Príncipe	2009	Block 3 (Lemba-1), Block 4 (Kina-1)	Offshore	Oil	oil: combined unproven reserves of 642m barrels of oil	Addax Petroleum
São Tomé and Príncipe	2009	Block 4 (Kina-1)	Offshore	Gas	gas: estimates of 1trn cu ft on the block	Addax Petroleum
São Tomé and Príncipe	2006	Block 1 (Obo-1)	Offshore	Oil and gas	-	Chevron
Sierra Leone	2009	SL 6/07/Venus prospect (Venus B-1)	Offshore	Oil	oil: 200m barrels of oil	Anadarko Petroleum Corp.

Sources: Economist Intelligence Units: Country reports (Côte d'Ivoire, 1/2000-3/2010; Ghana, São Tomé and Príncipe, both 1/2000-4/2010; Sierra Leone 1/2008-3/2010); Petroleum Africa (different issues 1/2008-3/2010).

[67] The Baobab-1X exploration well is the first deepwater well in Côte d'Ivoire acreage since Shell's disappointing probe on CI-106 in 1998.

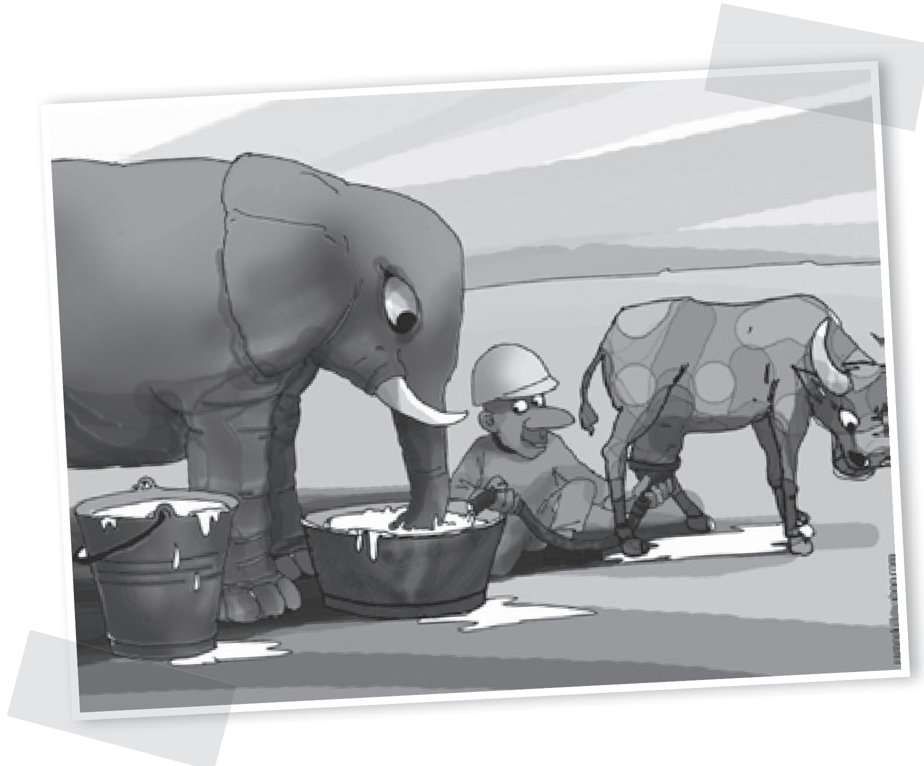
Table A2: Human Development, Corruption and Democracy in the (wider) Gulf of Guinea

	Human Development	Corruption	Democracy
	Human Development Index (HDI) 2009	Corruption Perception Index (CPI) 2009	Freedom House (FH) ratings 2010
	Ranks (general level)	Ranks (values, 10 = maximum of transparency)	Political rights/civil liberties (category), 7 is minimum, 1 is maximum of freedom
Angola	143 (medium)	162 (1.9)	6/5 (Not free)
DRC	176 (low)	162 (1.9)	6/6 (Not free)
Congo-Brazza	136 (medium)	162 (1.9)	6/5 (Not free)
Gabon	103 (medium)	106 (2.9)	6/5 (Not free)
Equatorial Guinea	118 (medium)	168 (1.8)	7/7 (Not free)
São Tomé	131 (medium)	111 (2.8)	2/2 (Free)
Cameroon	153 (medium)	146 (2.2)	6/6 (Not free)
Nigeria	158 (medium)	130 (2.5)	5/4 (Partly free)
Benin	161 (low)	106 (2.9)	2/2 (Free)
Togo	159 (low)	111 (2.8)	5/4 (Partly free)
Ghana	152 (medium)	69 (3.9)	1/2 (Free)
Cote d'Ivoire	163 (medium)	154 (2.1)	6/5 (Not free)
Liberia	169 (low)	97 (3.1)	3/4 (Partly free)
Sierra Leone	180 (low)	146 (2.2)	3/3 (Partly free)

Sources: www.undp.org; www.transparency.org; www.freedomhouse.org

PART 2

Possible Solutions: Making Oil and Gas Work for Development and Democracy



Chapter 4

Democratising the Petro-State in West Africa: Understanding the Challenges

Cyril Obi [68]

Introductory Background: the global and regional contexts

Since the late 1990's, Africa has rebounded in the geo-strategic and security calculations of the world's dominant powers. A key element of Africa's importance particularly after the 9/11 attacks on the United States is its centrality to global energy security. This has been boosted by the growing global demand for oil and gas, in the wake of shrinking or unstable supplies, and the entry of oil companies from emerging Asian powers such as China and India into the African oil scene – long regarded as the preserve of Western oil interests.

Of note, is the critical strategic importance of West and Central Africa's Gulf of Guinea as the foremost oil frontier – with the most prolific oil reserves: on-shore, off-shore and deep off-shore, in an energy-hungry and oil dependent post-Cold war world. This development has defined the region as an alternative 'oil gulf' to the volatile Middle East region alongside other added advantages: proximity to western oil markets and refining facilities, home to multi-billion dollar investments by western oil multinationals, low-sulfur content amenable to easy refining, largely untapped offshore potential and business-friendly oil regimes.

In this regard, the Gulf of Guinea has, in global energy terms, been geo-strategically defined to include the oil producing (and potential oil producing) states along the coast of West and Central Africa. This includes countries from Mauritania to Angola, including land-locked Chad, which exports its oil through Cameroon, Cote d'Ivoire, Cameroon, Ghana, Gabon, Nigeria, Equatorial Guinea and the island state of Sao Tome and Principe. In this paper, more focus will be directed at the two leading oil producers in Africa, Nigeria and Angola, and some new oil players.

[68] Cyril Obi is a Senior Researcher at The Nordic Africa Institute, Uppsala, Sweden.

The foregoing defines the centrality of uninterrupted supplies of oil and gas from the Gulf of Guinea to the energy security calculations of the world's powers. Prominent among the global powers involved in the "new scramble" for oil in the region are the United States, the EU countries, Japan and increasingly, China and India, particularly the former, which has since 2003 become the world's second largest consumer of petroleum (Obi 2009: 190-212). Key concerns include the following: maritime security of international oil shipping lanes, off-shore oil rigs and floating production, storage and offloading vessels (FPSOs), safety of on-shore oil installations, foreign oil workers, and political conditions and governance in 'partner' oil-producing states. The latter point relates to issues of political/state instability, socio-economic crises, and possible resource nationalism that are capable of interrupting the flow of oil or endanger massive oil investments and the lives of foreign nationals.

This also suggests that such considerations are hinged upon the capacity of Oil states to promote and protect the conditions for uninterrupted oil supplies to the global market, as well as manage their oil wealth in ways that ensure they effectively govern their countries, and ensure security within their national and maritime borders. For a country like the US, which imports close to 15 per cent of its oil from Nigeria (expected to increase to 25 per cent in 2025), its energy security interests are inextricably linked to developments in the oil-rich Niger Delta and Nigeria.

Apart from this, United States' Oil Multinationals such as Exxon Mobil, Chevron Texaco have oil investments worth billions of dollars in Nigeria, Angola, Equatorial Guinea, Chad, and Sao Tome and Principe. Exxon Mobil also has substantive interests in the West African Gas Pipeline Project, expected to transport gas from the Niger Delta to neighbouring Ghana, Togo and Benin. In the same way, Royal Dutch Shell has substantial investments in Nigeria's oil and gas fields, and in other countries such as Cameroon and Gabon. Total the French oil company has substantial investments in Nigeria, Angola, Cameroon, Gabon, Congo-Brazzaville, and recently, Mauritania, while Italy's ENI has oil investments in Nigeria and Angola.

On the part of China, its oil corporations: China National Offshore Oil Corporation (CNOOC), China Petroleum and Chemical Corporation (Sinopec) and China National Petroleum Corporation (CNPC) have oil investments in Nigeria, Angola, Chad, Cote d'Ivoire, Equatorial Guinea, Gabon and Mauritania, while India's ONGC Videsh and ONGC Mittal have investments in Nigeria and Gabon. However, it is necessary to point out that the oil and gas resources of West and Central Africa are largely dominated by Western oil multinationals, with the new comers – Chinese and Indian oil companies presently having very limited access to the prolific oil and gas fields of the region. What can then be concluded from the foregoing is that the states of West and Central Africa are well-placed to reap the huge windfall from a new oil boom in the face of growing global demand for oil and gas and the intense competition by the world's most sophisticated oil corporations for access to the oil and gas resources in the region.

Conceptual Perspectives to the State-Oil Nexus in the 'New' Gulf

The implications of the new oil boom for states of the Gulf of Guinea cannot be grasped outside of the prevailing perspectives to the relationship between the state and oil. Of note here are the approaches in the literature that deal with the oil abundance-development nexus: the 'resource/oil curse' and the rentier state theses. The resource curse thesis is based on "a correlation between the abundance of natural resources – especially oil – on the one hand, and a set of negative economic, political and social outcomes of oil, on the other" (UNRISD 2007: 11; Gary and Karl 2003; Rosser 2006, Ross 2004; Billon 2001). Relevant to the context of this chapter is the conclusion by protagonists of the oil curse school that oil increases the risk of institutional weakness, political instability, violent conflict, and blocks democracy and development (Ross 2001, 2008). Of particular note is the view that the abundance of oil acts as an incentive/motive or creates opportunities for rebels to engage in armed conflict. This popular perspective posits that oil-rich states are likely to be trapped in corruption and afflicted by state weakness, poor economic growth and corruption represented by the 'paradox of plenty', resulting in poverty in the midst of abundant resource wealth. Thus, the oil curse perspective concludes that oil abundance in developing countries is likely to be a trigger of, incentive or critical factor in prolonging conflicts (De Soysa and Neumayer 2007: 202; Lujala 2010: 18).

On its part, the rentier thesis is used in characterizing states that receive external economic rent (Mahdavi 1970; Zahlan 1999) or what is also referred to as 'unearned income' that is not related to entrepreneurial, innovative or meritorious activities. Indeed, rentier states are defined by their dependence on external resource/mineral rents – in this case, an enclave externally-oriented oil industry, which

alienates the state from the society. Such 'parasitic' states are believed to be captured by predatory (petro) elites, and aloof from the people, partly because they do not rely on their taxes and are therefore not accountable to them. Also because the petro-state and ruling elite depend on the externally earned rents that are often concentrated in a few hands, the dominant power relations promote a particular kind of oil political economy that feeds corruption and subverts democracy and development. In such contexts, the prevailing political logic is the concentration of power in a few hands or in the hands of a single individual that personalizes state power – often represented by a long-term ruler (sometimes with a military background) and high stake (destabilizing) zero-sum political contestations/conflict (between factions of the elite, or 'rebels') over the ultimate prize – the oil state.

Related to this, is the 'rentier mentality', described by Yates (1996: 22) as a "psychological condition with profound consequences for productivity." In this regard a 'petro-elite' is seen as a predatory ruling elite that is steeped in unproductive activities, living in splendor, and engaging in wasteful expenditure of public resources (oil revenues) on prestige projects, corruption, and the building of repressive security apparatuses. This behaviour that links oil endowment to elite predation, conflict, misgovernance and the subversion of the development process in oil-rich states drawing upon research on Gabon, has been described by Yates in terms of "neo-petro-monialism" (2005: 174-190).

The conclusion that is drawn on the basis of the application of the rentier thesis to the oil states of the Gulf of Guinea is that 'the political consequences of oil wealth have been shown to be negative' (Soares de Oliveira 2007a: 35) or what Keay (2002) referred to as "weak governance". However, in spite of such negative outcomes or vulnerabilities, oil states have shown both elements of weakness and strength. This point is emphasized by Basedau and Lay (2009: 758) who argue that abundant resources enable governments to "buy off opposition or suppress armed rebellion thereby contributing to political stability and preventing armed conflict". This is similar to Soares de Oliveira's observation on the "successful failed state" relating to the "compatibility between the dysfunctional trends of the petro-state and the African failed state, on the one hand, and the astonishingly successful strategies of political survival amidst decay, on the other hand" (Soares de Oliveira 2007a: 62).

Thus, the dominant literature is of the view that oil endowment has only brought negative consequences for Africa's oil states. This much is reflected in the analysis of the crises besetting oil-rich states such as Gabon (Yates 1996, 2005), Congo-Brazzaville (Clark 1997), Equatorial Guinea and Angola (Soares de Oliveira 2007; Global Witness 2002), Nigeria (Eberlein 2006; Ikelegbe 2006; Lewis 2007), and Sao Tome and Principe (Frynas, Wood and Oliveira 2003), and reports by several international NGOs such as Global Witness, Human Rights Watch and International Crisis Group.

These studies suggest that the 'new oil boom' in the Gulf of Guinea is likely to bring more of the same – corruption, dictatorship, conflict and crises of (under)development in the 'petro-states' of the 'new' gulf, with the attendant grave risks of instability, weak governance and state-failure in the region, which could threaten regional stability, and the energy security interests of the Western and emerging global powers. Reports of political tensions in Nigeria, scandals related to the bribing of top Nigerian state officials by Western companies such as the US oil service giant, Halliburton, German telecom giant Siemens, the arrest and trial of leading public officials for fraud, attacks by militias on oil interests in the Niger Delta, long-term rulers in Cameroon, Equatorial Guinea, Chad, Congo Brazzaville, and Angola, and reports of a coup attempt and a recent rebel attack on Equatorial Guinea's presidential palace, paint a picture of instability and insecurity that need to be addressed to prevent the situation from degenerating any further. Yet, in spite of these rather bleak postulations, it is important that the assumptions of the resource curse and the rentier state theses be critically interrogated to really see if they are wholly accurate, or conversely, if they exaggerate or misrepresent the developments in the region for other ends. This much will be established in the next section based on a case study of Nigeria.

State and Oil in the Gulf of Guinea

The case of Nigeria to some extent, illustrates the nature of the relationship between the state and oil in the gulf of Guinea. By virtue of its being the region's largest oil (and gas) producer with production facilities both onshore and offshore, and also as the most populous country along the Gulf of Guinea, Nigeria is very critical to regional stability, and the energy security interests of the world's powers. Its immense energy endowment, resources and size, easily define the country as West Africa's pivotal state. This is further reinforced by the fact that it possesses the region's largest military, which played a key role in regional peacekeeping in the 1990s.

In the same way, Nigeria has played an important role in the establishment of a regional (ECOWAS-led) peace and security architecture that has been widely regarded as the most sophisticated in Africa, while also paying attention to regional efforts at combating transnational crimes (Obi 2008a: 183-196; Ukeje 2008). The ample resources and leadership demonstrated by Nigeria with regard to West Africa, underscore the realization of the connection between regional and national security. In the same way, it is recognized that governance and security in Nigeria are central to regional stability in the West African region as well as the stability of oil supplies and global oil prices.

Although oil was struck in commercial quantity by Shell-BP in Oloibiri (in present day Bayelsa state of the Niger Delta) in 1956, and exports commenced in 1959, it was not until the 1970s that oil became a central factor in the Nigerian state. The control of vast oil revenues by the state and the dominant class has had far reaching implications for state and class formation, politics and development. According to a recent study, oil accounts for 40 per cent of Nigeria's GDP, 70 per cent of government revenue and 92 per cent of foreign exchange earnings (Wurthmann 2006). The control of oil is centralized in the Nigerian federal government, which also controls the collection and allocation of oil revenues, retaining the larger proportion and then distributing the rest to the other tiers of government.

The state-oil nexus has led to the characterization of Nigeria as a Petro-state. This is because the Nigerian state is largely dependent on oil revenues and export earnings. It is, however, paradoxical that in spite of its oil wealth, about 70 per cent of Nigeria's 140 million people live below the poverty line, while the country has been confronted by formidable political and socio-economic challenges, making some skeptics to claim that the Nigerian 'petro-state' is facing imminent failure in the face of the open challenge to its authority by Niger Delta-based ethnic minority militias (Rice and Patrick 2008: 16).

It is however important to note that, the oil on which the Nigerian state and economy is dependent is mainly produced by foreign oil multinationals and companies: the Shell group, Chevron Texaco, Exxon Mobil, Total and ENI-NAOC (Agip). These companies are very sophisticated and powerful, and the relations of oil production tend to leverage more power and resources in their hands, often at the expense of the poor oil producing communities of the Niger Delta. This makes for a rather complex and ambivalent relationship between the oil companies and the Nigerian state. While on the one hand, it may be considered that the state lacks the will and technical capacity to regulate the Oil Multinationals, the companies are of the view that the state is neither able to deliver basic infrastructure and social/welfare services to its own people, nor able to effectively protect oil companies from local protests and violent militias. Yet, in spite of the occasional accusations and counter-accusations, the Nigerian state and Oil multinationals are wedded together in transnational extraction and sharing of oil profits.

Two issues flow from the foregoing. The first relates to extent to the extent to which oil defines the nature of the Nigerian state and its capacity to manage its immense oil resources in ways that feed into democracy, political stability and development, while the second relates to the implication of the pervasive influence of oil on Nigeria's political economy for regional peace and development. With regard to the first, it should be noted that the Nigerian state pre-dates the oil-boom years which made oil the fiscal basis of the state from the 1970s onwards. The impact of oil therefore relates to the ways in which it has accentuated certain features of the state (as well as the nature of the ruling elite), particularly its central role in accumulation and distribution.

Oil has since the end of the civil war in 1970, become the fuel or source of power on which the Nigerian state runs. Those that organize to effectively 'capture' the state also capture power over vast oil resources controlled by the federal government. As such, the prize of controlling and distributing oil wealth which resides in the state is so high, but it does not mean that oil "defines" the state; it only implies that the state for now runs on oil – the object of fierce contestations for power within the fractious dominant elite. The extractive and coercive logic of the state essentially remains the same, even if the personnel of its 'executive' have changed from the military to 'elected' civilian politicians. Governance is thus largely defined in terms of the management of the constant shifts, tensions and dynamics within the competing factions of the dominant elite, with little time or space left for much else.

The implications of the state-oil nexus for development and democracy in Nigeria are rather complex. An application of the resource curse and rentier theses to the analysis of the state-oil nexus in Nigeria will lead us to an attractive pre-determined conclusion that oil will continue to lead to corruption, conflict and political instability in the country. This is given credence by the ways in which the military ruling class buoyed by the post-civil war oil boom, transferred the control of oil from the regions/states to the federal government, and fuelled a military dictator-

ship and business class that has remained dominant in the country, even after they largely influenced the choice of their civilian successors in 1999.

Also, the trends in the Niger Delta where a growing insurgency by militia's linked to the 'faceless' Movement for the Emancipation of the Niger Delta (MEND) has since 2006 led to the ransoming of hundreds of foreign oil workers; the sabotage of oil installations with the disruption of oil exports causing a shortfall of 20-25 percent since 2006 lending credence to the negative 'oil effect'. This can be gleaned from the way oil-related conflicts in Nigeria's Niger Delta have been analyzed in the context of a "critically weak Nigerian state" (Rice and Patrick 2008: 16) and the threats it poses to US and Western security interests (Pham 2007, Ianaccone 2007). The same logic flows in the views that democracy in Nigeria is a somewhat problematic prospect since the high stakes in controlling oil by the dominant elite and 'rebels' act as an incentive for corruption and violent conflict (Human Rights Watch 2001, 2005, Pham 2007: 44; Ikelegbe 2002).

While the foregoing views appear compelling, the reality is much more complex, and framing the Nigeria oil challenge completely in the context of an 'oil curse' or the 'rentier thesis' will lead us to wrong-headed assumptions, analyses and conclusions. Hence these theses need to be handled with some caution. The first point is that the resource curse thesis can be faulted on the basis of its determinism. A recent study by Alexeev and Conrad (2009: 587) "reject the claim that natural resource wealth is a curse that makes countries worse off in any significant way". Indeed, there is nothing that says that oil-rich states are inevitably cursed as the cases of the United States and Norway aptly show. The reality is that the outcome(s) of oil endowment depends on historical, socio-economic, political and leadership factors and some oil-rich countries can, and have 'escaped' the ‚oil curse'.

A second point relates to the "prevailing evaluation methodologies on the basis of measurement errors, incorrect specification of the models and the high probability of spurious correlations" (UNRISD 2007: 12; Alexeev and Conrad 2009: 586). This again presents us with the problem of the methodologies related to the modeling of outcomes in rentier and oil cursed contexts. As noted, there are cases in which the selective collection of data or the exclusion of important variables may lead to wrong results, generalisation and conclusions.

Thus, with regard to instability in Nigeria, the problem may not be the existence of oil in the Niger Delta region, it lies in historical factors, and the ways oil production, commoditization and distribution spawns social contradictions, unequal power relations and inequities at three levels: state-society and local-national and global. Also relevant are the ways in which dominant global economic and strategic interests place such a high premium on oil and gas, and provide support for, and profit from the behavior of the Nigerian state and its petro-elites.

The real issues are therefore those of social injustices linked to the inequitable distribution of oil resources, threats to the livelihoods of local people by the extractive activities of the oil industry and the attendant pollution of the ecosystems that disrupt farming, fishing and cultural activities, and the closing up of the political space for participation, protest and redress for legitimate grievances. While oil may be the object of contestations today, it could well be another resource or issue in the future. Beyond oil, lie the issues of citizenship rights, self-determination for ethnic minorities in a federal system, and the legitimacy of the Nigerian state as a factor of unity and equitable representation and distribution.

Also of note, is the coming together of elite and ethnic minority interests at the level of the politics of 'resource control' in the oil-rich, but impoverished Niger Delta. We are confronted with certain ambiguous relations and contradictory meshing of actors involving the state, political elites and militia/armed gang leaders in the Niger Delta. While a faction within the Niger Delta ethnic minority elite is clearly aligned to the federal elite (largely dominated by the big three ethnic groups) that is believed to be one of the main beneficiaries (apart from oil companies) of the plunder of the region's oil and the pollution of its environment, it is not uncommon to see expedient and fluid alliances between members of the same Niger Delta elite, and the armed groups – that are opposed to federal control of the oil in the region and seek the control of the natural resources of the region by the ethnic minorities that inhabit the Niger Delta. Such ambiguous and complex alliances render any simplistic divisions between rebels and the government, local and global, problematic or of limited value.

This much can be gleaned from the erstwhile close relations between a former state governor and the leaders of two armed groups: the Niger Delta Peoples Volunteer Force (NDPVF) and the Niger Delta Vigilante (NDV), both of which were later abandoned after they purportedly helped the governor intimidate voters and rig elections. The militias also appear to operate rather fluid dynamics dictated by the politics of exigency, leadership and competition over turf. It is possible for the same group to have elements that float between 'resistance politics' and the 'politics of survival', just as you have some conflicts related to struggles over payoffs from oil companies or state largesse. The complex dimensions of politics, including the international linkages to extraction and accumulation do require the transcendence of the false assumptions, and dichotomies in order to arrive at a nuanced understanding of the implications of oil for development and democracy.

What flows from the foregoing is the need to understand that it is the Nigerian state and the dominant ruling faction (and the transnational elites and processes) that drive oil politics, rather than the other way round. This requires a historical reading of the forces that have dominated the oil-dependent state. The fact that Nigeria's oil boom coincided with military rule meant that politics, the state and its ruling elite became militarized. It also meant that those with the 'monopoly' of institutionalized violence found themselves in charge of a state awash with petro-dollars.

The fact that oil is the commodity of choice in the global market – commanding high prices and strategic value brings in the western countries and oil multinationals as partners and financiers of the Nigerian state and its ruling elite. These factors and actors have implications both for class formation, and the relations of power between the Nigerian state and society, but more so for the militarization of politics – the anti-thesis of democratization. Thus, the notion that the military faction of the ruling elite may well leave office, suggests that they would do so, in a context where their vested interests could be politically-speaking, preserved, with support from certain sections of the international community with a stake in uninterrupted oil supplies. It is in this context that more light can be shed on the role of the international community in supporting, or adopting ambiguous policies towards African political regimes that are protective of global geo-strategic and energy interests.

Democratizing the Petro-State in the New Gulf: Critical Issues

The inflow of vast oil revenues has impacted not only on the state, but on society and oil politics – giving it a volatile and high-stakes complexion, in which oil wealth is an object of intense competition for power between various factions of the dominant elite, leading to political instability and a crisis of development. In some other contexts, oil has provided resources for incumbent regimes to reproduce themselves in power – either by directly holding on to power or organizing for their allies or surrogates to succeed them. The other option is for incumbent regimes to be violently toppled. This is a feature of the politics in several of the oil-rich countries of West and Central Africa. For example Gabon where power has remained in the hands of one person since 1967[69], is described by Yates (2005: 187) as a country where 2 per cent of the population controls 80 per cent of its wealth. Angola, is described by Soares de Oliveira (2007: 595) as "one of the world's worst governed states", while Equatorial Guinea, is described by McSherry (2006: 12) as a country where "the majority of Equato-Guineans live in abject poverty under one of Africa's worst dictators".

Also of note is the long-standing agitation by the ethnic minorities of the oil-rich, but underdeveloped Niger Delta, which has since 2006 assumed insurgent proportions, raising tensions, violence and insecurity in the oil region and the surrounding coastal waters, resulting in immense losses to the State and the Oil companies.[70] The question of how effective Nigeria's democratization since 1999 has been in effective policies, and politics directed at addressing oil-related conflicts in the Niger Delta, will also be discussed.

Secondly, and perhaps most critical of all, is the challenge of democratization, in the face of oil-states and political regimes that are determined to hold on to power at any cost, using the immense domestic resources at their disposal. The oil states of the gulf of Guinea hardly offer any models of democratic consolidation. As recent studies of Nigeria's 2007 elections show (Obi 2008b; Omotola 2009) and reports on Angola's 2008 elections show (Vines 2008), free and fair electoral democracy has so far not taken firm 'root'.

The foregoing suggests that the Gulf of Guinea oil-states are synonymous with the "dirty politics of African oil" (Shaxson 2007). But as has been argued earlier, there is no inevitability about this. What is of critical note is to recognize the

[69] Omar Bongo was president of Gabon from 1967 to 2009. After his death in 2009, he was succeeded by his son Ali Bongo who won the bitterly contested elections in the same year with 42% of the total votes cast.

[70] In 2009, a leading Niger Delta militia agreed to an Amnesty peace deal with the Nigerian president, surrendering their arms and embracing a disarmament, demobilization, rehabilitation and re-integration programme for ex-militants. Since the signing of the deal, the level of violence in the region has significantly reduced, even though most of the underlying causes of the conflict are yet to be fully addressed.

ways in which oil dependence accentuates pre-existing cleavages and contradictions in society, including the de-legitimization of the state in relation to its citizens. Politics in non-oil producing African states may not be fundamentally different from what obtains in oil producing states, what appears to be significant are the ways in which the state-oil nexus raises the stakes both nationally and internationally.

Thirdly, is the need to recognise the fact that whether oil becomes a curse or a blessing does not depend on its existence, but rather on its transformation through market relations in a commodity with its attendant social, political and strategic ramifications. In this regard, it is the power relations within which oil is produced and its proceeds shared that go a long way in determining its developmental outcomes. This means that oil is what those with power make it, not what it makes them. Oil cannot 'act' independent of intervening factors.

Fourthly, the roots and super-structure of oil dependence need to be tackled. The problem of oil-dependence in African states conveys a structure of unequal integration into the global capitalist system, which consigns African petro-states largely to the role of suppliers of crude oil and gas to the world's powers, using the technology, skills, and in many cases the services of oil multinationals and service companies. This robs such states of agency, leverage and the potential benefits that could have come from integrating the (enclave) oil (transnational) industries into their national economic systems for the benefit of their people. This calls for a more committed, patriotic and visionary elite, which recognises the limitations of oil endowment as well as its disruptive impact on national economies, and charts an alternative course for a developmental project drawing on a sense of common history, identity and destiny.

The foregoing suggests that three things are required: more equitable power relations in the production of oil and the distribution of its proceeds, the democratization of oil states in ways that leverage a new social contract based on the principles of social justice, equality and popular participation, and a new kind of committed popularly-rooted leadership in Africa. This calls for the social transformation along clearly democratic and developmental lines. It also leads to the fundamental question: How can state, politics and society in West Africa's oil states be democratized along clearly developmental lines? Would this require an approach or strategy different from that required for social transformation in undemocratic resource-poor contexts?

Conclusion and Recommendations

From the foregoing, one argues that it is not oil alone that is the problem – as indeed some non-oil states face similar problems as petro-states, just as some petro-states have developed and remained democratic. Rather the problem lies in a host of historical, context-specific socio-economic and political factors, which call for nuanced analysis and deeper understanding beyond the mere appearance of things (Brunnschweiler and Bulte 2006). It can therefore be logically argued that there is a good chance that the oil states in the Gulf of Guinea can in future become democratic and developmental given radically different/alternative political and socio-economic scenarios. The challenge is with how, and what has to be done, not to foreclose the possibility for oil-based economic diversification, restructuring, participatory democratic governance, equitable peace and development.

It is therefore logical to expect that the resolution of oil-related contradictions in the Gulf of Guinea will have to focus on four levels: local (communal), national, regional and global. Critical to the local and the national is the need for a thorough democratisation of the social relations around the production of oil and the distribution of the benefits for the welfare of the people. Related to this are issues of transparency, accountability, social justice, equity and the involvement of people in decision-making about the use to which oil money is put. This calls for the empowerment of the people in these countries to assert their citizenship rights and hold their leaders and elites accountable for the use of oil as a critical factor for national cohesion, human security, democracy and development. This requires a transformation of the existing political culture along pro-active, pro-democracy participatory lines.

Civil society and local social movements have critical roles to play with respect to civic education, sensitising citizens on the right to defend their votes, raising of environmental awareness, and putting pressure on the states to protect their own citizens and have a long-term perspective to the developmental impact of oil endowment. This also calls for a comprehensive programme connecting issues of institutional capacity, environmental standards, sustainability and civic participation in the governance of oil resources.

Closely related to this is the need for West Africa's petro-states to rebuild and transform their regulatory laws, institutions and capacities to effectively manage the technical-industrial, environmental and socio-economic aspects of oil endowment. A key aspect of this transformative process relates to the need for a new regional policy thrust hinged on the transfer of the technology and skills of the upstream and downstream sectors of the oil industry in a regionally integrated manner that would transform West Africa into a potent energy and industrial hub that connects local, regional and global needs, demands and markets.

Also important on a mid-to-long term basis, is the need for West Africa's petro-states to reduce their oil-dependence through a set of strategies that draw on national state-private sector initiatives, while also increasing state capacities to regulate, and compete against oil multinationals in the upstream and downstream sectors of the oil industry. Of note also is the need to get the various oil operators to act responsibly towards host-communities and mitigate the adverse environmental impact of the oil industry in various countries.

It is perhaps ironical, that while the state in Africa is seen as being incapable of promoting development, it is at the same time a focus for 'selective' reconstruction – mainly through international support for institutional and technocratic capacity building, and the building of the capacity of state security forces to maintain internal order and neutralise transnational threats. Such aims become more pronounced in the context of African 'petro-states', which are seen as dysfunctional or weak, posing threats to the strategic interests of global powers, and warranting in extreme cases, measures directed at good governance and economic reform – if need be through some form of international intervention.

At the regional level, although the existing peace and security architecture mainly addresses itself to conflict resolution, peace-building and democratisation, the challenges still remain those of the political will and lack of resources to implement the numerous protocols and agreements of ECOWAS and the African Union effectively and fully. Although African regional institutions are no longer indifferent to human suffering or the breaching of democratic norms, and have a right to intervene where people are at risk because of violent conflict or misrule, a lot still has to be done to strengthen the capacities and will of these institutions to intervene. Also, existing regional institutions, including the African Petroleum Producers Association (APPA), which has since its inception kept a low profile, need to start a dialogue on regional oil governance and development issues as a necessary step towards a new regional framework strategy for the countries of the Gulf of Guinea. However, it needs be emphasized that the success of the regional approach will depend on several factors: political will of member-states, resources, and a progressive leadership.

The quest for democratic governance, stability and development in African oil states cannot succeed without a proper understanding of the role of international actors. Whether it is with regard to threats posed by militias in the Niger delta, piracy in the waters of the Gulf of Guinea, political instability in Equatorial Guinea or Chad, the main concern of the international community has often been to secure its energy interests and prevent a regional spread of instability which in a globalised world may well threaten the developed world. In some regard, the attitude of the international community towards African petro-states is ambiguous. While some vilify the nature of oil politics in Africa and note its destabilising impacts, they are on the other strengthening the military capacity of the same states through various forms of capacity building/training programmes. Such military partnership programmes which include: Africa Contingency Operations Training Assistance (ACOTA, Trans-Saharan Counterterrorism Initiative (TSCTI), Global Peace Operations Initiative (GPOI) and State Partnership Programmes (SPP) among others have been designed to strengthen the region's militaries as the stakes in securitising the oil reserves of the Gulf of Guinea continue to climb higher. This is also seen in the decision by the Bush administration to establish the United States Africa Command (AFRICOM) in 2008. This shift towards militarism should serve as a signal that great care needs to be taken to ensure that the emphasis on security does not undermine or subvert the need for equitable people-centred development in the international engagement with Africa.

This "merging of security, development and governance issues" (Newman 2009: 68) needs some critical re-thinking on the part of the international and donor community – which should go back to address the roots of the problems, and "de-securitize" its solutions. It should come out openly in favour of supporting the conditions for democracy, social justice, equity, production and re-distribution of wealth, and popular rule in Africa. The resort to double standards to protect vested strategic partners and economic interests will in the long term work against the interests of African people and the international community. Imposed military and international interventionist solutions will not work in the long run.

Finally, it is pertinent to re-think and transcend the dominant analyses and pessimistic prognosis for the state-oil nexus in Africa, first by urging for a more nuanced understanding of the linkage between oil and the state, and the politics of development, and then facilitating a reconnection with a broken state-developmental path. The challenge goes beyond the reconstruction of the petro-state on the basis

of flawed assumptions of the neo-liberal paradigm, but seizing upon the moment of a 'new oil boom' and popular pressures from below for change to build an equitable 'social contract', re-engineer and 'oil' the wheels of state-led African-owned regeneration of the continent on the basis of a participatory, democratic and developmental ethos.

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Chapter 5

Overview of Existing Regional Initiatives in the Oil and Gas Sector in the Gulf of Guinea

by FES Abuja

African Petroleum Producers' Association (APPA)[71]

Origins

- Intergovernmental organization, created in 1987 in Lagos, Nigeria
- Serves as a platform for African petroleum producing countries to cooperate, collaborate, share knowledge and competencies

Member Countries

- Algeria, Angola, Benin, Cameroon, Chad, Congo, DR Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, Mauritania, SPLAJ (Libya) South Africa, Nigeria and Sudan.

Organizational Set-up

- Headquarters: Brazzaville: Republic of Congo.
- Fund for technical assistance, created in 1992

Missions

- Promotion of **co-operation and consultation** among Member Countries (in hydrocarbon exploration, production, refining, petrochemicals, manpower development, acquisition and adaptation of technology and legal matters);

[71] Information sources: APPA 2009 (including Programmes of Action) and the APPA Statute & APPA's Official website: http://www.appa.int/en/pmbres/pmc.htm

- Promotion of **co-ordination** of marketing policies and strategies of Member Countries through exchange of information to safeguard depletable resources and realise equitable revenue from exports;
- Promotion of **technical assistance** among Member Countries in the areas in which individual members have acquired valuable experience;
- Increasing the **comprehension** of energy situation and policies in Member Countries and promoting common policy initiatives to maximize the socio-economic benefits accruable from petroleum exploitation activities as well as outlining ways and means of contributing to regional energy security.

Status Quo

Achievements:

- Overcome communication barriers which existed amongst the actors of the upstream sector in Member Countries;
- Ensure regular exchange of information on experiences, thus arousing awareness on the strengths and weaknesses of the sector in Member Countries;
- Put in place instruments to facilitate genuine cooperation, such as the creation of the APPA Fund for Technical Cooperation and the African Petroleum Congress;
- Creation of the Permanent Marketing Committee in order to achieve the objectives of promotion and coordination of policies and commercial strategies;
- APPA Data Bank, launched in April 2008;
  - Implementation and provision of relevant information from Member States key to Programme of Action (2008 – 2011)
  - Appointment of a local country's administrator responsible for feeding information into the Data Bank.
  - Main functions of the Data Bank:
  - provide reliable information for decision-makers
  - reinforce the capacity to attract investments into the oil and gas sector
  - promote intra-African commercial exchanges

ECOWAS Department of Energy [72]

Origins

- Launched into effectiveness in 2007;
- Approved in January 2006 by the Authority of the Heads of State and Government within the restructuring of large parts of the ECOWAS Community;
- Enshrined in Article 28 of the Revised ECOWAS Treaty;

Organizational Set-up

- Until 2007, the Department of Energy in the former Executive Secretariat, was part of the former Department of Infrastructure and Industry, now split into three separate Departments;

Objectives

- Ensure coordination and harmonization of Member States policies and (development) programmes in the field of energy as well as a cooperation mechanisms with a view to ensuring a regular supply of hydrocarbons;
- Ensure the effective development of the region‘s energy resources;
- Promote the development of new and renewable energy, particularly solar energy, in the framework of the policy of diversification of sources of energy;
- Harmonize national energy development plans by ensuring particularly, the interconnection of electricity networks;
- Articulate a common energy policy, particularly in the field of research, exploitation, production and distribution;
- Establish an adequate mechanism for the collective solution of the energy development problems within the Community, particularly those relating to:
  - Energy Exchanges among Member States
  - Shortages of skilled technicians
- Provide financial resources for the implementation of energy projects of Member States

[72] Office of the Commissioner Infrastructure, Energy Department

Status Quo

- Unresolved structural inadequacies of the ECOWAS framework have, in the past, hindered the achievement of objectives and agreements and might pose further challenges.[73]

ECOWAS Regional Electricity Regulatory Authority (ERERA) and the Centre for Renewable Energy and Energy Security[74]

Origin

- Established on November 29, 2008, Ouagadougou, Burkina Faso, by the ECOWAS Council of Ministers

Objectives

- Part of an action plan to find lasting solutions to the energy crises in West Africa;
- Regulatory Authority will foster open and transparent cross-border electricity exchanges within West Africa to ensure improved efficiency of power supply and increased access to energy for Community citizens.

ECOWAS Mechanism of Conflict Prevention, Management, Peacekeeping and Security (MCPMPS) (July 1999)[75]

Origins

- Established at ECOWAS Summit in Togo, 1997;
- Accepted and endorsed at Summit of Heads of State in Abuja, 1999;

[73] Kempf, 2005
[74] Africa Press Organisation, 2009
[75] Taken from Profile: ECOWAS and the Protocol relating to the Mechanism

- Effectively replaced ECOWAS documents relating to non-aggression;
- Authority of Heads of State has delegated its powers in terms of article 7 of the Treaty of the Mechanism to the Mediation and Security Council;

Organisational Set up

- Defense and Security Commission
- ECOWAS Commission
- Council of Elders
- Mediation and Security Council
- ECOWAS Standby Force (ESF)

Objectives

- Strengthen cooperation in the areas of Conflict Prevention, early-warning and peace-keeping;
- Promotion and consolidation of democratic government and democratic institutions in Member States, Human Rights, Sovereignty of the state, territorial integrity and political independence of Member States (Article 2, Principles);
- Setting up an appropriate framework for the rational and equitable management of natural resources shared by neighboring Member States which may be causes of frequent inter-State conflicts;
- Protecting the environment and taking steps to restore the degraded environment to its natural state
- Formulating and implementing policies on anti-corruption, money-laundering and illegal circulation of small arms;

Status Quo

- Early-Warning System was established at sub-regional level (in accordance with Article 58 of the Revised ECOWAS Treaty);

- Observation and Monitoring Centre established as centre-piece of the early-warning system in the region holding responsibility for data collection and analyses as well as preparation of reports for the use of the Executive Secretariat.

ECOWAS Conflict Prevention Framework[76], Chapter on Natural Resource Governance, Articles 64 – 67

Origins

- Enacted 16st January 2008 by the Mediation and Security Council of ECOWAS;
- The Chapter was designed to facilitate the implementation of Article 3 of the Mechanism (MCPMPS)
- In accordance with the Revised ECOWAS Treaty 1993, (Article 28 and 31), stating that a common energy policy should be developed, especially in the fields of research, exploitation, production and distribution of energy as well as an adequate mechanism for the collective solution to energy development problems;

Aims and Objectives

- Ensuring that the management processes for natural resources are transparent, equitable, environmentally-friendly and ensure balanced and sustainable development, social cohesion and stability;
- ECOWAS to facilitate the establishment of a network of relevant government institutions, private sector, NGOs and community structures to develop and apply regional norms in natural resource governance;
- Developing a regional strategy for shared resources between states as well as a mechanism for peaceful resolution of disputes/ conflicts of local, national and regional concerns;

[76] ECOWAS Conflict Prevention Framework

- Government and corporate social responsibilities pacts to be drawn up;
- Connection between macro-economic and community-level is provided for through several mechanisms;
- Promote value-addition to natural resources in the region;
- Outline a number of studies to be carried out;

Status Quo

- Challenges as perceived by Civil Society are located in the fields of 1) creating political will to implement the now existing strategy, 2) better integration and cooperation of various ECOWAS Departments[77];
- ECOWAS Standby Force (ESF) is in the process of further development.

ECOWAS ECOSTAT[78]

Origins

- Created within the framework of the Multilateral Surveillance Mechanism adopted in December 1999 by the ECOWAS Authority of Heads of State and Government;
- Taking EUROSTAT as model, ECOWAS has recently established ECOSTAT;

Objectives

- Providing comparable economic data;
- Harmonising of national statistical systems and collection and regular distribution of data and statistics as a essential precondition to start off any harmonisation of economic and financial policies;
- Elaborating program to develop statistical systems in West African;
- Increasing comparability of GDP figures;

[77] WACSI Pp11 and pp12

[78] ECOSTAT 2009

- Increasing comparability of consumer price indices;
- Collection and regular distribution of external trade statistics;
- Creating a database for multilateral surveillance mechanism;
- Institutional support to the Executive Secretariat and national statistical offices;

Status Quo

- Various workshops and meetings of experts have been held

The Gulf of Guinea Commission [79]

Origins

- Established by the Treaty of the Gulf of Guinea Commission on Feb 21, 2001

Member States

- State on April 2008; Cameroon, DRC, Republic of the Congo, The Republic of Gabon, The Republic of Equatorial Guinea, The Federal Republic of Nigeria, The Democratic Republic of Sao Tome and Principe;
- Membership is open to all sovereign states bordering the GoG that sign up and ratify the Treaty (Article 2)

Organisational Set-up

- Assembly of Heads of State
- The Council of Ministers
- The Ad Hoc Arbitration Mechanism, to set in once bilateral negotiations fail

[79] Information taken from: Republic of Cameroon, 2008; Working Document of the Treaty of the GoG Commission; The GoG Citizens Network, A Regional Advocacy Project, The Gulf of Guinea Commission, Summary, provided by Mr. Mba Abeso; Oduntan, Gbenga Article

- The Experts Meeting
- The Executive Secretariat, hosted by Angola

Objectives

- Constituting the framework of consultation among the countries of the Gulf of Guinea for cooperation and development;
- Providing a framework and structure for dialogue, prevention, management and settlement of conflicts between member states of region;
- Strengthening of cooperation and solidarity among Member States;
- Creation of mutual confidence, peace and security conducive to harmonious development;
- Harmonising respective state policies, exploitation of natural resources, including the development of a framework for legal regulation of oil multinationals operating in the region;
- Protection, preservation and improvement of the natural environment of the region and cooperation in the case of natural disaster;
- Development of a wide communication network and integration of transport networks

Status Quo

- Steps are currently being undertaken to enact the Treaty in accordance with the respective national law;
- The preferred means for settlement of disputes with non-States and MNCs are not clearly stated, although many of the conflicts arising do however involve non-State actors [80];
- Very little knowledge and awareness about the Commission exists, both on the academic but especially on the local level, creates challenges for the domestication and local ownership of the Treaty;

[80] Oduntan, pp. 267

- Citizen groups state the necessity of their participation in the processes to compliment and monitor the activities of the Commission [81];
- Absence of a Judicial Court to the Commission might curtail its competencies since it has to rely on external judicial bodies to determine the legality of its actions as well as to hold member states responsible to apply the Ad Hoc arbitration mechanism [82].

The Gulf of Guinea Citizens Network [83]

Objectives

- Advocating for effective enforcement of standards of legal, political and social responsibility in natural resource exploitation, management and accounting in the countries of the Gulf of Guinea;
- Building an active and informed constituency in the region to assert improved responsible natural resource (earnings) management and accountability in the region;
- Advocating for the improvement of existing laws and regulations relating to natural resources exploitation in the region;
- Promoting greater transparency in oil and gas investments in the region;
- Ensuring prosecution of cases of resource corruption through the use of law and disseminating outcome of such cases;
- Monitoring the work of the Gulf of Guinea Commission;
- Strengthening the capacity of the civil society to monitor deals, revenues, and environmental impacts of oil ventures;
- Campaigning against the militarization of the region in relation to oil ventures;

[81] GoG Citizens Network
[82] Oduntan, pp.272
[83] The GoG Citizens Network

- Ensure the protection and legal defence of citizens and persons endangered or persecuted by reason of their work in pursuit of these objectives;
- Enhancing capacity of the media to report on, monitor and publicise natural resource governance.

Extractive Industries Transparency Initiative, (EITI) [84]

Origins

- Launched by the Government of the United Kingdom in 2002, following the 2002 Johannesburg World Summit on Sustainable Development;
- Multi-stakeholder initiative comprised of governments, companies, civil society groups, investors and international organizations;
- Voluntary initiative that is implemented by countries whose governments sign-up to do so

Member States

- 23 countries have agreed to implement EITI worldwide; among them are 11 West African States

Organisational Set-up

- Board
- International Secretariat

Objectives

- Strengthening of governance by improving transparency and accountability in the extractives sector;

[84] EITI 2007, EITI homepage

- Supporting improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining, implementation is undertaken by the Member States themselves;
- Strengthening active engagement of civil society in the design, monitoring and evaluation of the payment and revenue processes as well as its contribution towards public debate on the issue;

Status Quo

- Supporting by several governments, broad parts of the public sector, international organisations, institutional investors and civil society;
- The first EITI West Africa Conference was held in Nigeria in 2008.

Publish What You Pay Campaign[85] (PWYPC)

Origin

- Launched in June 2002 by a number of NGOs, namely Global Witness, CAFOD, Open Society Institute, Oxfam GB, Save the Children UK and Transparency International UK;

Membership

- Founding members were joined by Catholic Relief Services, Human Rights Watch, Partnership Africa Canada, Pax Christi Netherlands and Secours Catholique/CARITAS France, along with an increasing number of groups from developing countries;
- Membership includes organisations from almost 70 countries;
- PWYP national affiliated coalitions exist in 26 of these;
- Working with governments, the private sector, (inter)national financial institutions;

[85] EITI 2007, EITI homepage

Objectives

- Supporting citizens of resource-rich developing countries to hold their governments accountable for the management of revenues from the oil, gas and mining industries;
- Advocating for the mandatory disclosure of company payments and government revenues from the oil, gas, and mining sector;
- Calling for the disclosure of licensing arrangements and extractive industry contracts to trace revenues and expenditures;
- Calling for transparent and accountable management and expenditure of public funds as an essential way to addressing poverty, corruption and autocracy;
- Taking into responsibility all stakeholders that play a role in supporting or investing in the extractive industries;
- The campaign is largely consistent with ongoing local priorities regarding good governance, corporate accountability and poverty reduction and thus serves as a vehicle for local groups to exert pressure;

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Chapter 6

Is There Need for EITI Reloaded? Building on its Successes

Peter Eigen [86]

1. Opening remarks: the importance of governance in the extractive industries

Governance of natural resources is one of the most difficult challenges facing the modern world. We are all aware of what happens when it is done wrong: resource extraction has led to poverty, conflict and corruption. With good governance, the extraction of these resources can generate large revenues to foster growth and reduce poverty. Ensuring this requires trust-building, transparency, and freedom to hold governments to account.

We have all seen cases in the extractive sector where opacity and silence has created mistrust and suspicion. Affected communities and ordinary citizens often assume that the government and companies are in cahoots to keep the wealth for themselves. Sometimes companies feel that governments and citizens are ganging up on them to reset the rules and renegotiate contracts. This is where I believe that transparent, multi-stakeholder governance comes in.

2. A brief introduction to the EITI: a global standard for transparency in oil, gas and mining

The Extractive Industries Transparency Initiative (EITI) is an effort to ensure that natural resource wealth is managed for the benefit of all a country's citizens. It is a standard to strengthen governance by improving transparency and accountability in the extractives sector. This is done through the publication of company

[86] Chair of the Extractive Industries Transparency Initiative (EITI)

payments and government revenues from oil, gas and mining. As assets belonging to the country, it is important that citizens have reasonable access to information about how much their government makes when such assets are sold. The process in each implementing country is overseen by a broad coalition of participants from the government, companies and civil society.

As of March 2011, 35 countries are already well underway in implementing the EITI – 35 different models of implementation – yet one standard. Eleven of the countries, Azerbaijan, Central African Republic, Ghana, Kyrgyzstan, Liberia, Mongolia, Nigeria, Niger, Norway, Timor-Leste and Yemen have successfully completed Validation – the EITI quality assurance mechanism – and have become Compliant. 50 of the largest oil, gas and mining companies and over 80 global investment institutions are supporters of the EITI.

The role of civil society is critical to ensure accountability in the management of the extractive sector. The EITI provides civil society with a platform and forum for dialogue with the government and companies.

Implementation of the EITI standard leads to a wide range of benefits:

- Governments benefit from implementing a standardised and internationally recognised process for transparency in natural resource management. In many countries, revenues from oil, gas and mining create political and economic distortions and high expectations. Implementing the EITI builds governance capacity, improves international credibility, can lead to increased government revenue and sends a clear message that the government is committed to fighting corruption.
- Honest and successful companies benefit from a level playing field and enhanced investment climate that is created by transparency and good governance.
- All parties benefit from the creation of the multi-stakeholder group to discuss issues and build trust among governments, companies and citizens.
- Energy security is also enhanced by a more transparent and level playing field. Energy importing countries gain from increased stability in supplier countries. This increased stability encourages long-term investment in production – and thus ensures a more stable supply.

3. EITI expectations – necessary but not sufficient

Revenue transparency by itself is not enough to ensure that natural resource wealth generates benefits and development for a country's citizens. To be clear, the EITI does not claim to be the solution to the so-called "resource curse".

Resource rich countries, whose citizens suffer from poverty, often face a multitude of complex political, social and/or economic problems, but revenue transparency is a key starting point to improve the situation.

What we are seeing is that basic revenue transparency can become the starting point for other discussions about wider natural resource governance issues. Some basic information about what governments receive leads to discussions about how the money is spent or to why oil, gas and mining contracts look like they do.

There have been suggestions that the EITI should widen its scope going forward. This would likely be a mistake. The EITI's tight focus on revenues is one of its key strengths and should be intensified rather than expanded. This will provide a solid platform for wider policy discussions by a broad range of actors well beyond the scope of the EITI.

4. Emerging Impact

The 4th EITI Global Conference held in February 2009 in Doha gave us an opportunity to assess the emerging impact of the EITI. At that conference the EITI was held up as an example of how multi-stakeholder initiatives can address the challenges of governance in the extractive sector. At the 5th Global Conference in Paris in early March 2011, more than 1,000 participants looked back on the years of EITI implementation, and took lessons from the process. In the past two years the number of EITI implementing countries has more than doubled to 35. 22 EITI countries have published over 50 reconciliation reports in total since 2005. The EITI is, however, still young. This is fast action, but it is too early to confidently judge the impact and expectations need to be managed.

EITI crossed an important milestone: 9th March was the deadline for the first 22 countries that became EITI candidates in 2008 to complete an independent EITI Validation – the EITI's quality assurance mechanism. Validation is underway in

23 countries of which five are already compliant [87]. All these countries have produced and published EITI reports reconciling the payments companies say that have made, with the revenues government say that they have received.

When the Board met in April 2010 in Berlin, it also deemed that two countries – Equatorial Guinea and Sao Tome and Principe had not done enough to remain in the EITI. In launching his new book last month, Prof Paul Collier cited this as evidence that the EITI was 'starting to get teeth'.

To my knowledge it is unique for a multi-stakeholder initiative to have removed a country for failure to comply, and it is a profound event when you consider that the EITI is supported by companies who are highly active in those countries. Also, it has to be recognised that such a decision is not easy for civil society Board members, whose own coalition members are put under personal risk without the 'protection' and platform afforded by EITI implementation. It is also, of course, difficult for other governments to remove their peers as the Kimberly Process is discovering. It is heartening that the upholding of the EITI rules and brand are prevailing.

Furthermore, this Validation process for the first time gives all stakeholders a clear picture of how the relationship between transparency, multi-stakeholderism and governance works. In many countries we have seen specific cases of civil society being given increased voice, legitimacy and democratic space, as part of the EITI process. In others, where this voice has been threatened or intimidated, the EITI has proven to be a critical instrument ensuring that civil society can play its rightful role in governance and society. I am encouraged by the extent to which the EITI is contributing towards trust-building.

Building on this, most of the countries that are now joining the EITI are not those plagued by corruption in the extractives sector. Governments, like Norway with their plentiful oil, want to use the EITI to inform the public on revenues and address some misunderstandings about contracts and deals. Emerging economies are joining the initiative, as Indonesia has in October 2010. Others like Nigeria use the EITI as a way to engage communities on a wider set of issues informing the Petroleum Industry Act. For post-conflict countries, like Iraq and Liberia, it is a part of a wider peace and reconciliation process.

[87] The others are Cameroon, Central African Republic, Republic of Congo, Côte d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Ghana, Kazakhstan, Kyrgyzstan, Mali, Mauritania, Mongolia, Niger, Nigeria, Norway, Peru, Sierra Leone, Tanzania, Timor Leste, and Zambia.

I am also encouraged to see how most of the world's large companies are embracing the EITI, like Statoil in Norway, to show communities how much they are paying to various levels of government. The EITI is evolving well beyond a 'resource-curse' initiative and into a vehicle to build trust at the regional/local level. This, I believe, could provide some salutary lessons for a world facing the dangers and difficulties of financial volatility and distrust.

It is not a matter of creating new models for the transformative harnessing of the extractive sector; it is a matter of providing the guidance, information and the platform, for all stakeholders, especially civil society, to play their full role in its management. The EITI is becoming a community, bringing together countries that have managed their resources well, such as Norway, with those that have a lot farther to go.

Chapter 7

Is There Need for EITI Reloaded? An Assessment of the EITI Process

Dauda S. Garuba [88]

It is now eight years running since the Extractive Industries Transparency Initiative (EITI) was launched as an international coalition of governments, companies, civil society groups, investors and organisations dedicated to promoting global standards for revenue transparency in oil, gas and mining. The central idea of that proclamation was to get natural resource extraction companies to publicly disclose what they pay to governments of their host countries and for the latter to disclose the receipts of such payments, with a view to empowering the people in whose interest the accrued revenues will be spent to achieve poverty reduction. The EITI is premised on the growing concerns about the irreconcilable gap between the quantum of highly prized natural resources exploited in many countries and the unenviable report card of underdevelopment posted by these countries whose governments continue to maintain a veil of secrecy that enables institutionalized corruption and mismanagement.

To the extent that sustainable economic growth and development depend on a number of governance principles and practices, the EITI emerged to provide answers to how best to balance investment for future generations with development needs, avoid harm to non-mineral sectors of the economy of resource rich countries, establish proper financial oversight and accountability and avoid misappropriation, as well as minimize the risks from political instability and conflicts (Blair 2003). The initiative defines its relevance and thrives on such key issues as:

- The alarming failure of highly prized natural resources to translate into economic growth and sustainable development in resource rich countries,
- The fears that increased discovery, exploitation and revenues from natural resources by new producing countries will be frittered away in a manner that exacerbates poverty, and
- The deepening governance problems and systemic implications in many resource rich countries.

[88] Mr. Garuba is Nigeria Programme Coordinator, Revenue Watch Institute (RWI). The views expressed in this paper are personal to the author and not necessarily of RWI for which he works.

The Gulf of Guinea is by no means insulated from all the above problems. This is particular so, as the region has attracted international attention and interest in the last decade – both for bad and for good. While the negative side is embedded in the broader security question with its multi-faceted character in the Niger Delta crisis, illegal oil bunkering and the inter-mix and interaction of oil economy and global security/terrorism discourse, the positive side has been interpreted in terms of the opportunity it holds for revenue generation as the US and the rest of the West (in the course of the new quest for energy security) re-direct their thirst for oil to a more peaceful Gulf of Guinea, where reserves are growing as fast as the receding interest in the conflict-prone Persian Gulf (Lubeck, Watts and Lipschutz, 2007:1). If the long time intention of the US to increase its oil and gas supply from the Gulf of Guinea to about 25% by 2015 is anything to go by, it is only reasonable that countries in the region from which such supplies will come deepen the EITI process with a view to maximising the opportunities it holds for revenue transparency, poverty reduction and development.

It is against the backdrop of the foregoing that this paper examines the contributions of EITI to transparency and better governance of oil and gas with a view to zeroing in on the limitations and challenges posed to its operations and to strengthening the global initiative as it enters into the next critical phase defined by validation.

EITI and the Race against Darkness: How Good … so far?

The EITI has grown into an important platform for change with 33 EITI implementing countries across the world, with only five attaining *Compliant* Status having completed the validation process. Two of the 19 other countries who were undergoing validation exercise got delisted in April 2010, while the remaining 17 countries had their original deadline of 9 March, 2010 extended by the International Board to enable them meet the full requirements for Compliant Status. The EITI continues to grow significantly as a leading example of an international multi-stakeholder initiative dedicated to making natural resource wealth become a key engine for sustainable economic growth for development and poverty reduction.

Achievements

From the time the idea was first muted by former UK Prime Minister Tony Blair at the World Sustainable Development Summit in Johannesburg in 2002, through the

Lancaster House Conference in June 2003 where the EITI principles and Criteria were developed, and up to the very latest 12th International Board meeting in Dar e Salaam (October 2010) which culminated in critical decisions on individual countries' requests for temporary suspension, validation, extensions and candidate applications, there is much to be appreciated about how the EITI has remained a robust initiative. It has done so while maintaining a flexibility that allows implementing countries to shape their processes according to their needs and local challenges. These have been the greatest achievements of the EITI. Nigeria is one of those countries that have effectively utilized this opportunity to conduct its first ever comprehensive EITI reconciliation (1999-2004) in the history of its oil industry.

Another identifiable achievement of the EITI has to do with the improved level of citizens' understanding of the working of the extractive industries and the space it has created for civil society and media engagement with governments and industry operators, based on revenue data that have been placed in the public domain. Prior to the initiative, citizens and civil society discussion of the extractive industry (especially oil and gas) had been critical and not borne out of insider knowledge. But with the advent of EITI and the strict criteria for civil society participation, some leverage, no matter how inadequate it may be seen, has been achieved by civil society.

The EITI process has also facilitated access to information on the extractive industry and its governance. This is practically demonstrated in the EITI reconciliation reports of the various countries. Besides, Nigeria, Camerouon and Ghana are countries within the Gulf of Guinea that have produced EITI reports on payment of oil companies to governments and government receipts of such payments, while the process has also opened up opportunities for Contract transparency in Liberia and Sierra Leone. This has never happened in the history of these countries, especially Nigeria. As at October 2010, a total number of "47 annual and semi-annual EITI Reports have been produced by 22 countries (including Equatorial Guinea) since reporting began in 2005", with all covering 55 years worth of revenue data as some countries have produced reports covering multiple years" (EITI 2010:2). What has remained particularly interesting about the process is the manner in which the quality and regularity of the reports continues to improve, while the information they provide continues to expand opportunities for people to develop their knowledge about the extractive sector in their countries.

Also, as part of fallouts of governments' publication of EITI reports, several innovations – innovations because they have never happened before – have seen the light of the day in many countries. Among these are: minimalist remediation, pressure on intergovernmental agencies to coordinate and live up to their responsibilities and the kind of international attention thus created. All these have never happened before the EITI emerged as a global initiative.

The EITI has provided the requisite forum for dialogue and a platform for broader reforms. For instance, Nigeria signed on to and launched its version of the EITI in November 2003 and February 2004 as part of institutional and governance reform around anti-corruption agenda of former President Obasanjo's administration. The anti-corruption reform agenda itself was part of a holistic economic reform agenda with main components reflected fiscal policy reforms at the macro-economic level (ECA, DAS, Debt relief), Public Expenditure Management (MTSS, MTEF & pro-poor expenditure budget), Structural reforms (Privatisation & Banking sector reforms) and Public Service reforms (downsizing and rightsizing of the labour force). The anti-corruption reform agenda resulted in the passage of big time legislative instruments such as Fiscal Responsibility Act (FRA), Public Procurement Act (PPA), Economic and Financial Crime Commission Act (EFCC) and the NEITI Act 2007. These instruments became part of the legislative frameworks with which the former President's Economic Team carried out its official assignments.

A lot of capacity has also been built among citizens as a result of the EITI process. Much of this has happened courtesy of the Multi-donor Fund (MDTF) which has given appreciable leverage for countries and civil society organizations and activists to learn about technical issues on extractive industries. The MDTF was put together by Australia, Belgium, Canada, the European Union, France, Germany, Netherlands, Norway, Spain, Switzerland, the United States and the United Kingdom (the founding contributor) to help support the World Bank Group's technical assistance and financial support to EITI-implementing countries and global knowledge activities on EITI (World Bank, 2008). Besides, Revenue Watch Institute (RWI) and Norwegian Agency for Development Cooperation (NORAD) have also been in the forefront of developing civil society capacity on extractive issues through their fellowships. The opportunity has facilitated discussion of extractive issues and transparency in their better governance among citizens across poles and hemispheres. This trend is also being largely replicated at national and local levels in many EITI implementing countries.

The EITI has democratised countries' capacity to move beyond the basic reporting standards to demonstrate their commitment to the principles of the initiative. For instance Nigeria adopted aggregated, instead of disaggregated, reporting system. It has also ensured that its audit covers financial, physical and process. According to Shaxson

(2009:2), "The reports went far beyond the basic core requirements of global EITI; it produced not only raw data on the industry and on tax and other fiscal matters; but it also provided crucial and useful insights into processes involved in the industry that have helped many insiders and outsiders to see the oil." RWI has also in this context commissioned a study through Sefton Darby (2009) that makes a case for company-by-company reporting of data in the extractive industries transparency initiative, which in itself lauded Nigeria's step in this direction.

Limitations and Critical Challenges

The success story of the EITI has not foreclosed its limitations and challenges. First of such challenges is the tendency to permanently consign the initiative to transparency as if that is the beginning and end of it all. The intrinsic links it is supposed to have with improved livelihood, contract openness, job creation, among others, have been terribly undermined. While this is not to say that the EITI has failed, it underscores the fact that it has not been configured to respond to all the situations mentioned above. It is thus made to look narrow, both as a concept and as an initiative.

Also, the extent to which the EITI has caused citizens to demand accountability from their governments is still very limited. It looks very much as an assumption and a given on the part of the framers of the EITI that access to information and transparency was going to automatically translate into an Eldorado for resource-rich countries. Little consideration, as it seems, was given to other equally important processes and institutions that can complement the EITI process. Among these are the legal regimes and the independence of the judicial systems in many of the resource-rich countries which are outdated, weak and inadequate for the kind of task that was envisaged. Added to these are other conflicting government policies and processes invented to circumvent the system. A good example is the case of "Right of first refusal" or "First right of refusal" in Nigeria, and the important issue of election rigging in many resource-rich countries which have continuously foreclosed opportunities for accountability.

Added to the above is that while the diversity of experiences and the absence of a general template for assessing performance of EITI implementing countries constitute the uniqueness and strength of the initiative, it has also become its albatross. There is a growing concern among stakeholders about the absence of specificity in the EITI criteria which would have applied to the form and content of EITI reports that have grown astronomically to 47 between 2005 and October 2010. Table 1 below shows an overview of the EITI reports from inception in 2005 up to October 2010.

Table 1: Overview of EITI Reports

Country	Status	Validation Deadline (extended where marked*)	Reports pub-lished	Last report published in	Covering years	Covering sectors	Aggregated/ Disaggregated	Comments
Azerbaijan	Compliant		12	2010	2009	Oil, Gas and Mining	Aggregated	
Liberta	Compliant		2	2010	FY end June 2009	Oil, Gas, Forestry, Agriculture	Disaggregated	Excellent Summary Report
Cameroon	Candidate	9 Sep 2010*	3	2010	2006 – 2008	Oil, Gas and Mining	Aggregated	
Congo	Candidate	9 Sep 2010*	1	2010	2004 to 2006	Oil & Gas	Aggregated	Second Report disaggregated by category of revenue
DR Congo	Candidate	9 Sep 2010*	1	2010	2007	Oil, Gas and Mining	Disaggregated	Second Report to cover entire minerals sector
Gabon	Candidate	9 Sep 2010*	3	2008	2006	Oil, Gas and Mining	Aggregated	2007 – 2008 Report in Progress
Ghana	Candidate	9 Sep 2010*	3	2008	2005	Mining*	Disaggregated	Includes sub-national payments
Kazakhstan	Candidate	9 Sep 2010*	4	2010	2005 to 2008	Oil, Gas and Mining	Aggregated	
Kyrgyzstan	Candidate	9 Sep 2010*	2	2009	2004 to 2008[89]	Mining	Aggregated	
Mali	Candidate	9 Sep 2010*	1	2009	2006	Mining	Disaggregated	Report disaggregated by producing mine
Mauritania	Candidate	9 Sep 2010*	2	2007	2005 to 2006	Oil, Gas and Mining	Aggregated	
Niger	Candidate	9 Sep 2010*	1	2009	2005 to 2006	Mining	Disaggregated	Good Summary Report
Nigeria	Candidate	9 Sep 2010*	2	2009	2005	Oil & Gas[90]	Disaggregated	Includes attempts at physical & process audits of the sector
Peru	Candidate	9 Sep 2010*	1	2009	2004 to 2007	Oil, Gas and Mining	Aggregated	
Sierra Leone	Candidate	9 Sep 2010*	1	2010	2006 to 2007	Mining[91]	Disaggregated	Excellent Summary Report
Timor-Leste	Compliant	30 June 2015	1	2009	2008	Oil & Gas	Partially Disaggregated	
Mongolia	Candidate	9 Oct 2010[92]	3	2010	2008	Oil, Gas and mining	Disaggregated	Excellent Summary Report
Côte d'Ivoire	Candidate	12 Nov 2010*	1	2010	2006 to 2007	Oil & Gas	Aggregated	Second Report in progress, aggregated, now to include mining
Central African Republic	Candidate	20 Nov 2010	1	2009	2006	Mining	Aggregated	Reporting in fully informal sector Second Report in progress, disaggregated
Norway	Candidate	10 Feb 2011	1	2010	2008	Oil & Gas	Disaggregated	Excellent Report
Madagascar	Candidate	9 Mar 2011	0[93]	2010	2007 – 2009	Mining	Disaggregated	Plot covering 2 companies only
Guinea	Candidate Suspended	Suspended	1	2007	2005	Mining	Disaggregated	Continuing with Second Report during suspension
		Total	47[94]					

* Considering extending coverage to the Oil & Gas sector for future reports
[89] Data for Intervening years has also been published
[90] Considering a separate report for mining
[91] Considering extending coverage to oil exploration in future reports
[92] Deadline for submission of Secretariat Review
[93] Pilot Report
[94] Includes Equatorial Guinea (delisted)

Source: EITI, EITI Implementation Report No12, EITI Secretariat, Oslo, 4 October, 2010, p.4.

The diversity of experiences revealed in the EITI implementation above has affected consistency, quality of EITI Reports and stakeholders' expectations on credibility and comparison. Indeed, it is difficult for people to understand why an international initiative that seeks to bring transparency and accountability to payments and receipts of extractive revenues will only set minimum standards and allows implementing countries to accommodate local challenges and opportunities. This is the context in which Azerbaijan's validation, without a Multi-stakeholder Working Group (MSWG) and disaggregated reports, has been 'contested', while Nigeria continues to tread a hard road to validation, despite the demonstrated commitment of energy and time to the process since the EITI meeting in Washington DC in 2009. Having devoted all its attention to validation since after that meeting, it has become a matter of surprise, and of concern, to close watchers of the EITI process in Nigeria that the country still experiences difficulties in attaining validation. This is particularly worrisome, given the international leadership recognition that the country commanded in EITI implementation in the past.

Also, the challenge posed by the diversity of reporting templates based on country-specific peculiarities is further compounded by the growing redundancy about the use of the critical mass of the EITI data that have been so far collected. What will be done with all of this data, particularly with respect to getting governments and people to act on them, is an issue that has still not been fully resolved, even at the level of the EITI Secretariat in Oslo.

Another notable shortcoming and challenge of the EITI has to do with the manner in which it has become a vehicle for the promotion of revenue transparency, while ignoring the expenditure side.[95] At the moment there is the fear that EITI processes (signing up, candidate, compliant and validation) would soon become a *mere ritual*, especially if it does not translate to poverty reduction, growth and development. With growing poverty in the land, even among countries that have signed on to the initiative and kept 'religiously' to the audit, the essence of the initiative stands the chances of being lost, if it does not translate to food on the table for the common man. Already, there has been a teaser in certain quarters probing if the EITI is not a *Western Agenda*. Also, there have been utterances even among EITI protagonists about the fact that the EITI is not a solution to the "Resource curse". As true as the latter statement seems, we must appreciate the need to use it as entry point for the discussion of other wider resource-governance issues that promote poverty reduction.

[95] See Nicholas Shaxson, Nigeria's Extractive Industries Transparency Initiative: Just a Glorious Audit?, Chatham House, London, 2009.

The foregoing has also drawn attention to "internal discussion about the extent to which EITI should focus on 'broadening' (i.e. signing up more countries) potentially at the expense of 'deepening' (i.e. providing more support to existing operations), and to the validation process through which countries are becoming 'compliant')" (Shaxson 2009:3). Beyond the debate at local and international levels, not much awareness about the EITI has percolated down the communities of implementing countries. This is currently at the heart of debates about EITI implementation in Nigeria.

Towards Greater Transparency: Way forward for Innovative Mechanisms

The Extractive Industries Transparency Initiative (EITI) has indeed recorded many successes, but beneath those successes are limitations and challenges. Now the initiative has entered into another face. That phase is about to be expanded, with many countries preparing to enter into validation stage as from June 2010. In this new phase, quality control and demonstrable results from resource-rich countries will be paramount.

To take EITI to the next phase the following recommendations are made:

- There is the need to revisit the original objective of the EITI (without necessarily expanding its scope), within the context of poverty reduction, growth and underdevelopment that were the reasons for the emergence of the initiative on the world stage. Transparency should not be an end in itself. The World Bank attempted this – even though on an expansion level – when it announced the "EITI++" to move beyond resource revenue monitoring to include a slate of other different options such as decision on resource extraction, as well as the management of price volatility, expenditure and other aspects of natural resource management that is outside the scope of EITI. It turned out to be a mere slogan which could not be driven to a logical conclusion.
- This brings one to the imperative of linking extractive revenue transparency with budget (income and expenditure) work, and where possible the interface should be

extended to value for money on expenditure side. Such a step will expand stakeholders' work on fiscal responsibility, public procurement and whistle-blowing.

- Given that the flexibility required to apply EITI criteria across a broad range of participating countries forecloses the possibility of a single EITI report format, concerns should be how to structure EITI to effectively respond to the value chain. It will be interesting to see how much EITI reconciliation (or 'right of first refusal', in Nigeria parlance) responds to validation. In doing this, the idea should not be to develop a silver bullet, but a multifaceted analytical approach.
- It is obvious that EITI cannot solely solve the problem of the 'resource curse'. It has to interact with other existing initiatives. Tony Blair had identified this as far back as June 2003 at the Lancaster House conference where the Principles and Criteria of the EITI were developed and adopted, when he recognised how EITI's interaction with the New Partnership for Africa's Development (NEPAD) would help strengthen the process. Today the African Peer Review Mechanism, APRM is a well deserved child of NEPAD that can help complement EITI's achievements and translate them into not only a more accountable and democratic oil and gas governance, but also for other mineral resources for the benefit of the citizens of resource-rich countries.
- There is the need to target sub-national level governments for EITI work, given that they also benefit from extractive revenue sharing formula in many resource-rich countries. Revenue Watch Institute is currently piloting works along this line in four countries (i.e. Ghana, Nigeria, Indonesia and Peru) and quite a lot of lessons are being learnt which will be useful during the process for scaling up.
- A push for international financial reporting standards must be seen as a must if the huge data generated in the EITI reports around the globe is to serve its purpose of being used to combat the challenges posed by opacity and underdevelopment in many resource-rich countries.

Conclusion

The EITI has come a long way, given the manner it has become an important platform for positive change in the management of oil, gas and mining revenues for public good. As prominent and positively rewarding as the global initiative has manifested, it has not been without its limitations and challenges. As the world gradually progresses to the next stage of the EITI implementation to be defined by validation – a status now currently held by five countries (Azerbaijan, Timor-Leste, Liberia, Ghana and Mongolia), it is imperative that proper attention is given to the recommendations proffered above so as to facilitate the process for countries in the Gulf of Guinea to realise the optimum benefits of their natural resource endowments.

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Chapter 8

The Brazilian Experience: A New Independence?

Ildo Sauer [96]

1. Energy, Society and the Role of Oil

The history of mankind shows strong links with the process of social ownership of energy. Our species, the Homo sapiens, has lived for about 200 thousand years. He spent most of this time hunting and gathering what photosynthesis, the energy from the sun collected by nature, offered. Agricultural development was a revolution. 12 thousand years ago he learned to control photosynthesis, aided by water cycle, also moved by the Sun. Plants and animals were chosen to feed on these plants, to provide food, transport and work for human beings. Then emerged farming communities, and within a few millennia, spread over all the continents. They were, however, very limited societies. They made full use of slave labour. They depended on nature and physical human labour to ensure the production of their livelihood needs.

A new and profound transformation began to take place at the end of the XVII century with the English Revolution and was consolidated around the end of the XVIII century, with the American and French revolutions. Its energy base was the use of coal, burnt in order to heat water and produce vapour to fire the pistons and move machines – weaver's loom, trains, and ships. That new technological base system was essential for the development of the capitalist mode of production, which makes use of a new work schedule, with paid labour. The worker – now a peasant expelled from the field, who no longer owned means of production – working with his employer's means of production – is able to achieve much higher productivity; thanks to the new value that he added to the goods through his hard work, within a much shorter time, due also to the speed of the machines – the value of the finished work, the wear and tear of the machines, the equipments and the buildings belonging to the factory owner. Finally, that new technological base and the real capitalist system underwent a kind of second revolution.

[96] Ildo Sauer holds a Ph. D in nuclear Engineering, a Full Professor in Engineering in the Institute of Electrical Engineering and Energy in USP, was the Director of Gas and Energy of Petrobras (2003-2007).

At the end of the 19th century, the emergence of telecommunications, generators, engines and electrical transmissions and, mainly, petrol and diesel-fuelled internal combustion engines, replacing coal and carriages gave rise to the automobile industry. Socially, that was the time capitalism was monopolised, cartels were formed, associated with the financial system. This led to an unusual higher production of goods and merchandise. And their circulation and consumption at an unprecedented speed, thanks to oil. Oil became the main source of energy at that time, the urban-industrial way of life, which has continued up till now. It is the most flexible which mostly facilitates production and consumption. It enabled machines to move without depending on structured and costly networks. Its social ownership led to an extra rise in labour productivity. This explains its huge value. The surplus value due to its introduction into the social process of production and circulation was enormous when compared with the cost of its production. When the oil industry began, the net available energy was at the rate of 1 to 100. Or rather: the amount of effort spent was equivalent to 1 barrel of oil to obtain 100. Today, the rate is 1 to 30: the amount of capital spent and human labour is equivalent to a barrel of oil to produce only 30 barrels. The problem, however, must be seen, from this ever increasing cost, in a comparative manner. A more competitive alternative source to oil today, the Brazilian ethanol, is at a rate of 1 to 8. The bio-diesel, the diesel oil produced from vegetables, is 1 to 1. Direct conversion of the sun into electricity, photovoltaic, has a similar ratio. Today, oil is produced at the cost equivalent to 1 to 10 dollars a barrel. Its market value fluctuated in the last few years between 60 and 150 dollars a barrel. A huge surplus of more than 50 dollars per barrel! The outcome of this is the difference in revenue being vied for by the big companies and the States in the economic, political and ideological fields. The world economic system consumes about 30 billion barrels annually, allowing for the ownership of an economic surplus of two trillion dollars annually.

The problem cannot be linked to a natural resource since it is within the society, it must therefore be in its organisation for production. The total demand for oil is not determined on the basis of countries but on the basis of how production and distribution are organised in the world today, together with the movement of people on a global scale. Oil continues to play an important role so that this type of production continues. We are talking about the real world, of urban societies today, with huge car-manufacturing industries in the rich and growing countries in very important emerging countries like China, for example. Where is this special characteristic of oil from? In the world today, the most available stock of energy resource is coal.

There are also large quantities of uranium. In terms of flow, the amount of energy that reaches the earth from the sun and returns into space after some transformation is enormous. Each of the three forms that the solar energy assumes in its action on the Earth – hydraulic energy, wind energy and energy from photosynthesis – has an annual value of more than the total accumulated stock of oil. However, in terms of the role that oil plays in the industrialised urban system, which emerged from the Second Industrial Revolution, no natural energy resource contributes for more than it in turning the wheels of consumption. Consumption in turns moves the wheels of production while the latter makes the surplus-generating machine work faster. One can imagine changes in this type of urban-industrial model and the transition to the other, with a lesser use of energy. For the other types of energy to play this same role, however, it is necessary to improve the technical conditions of its ownership so that they could use less capital and less intensive work. Ecological economists talk of the need to change this paradigm. It is necessary and possible. It will, however, take time. There is no political force now capable of ensuring and speeding up this passage.

Today , there is also an energy transition process under way, as a result of talks on climate change and also the prospects of the depletion of oil reserves, for the rate of discovery of new deposits does not take into account the rate of rise in consumption. Even so, when one considers the social structure of production, persistent urban-industrial pattern of development that emerged from the industrial revolutions, one has to admit that the role of oil is still phenomenal. There are two reasons for the need for energy transition to the sources. The first is the real and total depletion of oil, and the second is how to deal with climatic change. The first problem, in any case, will have to be faced, because the conventional oil resources are being depleted at the current rate of consumption of about 85 million barrels of oil a day. This means that the remaining two trillion barrels of the known conventional oil resources will be depleted, in any case, in the next three to four decades, given that consumption and production are still on the increase. In spite of the concern for the issue of climate change, the carbonised matrix of the world economy, and attempts to look for new sources of energy to enable the substitution of oil in the light of its depletion have not being fastracked, while aiming also at reducing gas emissions due to the green house effect. Simultaneous solution of both problems requires investment in science and technology in order to mitigate the impacts that this substitution will have on the production and consumption structure. It is not that a shift in the pattern of social development of the current societies to others, which use much less cars as a means of private transport, for example, is unnecessary. However, for such a change of standard to take place the will is not only enough: it is necessary to develop productive forces, invest in new technologies, in order to increase their production levels. At the same time, work in order to bring about a change in the social pattern has to be carried out.

The use of oil and its relationship with the emission of green house gases is a real issue, which must be understood in its entirety. The major link of the issue of pollution is not a natural and physical link but a social one. Thus, the capitalist mode of production, hegemonic in the whole world, has brought about a kind of permanent necessity to induce higher consumption leading to increased production and thus generate economic surpluses which favour accumulation, and at the same time, an increase in the direct significance of this. In the current production structure with 6.7 billion people on earth, with about 190 million people in Brazil, the hegemonic system enables these people to survive, although most of them in an unequal manner. There is an asymmetry among the countries and within societies: concentration of access to goods and services in favour of the elite. Most live in precarious conditions in the whole world and in Brazil also.

The dilemma facing Humanity is: how to produce more and distribute production better in order to meet the needs of the majority of the population, by making use of energy sources with fewer impacts, which reduce the productivity of the economic system by further reducing the accumulation of surpluses. The solution to this dilemma lies in the change of the pattern of consumption, in an increased and better distribution of production; this involves the need for higher labour productivity and capital, the use of sources such as oil, potential generators o f surpluses, and also investments in technology and science necessary to advance the production process with the use of sources with less impacts. Oil will still have a great value while the basic characteristics of the current pattern of urban and industrial development, in its central role in making feasible the paradigm shift in the existing production and consumption patterns and in the real energy transition, persist.

Oil will maintain its high value for a long time, three or four decades, at least. Whoever controls the ownership of any significant part of the use of this natural resource will control part of the power. Where is the remaining oil? At three borders: in Central Asia; in Africa, in countries such as Nigeria, Sudan; and now in the Brazilian pre-salt. This gives an idea of what is at stake. The political importance of state intervention as a way of owning part of the extra oil revenue is relatively recent. Of

course, state intervention in the economy is older. It was broad-based with the 1917 socialist revolution. Specifically, however, in the case of oil, it occurred in 1938, in Mexico, with the establishment of the state oil company, Pemex. The establishment of OPEC in 1960 was another step in the political understanding of the issue of ownership of oil revenue. With the price shocks of 1973-1978 this special role played by oil becomes more evident. This is what is being contested, not only here in Brazil, but in all parts of the world today. The National Congress will have the extraordinary responsibility of deciding on who will benefit from the big revenues to be derived from the pre-salt, one of the last great world oil frontiers.

2. Petrobras: Urbanisation, Industrialisation, Self-Sufficiency and the Discovery of Pre-Salt

The perception of the role of social ownership of energy, especially of oil and electrical energy, in the processes of social transformation, brought about by industrialisation and urbanisation, was the underlying reason for the Brazilian struggle, in the 1940s and 50s, which led to the state monopoly of oil and the establishment of Petrobras, Eletrobras, Telebras, BNDE and CSN as indispensable instruments for practical feasibility of transforming the agro-commercial society into another. In the 40s/50s, realising the importance that the energy domain would assume in the process of product modernisation, the campaign dubbed “The oil is ours” began. Petrobras was established in the course of this movement. Petrobras’ mission in its initial stage, in the 50s-70s, was to ensure that every region in the country had access to petroleum products, an essential factor for the modernisation of living conditions. It was established with the challenge to find and supply oil to the domestic market. National production reached 1.6% of our consumption. It was decided to expand the existing refinery sector, with the aim of reducing expenditure on imported petroleum products. Petrobras performed that task, mainly with imported oil. The company intensified exploration and worked on the training and specialisation of is technical staff. In an attempt to ensure supply, the company carried out activities outside Brazil and discovered, at that time, the largest oil field in Iraq, called Majnoon (the Extravagant One) given its enormity, which was , however, nationalised.

With the first oil shock in 1973 and the second in 1979, a new situation developed, in which the world economy was plunged into crisis. The Keynesian paradigm of a strong and full state intervention also entered the crisis situation, as the rate of accumulation of capital drastically reduced. Countries like Brazil, which had embarked on an accelerated development project, financed by external sources became doubly threatened: by an extremely high oil bill, and by the world inflation coupled with high interest rates resulting from the American crisis of the 1980s.Those conditions pushed Brazil to a new threshold of deep crisis and Petrobras received a new mission. Faced with that crisis Brazil had to change is strategy: the aim was to attain self-sufficiency. Unable to find oil in the ground, Petrobras, to achieve its mission of reducing dependency on energy, moved into the sea. In 1968 offshore prospecting had started in the newly discovered Guaricema oilfield, Sergipe. In 1974 the Campos basin, which is currently the major producer in Brazil, was discovered. The first place was Garoupa, followed by the large fields of Marlim, Albacora, Barracuda and Roncador. It was at this stage that the deep and ultra deep-water exploration technology was discovered. Gradually, exploration in a few ten-meter deep waters increased to hundreds of meters, and later on to one thousand, two thousands and today to an approximate depth of three thousand. This was how Brazil attained self-sufficiency in 2006. Self-sufficiency enabled the country to achieve macroeconomic stability, even recently, when oil prices exceeded 100 dollars.

The aim of the Perobras' strategy has been to invest a lot in production and exploration both in Brazil and outside since there is a tendency of a complete evaluation of oil in this pre-depletion scenario, notwithstanding restrictions placed by climatic change. Natural gas is already an added possibility of creating wealth since 150 cubic meters of gas enables the substitution of one barrel of oil, apart from enabling a relatively gradual decarbonisation. Attempts , however, at the biofuel segment and other renewable sources such as aeolian and photovoltaic are the basis to immediately look for an alternative to the final depletion of oil and a definite answer for the decarbonisation of the energy matrix. This strategy is the outcome of great historic work. Its great wealth is not the discovered oil but the ability to discover oil, develop it, develop natural gas, and come up with solutions to the inevitable new energy transition of the post-oil era, including biofuels and other renewable sources. Petrobras' wealth is mainly in its company's employment of 75 thousand people in a historic effort of the Brazilian people who believed and supported it when it was threatened with privatisation, when it was called Petrobrax, at the height of neoliberalism of the 90s .

Training in exploration, development, production and management through interaction with big leading edge world organisations, enabled Petrobras to try a new

geological model , developed over decades , which foresaw the possible existence of a second oil layer below the salt layer of the first one, which would lead to this self-sufficiency. The first oil find in the pre-salt layer was in the Parati block in 2005. The first well with spectacular results, meanwhile, was the 1-RJS-628A of Tupi. The drilling of the first well began in September 2005. When the post – salt layer was struck in October, no oil was found. That was an opportunity to test the new geological model which had been developed many years ago and which showed the possibility of the existence of plenty oil further below, in the pre-salt layer. A decision was taken to carry out deeper drilling: in early May 2006 a reentry into the well was made.

At the beginning of July a big discovery was made. It was, however, only one well. Hence from March 2007 the 3-RJS-646 well was drilled, as an extension, with which the extent of the deposit could be measured. Early August, when oil was discovered, a huge potential of deposit was confirmed and later estimated at between 4 to 8 billion barrels of light crude oil, equivalent to one-third or even two-thirds of the total reserves in Brazil. The ANP was informed, as was requested by law. The government was informed. The Chief Executive Officer of Petrobras and the director of Exploration and Production met with the president in the Palácio do Planalto for long hours advising him about the significance of that discovery. Today, Petrobras geologists still do not know the exact extent of the oil reserves in the pre-salt layer. It is a question of huge reserves without doubt. Still the extent of salt formation and of oil underneath this formation, which has more than 100 million years, is not known. It is possible, for example that the potential area extends beyond Espirito Santo up to Sergipe. Some say that the nature of the rock salt of that region is the same as that of the layers which close the oil reservoirs discovered below the sea in Campos and Santos.

3. The Energy Model: Liberal Reforms and Lula's Proposals for 2002

Before the 2002 elections there was a big debate in the country on the type of ownership of the energy by the society. Basically, there were two opposing points of view:

One was to try and fit this ownership into a wider plan of liberal ideas, which involved a restructuring of production under the hegemony of financial capital and, intrinsically, that was a solution to the crisis based on the capitalist pattern of development, the Keynesian type, with a strong state intervention and which, after initial success, of years of the so-called post-war miracle, ran into trouble. In Brazil that reorganisation began slowly during Collor's government. It became more developed with the FHC. In the public services, reorganisation resulted in the privatisation of various sectors, such as the telecommunications, electricity and petroleum sectors, with the sale of a large portion of Petrobras' shares in an attempt t to change its name to Petrobrax, in order to supposedly facilitate its internationalisation. Regulatory agencies were established for these services-ANP, for oil and natural gas; Aneel for the electricity sector; Anatel, for the telecommunications – to ensure returns on investments and attract foreign capital.

The opposing view was that there was need for a social control of the social services that fashion out a concrete way of urban life which emerged from the Second Industrial Revolution – sanitation, telecommunications, and provision of electricity and transport services. How should this control be exercised? It can be said to be rudimentary. In this case there were two sides to it. One was to revert to the scheme of subventions, social taxes, in order to maintain these services at lower prices and thus reduce the cost of production of the labour force. The other one, somehow, recognised the need to accept certain market rules which were in force. It, however, sought to own part of the revenue from the use of natural resources, which would bring about more productivity of consolidated human labour, especially, the potentials in water resources and crude oil deposits, as well as control, as a matter of social interest, the monopolies in service delivery. That vision to use market mechanisms and own some revenues accruing from public services was the one that finally held sway. A decision was taken to use the so-called revenue from water resources and oil, for example, as a basis for a change of the liberal pattern. There was a reason for that. In spite of privatisations, most part of the electricity sector – more that 80% of generation, for example, was still in the hands of the government. The proposal made was that companies should sell power at a price only a little lower than the market price and the difference between that price and the lower cost of generation should be set aside for a social fund.

In the oil sector, where Petrobras still had control, a proposal was made to change the system of granting oil concessions by the FHC government. In a book on the Reconstruction of the Brazilian Electricity Sector (Sauer et al., Peace and Land,2003) written at that time to throw more light on that proposal, there was a proposal to introduce a system of sharing as a mechanism that would enable the State benefit from a large portion of the surplus accruing from the oil exploration and production. During Lula's government, although there was a discussion on the proposal to change the system of granting concession to sharing, that did not take place. There was lack of political courage to deal with the interest of the international as well as private Brazilian oil companies and the financial capital in order to change that system. In 2002 it was realised that there was still a significant risk of exploration and, besides, contracts by sharing was still worthwhile and better as compared with those by concession in force. The government spent five years without paying heed to the protests requesting it to change the model put in place by the liberals.

In the electricity sector a process of discrimination against the state companies led to the so-called free power market, giving rise to extremely affordable prices to the big time consumers. This also led to an incredible increase, from virtually nothing, to about 25% of the total energy consumption in the country. That also led to the ownership of part of the surplus, which was being sought for in the larger interest of the public, by a small group of companies. In the oil sector, the concessionary model was kept intact in spite of the large-scale protests witnessed. Politicians, lawyers, professionals in Petrobras, unionised workers, protested against all the rounds of bids for oil blocks called for by ANP during Lula's government. Discrimination against Petrobras was already clear: the reason for the suspension of the eighth round was the fact that the law had admitted that there was a discriminatory clause against the company with regard to tendering, because it was limited to the number of blocks it could acquire. It was also realised that various government sectors were fighting to maintain liberal regulations, in spite of the various discoveries already made in the pre-salt layer. Notwithstanding the mounting pressures to change the system oil exploration, the project aimed at having a Ninth Round of Tenders in November 2007 was quashed, the blocks were selected, advertised and the auction was kept till the eve of its realisation. It was then that the President finally met the National Council for Energy Policy and 41 blocks around Tupi were withdrawn from tendering. However, 11 blocks were maintained within the arch of Cabo Frio, with OGX as the highest bidder, who, without the Government's reaction , had months earlier recruited experts who had strategic and exclusive information about Petrobras.

4. Government's Proposal: Critical Analysis

After the discovery announced in 2007 it was only in the middle of 2008 that the government appointed a commission to formulate new laws for the sector. That commission spent more than one year studying the issue, virtually in secrecy. The commission took about another three months to finally complete its task: four bills were published to reform the petroleum law. In those four bills, the government virtually welcomed all the suggestions made by the social movements, but left everything open, to the extent that it did nothing about them. Production sharing contracts were a proposal and a solution in 2002, when Lula was elected. Today, the situation is different. The new laws have given back to Petrobras the control of the exploration, production and sale process of oil in the country. Only apparently!

Currently, the Administration of the Chamber wants to approve new laws by the end of the month of December, before the Parliament goes on end of year recess, under what is called the emergency ruling. This manner of voting is hasty and improper. Why the super urgency? Why should the government have many resources, which oil can possibly supply, in order to, as quickly as possible, set them aside for a Social Development Fund, which one of the four laws has established? Certainly not!

Let us suppose that everything is done in a hurry:

1. That the new law is even approved this year;
2. That next year the government invites tenders and Petrobras and other companies, under a new set of rules that advocates the sharing of oil obtained, vie for the pre-salt blocks;
3. In more than three or four years after the signing the contracts, the companies explore their areas and install equipment to start production;
4. In the subsequent three or four years, they focus , as set forth in the respective bill, on the production of oil necessary to cover their production cost, the so-called "oil cost", which they alone will pocket;
5. Then, finally, when the sharing of production begins, government's share will first of all go into the Social Development Fund and later when this fund bears fruits, its returns are distributed for the economic and social activities earmarked.

How much time are we talking about? If all goes well, it is only in 2018 or 2020 that the resources will appear in the fund. It is only after perhaps in 2022 that its returns will be enough to finance the country's "new independence". Hence, why this haste? Why is it that elections are very close and these new tenders are presumed to be big business? Some days immediately after the publication of the new

bill, the president of the Republic was in New York and big businessmen offered him a diner to talk about investments in the country. According to the Valor newspaper, the agape cost more than 700 thousand dollars. Two oil sector companies, one of them OGX owned by a Brazilian businessman and the other a multinational, Exxon Mobil, paid the greater part of the bill: each of them, 200 thousand dollars. The haste with which the international petrol companies want to acquire the right to take over the control of the big oil reserves is obvious. It is easy to understand: their reserves are a small fraction of what they used to be in the 60s, when, to some extent, they controlled the world. This haste, however, is not what the country is interested in. A more accurate evaluation needs to be done of the oil that has not yet been auctioned. Petrobras' contract to carry out the exploration process, that is, to know the amount of reserves, the areas they cover, and come up with a plan to evaluate and develop production is essential. By so doing it will be known for sure if there are 80, 100, 200 or more billions of barrels.

It is only this way that production can be planned. One must not lose sight of the fact that OPEC itself does not produce without planning. It strikes a balance between supply and demand and has as the strategic target oil price between 60 and 80 dollars a barrel. The basic ways of running an oil industry – public monopoly operated by state companies or by contract for service delivery, shared production and the granting of areas-have already been made known. The following, however, has not been emphasised: the public monopoly enjoyed by the state operator is a simpler and a more widely used form. This is the rule adopted by Saudi Arabia and all the other countries with big reserves, such as Iran, Venezuela. Whenever necessary they subcontract service delivery and scarcely, the shared production. The other two systems-sharing and granting of concessions used to be hegemonic in the other era, in the 60s, when the big oil multinationals, the so-called Seven Sisters – Shell, Esso, British Petroleum and others – owned about 90% of the world reserves, as compared with less than the 10% they own today. Today the Seven oil Sisters, as recently stated by the Financial Times, are national companies: 1) Saudi Aramco; 2) Gazprom, Russian; 3) CNPC , Chinese; 4) NIOC, Iranian; 5) PDVSA, Venezuelan; 6) Petrobars, Brazilian; and 7) Petronas of Malaysia. The public monopoly system enjoyed by the state-operated company was adopted as the poorest countries became aware of the huge surplus generated by oil and of the need to control it.

A pre-salt oil exploration plan cannot be drawn without knowing exactly what this reserve is. The first decision on the pre-salt huge oil fields should have been to contract Petrobras, which discovered them, to evaluate its total area, through a contract with the government for the cost of the service. Oil is increasingly becoming a geopolitical resource. Huge world reserves are being controlled by nation states and their state enterprises. World oil production today is about 85 million barrels a day, out of which Saudi Arabia produces about 10 million barrels daily and the USA consumes about 22million barrels a day. Let us suppose that Brazil has 100billion barrels in the pre-salt, which is more or less what is being evaluated in the opinion of the various analysts. Should a decision be taken to explore this reserve in 30 years, Brazil will put on to the market about 10million barrels a day, more or less the same as by Saudi Arabia today. Saudi Arabia did not, however, go to the market alone, nor allow the market to decide for her. It helped in forming OPEC. Why? Because the entry into the world oil market of a great actor has consequences on the prices. What is the price of oil today? Before this crisis it was said that biofuels would gain grounds but that the threat was an international crisis, which would bring oil prices down. The crisis, however, has occurred and the oil price is again more or less within the OPEC target range, between 60 and 80 dollars a barrel. This confirms the thesis that holds that oil will continue to be of great value and robust. It also reinforces the hypothesis that the removal of oil from the subsoil and its conversion into money, whichever it is-dollars or yuans – cannot be intelligent. Today, for example, if the money obtained from oil exploration were to be used as Brazilian reserves, it would be bad business. Dollar is bought with public debt documents so as not to cause internal inflation, with the Brazilian interest rates of (Selic) 8.5% yearly. While over there it is used in the US Treasury documents which are paying less than 4% annually. Dollars could also have other uses.

The sovereign fund intended to be set up, with one of the bills laid before the Congress by the government could, for example, buy a large portion of Petrobras' shares which is now under foreign control. Again this is also not good business now, when the oil regulatory framework is changing in the country: probably after the change, the price of shares will be worthless. The fixing of Petrobras' share prices depends on the development of its productive capacity, its rate of new discoveries and its ability to turn these factors into future profits. Basically, however, it depends on how obedient Petrobras is to the rules of the financial market, how the Brazilian government will remain faithful to financial orthodoxy. Shall we be able to understand these things, chart our own course? Or shall we always be slaves to the rules of big capital? Let us not have doubts. The

financial capital is there, looking for profitable uses. Wish that the government could conform to its rules.

To escape this fate the country needs to have a national socio-economic development project, a plan. What is this plan?

It must include education, but there are no plans. They do not exist, nor is there a management capability to execute them, within the necessary scope, of 20 to 30 billion dollars annually. The plan must also include health, which is linked to prevention, sanitation, infrastructure and the urban environment. In this area we have the SUS which, as a concept, is a reference project. It, however, shows the way forward but lacks the resources to arrive there. Brazil's agricultural model also needs to be reconsidered. There is a need to better incorporate the vast majority of the population still living in the fields and plan the occupation of the Brazilian territory, large portions of which are still unexploited or badly exploited, plundered, as is the case of the Amazon. The plan must address our infrastructure, especially, movement within the urban areas and between the economic and geographical spaces in the country. The existing system is the worst possible: energy – intensive, filthy and inefficient. It must be changed in order to evaluate rail transport, river transport, coastal navigation, urban underground rail transport. As can be seen, a national socio-economic development plan requires great efforts. But the country is not prepared for this. What is our Ministry of Planning today? It is only a budget implementation and supervision organ. The government does not have a strategic plan. What has it presented to address the issue of pre-salt oil?

In the four bills presented to the Congress the government basically granted the executive, especially the president of the Republic and some segments of the executive, employees at the presidency of the Republic, the power to determine access to the exploration of the pre-salt. Why four bills and not only one? To split the focus of the problem and give prominence to the role of the central coordinator, who is an executive? The first bill was what established the system of sharing. It was relevant in 2002, today, it is no more. Now the system of sharing was put in place to give the impression that there is a risk in the pre-salt exploration project. To say that the Brazilian State is not capable of managing this risk and, therefore, it has to call on experts in risk management: the big international financial capital. This is not true. What are the risks associated with oil exploration? We can divide them into four categories: geological-geophysical risks in exploring areas to localise the oil; technical and engineering risks, to determine the production structures to be installed in the areas to draw the oil; financial risks in accumulating the capital and promoting investment; and the business risks in knowing how to market oil in a complex market.

The risk in the case of the pre-salt exploration is little and can virtually be eliminated, if the interest is there. Besides, in the bill on the system of sharing the government admitted that it could reduce that risk. ANP was tasked to drill some holes in the pre-salt layer to evaluate the reserves and to this end an agency was already dealing with Petrobras. In addition in article 7 of the bill laid before the Congress, the government declared that the Ministry of Mines and Energy "may" carry out a prior evaluation of the deposits. The expression should not be "may". It should be the ministry "must" carry out prior evaluation of the deposits. Evaluation may take two to three years. This way, the pre-salt can better be demarcated to know if it extends to Bahia and Sergipe. Meanwhile discussions are going on about a national plan for socio-economic development. Unfortunately, still the "may" contained in the bill on the system of sharing is in line with the rest of the regulatory framework announced. This is a kind of circular structure. It looks as if all has been institutionalised: we hear of the National Council for Energy Policy, the new company, Petrossal, the ANP. In the background, however, everything has been centralised in the power of the prince. All the other organs can be dismissed any time by the president of the Republic. There are few instances in the country's history in which a mandate of such a great economic impact had been given to the Congress to countersign. If it were the 100 billion barrels which many suppose are to be explored in 30 years, it is revenue of about half to a billion dollars a day.

The role assigned to Petrobras reinforces the centralised and arbitrary nature of all the projects. How can an oil industry function, generally, in the case of tenders? A consortium of companies or a single company competes for them. If it is a single company or it is the real operator, or contracts an operator of its choice. If it is a consortium the partners succeed in choosing an operator. They enter into a Joint Operation Agreement (JOA), which is the instrument used in defining the rules of the operation. The operator takes decisions on exploration, how many wells should be drilled, within which timeframe, and submit some decisions to the partners. He makes the "cash call", calls up the capital for investments. How would

that be by the rulings of the legislation sent to the Congress? If it is Petrobras which wins the tenders alone, it decides on what to do jointly with Petrossal. There will be a working committee for each tender, on which Petrossal will have half votes apart from the veto power. How will Petrossal, without further appeal, be able to take a better decision than Petrobras, in matters involving a project aimed at developing resources from the block being tendered for? These are decisions involving the knowledge of a wide range of issues: geology, engineering, financing, world oil business. Why does the government think that Petrossal, a company which will be formed now, with a team of professionals already defined as small, must have the final say and not Petrobras? It is because there is within the central core of the government some mistrust of Petrobras. The situation is still more complicated if, in the tenders, Petrobras makes a losing proposal and, as the law stipulates, it has to compulsorily remain the operator with 30% of the capital invested into the tendered block.

All this confusion is the result of the fact that the government, somehow, has accepted all the criticisms made and, in principle, has put Petrobras in a strategic position for the exploration of oil in the country. In practice, however, it has done this in an ambiguous way, which enabled the exact opposite to be done. That block may not have been put out on tender and may have been given directly to Petrobras. Petrobras will be the operator of all the fields and generally speaking will contract all the suppliers and increase the national share of the business. Petrobras will possibly be the company to be chosen to market the oil. It may, however, not be. Petrobras can, for example, decide that Exxon Mobil, or OGX, should market the oil. That partial shadow, that uncertainty, clearly has a purpose. It gives the idea that there is a risk, creates space for the big time risk operators who are those belonging to the financial system. The country gives up its project and plan and remains under the control of the big system.

Let us see in detail the figures on the Petrobras balance sheet (Fig 1). This will serve like an x-ray of what is happening in the oil sector in Brazil today, when a state company has a virtual monopoly over production. It will also help to see how this will be in future, with the hybrid system which the government intends to put in place. As it is well known, the government wants to maintain the loophole created for private capital with the system of concessions established in 1997. With regard to the pre-salt areas and the others considered strategic it wants to establish the system of production sharing.

Figure 1: PETROBRAS ACCOUNTS IN 2008 (In billions of reais)

REVENUE	316
EXPENDITURE	174
***items consumed**	48
***energy and services**	52
***items bought for resale**	53
***depreciation and redemption of debts**	11
***other expenses**	10
VALUE ADDED	142
***Personnel(salaries/benefits/FGTS)**	15
***governors(tax./taxes/contributions)**	85
***profits and dividends, out of which 12 billion from Union**	31
***Interest rates and rent**	11

Source; Petrobras, 2009

From the balance sheet, it stands out clearly, in the first place, that out of the net value added by Petrobras, 97 billion reais were paid as income to the governors. This figure corresponds to 85 billion – transferred to the Union, the States and Municipal areas as royalties, special shares and bonuses as stipulated in the current concession contracts-plus 12 billion, as profits and dividends for the federal government as 40% shares it has in the company. This sum virtually corresponds to 70% of the total extra revenue added by Petrobras. Thus, for each 800million barrels produced in 2008, about R$125 or US$70 per barrel, were publicly appropriated. This means that the country, even though the current law is being maintained, has to increase, and a lot, the governors' income thanks to increased production from the pre-salt deposits. On the scale of countries with large oil reserves, is first of all Saudi Arabia, with 264 billion barrels of oil. Brazil was number 17 with 14 billion barrels. With the first discovery of pre-salt it increased to 20 billion and became number 12, immediately after the United States. How much oil is there in the pre-salt layer? Eighty, hundred or two hundred billion barrels of oil a day?

Today, without pre-salt we are producing 2 million barrels of oil a day. If we have 100billion barrels, we shall, let us say, be able to produce for 30 years, when it is estimated that the oil sector will already have witnessed an increase of 10million barrels a day. Based on the above-quoted Petrobras accounts, that would mean additional state revenue five times more than that of the previous year which was 97 billion. Or rather, about 500billion reais a year, a figure close to the total tax collected currently in Brazil, which is about 800 billion reais. There is a consensus, even with the big foreign oil companies, that the governments' share can be increased, in the new contracts to be signed. Let us suppose that the state's share increases from the current 70% as already seen, to 80% or even 90%, representing an increase in special shares in the concessionary contracts, as preferred by the oil companies or through a system of sharing, proposed by the government. Will this resolve the issue of the ownership of the oil revenue? No. Today, governments use these resources to achieve the objectives of basic surplus, pay interest rates on their huge internal debts, and for other purposes, which , do not in the least , form part of the strategic plan to change the pattern of the country's development .The increase of these resources through the higher quantities of oil to be produced from the pre-salt deposits can also worsen some of Brazil's economic problems. First of all, because the obvious prospects in place are those meant to increase participation in the sector by foreign companies, private ones, and supposedly national but intimately associated with foreign capital.

5. Proposal by Popular Movements with Plebiscite

The basic proposal is to do away with useless speculation, evaluate the pre-salt oil reserves and explore it according to the national development plan. The model of sharing proposed by the government does not depend on the help of the social movements, the defenders of the campaign dubbed "The Oil has to be Ours" who submitted an alternative project signed by about two scores of parliamentarians to the Congress.

The model that the social movements' campaign is based on:

a) The completion of the exploration process, through a contract with Petrobras, to determine the size of and evaluate the reserves;

b) restoration of the state monopoly over oil;

c) 100% renationalisation of Petrobras, through a buy-back of shares and capitalisation with the reserves, evolve a national socio-economic development plan: education, health, urbanisation, housing, sanitation, mobility, digital inclusion, ports, waterways, railways, urban trains, science and technology, development and land reform, and resources to promote sustainable transition to energy;

d) Plan oil production at a rate necessary for the capitalisation of the Social Fund to finance such a plan.

The assessment of the social movements is that financial and technological resources shall not be lacking, for the control of the oil reserves will ensure the financing necessary for its production by Petrobras, which has more training in the pre-salt area and with a guaranteed access to all the leading edge technologies available in the world. Finally, to deal decisively with the new situation that has arisen as a result of the discovery of the pre-salt oil, a situation that is likely to have unusual repercussions on the lives of Brazilians. It proposes a plebiscite with two questions, to be held together with the 2010 presidential elections:

1) Should the Union retake and exercise monopoly over oil and promote its extraction and production linked exclusively to the financing of a national socio-economic development plan?
2) Should Petrobras be renationalised to be the executor of the monopoly?

In the campaign to be organised for the plebiscite, the progressive forces of the country believe it is possible to deepen understanding of the central point; that the extra revenue which the oil generates today – and will continue to generate in the next two to three decades, at least – must serve a new socio-economic plan capable of radically changing Brazil.

Chapter 9

Breaking the Resource Curse Politically: Direct Oil Revenue Distribution and Taxation in the Gulf of Guinea

Michael Roll[97]

1. Introduction

The economic processes of the so-called 'resource curse' have been studied extensively. Best practice advice to developing countries' governments on how to deal with the 'Dutch Disease' and the commodity price fluctuation problems are readily available. However, the resource curse process with the greatest impact on the development of the countries concerned has often been neglected. The political dimension has been understudied and recommendations often do not go beyond 'ensuring more transparency and accountability'. A more institutional and political sociology analysis of what developing countries could do to break the resource curse is necessary to complement the economic perspective and advice.

How does the sudden access to vast resource revenues change the perspective of political elites and decision-makers? It does so in two ways. First, it shifts their major concern from revenue availability and generation to expenditure. Second, it either establishes or consolidates the autonomy of politicians from their citizens. Ideally, citizens and companies are the major sources of government revenue. But generating revenue through taxes is expensive and tedious and less exhausting alternatives are always attractive. Most resource-rich developing countries were not hotbeds of democracy before their resource wealth was discovered. Therefore, the rents have often stabilised existing authoritarian and non-accountable regimes and consolidated their autonomy from citizens, rather than having been the root cause for their emergence.

Beyond authoritarian and non-accountable governments these countries are usually characterised by weak bureaucratic institutions, chequered human rights records

[97] Michael Roll works at the Africa Department, Friedrich Ebert Stiftung, Berlin.

and constrained media and civil society organisations. Both, democracy and broad-based development are largely absent. Section two explains why the 'transparency agenda' which has emerged in the last decade is necessary but not sufficient to address the political dimension of this problem. The case for a Direct Resource Revenue Distribution and Taxation approach is then made in section three. The prospects and challenges for adopting such a scheme, for example in countries in the Gulf of Guinea region, are presented in the concluding section.

2. Beyond transparency

In 2002 a new international initiative, the *Extractive Industries Transparency Initiative*, EITI, was announced and launched one year later. Civil society watchdog organisations focussing on this topic also emerged at around the same time. These include organisations such as *Publish What You Pay*, *Global Witness* or the Open Society Foundation's *Revenue Watch Institute*. All of them focus on the funds flowing between extractive industry companies and poor country governments. Given the degree of secrecy that previously prevailed concerning such developing country government-oil company deals, these transparency-focused initiatives were innovative and necessary. Humphreys, Sachs and Stiglitz argue in a recent book on how countries can avoid the resource curse that "*the first step toward reversing the oil curse is to remove the layers of secrecy that continue to surround so many aspects of the industry*" (2007: 331; emphasis in original). While this is true and transparency has indeed improved in a number of countries thanks to these initiatives' and organisations' work, the strength of this 'transparency movement' is also its greatest weakness. By focussing international attention on transparency, other political considerations and possible approaches for addressing the resource curse have been crowded out. It has become obvious that transparency simply is not enough to resolve the resource curse (see Gillies 2010).[98] Policy approaches need to move beyond transparency.The main reason for why promoting transparency is not sufficient is that transparency has not led to more accountability of government to citizens. The available data have either not been used to a significant extent by political actors, civil society organisations or the media for lobbying for more democratic control over expenditure or these actors have not been successful in doing so. The implicit assumption that accountability would come more or less automatically with more transparency has proven to be a false expectation. Transparency is necessary but insufficient.

[98] On efforts to reduce corruption, Lindstedt and Naurin (2010) make a similar point.

The reason why this implicit assumption has been a false hope is that the political sociology of state-society relations in resource-rich developing countries has been neglected. Not only are civil society organisations often suppressed and threatened by autocratic leadership, they also often suffer from internal division and competition and are sometimes distracted or even absorbed by international donor organisations. All this weakens their capacity to campaign effectively. This is not to downplay the many courageous efforts undertaken by them against the odds. Moreover, the new transparency could not be translated into political action because elections in most resource-rich countries continue to be neither free nor fair. They are not effective instruments for holding the government accountable or threatening to vote them out of power.

In addition to elections, no other bargaining relationship for resources and power has been established and institutionalised in these countries between citizens and the state. Quite the opposite: the state has been established during colonial rule as an alien structure aimed at political control, oppression and economic exploitation. In most developing countries, particularly in Africa, that has not changed much since independence (Young 1994). 'Political accumulation' which refers to accumulation through the state has always dominated over 'economic accumulation', being private sector-driven accumulation of capital through private businesses. By exploiting their strategic position during the Cold War, through development aid or natural resource rents the governing elites have by and large remained autonomous from their societies. Lacking the necessity to bargain with society for resources and power, no accountability relationships, democratic or otherwise, have been established. This is in strong contrast to the history of state and democracy formation in Europe or the United States of America. In both cases, at some point in history the ruling elites had to ask 'their people' to contribute to fighting wars and later providing essential services. 'The people' in turn demanded "no taxation without representation". While the trajectories are highly country-specific this is how a lasting bargaining and accountability relationship has been established in many of these countries that form an essential pillar of today's democratic systems (Tilly 1990). Citizens pay taxes while the state provides public goods and services. If the state does not perform as expected people can elect a new government which promises to use their taxes more in line with their expectations.

Improving transparency in such a context is like fitting an arrow into a dysfunctional bow. Even if it flies, it is unlikely to reach its target. More transparency cannot establish the missing political link between state and society in developing countries, resource-rich or not. Even if civil society organisations mobilise around the new data that does not modify incentive structures or provide a trigger for creating an institutionalised bargaining and accountability relationship between state and society. The proposal that will be introduced in the following section promises to achieve just that: to (re)connect state and society and break the resource curse politically.

3. Direct resource revenue distribution and taxation

The advice offered to developing countries joining other resource-rich poor countries usually focuses on economic recommendations. The emerging oil-exporter, Ghana, is a case in point. The experiences and advice which have been offered to the government, particularly by the Government of Norway, the *International Monetary Fund* (IMF) and *Oxfam*, have focussed on 'traditional' proposals such as petroleum revenue funds, increased transparency, civil society oversight and the creation of an independent regulatory authority. Only one paper makes the case for directly distributing resource revenues to citizens in Ghana (Moss and Young 2009). More generally, there are only a handful of authors worldwide to date who advocate this approach (Palley 2003; Sala-i-Martin and Subramanian 2003; Birdsall and Subramanian 2004; Sandbu 2006; Shaxson 2007a and 2007b; Moss and Young 2009). Considering its enormous potential, this proposal has received far too little academic, political and public attention. The principle consists of two elements and is very simple. First, a certain share of the resource revenues is directly distributed to the adult population of a country. Each citizen is paid a certain amount annually. The second element is that the state taxes its citizens, depending on the context, in one form or the other or enforces previously unenforced tax law. Both elements are equally important for contributing to a political solution of the resource curse.

Distributing resource revenues to citizens

The revenues earned from resource extraction would be paid out to the adult population of a country. Based on an annual or multi-year rolling calculation base for reducing volatility, a certain amount would be paid to each person. The technical part of this process requires some effort but can be resolved. Various innovative low-cost solutions for transferring money have emerged in developing countries in

the past years such as banking by mobile phone. Combined with a reliable personal identification system (e.g. biometric ID cards) such a system could be implemented. Experiences with conditional cash-transfer systems in poor countries point to solutions to these challenges and their results to their enormous potential.

The idea of giving more money to the state bureaucracy for them to distribute it to citizens obviously raises concerns. If the bureaucracy is known to be corrupt and inefficient it is unlikely that they will suddenly start to manage these resource revenue funds responsibly. Depending on the country context, there are various options to resolve this problem. In some countries, the existing administration could do it, in others new and insulated agencies might have to be established. In those countries where the bureaucracy is particularly untrustworthy, a consortium of international and civil society organisations with a strong mandate could monitor the collection and distribution exercise.

Depending on the available total revenues the share for distribution to citizens may vary. It is not necessary that 100% of the resource revenues are directly distributed. The remaining funds could be used for general public investments through the budget process, a revenue savings fund, for improving the tax administration or a conditional cash-transfer system, for example. The respective percentage shares allocated to different purposes strongly depends on the country context.

Reforming taxation

The second element of the proposal is more complex but has already been partly addressed in many countries. Tax policies and systems have been completely overhauled in recent years in many developing countries, particularly in Africa. Semi-autonomous revenue agencies have been established (Fjeldstad and Moore 2009) and have in many cases enforced taxation and boosted revenue generation. If resource revenues were to be distributed, this would have implications for the tax system. Depending on country-specific calculations, tax levels could be raised or the effectiveness of taxation increased.

If the financing of the state could be shifted from receiving funds from international oil companies to citizens, the state would be forced into a bargaining relationship with citizens while they would develop a greater interest in how their money is being used and managed by the government.

However, existing taxation in developing countries is rarely professional and free from arbitrariness and force (Fjeldstad and Therkildsen 2008). This has to be taken into account when thinking about an extension of the tax administration. While improvements have been made in this regard in recent years, extending the tax net could also help to promote the professionalisation of tax agencies. If so many citizens are suffering from arbitrary taxation, they are much more likely to voice their queries politically and politics is more likely to pay attention to them.

Discussion

Table 1 summarises the effects of both elements of the proposal on selected welfare and governance dimensions. These effects are not automatic and depend on the specific policies, the context and the way both elements are actually implemented. However, they do have the strong potential to trigger the respective effects. The table shows that both elements contribute to all five dimensions. They complement each other well since on dimensions where the effect of one of them tends to be weaker, the other is often stronger and vice versa. Combined with each other, the elements of this proposal therefore have the potential to contribute to all five governance and welfare dimensions which are highly relevant in developing countries.

Table 1: Effects of 'Distributing revenues to citizens' and 'Reforming taxation' on welfare and governance dimensions

Dimensions **Elements**	**Welfare (social and economic)**	**Strength-ening of institutions**	**(Re)con-necting society and state**	**Improving trans-parency**	**Strength-ening account-ability**
Distributing revenues to citizens	++	+	+	+	+
Reforming taxation	0	++	++	+	++

strongly positive [++], positive [+], no impact [0], negative [-], strongly negative [-], cannot be answered [?]

Despite the many differences in terms of administrative capacity, democratic institutions and political history, the experiences made with different version of managing resource revenues through the state (Norway and Botswana) and by distributing a share to citizens (Alaska) offer many important lessons and experiences.

4. Conclusions, prospects and challenges

To my knowledge, the Direct Resource Revenue Distribution and Taxation scheme is the only existing proposal which directly addresses the particular political dimension of the resource curse in developing countries. That is also why authors like Shaxson (2007a and 2007b) and Moss and Young (2009) promote the direct revenue distribution approach. However, slightly deviating from their line of reasoning, I argue that the potential political power of the proposal is based more on the taxation than on the distribution aspect. It is primarily the taxation element which has the leverage to transform the political sociology of the resource curse by transforming state-society relations.

Apart from laying the foundation for an extended and improved tax system, there are very good reasons for distributing resource revenues to citizens in developing countries – but they are partly different and of a more socio-economic nature. First, there is the *symbolic effect*. Receiving an annual cash payment from the state which one is trying to avoid because its agents are often corrupt and protected by widespread impunity would be nothing short of a revolution in many developing countries. Such a distribution could serve as a 'top-down teaser' from the state, which – if followed up with other measures afterwards – could regain the state some trust and minimal legitimacy. For bridging the gap between state and society and reconnecting them, this would be an essential political contribution. Second, there is the more obvious *welfare and investment effect*. Irrespective of the exact per capita amount, the revenue cash payment would be a significant contribution which would ease the hardship of daily life of many poor people. For example, in the case of Ghana every adult would receive about US$50 in 2011 which would rise to a little over US$80 in 2015 (Moss and Young 2009: 16). This would not only make income distribution more equal but also help receivers to be cushioned against economic shocks and invest in education, health and income-generating activities of various kinds. It would also strengthen domestic demand for goods and services. The third important effect would be the *widening-the-tax-net effect*. While taxation has recently been (re) discovered as a key factor for building accountable state-society relations (Bräutigam et al. 2008), a major problem of developing countries related to it has been found difficult to address. This is the low percentage of the total population which is included in the tax net. Widening the tax net is therefore essential. If the revenue cash payment to citizens would be taxable, the share of citizens drawn into the tax net would increase tremendously. This would (re)connect citizens with the state and would facilitate the emergence of a bargaining relationship between state and society for resources and about how they are being spent. This political rationale outweighs the fact that including a large number of citizens who pay often very low taxes in absolute terms might not be rational from a narrow cost-benefit point of view. This leads to the second element of the proposal, the taxation element.

How a reform of the tax structure and system can help to build states and state-society relations in developing countries has recently been investigated in detail by Bräutigam et al. (2008). Beyond these findings there are some special conditions necessary for taxation to promote democratic accountability in our proposal. An important condition is that when the distribution of resource revenues to citizens begins, an appropriate tax structure and system has to be in place. Establishing it while distributing revenues already is likely to provoke resistance against the introduction or enforcement of taxation at a later stage. Moreover, for the accountability and bargaining dynamic to emerge, the dependency of the state on taxes paid by citizens would have to be significant. As long as revenues generated from international oil and other companies continue to dominate revenue from citizens, not much is going to change. In order not to disproportionally put the tax burden on poor citizens, the tax structure should not primarily rest on value-added and other indirect, consumption-based taxes. The tax structure should also be designed in a way as to promote small and large scale investments, production and job creation, preferably in the formal sector. For creating an immediate psychological incentive for citizens to hold the state accountable for what it spends the tax money on, direct and personal taxes such as income tax, also including the revenue cash payment, are preferable.

What are the prospects and challenges for introducing a Direct Resource Revenue Distribution and Taxation scheme in a developing country? First of all, timing is crucial. The introduction of such a scheme is easier where resource extraction is yet to begin than in countries where it has been ongoing for years or even decades. The amount that would be paid out to each adult citizen also has to reach a certain

country-specific threshold. Based on this and other criteria, a check list could be developed which would assist with the identification of countries where the implementation of such a scheme is more or less likely to be successful. In the Gulf of Guinea region, Ghana is a newcomer in the club of resource-rich countries. At the time of the conference where this paper was first presented (May 2010), the legal and fiscal framework for oil and gas revenue management had not been concluded. With a reformed tax system in place, a good ratio of expected resource revenues to the size of the population and a comparatively effective bureaucracy, Ghana's conditions would have been favourable for implementing a Direct Resource Revenue Distribution and Taxation scheme.

Why should governments adopt such as scheme which would reduce their budget significantly and remove the layers of secrecy? Strong incentives are required for them to do so. The direct revenue distribution model would obviously be very popular with the electorate. If citizens would start to believe that there is a chance that the candidate proposing it would and could actually implement it when elected into office, this would create strong voters' interest and support. In a country where elections are relatively free and fair, an opposition candidate or even a desperate president seeking re-election could decide to run with this proposal. From the other end, this would be a powerful idea for civil society mobilisation and campaign.

Most common sense objections as well as technical and institutional challenges for such a model (see for example Ross 2007: 242-244) can be resolved as Shaxson convincingly shows (2007: 1136-1140). Moreover, considering the disastrous development performance of most resource-rich developing countries, referring to these challenges for arguing against implementing the scheme would not be very credible. After all, this model is the most comprehensive approach and the only one directly addressing the political challenges for breaking the resource curse.

What is needed for promoting and legitimising the Direct Resource Revenue Distribution and Taxation model with its enormous political reform potential is a country or a sub-national unit which implements it and demonstrates that it does work. Because it is likely that Ghana will not take this historic opportunity, another country or sub-national unit is required as a model case to show that the political dimension of the resource curse can actually be broken.

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Chapter 10

Making Oil and Gas Governance Work for Democratic Development – A Civil Society Perspective from Ghana

By Steve Manteaw[99]

Introduction

Ghana's natural resource abundance has never been in doubt. The country is the second largest gold producer in Africa after South Africa. It hosts three of the world's largest mining companies – Anglo-Gold Ashanti, Newmont and Gold Fields – and is home to over 100 other mining and quarry companies. The country has over the last three decades relied heavily on mining for its development. Yet, it has not quite managed to translate its resource wealth into lasting benefits for its citizens.

Ghana privatised almost all its state mines in the 1990s through 2000 in the hope of injecting efficiency and ensuring higher returns from the sector. The country has however raked in marginal returns from this. In spite of increases in mineral output and gross revenue arising out of the mineral sector reforms of the 1990s, the government's take has been marginal. The contribution of mining to total revenue collected by the Internal Revenue Service (IRS) i.e. corporate income taxes, royalties, PAYE, National Reconstruction Levy, in 2000 was 13.7% while in 2006 it contributed a mere 9.6% of total revenue collected, according to a study commissioned by the Integrated Social Development Centre (ISODEC) in 2009.[100] The mining sector's share of corporate taxes alone has also been on the decline accounting for less than 2% of total corporate taxes, compared to 29% for the financial sector, 10% for commerce and 16% for manufacturing sector.

[99] Campaigns Coordinator, ISODEC; Member Ghana EITI Steering Committee; Member, World Bank Extractive Industries Advisory Group, Convener, Publish What You Pay – Ghana, and Chairman, Ghana Civil Society Platform on Oil and Gas.

[100] Towards a fair and equitable taxation for sustainable development financing in Africa – a case study of trends and nature of taxation in Ghana's extractive sector – a paper commissioned by the Integrated Social Development Centre and written by Akabzaa Thomas of the University of Ghana and Ayamdoo Charles of CHRAJ as part of ISODEC contribution to the global tax justice campaign.

Ghana clearly, must have made some mistakes in its mining sector and it is believed that the lessons from the sector will serve as a useful guide in developing an appropriate governance framework for its nascent oil and gas Industry, such that the country is able to avoid the spectre of the resource curse.

This paper reviews Ghana's experience in the mining sector, highlighting the key lessons that can be drawn from the sector to ensure that the country is able to maximize its benefits from the oil and gas and to use the opportunity afforded by its hydrocarbon potential to create wealth and reduce extreme poverty among its people. The main thrust of arguments presented in this paper is that, Ghana has not made the best of its mineral endowment in terms of revenue generation, management, and use; and that guided by the lessons from the mining sector Ghana can do better with its future oil revenues.

The Oil Promise

The history of oil exploration in Ghana dates back to the nineteenth century, when, according records, wells were drilled around Half Assini following sightings of oil seeps onshore the Tano Basin. Frantic efforts by Ghanaian governments to find oil in commercial quantities however, commenced in the early sixties, and given further boost in 1983 by the setting up of the Ghana National Petroleum Corporation (GNPC). Under GNPC, a number of oil and gas fields were found in the Tano basin. In all, eighty nine wells are reported to have been drilled in the offshore zone, with six insignificant discoveries made. The Saltpond fields producing about 600 barrels of crude oil a day is until the discovery of Jubilee, the country's most significant find.

The epic moment in the country's efforts at finding hydrocarbons within its territorial waters came in October 2007, when Tullow, operating the 1N-3X exploration well in the near shore Shallow Water Tano block encountered substantial deposits of hydrocarbons.

Most of 2008 was devoted to appraisal work and development planning activity for the Jubilee Field. The Mahogany-2 appraisal well was drilled and completed successfully in July 2008 by the Kosmos Energy consortium. In early 2008, Kosmos and its partners drilled another well, the Odum-1 exploration well, and also made a discovery. The Odum-1 well, which tested a different prospect than the Mahogany-1 discovery well, was suspended as a future development well.

It became apparent that the Tullow and Kosmos discoveries were straddled to a single reservoir and therefore necessitated the negotiation of a unitization agreement to facilitate joint operation of what has now come to be known as the Jubilee Field.

It is estimated that Jubilee will be producing 120,000 bpd by the close of 2011. Though this comes nowhere near the Saudis, Nigeria and even Angola, for most Ghanaians it is the best thing that happened to the nation since independence. The news has been greeted with a great deal of euphoria and enormous expectation. The IMF predicts that government revenues from oil and gas could reach US$20 billion over the production period of 2012 – 30 for the Jubilee field alone. But whether or not Ghana will be able to use its newly found potential wealth to fundamentally transform its economy, generate growth, and reduce poverty among its people depends on several factors, most prominent of them: the establishment of a sound and a robust governance arrangements for the sector, the transparent management of future revenues, the government's ability to maximized benefits in addition to revenue maximization; effective local content provisions in policy and in practice.

The Governance Framework – Lessons from the Mining Sector

In February 2008, barely four or five months following the announcement of the Jubilee discovery, the Government of Ghana together with its Development Partners (DPs) organized a national conference on oil and gas to mobilize stakeholder input into the development of a framework to govern the country's newly found hydrocarbon resource. CSOs in Ghana hailed the step as one in the right direction as the country's inability to maximize benefits from the mining sector has been attributed to the absence of a sound, and a coherent governance framework for the sector.

Rationally, in developing a governance framework for an economic sector, a country would need to articulate its vision, in terms of what role it expects that particular sector to play in the national economy, in a policy document. The policy then becomes a guide in developing the legal regime which invariably will pursue the objectives set out in the policy document. Following the enactment of appropriate laws, there will then be the need for regulations to give effect to the laws. The policy, legal, and regulatory frameworks within which natural resources are exploited are therefore, key determinants as to whether or not the resource owner is able to maximise benefits from the resource exploitation.

In the case of Ghana's mining sector, however, the Minerals and Mining Law, Act 703 was first developed, before the contemplation of a policy. The policy document as at 2010 was still in a draft stage. It is therefore not clear what policy objectives the current law is pursuing.

Perhaps, if Ghana had had a policy which envisaged a gold sector that is fully integrated into the national economy, it would have sometimes taken its royalty in kind rather than in cash and would have fed the raw material into the jewelry manufacturing industry. The effect would have been an enhanced value of the country's gold exports, while the value addition would have created jobs, and tax opportunities for the state. Currently, Ghanaian jewelers depend largely on scrap gold for their manufacturing activities.

So, initiating a process to develop a policy, laws and regulations for the oil and gas sector soon after the discovery of the resource marks a welcome departure from the haphazard approach to natural resource governance in Ghana.

However, the consultative process was faulted by civil society groups in Ghana for the restriction it imposed on opportunities for their participation. A communiqué issued at the end of a civil society parallel consultation meeting organised by Publish What You Pay-Ghana in the run-up to the national conference on oil and gas, protested against the decision to allow only three representatives from civil society to the conference. The communiqué urged the government to recognize citizens' right to democratic participation in decision-making and to create opportunities for increased citizens' participation in the development of the appropriate governance framework for the oil and gas industry. It encouraged the government to avail itself of international best practices as well as lessons that could be drawn from the country's mining sector to ensure that the policies and laws developed for the oil and gas sector inure to the larger benefit of the nation.

Though the government gave assurances to open up the consultations at the subnational level, events that unfolded subsequently, testified to the contrary. The district level consultations largely excluded civil society.

Shaping the Content and Orientation of National Oil and Gas Policy

In spite of the initial challenge of restricted participation, civil society in Ghana has proactively, made useful input into the policy and legislative processes. Led initially by Publish What You Pay-Ghana, and lately by the Civil Society Platform on Oil and Gas, citizens' groups have been demanding transparency and accountability not only in the generation and use of oil and gas revenues but also in the licensing and regulatory arrangements being adopted for the sector.

Prior to the 2008/9 political transition the New Patriotic Party (NPP) government had prepared a draft national oil and gas policy which supposedly was a product of the February 2008 consultations. The document however, had not been shared with the public, and the then largest opposition party, the National Democratic Congress (NDC) had been kept on the sidelines while it was being developed. Consequently, upon assumption of the reins of government, the NDC-led administration decided to revise the entire document. Not much change can be observed in the new draft though. One striking feature that catches attention almost immediately is an apparent change in the policy objective in the NDC version of the policy document. While the NPP government's policy objective for the oil and gas sector was for Ghana to become a net exporter of crude, a position many found discomforting because of its zero value addition implication, the NDC government's policy objective is the judicious management of the oil and gas revenue for the overall benefit and welfare of all Ghanaians. The new objective also places premium on value addition, indigenization of knowledge, expertise, and technology.

The policy itself is vague in many respects and lacks in detail, but this is not unusual practice. Normally a master plan, detailing the policy propositions will accompany such policy document. Work on the fiscal regime of the oil and gas master plan is being led by the Ministry of Finance while the other thematic areas are being worked on or led by the respective ministries, departments and agencies.

The local content provisions in the policy have been subjected to extensive consultations both by the Ministry of Energy and the Integrated Social Development Centre (ISODEC).

Regulation of the Industry

While the NPP government was categorical in having an independent national oil and gas regulator for the upstream sector, in line with international best practice, and had gone ahead to draft a bill to that effect before exiting office, the NDC administration does not appear to be sure of what it wants. Incidentally, the NDC government agreed to the setting up of an independent regulatory body when it negotiated a US$300 million budgetary support from the World Bank in 2009, and it accepted to make it one of the triggers for the release of the second tranche of US$150 million. The slowness in making progress on the establishment of an independent regulator is the result of counter positions being pushed by some power brokers within the government. While some will want regulation subsumed under the Ministry of Energy, others want G.N.P.C. to perform that function. The argument in support of the latter position is that, G.N.P.C. is the only institution with the requisite technical capacity to perform such function. SANANGOL of Angola is cited as an example of an effective regulation by a national oil company.

The proponents of an independent regulator, however, seem to be winning the argument. A bill purporting to establish an Oil and Gas Commission to regulate the industry has been laid before the Parliament of Ghana. Concerns however remain as to how to ensure the independence of the regulator, such that it is able to resist undue executive influence in the performance of its functions. This, no doubt has implications for how it is to be funded, and the security of tenure of its head, and key staff. A proposal to make Chief Executive Officer of GNPC represented on the Board of the Commission, which creates a conflict of interest situation, as the Commission is supposed to be regulating the GNPC as well has come under serious criticism by both civil society and some members of Parliament, and it is very likely this provision will be amended.

Licensing

Opacity in licensing has been blamed for the bad deals natural resource-dependent countries are often saddled with. It provides cover for rent-seeking activities of public officials and stifles opportunities for demanding accountability from duty-bearers. Therefore, if Ghana is to make the best of its oil and gas, the licensing process will have to be open.

The current licensing regime is one of open-door, negotiated deal type. This conflicts with the international best practice of open, competitive bidding. It is of course understood that one needs to attract enormous international interest in its hydrocarbons to make open, competitive bidding rounds yield the expected benefits, and that Ghana couldn't have attracted such interest without a demonstrable evidence of its hydrocarbon potential. The point however can be made now, that having made such a world class discovery, and with the attendant interest in Ghana's oil acreage, the time is ripe to go for open rounds.

Challenges to oil revenue collection

A major challenge Ghana faces with the management of future oil revenues has to do with, weaknesses in government revenue collection, reflected in Ghana's EITI audit reports.[101] The World Bank has also indicated that government lacks capacity to collect revenues and audit payments from gold mining companies (WB, 2008). It appears, that with the replacement of the special mining desk at the Ghana Revenue Authority with the Large Tax Payers' Unit, the capacity of the Authority in mining sector tax computations has been somewhat diminished. Given that oil accounting is much more complex than mining, the question arises as to the readiness and the ability of Ghana Revenue Authority to follow though the tax computations of oil companies. Staff of the Authority have only recently, received basic training in petroleum sector accounting and are currently auditing the Jubilee Partners pre-production costs. Perhaps, at this stage it might be useful for the revenue agency to resort to the use of consultants to advise its staff.

EITI and the Opportunities it provides for Better Governance of the Oil Sector

Several factors, including, systemic weaknesses, the absence of a clearly articulated national policy, unfavorable fiscal regime, poor planning, misuse of revenues especially at the district level, perceived corruption and lack of transparency account for the inability of Ghana to maximize its benefits from the mining sector.

[102] Ghana EITI Audit Report 2004.

Ghana's EITI [102] therefore sets itself on a mission to reversing what has been described as 'the resource curse' or the paradox of plenty.[103]

Indeed a major challenge confronting many natural resource dependent countries, especially in Africa, parts of Asia, and in Latin America is how to use their natural resource wealth to fundamentally transform their national economies, generate growth, and help reduce extreme poverty among their citizens. Macartan et al. (2007) argues that the problem arises partly as a result of governments embarking on the indiscriminate consumption of revenues accruing from their natural resource exploitation. Such consumption they contend amounts to consumption of capital rather than income and therefore leaves the resource owners poorer over time. Of course, linked to this problem, is the issue of poor quality of spending and abuse, arising out of opaque and unaccountable decisions around spending. The stated objective of GHEITI therefore, is to enhance the development outcomes of the mining sector, and to ensure that the sector contributes positively to the poverty reduction efforts of the state.

Like many other implementing countries, GHEITI is based on the assumption that, when citizens get to know how much has been paid by companies and how much has been received in their name they will begin to ask questions as to how these revenues have been used, and that in itself will constitute a disincentive for mismanaging such revenues. Ghana's EITI implementation has so far focused on mining revenues. Benefit streams captured are royalties, corporate taxes, capital gain tax, ground rent, and corporate social responsibility payments.

Ghana on its own accord decided to undertake a process audit in addition to the revenue audit requirement of the initiative. The process audit focused on the legal and institutional arrangements for the payment and receipt of revenues in the mining sector, with a

[102] Companies that have on their own volition opted to be part of the Ghana EITI are:
- Gold Fields Ghana.– Tarkwa
- Gold Fields – Daman
- Anglo Gold Ashanti – Obuasi,
- Anglo Gold Ashanti – Bibiani
- Anglo Gold Ashanti– Iduapriem
- Bogoso Gold Ltd.
- Ghana Manganese Co – Nusuta
- Ghana Bauxite Co.
- Newmont – Ahafo

[103] Resource curse and 'paradox of plenty' are lexica that, have found popular expression following the 2003 WSSD in Johannesburg even though they have been used as far back as the early 90s (See Auty 1993). They are usually used to establish a correlation between natural resource endowment of a country and the high incidence of poverty, social strife, and violent conflicts among its people. The underlining factor of such situation is often poor governance.

view to identifying potential revenue leaks. The process audit, which has been seen as an international best practice in the implementation of EITI, revealed systemic weaknesses which allowed for the non-payment of certain statutory taxes in the sector, such as capital gains tax and ground rent. These weaknesses are presently being addressed.

Again, Ghana decided to decentralize its EITI implementation to the sub-national level, requiring the disclosure of revenue (share of royalty) transferred from central government to local authorities, and their utilization. This, again, has been touted by the EITI international secretariat as an international best practice. The sub-national audit of benefit transfers to mining districts have revealed that in several instances, beneficiary districts applied their share of royalty to re-current expenditures rather than to capital expenditures, a situation which partly explains why these districts have little to show for the decades of mining in their areas.

Ghana's first three EITI audit reports have also revealed that over the period, mining companies have generally not complied with the statutory requirement to pay capital gain tax on their earnings anytime concessions are traded on to third parties for profit. The official explanation provided by the Internal Revenue Service (now, Ghana Revenue Authority) for the situation is that, because the Minerals Commission, which is the regulatory agency for the mining sector, does not exchange information with the IRS when such transactions occur, the revenue collection agency is often unaware of these tax opportunities when they are created.

Another tax which has largely gone uncollected over the period is ground rent. Ground rents are supposed to be collected by the Office of the Administrator of Stool Lands on behalf of the land owners and the Stools. This levy has gone uncollected because the rate is just too low i.e. 50GHp (about US35 cents) per acre of land. The disincentive to collect the ground rent is in line with a fundamental principle in taxation, which is consistent with common logic, that at no time should the cost of collecting a tax exceed the tax to be collected. The GHEITI Multi-stakeholder Steering Committee has therefore accepted the Aggregator's proposal for an upward adjustment of the rate.

Conclusion

Clearly, past approaches to managing the natural resources of Ghana have not been the best and this partly explains why in spite of its rich deposits of gold and other minerals, Ghana became a Highly Indebted Poor Country (HIPC) in 2000. I have attempted in this paper to explore efforts by Ghana to enhance the development outcomes of its oil and gas sub-sector through the establishment of a robust governance framework, as well as the transparent and accountable management of revenues from the sector. The lessons from the country's implementation of the Extractive Industries Transparency Initiative in its mineral sector are insightful and could serve as a useful guide to managing future oil and gas revenues.

The fact that, the country has recently passed a Petroleum Revenue Management Bill with extensive transparency and public oversight provisions, into law, gives some hope that future oil and gas revenues would be managed in line with international best practices.

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Chapter 11

Labour Rights in the Oil and Gas Industry – A Trade Union Perspective

Louis Brown Ogbeifun [104]

Trade Unionism in Nigeria

Section 1 (1) of the Trade Unions' Act, defines a trade union as "Any combination of workers or employers whether temporary or permanent, the purpose of which is to regulate the terms and conditions of employment of workers, whether the combination in question would or would not, apart from this Act, be an unlawful combination by reason of any of its purposes being in restraint of the trade, and whether its purposes do or do not include the provision of benefits for its member". The union's structure is put in place voluntarily by workers themselves. It is not formed on adhoc basis. It is formed with the sole aim of having a continuous association of members and an enduring legacy. It has an overriding objective of improving the conditions of their working lives and the provision of welfare security for their future at retirement.

However, the Labour Act, CAP 198 LFN 1990 in its definition of a worker excludes amongst others, persons exercising administrative, executive, technical or professional functions as public officers or otherwise. This infers that senior staff is not technically supposed to be unionised. Another set of senior staff excluded from unionisation are those labeled Management Projection. They are usually middle level management workers who are seen as future management staff. In strict sense, these set of workers are senior staff, but establishments use them as stop gaps in times of industrial action by the Unions. It is only in the university system that lecturers of all grades belong to Academic Staff Unions of Universities (ASUU).

Hitherto before September 2004, the Nigeria Labour Congress (NLC) was the only Labour Federation that existed in Nigeria and it served as the umbrella for all junior workers while the senior staff had no umbrella Federation for affiliates. However, a new page in the history of trade unionism in Nigeria was opened on Friday 9th September 2004 when the Federal Government registered the Trade Union Congress of Nigeria (TUC) as a Labour Federation to serve as a Federation of senior staff.

[104] Louis Brown Ogbeifun was the 10th President of the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN).

Trade Unionism in Oil and Gas Industry

There are two recognised labour unions in the oil and gas industry in Nigeria. They are the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) an affiliate of the Trade Union Congress of Nigeria (TUC), while the National Union of Petroleum and Natural Gas Workers (NUPENG); is affiliated to the Nigeria Labour Congress (NLC). NUPENG and PENGASSAN were registered on 15th August 1978. Since then, these two labour Unions have continued to contribute their quota to the development of the country through the political and economic struggles and at the same time tried to protect the interests of their members in all spheres.

During the military era, NUPENG and PENGASSAN were proscribed by Decrees 9 and 10 respectively. The Head of state thereafter appointed Sole Administrators to run the affairs of the two Unions. They were proscribed because the unions embarked on two major strikes to force the military to reverse the annullment of the June 12 1993 Presidential elections by General Ibrahim Badamosi Babangida (IBB). The first strike was in early August 1993, which seriously disrupted oil and gas operations. Coupled with the mobilisation of pro-democracy activists, the Head of State, Ibrahim Badamosi Babangida was forced to step aside on the 26th of August 1993 and inaugurated an Interim national Government headed by Chief Ernest Shonekan.

The second strike was a nine-week strike action that commenced on July 4, 1994. The strike was to press for the release Basorun M.K.O. Abiola from prison and the restoration of his mandate. Abiola was widely acknowledged to have won the presidential election of June 12 1993 but the military refused his taking over power as the civilian President. With the negative impact of the strike action, the military arrested the President of NUPENG, Wariebi Kojo Agamene, the General Secretary of NUPENG, Chief Frank Kokori, the General Secretary of PENGASSAN, Chief Milton Dabibi, together with Fidelis Aidelomon, Francis Addo and Elijah Okougbo. They were all kept in custody until they were released on June 15th, 1998.

The dissolution of the Unions and the arrest of their leaders were also followed by an order banning the payment of check-off dues by the workers of the banned unions. Interestingly, the in-house unions in Kaduna Refinery defied the order and remained the only unions that paid uninterrupted check-off dues during those dark days.

Despite belonging to different Labour Centres, NUPENG and PENGASSAN struck a chord of understanding under the umbrella of NUPENGASSAN from 2003 – 2005 and jointly engaged government on the issues of privatisation of the refineries and deregulation. They also jointly resisted the overbearing attitude of some management on abuse of expatriate quota, outsourcing, non-recognition of union members, victimisation of union leaders and casualisation.

Women in Oil and Gas Unionism

The oil and gas industry is dominated by male workers with a pocket of female workers. Irrespective of this, women have made their mark in trade unionism. In a men dominated industry, Comrade Priye Olowo from Nigerian Agip Oil Company (NAOC) once clinched the position of the PENGASSAN Zonal Chairman of Port Harcourt Zone, while Comrade Olushola Abuachi from NNPC is the current PENGASSAN Zonal Secretary in Lagos Zone. In NUPENG, the Women Committee is a body organized by the women in the junior staff cadre of the unionized workers. The Women's Committee leader, Comrade C. O. Adediran is a member of the NUPENG's Central Working Committee (CWC), the National Advisory Council (NAC) and the National Executive Council (NEC). In PENGASSAN, the women also have a body called "Women-In-PENGASSAN" Committee. Both Committees are involved in advocating for women's rights in the oil and gas sector, carrying out advocacy on HIV/AIDS and pushing for women empowerment in the industry.

Labour Rights in oil and gas industry

1. **Right to Freedom of Association and the protection of right to organize:** Section 40 of Nigeria's Constitution guarantees every citizen's right to freely associate with any person or group of persons as desired. The Constitution goes further too, to specifically refer to the right of employees to join trade unions for the protection of their interests.
2. **Right to Contract of service:** The Labour Act provides that not later than 3 months after an employee assumed duties, the employer shall give the employee a written contractual document, specifying the terms of the contract and Wages in return for work efforts. This includes periods of indisposition duly reported to Management or during recognized leave. Advertent refrain from presenting self for work will not be covered by this clause.
3. **Right to Collective Bargaining:** ILO Convention 98 defines the employees' right to organize and collective bargaining. Workers have the right to collectively and voluntarily come together to form the workers' union; elect their leaders, with a view to protect their rights in the workplace.
4. **Right to Dignity of Labour:** Under the Law, Labour is not just a cost element that should be used and discarded like disposable commodities. The employee should have free choice of employment, without coercion, including bonded or prison labour (ILO Conventions 29 and 105). Employees are also expected to be treated as dignified beings who are worthy of being valued, treated with respect, fairness and decency, treasured as assets of the enterprise without breaches to their fundamental human rights. No worker should be denied the right to adequate social protection. Employees should be protected against unemployment and where loss of job is imminent and unpreventable, the Labour Act; 1974, makes it mandatory for the employer to inform the union though no penalty was stipulated for breaching this provision. However, even if the employer informs the unions, there are no statutory obligations beyond this point as the employer can refuse to discuss the nitty-gritty of redundancy. The employees have the right to safe and healthy environment (reasonable protection from job hazards, routine and adherence to maintenance cycles to insulate the employee from any risk, policy guidelines of information, instruction, and training on HSE matters) and exposure to reasonable hours of work without exploitation.
5. **Right to decent work:** The worker has the inalienable right to decent work. This has five dimensions as highlighted below:
   - Right to work (Productive work)
   - Rights in-work (sufficient work, which means the right to full access to income generating opportunities of acceptable quality and generates adequate income)
   - Right to Just and favourable conditions of work
   - Right to equal pay for equal work without discrimination.
   - Right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." (Universal Declaration of Human Rights, Paris 1948).

The right to decent work has been serially denied in some instances. Companies have perfected the art of redeploying union leaders to non-existing boxes in the companies' Organisational chart so as to reposition them for early redundancy once they leave the union.

Another area of concern is redeploying union leaders to areas with less or no work, in the guise that the union leaders will not have the time to perform the functions for which they were originally employed.This is possible because most union leaders in the oil and gas industry are primarily full time paid employees of those organizations while they are on part-time assignments with the unions. This trend can be reversed through the commitment of union leaders to their primary assignments.

6. **Right to annual leave with Pay:** The Labour Act stipulates that every worker shall be entitled to an annual leave with full pay after 12 months of continuous employment. Annual Leave is determined by Management and at the convenience of operations. This cannot be extended beyond two years and never in-lieu of payment. But we do know that many workers have not gone on leave for several years while other workers have their leave periods monetised.
7. **Right to Sick Leave/Medical Absence:** An employee is entitled under the law to sick leave with full pay. Illness must be certified by a Government employed medical doctor or in the Company's clinic or the retainers approved by the establishment.
8. **Right to Strike:** The worker has the right to accept employment in a voluntary manner just as the worker also has the right to cease work at anytime as long as the agreed notice is given. While the law recognizes strikes, the rights must be exercised in strict adherence to the laid down procedures and the rule of law. This is the reason why there is the invocation of the "no-work-no-pay" clause after strikes. However, there are limitations to the use of strike when the dispute has been referred to a conciliator, the Industrial Arbitration Panel (IAP) and to the National Industrial Court

Though the above rights are available to the Nigerian Oil and Gas workers, there are critical challenges that have made it impossible to fully harness the benefits of these rights in the last few years. Globalisation has imposed the need to adjust to modern day economic realities on the enterprise. This has led to several liberalisation, privatisation

and deregulation policies, which have resulted in the infringement of workers' rights in many organizations. The most challenging issues for Oil and Gas Unions are redundancy, contract staffing and casualisation and abuse of expatriate quota.

Challenges of oil and gas unions

Retrenchment / redundancies: When organisations are looking for ways to reduce costs, the first victims are the worker. Overt time, companies have unjustly used redundancy in the severance of workers in oil and gas industry. Redundancy is involuntary and permanent loss of employment caused by either an excess work force or termination of a company's span through sales, acquisition, liquidation and or declaration of force majeure through no fault of the employer. However, employers in the industry have grossly abused this term. They have hidden under the clause to terminate the appointments of Labour leaders in various guises. Some companies do not have pension schemes. Rather, they have redundancy clauses to deal with any release of workers from employment, be it voluntary or involuntary in order to avoid the payment of retirement benefits.

Theoretically, the redundancy clause can only be invoked when a worker cannot continuously be in employment because all attempts by management to get an alternative placement for the worker in the enterprise failed. The redundancy clause can also be invoked due to force majeure, economic downturn or for some other reasons that seriously threaten the existence of the enterprise. As against the norm, workers have been rendered redundant even when the positions for which they were rendered redundant still exist in the company. Before any employee in the oil and gas industry is released by his employer under any redundancy clause, the Department of Petroleum Resources (DPR) under the Ministry of Petroleum must be convinced that indeed there is no placement for the employee. The companies have also found ways of sabotaging this provision. The position of the law on redundancy is very weak as the employer is only expected to inform the Union before the declaration of redundancy.

The Nigerian National Petroleum Corporation (NNPC) retired more than four thousand staff in 2004 and 2005 retirement exercises. Though they were all paid their end of service benefits in full, majority of the staff were not ready for the sack nor sensitized for the impending retrenchment before the exercise. Before 2003, Shell

Petroleum Development Corporation (SPDC) started the EP Globalisation (EPG) concept, a change that was to restructure its operations on regional basis. The in-house unions expressed very serious concerns over the EPG concept because the exercise was perceived as having very negative impact on their members and Nigeria.

After series of dialogue and protestations on the EPG project by the in-house unions, the interventions of the National Secretariats of NUPENG and PENGASSAN and the Group Managing Director of the Nigerian National Petroleum Corporation, Chief Gauis Jackson Obaseki, the exercise was reviewed by SPDC. Thereafter, the Server and Africa's Regional Headquarters were relocated to Nigeria and a Nigerian was appointed as one of the Regional Directors.

When the unions thought the case was over, SPDC Management reinvented another restructuring exercise code-named "Securing Our Future (SoFU)" in 2004. Though there was an enhanced package for those who might not scale through the restructuring exercise, the unions insisted that Management could not unilaterally determine the exit conditions without their input. They saw it as a Photostat copy of EPG. There was a day-long warning strike by PENGASSAN and NUPENG in SPDC on June 22, 2004 and another two-day strike on 7 – 8 October 2004 to protest the restructuring exercise. After a while, the fatigue of the struggle, apathy and division had taken hold of the union leaders and the exercise was carried out with great tolls on the unions.

On 29th November 2010, the Branch of PENGASSAN in Mobil Producing Nigeria Unlimited (MPNU), carried out a picketing exercise in their Lagos office to protest the alleged severance of sixty-six contract workers without informing the union and that there was a short fall in the calculation of their severance package. On the other hand, management did not inform the union about the severance in most cases because of the belief that the unions act as alternative management and might have resisted the move. This led to a very serious face off between the union and management. It took very serious mediatory efforts to bring both Unions and Management together in order to restore trust and confidence in each other.

Unions have realised that redundancies are becoming too frequent and they were losing members in dizzying pace. Thus NUPENG and PENGASSAN became more hostile to companies' policies on redundancies. They also developed the strategy of adding so many elements in redundancy clauses in order to increase the quantum of money paid to exiting members. This had a rebound effect as

companies now carry out redundancies on piece meal basis thereby avoiding the involvement of the unions. In the long run, irrespective of the huge capital involved in redundancy packages, most organisations till prefer laying off staff because of the huge burden of wage bills on the bottom lines.

To worsen the case for labour, most of the staff retrenched can hardly get alternative jobs. Compounding this is the restrictive labour movement due to the collapse of the manufacturing sector and the shutting down of so many companies due to the Niger Delta crisis

Victimisation of Union leaders: It not unusual to find union leaders losing their jobs because of union struggles. SoFU project was implemented by SPDC when discussions were still on-going between the unions and SPDC management. At the end of the exercise, the SPDC the Branch Chairman of PENGASSAN who was the arrow head of the struggle against SoFU, Comrade Lucky Dudun, outspoken Comrade Emily Onyia and some other Chapter officers lost their jobs.

Another case in reference is the labour management's face off in BELBOP. The Management and the Unions disagreed over operational issues in 2002. Management thought the best way to deal with the situation was to remove the union leaders from main stream operations to non-functional departments. For over five years, the issues remained unresolved. This did not dampen the unions resolve to fight on. Despite the intervention of the Federal Ministry of Labour and Productivity the matter got worse. In 2005, NUPENG and PENGASSAN decided to block all petroleum products supply channels to CONOIL, a subsidiary owned by the same owner. This forced the Management of BELBOP to negotiate with the unions in a more serious manner. At the end, both parties settled for some form of redundancy packages. When the ashes of war finally settled, more than seventy five percent of the Union leaders lost their jobs

Outsourcing and Contract staffing issues: Outsourcing is one of the Achilles heels of oil and gas workers. Almost all non-core jobs like driving and security hitherto offered to junior workers have been outsourced. Most workers under this category are either recruited on service contracts or labour contracts basis. The unions have raised some issues around this type of employment as follows:

- Exploitation by their third party employers.
- Job insecurity

- Lack of dignity of labour
- Working for long years without commensurate growth and future welfare security like their pensionable counterparts.

Expatriate quota abuse: With the global economic meltdown, every country tries to ensure that their citizens are employed before giving any consideration to other nationals. However, the reverse is the case in Nigeria's oil and gas industry where expatriates are brought to occupy jobs that Nigerians have the capacity to do. Unions have persistently called Government's attention to the fact that there are many unemployed Nigerians that can perform the duties of the expatriates brought into Nigeria to no avail. This led to a very serious face off between the Unions and Chevron Management in 2009. The Unions alleged that they had identified several job positions occupied by expatriates that Nigerians have the expertise to do. After more than six months of negotiation, the Unions and Management finally agreed to a gradual reduction of the numbers of expatriates in the company and replaced them with competent Nigerians.

It is a known fact that many companies do not adhere to the understudy clause in which two or three Nigerians understudy the experts and graduate into the job in two years. There are cases in which experts work back-to-back instead of an expatriate and a Nigerian working back-to-back. There are abounding cases where expatriates stay on the job for more than five years. Some of the expatriates after the expiration of their contracts find their ways into other areas of the company other than the job areas they were recruited for. With the passage of the Nigerian Oil and Gas industry Content Development Act 2010, it is expected that for each of its operations, the operator shall submit to the Board, a succession plan for any position not held by Nigerians. Such succession plan shall provide for Nigerians to understudy each incumbent expatriate for a maximum period of four years. At the end of the four year period, the position shall become Nigerianised (section 31).

Insecurity: In recent times, many oil and Gas workers have been kidnapped by militants while some tanker drivers belonging to NUPENG were shot and killed by the military. Two tankers that were seized by the military in Port Harcourt and Ibadan could not be accounted for. This led to the issuance of a strike threat notice in October 2009 by NUPENG. It took the intervention of the Minister of Labour, the Group managing Director of NNPC and the High Military Command to resolve the issues. The government later paid for the trucks.

Non-adherence to Collective Bargaining Agreement: One of the critical challenges faced by labour is non-adherence to CBAs especially in times of redundancies. For instance, so many collective agreements agree that when redundancy is contemplated, it is an imperative that management should inform the union to negotiate the terms of severance. Unfortunately, the unions are not usually informed until the action has been concluded. This has been responsible for labour-management friction in most companies.

Jurisdictional challenges: One of the challenges that the unions now have is jurisdictional problems. Management in its wisdom can decide to transfer some services to other service providers. For instance, an oil company can decide to outsource its catering department that initially had registered union members of NUPENG and PENGASSAN. As soon as this occurs, the unions in the Hotel and Catering sector will claim jurisdiction over the new staff and make moves to unionise the workers. The oil and gas unions will usually resist this. This has caused very serious inter-union crisis. Currently, there is a serious face off between the Nigerian Labour Congress (NLC) and the Trade Union Congress (TUC) over the membership of the senior staff of Union Bank. When this happens, it is the rights of the members that suffer.

Irregular meeting periods between the Unions and Management: It has been observed that one of the rights of the unions is the right to be given adequate information that will enable Union leaders lead their member aright. One of such forum of interaction is having regular Joint Consultative committee meetings (JCC). Many companies do not have scheduled JCCs and where they exist, the schedules are not adhered to.

Inappropriately Structured Collective Bargaining Agreement (CBA): There are observable flaws in several collective agreements because they were crafted at the lower levels of the Union without inputs from their more experienced National officers. Another flaw is that Collective Bargaining Agreements are sometimes not detailed enough while some of the clauses are too ambiguous. Management exploits such loopholes to the disadvantage of labour.

Denial of the right to organise and unionise: Though every pensionable staff in the oil and gas industry is free to join the union, many contract staff are still denied this opportunity. This is worst in the Free Trade Zone (FTZ) or the Export Processing Zone (EPZ). These zones are usually in rural areas where government tries to woo investors with generous tax holidays, insulation from tariffs and unionisation. To progress this agenda, companies have devised several ways of circumventing the unionisation of workers. They do this by incorporating companies with less numbers of staff that will normally qualify for unionisation. For instance, in some unions, a company must have ten staff before they can be unionised. What companies do is to incorporate many generic outfits and split the jobs into several components with nine workers each.

Diminishing membership: The companies in Oil and Gas industry in Nigeria hardly employ workers that will qualify for the junior cadre because almost all the jobs of junior workers' have been outsourced. This policy stands to affect the numerical strength of NUPENG. To make the situation worse, the few ones around are being promoted to the senior staff cadre.

One of the reasons for adopting this policy by the chieftains of the industry was because they saw NUPENG as becoming too tough for comfort. It is noteworthy that the militancy in Niger delta, the tough stance of Oil and Gas Unions on Collective Bargaining issues, corruption and epileptic power supply tend to deter investors that would have invested in the Oil and Gas in Nigeria. The unions must be sensitive to this and reappraise their modus operandi.

Management's largesse centered unionism syndrome (MLCUS): Labour reliance on the largesse from Management to sponsor almost every event of the Unions weakens the strength and assertiveness of the Unions. This if allowed to continue cannot totally ascertain the freedom expected of a true union and they should do well to reverse this trend.

Petroleum Industry Bill (PIB): Since the 80s, the NUPENG and PENGASSAN were at the vanguard of advocacy for the review of the obsolete laws in the oil and gas industry. On Monday, 7th June 1993, the unions commenced a 3-day strike to press for the creation of an Inspectorate Commission to replace the Directorate of Petroleum Resources (DPR), which will be strong enough to "police" the entire industry, stop the privatisation of the Nigerian National Petroleum Corporation etc. Therefore, it can be rightly assumed that the unions' agitations formed part of the reasons that gave birth to the Petroleum Industry Bill.

The Petroleum Industry Bill is a change process predicated on the assumptions that the legal framework used for running the present oil and gas sector is obsolete,

opaque, lacks appropriate governance structure, not in alignment with international best practices and not in the best interest of Nigeria. The Bill therefore, seeks to harmonise all the existing sixteen laws into one readable text. It will also create an appropriate governance structure, align practices with international best practices; separate overlapping of agencies' functions; make the Nigerian National Petroleum Corporation a commercialised National Oil Company; enhance fiscal provisions especially of gas; remove confidentiality clauses in the payment of royalties and taxes; and ensure transparency in oil and gas business.

In as much as the new PIB tends to address some of the Unions' agitations like the creation of Petroleum Inspectorate Commission; there are still some gaps, which if not addressed may pitch labour against the government. Some of the identified gaps include no adequate framework for marginal operators, too much room for discretionary decision making especially in acreage management and the upstream bid system is still largely opaque. The Unions are also apprehensive about employment security for their members, pension issues and movement of personnel across the various agencies after the passage of the Bill. They have issued a warning to government that any PIB that will put their members at a disadvantage will be resisted.

Ways forward:

1. The first step towards a successful negotiation and implementation of collective bargaining agreement is the integrity of the agreement itself. Unions should consider having very experienced negotiators to act as advisers during collective bargaining sessions. The Branches of the Unions should always seek the opinion of experts or their National Secretariats in the crafting of CBAs.
2. The unions should know when it is right to negotiate for higher increases or even negotiate downwards to retain people on their jobs and employment security. Advocacy and continuous struggle for employment security should be considered over and above bread-and-butter unionism until the current situation improves.
3. The joint solutions to issues should be explored more by NUPENG and PENGASSAN. This they have used to their advantage in the realm of advocacy in times past. In the face of emerging mega-corporations, mergers and acquisitions the spirit of NUPENGASSAN should be reawakened in order to effectively checkmate the anti-union posture of the capitalists.

4. Instead of the reliance on Management's largesse for union activities, the Unions should seek other means to help themselves while occasionally seeking some level of assistance where necessary. Members must be ready to make sacrifices by increasing their check-off dues and levies to support the central body to enable their leaders fight their causes without relying on Management that they have issues with from time to time. The unions can make investments in businesses and also become employers of labour. This will earn them more respect from management; become self reliant and achieve total dependence.

5. Unions should desist from deliberately putting restrictions on how many number of workers can be employed in a company before unionisation can take place. They should seek to organise and unionise, no matter the numbers in the payroll of a company

6. The Unions can also address the issue of dwindling membership by considering the merger of NUPENG and PENGASSAN (NUPENGASSAN). The trial runs of "NUPENGASSAN" model from 2003 to 2005 were very effective in seeking solutions to common problems and reversal of harsh policies that impacted negatively on their members. Unions must take a cue from the market reforms in which companies are becoming stronger through mergers and acquisitions but with a paradoxical diminishing numerical strength of NUPENG.

7. As against the current practice in which expatriates can be employed into any cadre in the industry, Section 35 of the Nigerian Oil and Gas Industry Content Development *Act* 2010 stipulates that the skills at the junior and intermediate levels must be sourced from the Nigerian labour market. This means that expatriates cannot be employed into these cadres. Irrespective of this provision, the Unions should find a way of carrying out a detailed auditing of the expatriates in oil and gas sector in order to determine the level of abuse and criticality of those experts needed to ensure that the oil and gas operations run smoothly. They should evolve a more aggressive advocacy and pursuit on the need to address the flagrant abuse of the expatriate quota guidelines by reaching out to the Ministry of External Affairs, the Immigration Service and the Oil Producers Trade Section (OPTS) in order to find a common platform to resolve this burning issue. The Federal Ministry of labour and the Department of Petroleum Resources should be more forthcoming in calling for updates and carrying out routine inspections to ensure that companies obey the understudy clauses. Appropriate sanctions should be meted out to those companies that exceed the allotted quota or staying beyond the period stated in their permits.

   The unions in their agitations against expatriate quota abuse should bear in mind, the criticality of the sector and that some skills' gap may still exist that will require the presence of expatriates pending when Nigerians are fully trained for the positions. Therefore, they should engage consultants to do a thorough study on the abuse of expatriate quota and come out with plans on what roles the unions can play in monitoring and ensuring compliance with the new provisions of the Nigerian Oil and Gas industry Content Development *Act* 2010.

8. The unions can resolve jurisdictional issues through a bipartite or tripartite engagement of the stakeholders. Rather than resort to threats of strikes. They should not be shy to approach the Nigerian Industrial Court (NIC) for the adjudication on the issues of determination of rights. On no account should the Unions allow jurisdictional issues to destroy the camaraderie relations between them.

9. NUPENG must find a way of engaging the military high command on the issues of seizures of trucks and harassment of their members by the military so that the clashes between the military and the Unions will be reduced to the barest minimum.

10. Management and labour must learn to trust each other and put the organisation above all self interests because if the business dies, the yawning unemployment basket will be waiting to swallow them up. If the Management of Belbop and the Unions had adopted a give-and-take attitude, the collateral damage to both sides would have been minimized.

Dialogue holds the ace to an enduring labour-management relations. However, where the Unions feel so aggrieved and must resort to the use of strike on any issue, they should target the identified foes in a segregated manner instead of throwing the entire Oil and gas sector into turmoil. For instance, if a particular company or any organisation breaches the CBA or offends the unions, the Unions should target those companies instead of calling for a nation wide strike. It is also important to have exhausted all dialogue options before deciding on the use of strikes. Even at that, they should give enough ultimatums to enable the other party respond to their issues and possibly resolve the issues before the expiration of the ultimatum.

Management and government on the other hand should be prompt in calling the unions to table as soon as the ultimatum is issued. They should not wait until the

24 hours to the expiration before acting because once the unions reach the peak of mobilization for a strike; it is suicidal for the leaders to call off such actions. Once an issue has been referred for arbitration, both parties should endeavour to maintain the status quo pending the determination of the matter.

No single tool can be used to reach the desired goals and objectives in dealing with breaches of unions' rights, especially if the other party is recalcitrant. The use of both traditional and collaborative systems may be deployed in a particular struggle depending on the level of engagement, maturity of the partners, respect for each other and the level of understanding of issues by the parties. It is the duties of the union leaders to determine the best tool to use at a particular time. Whatever the final decision, the survival of the organisation should not be compromised.

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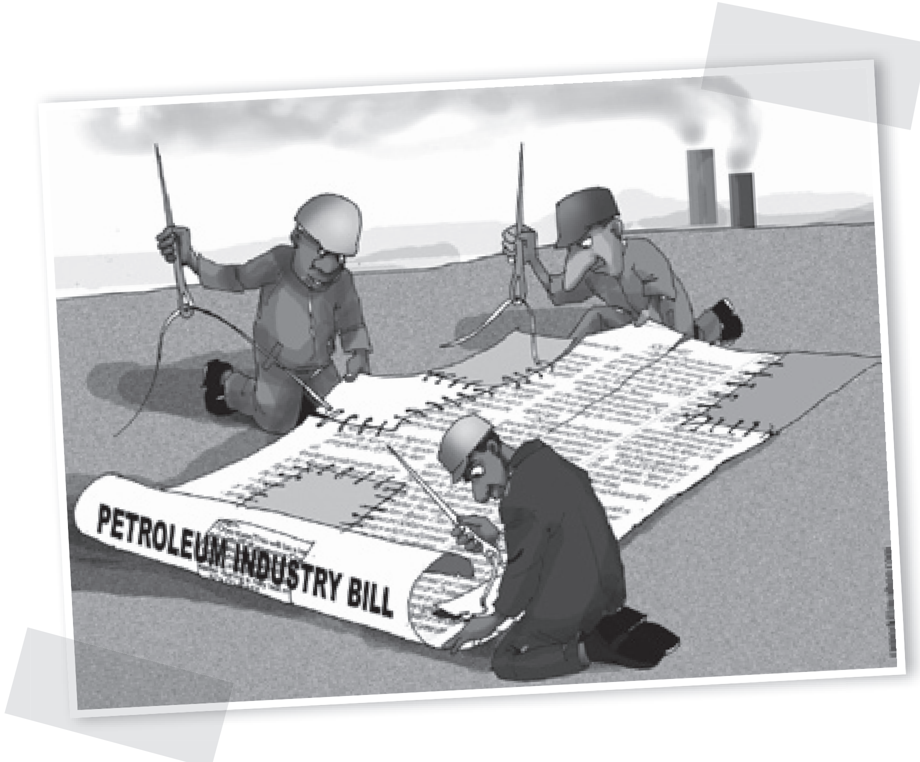

Conclusion: Solutions to the Resource Curse Reconsidered

Michael Roll [105]

This conclusion draws together the suggestions for solving the 'resource curse' or mitigating its negative impacts from the previous chapters. It puts them into context and complements them with other promising approaches. However, the resulting list of measures is far from complete. We do also not claim that any of these measures could be a solution to the resource curse if implemented in isolation from others. It is rather an intelligent combination of instruments, a 'reform package' that is required to have an impact.

Most publications dealing with the resource curse phenomenon focus on the analysis but remain weak when it comes to solutions. There are, however, exceptions to this such as Humphreys et al. (2007). A recent policy initiative established by eminent academics, the *Natural Resource Charter* [106], has condensed such suggestions into Twelve Principles about how governments should best deal with resource wealth for achieving economic development. These principles and the solutions suggested in the literature provide essential advice. However, they have at least two major shortcomings. First, they are primarily concerned with the economic dimension of the resource curse. Most of their recommendations are therefore also economic and often fairly technical. The second shortcoming is their focus on the domestic level of resource-rich countries while the broader international context is not adequately taken into account. With our own suggestions, we attempt to go beyond these shortcomings. In line with the focus of this book, we explicitly address the political dimension of the resource curse. We also cover both, the international – including the regional – and the domestic level as well as their interactions. The following section is divided into three parts, covering general aspects which have to be taken into consideration when thinking about solutions to the resource curse, suggestions for interventions at the international, regional and finally at the domestic level.[107]

[105] Michael Roll works at the Africa Department, Friedrich Ebert Stiftung, Berlin.

[106] See http://www.naturalresourcecharter.com.

[107] In line with the primary focus of this book as described in the introduction, these suggestions do not cover company-led approaches. See Zalik (2011) for the discussion of the *Global Memorandum of Understanding* (GMoU) in the Nigerian Niger Delta. This is an initiative to establish governance structures and corporate negotiations across oil fields, led by *Chevron* and *Shell Nigeria*.

The second section of this chapter goes beyond the policy level for escaping the resource curse. It addresses a fundamental issue which is neglected in most studies of the resource curse and which generally remains under-researched. This is the political economy or 'politics' of reforms addressing the resource curse. Thanks to extensive research, we have a pretty good idea now of *what* could and should be done in countries affected by the resource curse. However, our knowledge of the conditions under which these reforms are more or less likely to be implemented is very limited. Though our conference focussed on the governance aspects of the resource curse, this was not part of our discussions. Nevertheless, if we want to understand better why international and domestic actors implement certain reforms and under which conditions the likelihood of them doing so increases or decreases, we cannot afford to ignore this aspect.

Policies for solving the resource curse

General aspects

Four general aspects related to dealing with the resource curse are discussed, starting with the role of economic solutions to the resource curse, then the need for context-specific approaches, the issue of the 'securitisation' of resource curse problems and finally the mixed value of transparency-focussed initiatives.

Already in the introduction we saw that the resource curse is no destiny. The chapters in this book have confirmed and elaborated on that finding in various ways. While this book focuses on the political dimension of the resource curse, the progress made on how to deal with the economic resource curse needs to be acknowledged. Effective macroeconomic approaches for dealing with its negative impact on the economy are by now well established and have been successfully applied in many countries. This is essential since stabilising the economy is a precondition for working on the political aspects of the resource curse.

However, the political aspects of the resource curse do not lend themselves to rather narrow technical approaches like the economic ones. Nevertheless, to some degree it is also possible to generalise the approaches for escaping the political resource curse or mitigate its negative effects. Further below, we suggest such general solutions which address the key political mechanisms through which resource wealth leads to negative development outcomes. However, at the same time the respective country contexts matters. The type of natural resources, the degree of dependence as well as the potential extraction costs, the country's state of institutional development, its political regime and many other factors vary and produce unique contexts. This context specificity demands context-tailored reform packages. When thinking about the impact and application of the international instruments and domestic approaches suggested below, this should be kept in mind.

In his chapter, Cyril Obi raises concerns about the 'securitisation' of the challenges poor resource-rich countries are facing. According to him, the "de-securitisation" of the discussion about solutions to the resource curse phenomenon in Africa is urgently needed. Looking at the resource-related challenges of poor countries primarily from a security perspective leads to an over-emphasis of both the domestic and the international conflict potential of these challenges. On the one hand, at least domestically this is a real and potentially devastating threat which deserves close attention. On the other hand, however, donor interest in and the amount of literature on the security-aspect of natural resources indicate that the discussion has become security-biased. This is problematic for at least three reasons. First, as some studies have shown, resource wealth as such is not the root cause of destabilisation and violent conflict but rather a mediating factor which can work both ways (see, for example, Basedau and Mähler's chapter in this book). It is the overall governance structures, constellations and dynamics which determine whether security becomes a serious issue or not.

Second, securitisation is problematic because, even in countries which are not facing acute crises, other resource-wealth related challenges receive too little attention. These challenges include environmental protection, human rights, economic development and political accountability, for example. Finally, the international organisations' and researchers' interest in the security dimension weakens the domestic capacity of countries for dealing with the resource wealth-related challenges in a multifaceted and comprehensive way. Donor interest and funding have created their own supply in terms of focus and expertise. This needs to be corrected so that 'security' can take its place in the context of the other dimensions of resource-wealth challenges.

A third general aspect which has come up throughout the book, especially in the introduction and in the chapters on EITI, is transparency. It has dominated and to some degree even restricted our thinking about solutions to the resource curse. Just recently evidence has started to emerge which shatters the unspoken assumptions

on which this thinking rests. The title of one of these still rare studies summarises what the evidence seems to suggest: "Transparency is not enough" (Lindstedt and Naurin 2010). The idea that loads of freely available data would lead to more accountability and stronger citizen pressure for reforms has been proven wrong. While this is often not even working in the context of OECD countries, state-society relations in poor countries often inhibit 'voice' and public demands. This is not to say that they do not exist and could not be important building blocks for solutions. But these building blocks which some international organisations actually seem to have regarded as the building itself have turned out to be much smaller than has been hoped.

Transparency will remain with us as a main issue which organisations will continue to work on. But they will have to start thinking harder about how to do the next step and go beyond transparency. Creating the conditions in which available data are actively used for establishing a strong accountability relationship between citizens and government is a tough job.[108] Especially external actors such as international organisations can probably only analyse the respective context carefully and then choose to support selected actors in this long-term process such as parliament or the media, for example. The least all actors involved in fighting the resource curse in one way or the other should do from now on is the following. Whenever somebody drops the 't-word' ask him or her the following question: How and through whom is this supposed to translate into a state-society accountability relationship in the given context?

International and regional level

The possible interventions at the international level are presented below in no particular order. The first intervention is perhaps the most complex one:

- *Changing the global demand structure for fossil energy requires* a combination of local, national and global efforts. It ties in very well with the current concerns about climate change. Even though an effective change of the demand structure will still take decades, it is crucial to keep the world market prices for oil and gas as low as possible.

[108] For a critical evaluation of donor-supported accountability programmes, see for example O'Neill et al. (2007), Menocal and Sharma (2008) and McGee and Gaventa (2010).

- In his book on oil in the Gulf of Guinea, Nicholas Shaxson (2007a) suggests that the *fight against tax havens and capital flight out of resource-rich poor countries* should be high on the agenda of those concerned with these countries (Shaxson 2007a: 224-231). His latest book lends further support to this point (Shaxson 2011) and attests to the growing attention to these issues by international NGOs.[1] The argument is that closing down tax havens for those billions of US-Dollars stolen by the likes of Mobutu, Abacha and their successors would stop the massive capital flight into private accounts covered by bank secrecy. Unfortunately, even if international tax havens were closed down, chances are that the money would still not end up in the public sector or productive businesses of these countries. Especially in West Africa, the increasing integration into international criminal networks such as drug trade might provide a terrible but lucrative 'investment' alternative (see Ellis 2009). However, such "criminal money" (Shaxson 2007a: 225) would also be seriously affected by a stronger regulation of the offshore system. Embedded in a broader package of interventions, sinking those "treasure islands" (Shaxson 2011) and making especially international banks' involvement in this business more transparent could be an important element of a solution.[110]
- The Cardin-Lugar provision in the U.S. provides a powerful model of a *comprehensive and institutionalised transparency regime for resource extraction-related payments* by companies to governments. The European Union and governments in other regions of the world should follow this example and introduce similar legislations. Moreover, the *International Accounting Standards Board* (IASB) and the *International Organization of Securities Commissions* (IOSCO) should develop requirements and rules for the disclosure of such payments. This would open up these financial flows to more public scrutiny which is urgently necessary.
- The final approach suggested at the international level is the '*fingerprinting*' of oil. It is rather narrow in scope but addresses the big problem of oil bunkering and illegal exports (see Obasi's chapter). The particular chemical composition of oil varies with its geographical origin. Technically it is possible to use these oil 'fingerprints' to register exports and imports according to sources and thereby monitor global oil trade much more in detail. Illegal oil exports or deliveries from a particular region could be regulated through such a regime.[111]

[109] Organisations in this field include the Tax Justice Network, Global Financial Integrity and the US Financial Accountability and Corporate Transparency (FACT) coalition, amongst others.

[110] See the recent reports by *Global Financial Integrity* (2010, 2011) for an assessment and discussion of the enormous amounts of illicit financial flows out of Africa and developing countries more generally.

Which policies could be introduced at the regional level in the Gulf of Guinea for escaping the resource curse? An *Economic Community of West African States* (ECOWAS) protocol on natural resources does not exist. However, there are largely unconnected initiatives of different departments, e.g. ambitions to establish a mining code or to establish joint energy policy projects. Where it is mentioned in the ECOWAS conflict prevention and management protocol (1999)[112] the focus is on trans-boundary management of natural resources for avoiding conflicts. At present it does not seem to be very realistic to expect that the ECOWAS or the much weaker Central African regional organisations develop regional polices on resource governance. The potential strength of the regional organisations could rather be a facilitating role. Especially in terms of oil, the West African region has many negative experiences to draw from for learning how *not* to govern resource wealth. Based on this and more positive examples, the regional bodies could draw up genuine regional policy principles and build up research and advisory capacity. Currently, a multitude of international organisations and donors fulfil this function without any significant regional involvement. Apart from such official regional initiatives, more effective regional research and civil society advocacy networks on regional governance would help.

Domestic level

The suggestions for interventions at the domestic level are presented in an order of increasing efforts required for implementing them.

- The first one requires no effort at all apart from taking the decision to *leave the oil in the soil*. Given the world market prices and the potential income it is hardly realistic that any developing country government would make this choice. However, from a citizen's point of view it might on balance be pre-

[111] This idea is modelled after the *Kimberley Process Certification Scheme* for so-called 'blood' or 'conflict diamonds' (see Bieri 2010). See the website http://www.legaloil.com for more information and material on this. Anna Zalik discusses this initiative critically (Zalik 2011).

[112] The full title of the protocol is ECOWAS Protocol relating to the mechanism for conflict prevention, management, resolution, peace-keeping and security (ECOWAS 1999).

ferable if some governments did so. A more moderate variant of this approach would be the slow spending of oil revenues like Norway does.[113] This could help many poor countries in mitigating the potential negative effects of the newly gained resource-wealth.

- Putting the second suggestion into practice also requires only little effort. *Making the contracts between oil and gas companies and governments public* is a relatively familiar demand (see Rosenblum and Maples 2009; Oxfam America et al. 2009). At present, most governments and the international companies include confidentially clauses in the contracts which make these documents and the information contained therein inaccessible to the public. Publishing them would put pressure on both parties to negotiate fairer and better deals for the host countries.[114]
- Another element of a solution package to the resource curse is a resource-related *taxation and revenue system* which is more beneficial for the country (Open Society Institute of Southern Africa et al. 2009; Stürmer and Buchholz 2009). Overall, the contractual conditions as well as the government revenue frameworks in most Gulf of Guinea countries are very profitable for oil and gas companies, compared to other world regions. More importantly, it is precisely the oil-rich African countries which have by far the lowest tax intake to Gross Development Product (GDP) ratio, compared to the mineral-rich and even non-resource-rich countries on the continent (Ndikumana and Abderrahim 2010: 356).
- The fourth suggestion is to *strongly promote the use of renewable natural energy resources*, perhaps even investing a part of the oil and gas-rents in such schemes. While climate change and the increasing use of renewable energy are high on the global agenda, most resource-rich poor countries have not even started to think about this. Using renewable energy, these countries could partly solve their own energy problems and even export

[113] The Norwegian 'budget rule' which provides guidelines for revenue management for the government stipulates that not more than 4 per cent of the annual interest generated from oil revenues should be spent each year (Moses 2010: 137).

[114] For the interesting case of the São Tomé and Príncipe oil revenue law with a strong focus on transparency and accountability, see Bell and Faria (2005). Rosenblum and Maples (2009) provide an excellent overview of the extractive industries contract disclosure discussion, including a survey of many country's contract transparency policies as well as confidentiality clauses (Rosenblum and Maples 2009: 47 and appendix b). The new *Revenue Watch Index*, prepared by the *Revenue Watch Institute* and *Transparency International* (2010) presents a detailed assessment of oil, gas and mining industry-related information disclosure and transparency by governments.

electricity. Moreover, since some of the countries in Central Africa are home to a significant portion of global rainforest, 'Reducing Emissions from Deforestation and Forest Degradation' (REDD) schemes should be promoted.[115] Through such schemes, individual rich countries with high carbon emissions or the international community pay poor countries with large quantities of rainforest for protecting and not cutting them down. The Stern report on the economics of climate change (2007) recommends curbing deforestation as a "highly cost-effective way to reduce emissions" (Stern 2007: ix). While some REDD pilot projects exist already, to date this approach's potential remains notoriously underused.[116]

- The final domestic level suggestion has been discussed at length in chapter 9 of this book (Roll). The *direct distribution of natural resource revenues to citizens in combination with improved taxation* model is probably the most radical of all the suggestions. It addresses the fundamental accountability gap between state and society which lies at the core of the political dimension of the resource curse. Given its potential, this approach urgently deserves more attention and critical discussion.[117]

We hope that, together with the other suggestions for elements of potential solution packages and building on the first FES book (Traub-Merz and Yates 2004), this volume contributes to such a broader, more innovative and effectively solution-oriented policy discussion.

The politics of solving the resource curse

Compared with the policy suggestions, this part on the 'politics' or political economy of solving the resource curse is a lot harder. While the literature is weak on suggesting concrete policy solutions, it is almost blind when it comes to the

[115] See for example the website http://www.redd-oar.org for more information about this approach.

[116] The UN-REDD programme (see the website http://www.un-redd.org) assists countries in preparing national REDD strategies. From Africa, the Democratic Republic of Congo, Tanzania and Zambia were among the pilot countries of this programme. In a historical bilateral deal, Norway has recently entered into an agreement with Guyana to pay 250 million US-Dollars in total over a number of years for the South American country protecting its forests and using the money for environmentally sound projects (see Juniper 2011).

[117] Several international think tanks are now working on and promoting this approach, such as the *Centre for Global Development*, *Friedrich-Ebert-Stiftung* and *Revenue Watch International*. In its recent Africa strategy paper, the parliamentarians of the German major opposition party *Sozialdemokratische Partei Deutschlands* (SPD) in the Bundestag have endorsed this model (SPD Bundestagsfraktion 2011: 8).

political economy aspect. The same blindness apparently led to the World Bank's terrible failure with the Chad-Cameroon pipeline project. The crucial questions that need to be asked are: Why should governing elites in developing countries reform natural resource governance when they are the ones deriving massive personal benefits under the status quo? Which conditions and factors could make international and domestic actors challenge the status quo and changing structures and procedures? Which lessons can be learned from cases where this has actually happened? The following discussion is clearly inadequate to the scope and importance of these questions. However, given the current state of discussion, it is at least a beginning as well as an invitation to joining and advancing this debate. The section starts with a brief look at the political economy of international and regional interventions and then introduces factors which could facilitate reform at the domestic level.

International and regional level

In a recent publication, Benner et al. (2010) analyse some of the international good governance and transparency initiatives in the oil and gas sector. In line with our own observations they conclude that these have "not affected the core rules of the game of global energy governance" (Benner et al. 2010: 310). They argue that a window of opportunity for fundamental reforms existed between 1995 and 2005 when the new consumers such as China were not yet as powerful (ibid.: 311). According to their judgement, fundamental reforms which pay more attention to good governance aspects of the international energy markets are therefore now unlikely. They list a number of reasons for that, including the fact that the energy markets are about business only, a lack of interest in reforms on the part of producers and new consumer countries, a lack of commitment by established consumers and a lack of leverage of voluntary disclosure mechanisms. While we agree with the assessment by Benner et al. (2010), the Cardin-Lugar provision has demonstrated that fundamental international reforms are indeed possible.

Nevertheless, as long as politicians and citizens in the main consumer countries do not pay attention to where their 'daily oil' comes from and what the impacts of the current mode of global oil and gas extraction and trade are, more substantial and systematic reforms are indeed unlikely at the international level in the near future. It is striking that in the context of growing consumer awareness and responsibility,

one of the biggest sectors of the global economy remains veiled in secrecy and without major non-governmental initiatives targeting 'Western' consumers.

Based on our discussions at the conference, there does not seem to be more hope at the regional level either. Natural resource governance is predominantly a national issue in the Gulf of Guinea as elsewhere. While international advice is often welcomed, the subordination of national to regional policy guidelines or law concerning natural resources is currently out of question in West and Central Africa. No single government of a resource-rich country in the region has any interest in giving the regional organisations a meaningful role to play in this policy domain. Since these organisations strongly depend on the national governments and for funding particularly on the most resource-rich countries[118] they do not yet have any regional authority *sui generis* on natural resource governance and are unlikely to build it in the foreseeable future. The difficulties of the *Gulf of Guinea Commission* to become effective after its establishment in 1999 sadly attest to that. Better coordination, let alone an institutionalised regime that resembles something like a regional *Organization of the Petroleum Exporting Countries* (OPEC) is not in sight.

Domestic level

The political economy or 'politics' of domestic reform for escaping the resource curse is no less complex than at the international level. However, in this concluding chapter we cannot go beyond listing some of the factors which might make domestic reforms more likely in resource-rich poor countries. These factors may be some of the building blocks for a more comprehensive political economy framework which still has to be developed.

The factors listed below might together explain why countries establish 'high-quality institutions' or introduce development-oriented reforms for overcoming the resource curse.[119] In line with the governance focus of this book, the focus is on political and social factors. The factors can be divided into three groups: external, systemic and elite factors.

[118] These are Nigeria in West Africa and increasingly Equatorial Guinea in Central Africa.

[119] We refer to our remark in the introduction that authors differ in terms of which institutions they regard as relevant but that the rule of law and administrative effectiveness are most frequently mentioned.

External factors:

- *Geo-strategic relevance* may earn the country international support in terms of finances, market access and technology, for example. This support makes the option of diversifying the economy more viable.
- The '*regional neighbourhood factor*' (see Lewis 2007: 51-53) is critical. Certain regions such as East Asia provide lots of opportunities for economic diversification while others like West Africa do not.
- A *threat to a government's survival*, whether externally or internally generated, may provide an incentive for growing revenues by promoting non-natural resource-led long-term economic growth (see Doner et al. 2005).

Systemic factors:

- Despite their resource-based wealth, the *relative scarcity of financial resources* (see also Doner et al. 2005) may be a relevant factor for resource-rich countries as well. Even though their oil revenues are high, the governing elites often have to pay off certain powerful groups such as the military or militias for allowing them to stay in power. They might consider promoting economic growth as a viable alternative when the demands tend to outgrow oil revenues.
- Despite high natural resource revenues, some countries retain a *low degree of penetration of the political system by resource rent distribution*. Where natural resource extraction has just started or a significant share of revenue is generated from non-natural resource industries, the political system might not be as strongly dominated by oil money and distribution fights. Where oil revenues have trickled into the political system already, reform is much more difficult and therefore unlikely.
- A high degree of *rent management centralisation* is key since it provides the necessary steering power for implementing structural reforms.

Elite factors:

- *Strong elite cohesion* reduces fragmentation and therefore transaction costs. It increases the likeliness of successful reform implementation.

- A *broad-based social nature of the elite coalition* might be crucial since the wider the elite is rooted in society, the more pressure for particularistic benefits it receives (see Doner et al. 2005). Diversifying the economy is a promising long-term strategy to address and gradually transform these demands.
- A *productive-capitalist orientation of the elite* is the third factor in this category.[120] Without this orientation, the chances for a diversified economy to emerge and operate successfully are slim. For the case of Indonesia, Rosser (2007: 53; see also Rosser 2006: 567) confirms this. Kohli (2004) even coined the term "cohesive-capitalist state" for the type of state he identified as most successful in promoting industrialisation.
- Since diversifying a natural resource-based economy is a long-term process, a *long-term policy horizon of the elite* is another necessary factor for reform. While long-serving presidents and regimes might have such a long-term horizon – but unfortunately do often not use it for developmental purposes – strong elite and policy coherence is another way to produce it.
- The last elite-related factor is the existence of an *elite's developmental vision*. Whether it is the result of ideological conviction or political constraints, threats and incentives, a domestically owned and driven developmental vision is essential for successful reforms.

None of these factors can produce high-quality institutions or development-oriented reform in resource curse-affected countries in isolation from the others. All of them interact in various ways and may strengthen but also weaken one other. However, it is beyond the scope of this chapter to go into further detail concerning these modes of interaction. This preliminary framework also needs to be complemented with other factors and eventually, tested empirically.

Despite the provisional nature of this framework it is nevertheless possible to draw a rule-of-thumb policy conclusion from it. Where most or even all of the factors presented above are in place in a resource-rich poor country, there is a fairly good chance that developmental reforms might occur and succeed despite the resource curse effects. On the other hand, where most or all of them are absent like they were

[120] We use the term 'productive-capitalist' to differentiate a capitalist system which is based on strong manufacturing and service sectors from a capitalist system which is based on natural resource extraction only, for example.

in Chad, developmental change should not be expected any time soon. While even in such contexts there may be good reasons for external actors to continue supporting progressive domestic forces, they should become more realistic about the limited transformative potential of this strategy.

We conclude by first not only emphasising the relevance of the resource curse phenomenon but also its potential for development research and policy. In the final section we identify three main priorities for research and policy that emerge from this book.

The negative effects of poor countries' resource wealth on their economies, societies and polities constitute one of the biggest global developmental challenges of our time. The number of poor countries with economically significant natural resource endowments is high. More than 60 per cent of the world's poorest people live in natural resource-rich countries (Oxfam America 2010). The political economy conditions under which these countries may escape the resource curse are in place only in very few of them. However, the direct negative economic and political effects of resource wealth constitute only one dimension of the 'resource-rich but poor country' problem. The literature usually focuses exclusively on this dimension. However, the second dimension might be at least as important and also offers additional scope for intervention. In contrast to the first, the second dimension is systemic and international in nature.[121] It is based on the observation that the global economy provides the elites of resource-rich countries with incentives and opportunities for making massive private profits. These incentives therefore keep the elites from engaging in the tedious business of domestic state- and institution-building. It is obvious that this problem cannot be tackled at the domestic level but requires systemic and international responses.

Both the effects of resource wealth in and on poor countries, the direct and the systemic one, make solving resource-wealth related problems highly relevant for the development of many of these countries. At the same time, the resource wealth of poor countries holds an enormous and largely unexplored potential for reform. In 2005, the aggregated revenues of sub-Saharan African countries from oil alone were already three times higher than all aid combined.[122] Due to stagnating aid levels and steeply rising oil income, the ratio is likely to be much higher now. Natural resource rents dwarf the role of aid both in monetary and systemic terms. Making just a fraction of these rents more development-effective would have an enormous impact.

[121] See Shaxson (2007b) for a similar call for paying more attention to the international and the systemic dimensions of corruption and the resource curse.

[122] Total oil revenues of sub-Saharan African countries amounted to 80 billion US-Dollars in 2005 (Gelb and Turner 2009: 37). The official development assistance (ODA) to the same region was about 27 billion US-Dollars in the same year (http://www.one.org/data/en/data/oda-ssa-usd/).

Three priorities emerge from this concluding chapter, one research and two policy priorities. First, researchers working on the resource curse should urgently pay more attention to the conditions under which countries take measures for escaping the resource curse or mitigating its negative effects. Ultimately, while international and regional actors can contribute, the responsibility and capacity for a developmental transformation of a country affected by the resource curse rests with the respective government. Second, domestic and especially external actors need to go beyond the prevailing transparency agenda. For complementing their current approaches they should start to think more strategically and politically. Finally, despite or rather because of the high interest of Western countries in these natural resources, 'harder' and more effective international regimes addressing the resource curse in the developing world need to be established. Collaborative, coordinated, well-targeted and more strategic international initiatives are required and hold a lot of untapped potential.

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ANNEX

Official Conference Report

By Charles Ukeje & Gerald Ezirim [123]

Fuelling the World – Failing the Region? New Challenges of Global Energy Security, Resource Governance and Development in the Gulf of Guinea

25-26 May 2010, Nicon Luxury Hotel, Abuja, Nigeria

Introduction

For two days, 25-26 May, 2010, the Friedrich-Ebert-Stiftung, FES, organised an International Conference on the theme: "*Fuelling the World, Failing the Region? New Challenges of Global Energy Security, Resource Governance and Development in the Gulf of Guinea*", at the Nicon Luxury Hotel, Abuja, Nigeria. The conference brought together academics, parliamentarians, senior government officials, diplomats, civil society activists and journalists, representatives of governments and regional organizations with keen interest in the region's oil and gas sector. A total of 63 registered participants (including 14 women) from 14 countries in Africa and beyond attended. Building upon the oil and gas conference held in Yaoundé, Cameroon, in 2003, and the regional experts meeting in Accra in May 2009, the overall objective of the meeting was to provide timely updates on and exchange on innovative national, regional and international approaches and initiatives for development-focused oil and gas governance in the Gulf of Guinea. This is informed by the fact that increasingly, old and new oil producers in the region have become notable players in the global oil and gas industry not only because they are "fuelling the economies of the world," but notorious also for the widespread incidence of poverty they are overburdened with in the midst of plentiful oil wealth.

[123] Charles Ukeje is a Professor at the University of Ile Ife; Gerald Ezirim is a lecturer at the University of Nigeria, Nsukka.

The conference sought, among others, to:

(1) Facilitate sharing of most recent research findings and experiences with innovative approaches to oil and gas governance in the Gulf of Guinea region and beyond;

(2) Encourage dialogue among national and transnational actors involved in oil and gas governance in the region; and

(3) Support further development of innovative approaches to oil and gas governance and provide key recommendations to policymakers.

In this regard, the conference addressed four major concerns, namely:

(a) What is the latest state of knowledge on how resource wealth (oil and gas in particular) and development interact, and what are the implications?

(b) How does resource wealth interact with governance and development in other regions of the world, and what key lessons can be learnt such experiences?

(c) How does resource wealth and security interact, and what are the implications for stability and development?

(d) To what extent are global concerns and interests, especially energy security and price stability strengthening or undermining the Gulf of Guinea's position as a regional hub market for oil and gas, what has changed in the past years, and what are the challenges and alternative futures?

Overall, the conference provided a lively forum for sharing experiences and discussing innovative national, regional and international approaches for the governance of energy resources, particularly in the oil and gas sector. The conference followed four broad thematic sessions:

(1) Global interests in the Gulf of Guinea's oil and gas;
(2) Regional responses to the prevention of conflict and insecurity related to the oil and gas sector;
(3) Leverages available to regional organizations to intervene in the governance of the oil and gas sector; and
(4) Making the oil and gas sector work for sustainable development and democratic governance.

All the sessions drew expertise and perspectives from a wide-range of participants. This report highlights some of the key points raised over the two days, not leaving out the sometimes heated arguments on the corridors and during meals throughout the conference.

Day I: The Opening Ceremonies and Working Sessions

The upbeat mood throughout the two-day event seemed to have been set during the opening ceremonies with four short presentations; beginning with a brief welcome address by Thomas Mättig, Resident Representative of FES in Nigeria. This was followed with a keynote speech by the Chair, Dr. Emmanuel Izuegbu, Director of Planning, Policy, Research and Statistics, on behalf of the Honourable Minister of Petroleum Resources of Nigeria, Mrs. Diezani Allison-Madueke. Remarks and goodwill messages were also given by Ambassador Joachim Schmillen, Deputy Head of Mission of the German Embassy in Nigeria, represented by Matthias Veltin, and a representative of the National Planning Commission of Nigeria. They were in unison in acknowledging the timeliness and topicality of the conference theme given the unprecedented backdrop of governance deficits persistently experienced by many oil-rich African countries, including those in the Gulf of Guinea region. Each of the keynote speakers also underscored the immense opportunities that improved and transparent management of oil and gas resources might portend for oil producing countries, in particular, but also for the stability of global oil supply and prices.

Soon after, Session I on "*Global Interest in the Gulf of Guinea's Oil and Gas*" chaired by Dr. Charles Ukeje of the Obafemi Awolowo University, Ile Ife, Nigeria, received three presentations by Abdoulaye Ly of Transparency International, Dakar, Senegal; Jose Mba Abesso, Deputy Executive Secretary General of the Gulf of Guinea Commission; and Rolf Hempelmann, Spokesperson on Energy Policy, SPD Parliamentary Group of the German Bundestag. The Session underscored the need to pay closer attention to the complex regional security implications of renewed interest by major oil importing countries in the Americas, Europe, Asia and the Pacific, to gain a firm foothold in the energy sector in the Gulf of Guinea region. Widely touted to be the newest frontier of proven oil and gas deposits waiting to be fully harnessed, the discovery of fresh crude oil reserves in a growing number of countries in the Gulf of Guinea and along the west coast of Africa is undoubtedly throwing up a mix of excitement and concerns as well as challenges and opportunities. How, for instance, are the different countries in the region contending with competitive external pressures and what policy options are they mobilising to maximise the opportunities that may arise or counter possible adverse outcomes?

Attention was also drawn to the burden of evidence that oil and gas resources seemed to have produced a dangerous paradox in most Gulf of Guinea countries: as a growing number of citizens experience a sense of acute disenfranchisement from the benefits of oil and gas wealth, they are finding ways to undermine and challenge the governance compact with those who govern them, with serious implications for society and security. Given the grim realities of bad governance and mismanagement of the energy resources in existing oil-producing countries, what lessons might nascent producers like Ghana take on board as they settle into the nitty-gritty of receiving oil wealth? It is significant, as the Session Chair noted, that even for a country like Ghana that has enjoyed fairly stable and back-to-back multiparty civilian rule, there are already pockets of discontent and agitation within communities located in proximity to the new oil fields which should give the government early warning signs of what to expect when oil production is full-blown and wealth from it becomes a contentious political factor in the near future.

Invariably, the new oil states must, as a matter of urgency, initiate a process of continuous dialogue with their citizens to forestall crises in the future; and such dialogue must be guided by principles of equity, transparency and distributive justice in wealth-sharing. In this regard, the role of civil society cannot be discounted since it is pivotal to ensuring accountability in the management of the sector, and in deploying new transparency frameworks such as the Extractive Industry Transparency Initiative (EITI) or Publish What You Pay (PWYP) for any useful dialogue with governments and oil companies. Still, there is a big concern about the weak capacity of civil societies in virtually all Gulf of Guinea countries a situation that might limit their ability to take full advantage of this 'window of opportunity'.

In "*The Relevance of Oil and Gas to the Gulf of Guinea Region*", Abdoulaye Ly interrogated further how the changing status of the Gulf of Guinea as an important energy resources hub in Africa is affecting global oil supply and prices, regardless of evidence that most countries in the region are mired in perennial governance challenges; with issues such as lack of transparency, rampant corruption and insecurity rife. Because the world demand for oil is expected to increase by 60% in 2030, the presentation recognized the inevitability of an upsurge in international

competition pitching 'new' oil importing countries like Brazil, Russia, India and China (the so-called BRIC countries) vis-à-vis long-standing consumers from the Western hemisphere. What is perhaps not yet certain, or at least is yet to be fully comprehended, is the specific ramification of this development for the mostly weak countries of the Gulf of Guinea. This latter point also came up in the light of the debate on how to grow the Gulf of Guinea as a veritable international oil market hub. This issue was taken up by Jose Mba Abeso in his paper titled "*Towards Future Markets: Negotiations and Market Prospects for the Gulf of Guinea*". In his view, African countries do not think much of the continent as an attractive energy market, despite their vast oil and gas as well as hydro-electric power generation capabilities. To speed up this process, as he argued, greater awareness and cooperation among African countries is essential to boost their capability to negotiate better deals vis-à-vis their better endowed external business partners.

However, it is remarkable such views from within the region seem to dovetail with those from outside; up to some point, at least. In ''*Perspectives on Oil and Gas in the Gulf of Guinea from Germany*", for instance, Rolf Hempelmann showed the extent that Germany (as the biggest economy in the EU has developed because of its possession of black coal) alongside France and the UK, are now heavily dependent on oil and gas imports, often from volatile regions. To ameliorate the adverse impacts of such burdensome over-dependency on imported oil, three major strategies have guided Berlin's energy policy options: (1) *Efficiency*, fostering measures to save energy and energy-efficient technologies; (2) *Development of Own Resources* – development of renewable energy, including wind energy; (3) *Diversification of Imports* by forging partnerships to explore new markets. The notion of market, according to him, is not static; rather it has transformed at least thrice over the past half century. First, are the old markets which derived their character from long-standing but unequal colonial ties, for instance, between Gabon and the French multinational, ELF. The second, known as the new markets, grew as a result of the opening up of the oil industry in the 1970s to allow a multiplicity of multinational oil companies to enter the oil and gas sector in many countries. The last, future markets, are characterized by stiff competition between 'traditional' oil importers like the US and European vis-à-vis 'new' players mostly from the BRIC countries. In the final analysis, as the Parliamentarian argued, Germany's interests can only thrive with guarantees of greater transparency, eradication of corruption, and the enthronement of a stable investment climate in Gulf of Guinea countries.

Session II on '*Preventing Conflict and Insecurity Related to Oil and Gas – Regional Responses*' was organized in the format of an interactive talk show panel. This format, in turn, allowed a rich debate on how resource wealth arising from oil and gas exploration and production interact with security concerns along with several emerging threats relating to environmental and maritime security. The debating format also made discussions to be honed towards problem-solving and consensus-building on how to qualitatively deepen effective governance in the oil and gas sector in the Gulf of Guinea. Moderated by Sebastian Sperling, Head, Regional Security Policy Project for West Africa at FES, the session commenced with short inputs by: (1) Matthias Basedau and Annegret Mahler served, "*New oil finds in the region- New risks for security in the region?*"; (2) Nnamdi Obasi "*Organized Crime and illicit bunkering: Only Nigeria's problem?*"; and (3) Admiral Ben Acholonu of the Nigerian Navy; "*Maritime Security: whose security whose responsibility?*" They were joined by two prominent civil society activists, Dr Steven Manteaw of the Coalition for Human Rights, Oil and Gas, Ghana and Agnes Ebo'o, of the Gulf of Guinea Citizens Network based in Cameroon.

Basedau and Mahler set the tenor for the session by providing rich theoretical insights into and empirical data on the controversial relationship between resource wealth and conflicts.

According to them, conflict due to resources may emerge, endure or intensify because:

(1) Benefits or costs of resource production create motivation for actors to engage in violent conflicts;

(2) Income from resources may provide opportunity to finance warfare by rebels or governments;

(3) Resources may make violent conflict likelier by indirectly undermining economic development and the general welfare of citizens apart from exacerbating corruption and undermining the quality of key institutions.

What their narrative equivocally showed were, first, that resources do not automatically create conflict but are assisted by surrounding conditions or "context matters"; and second, "oil is not always and necessarily connected to conflict but for all countries risks persist". Nnamdi Obasi of the International Crisis Group, ICG, gave graphic details of the menace of crude oil stealing in Nigeria's delta

region popularly known as "oil bunkering". It was evident from the presentation how both the scale and criminal dimensions of activities associated with bunkering, have become major drivers of violent conflicts in the Niger Delta. Given the grave implications of oil bunkering and associated criminal activities for regional security and stability in the Gulf of Guinea, the felt-need to mobilise an equally robust regional and global counter-responses seems overdue.

Fortunately, the urgent imperative to look beyond national borders for solutions to the problem of oil bunkering also apply to the shared responsibility for the management of maritime security in the region. This is so given the notorious incidences of banditry and piracy, drug trafficking, loading of stolen crude oil, shipping of toxic wastes, illegal fishing, to name a few, that now pervade the entire sea-lane of West Africa. The severity of maritime security and safety concerns in the Gulf of Guinea and across West Africa was amplified by Rear Admiral Acholonu, Flag Officer Commanding the Eastern Naval Command of the Nigerian Navy who drew attention to the dimensions of the problems and the difficulty political, logistical and technical obstacles that needed to be surmounted to address them. To underscore the enormity of the challenge, he argued that even with its relatively larger navy capability, Nigeria is not able to effectively put up sufficient naval and coastguard capability to maintain effective presence within and patrol its exclusive economic zone which is almost the size of the country landmass! In their separate but complementary interventions, Steven Manteaw and Agnes Ebo'o, generally entered the caveat that the myriad problems of resource-induced conflicts, oil bunkering and maritime security are best addressed when governments in the Gulf of Guinea, individually and collectively, run inclusive and people-friendly administrations, and also recognise and work with the civil society to promote good governance and effective citizens participation rather than fuelling the ember of political, economic and social exclusion.

Day II: Working Sessions and Closing

On Day 2 of the conference, two working sessions preceded the closing ceremony. The first working session considered the leverage and capacity of regional organisations such as ECOWAS (Economic Commission of West African States), CEEAC (French acronym for Economic Commission of Central African States) and the Gulf of Guinea Commission (GGC), etc., to establish a pan-regional framework for improved governance of the oil and gas sector in the region. Chaired by Prof. Oumar

Ndongo, Secretary General of WACSOF (West African Civil Society Forum), the session considered a paper by Prof. Ntuda Ebode of the University of Yaoundé II, Cameroon, on the prospects for mobilizing regional response using a bottom-up instead of top-down approach to the governance of the oil and gas sector in the region, and a second by Mr. Jose Mba Abeso, Deputy Executive Secretary General of the Gulf of Guinea Commission. In relation to the prospects of putting up robust regional responses, Professor Ntuda Ebode argued that existing initiatives for governance in the extractive sector (for instance, OPEC) have failed to achieve positive results because they traditionally followed a top-down approach that focuses on the "defence of their interest, with special focus on issues of security of supplies, price stability and the development of non-fossil energies". The way to proceed, according to him, is to pursue "governance from the bottom" through national and international non-governmental initiatives such as the EITI, PWYP, Transparency International, Global Witness, The Kimberley Process (for Diamonds), each seeking to promote transparency at every stage of resource extraction and deploying same for the ultimate benefit of the people. While such initiatives seem to be up to a good start, they are fraught with the problem of slow and haphazard implementation. Apart, there is the problem that arises from the feasibility of pushing for a transnational and pan-regional civil society agenda or action on effective management of energy resources. Indeed, in many Gulf of Guinea countries, civil society as a form of associational activities outside the direct control of government is muzzled or too weak to function with integrity or sustainably. Beyond nominal gestures, also, there has also been a palpable lack of enthusiasm on the part of many governments, including those that have signed up and domesticated major international instruments, to translate such commitments into visible and concrete action.

It was precisely for the above reasons that the proposal by Professor Joseph Ntuda Ebode to "extend the consultation space to the sub-regional level", in the case of West and Central Africa to ECOWAS and CEEAC, is generally attractive, but only on paper, for now. Perhaps one of the reasons that the proposal for a regional approach to the governance of the extractive sector is viewed as viable and expedient at this time is closely linked with the wider problem of regional, especially maritime, security highlighted earlier. By 'accident of geography', countries in the Gulf of Guinea overlap two sub-regions, West and Central Africa, with divergent colonial and post-colonial experiences along with the fact that they are also loosely strewn together by poorly delineated land and maritime boundaries. The very nature of their cross-border problems in the context of difficult policing, have

placed a lot of premium on the need for a collective – rather than individual self-help – approach to security.

The conference, with hindsight, reached a number of important consensus that are worthy of some attention. First, and perhaps most significantly, is that the discovery of crude oil in more countries in, and adjacent to the Gulf of Guinea, is a mixed grill. On the surface, the development is going to buoy the revenue and fiscal profiles of the different countries; but whether or not the gains would trickle down to the generality of citizens given the lopsidedness of income and wealth distribution within and between them, is another kettle of fish. Indeed, there are apprehensions that such new discoveries might further raise the stakes for conflict over costs and benefits; lead to an upsurge in international conflict between and among countries in the region over contested reserves; and provoke international rivalries and conflict as foreign extra-regional interests converge to take advantage of this 'new oil frontier'.

The second consensus is that a vastly improved and people-centred resource governance framework is overdue and critical in order to unlock the vast potentials of the badly managed and mostly impoverished African oil states. In other words, by changing the existing paradigm of resource governance to make it more transparent and citizens-friendlier, countries of the Gulf of Guinea could potentially widen the space for equity and social justice, environmental fidelity, peaceful resolution of conflicts and democracy in the long run. Third, is the pervasive mood among participants that as new oil and gas fields mature, in a growing number of countries, the concurrent growth of international interests might have profound implications for development throughout the whole continent.

Of course, whether the oil states of the Gulf of Guinea and West Africa are able to maximise whatever opportunities in the medium or long term remains uncertain; and for now, debatable. Those persuaded by this line of argument point readily to the reluctance of many western governments to leverage their political and diplomatic influence to promote sound resource governance, in particular, as well as qualitative and sustainable democratic changes in African oil states for fear of alienating those who govern them. At the extreme, of course, is outright refusal of a country like China to dabble in the affairs of major oil producing countries despite the enormous influence doing so could bring in terms of advancing governance.

Significantly, also, some of the liveliest debates during and between sessions demonstrated what might be described as a cacophony of healthy differences in perspectives among participants. First, perhaps, inevitably so, was the heated argument about whether there, actually, is a substantive nexus between resource extraction and predisposition to protracted violent conflict. To pose the question in a simpler way: to what extent does the availability and exploitation of oil and gas resources, in particular, raise the spectre of violent conflicts and the risk of civil war? Obviously, this question has engaged scholars and public policy experts for some time, but their conclusions – unfortunately, also in this case – have remained largely tentative. Understandably, it would be difficult – if not impossible – to settle this debate given how different genre of violent conflicts continues to fester in the Gulf of Guinea zone where six out of the eight long-standing oil producers have experienced armed conflict since the 1990s.

A second issue that generated animated but contrasting views throughout the conference had to do with how best to ameliorate the persisting mood of disillusionment amongst communities hosting oil and gas production activities over substantive issues like ecological degradation, economic marginalisation, and socio-political exclusion. The failure of governments in several Gulf of Guinea countries to effectively address the burdensome contradictions of development within oil communities is instigating armed insurgencies and separatist tendencies in different places. Across board, therefore, participants took note of the necessity for central governments to give a human, or people-centred, face to resource governance by faithfully identifying with and addressing the myriad developmental concerns of host communities through increased fiscal allocations, infrastructural development, wealth creation, as well as greater voice and participation in governance.

The assorted 'domestic' issues were further discussed during session IV on "*Making Oil Work for Sustainable Development and Democratic Governance – Possible Solutions*" which was chaired by Simon Asoba, Programme Officer at the FES Country Office, Abuja. The session took three lead presentations; including one by video-conference. As a commentary on "*a labor perspective from the region*", Peter Esele, President of the Trade Union Congress of Nigeria, TUC, argued that the problems which the oil industry in Nigeria face derive mostly from the malfunctioning of the existing oil and gas governance regime. The problems, in his view, arise mainly from lack of respect for the rule of law; low human capacity in the oil industry, especially having wrong persons in the right places; rampant and systemic corruption, clash of interests between different institutions of government, and intractable leadership crisis. Others include weak technological know-how, poor local content value-addition in the oil industry, unemployment, and frequent leadership

crises. This long list of problems seemed to have underscored his advocacy for effective implementation of the recently adopted Local Content Bill in Nigeria.

In "*The link between oil and gas governance and economic, social and democratic development*", Prof. Indra de Soysa of the Norwegian University of Science and Technology & the Center for the Study of Civil War, Peace Research Institute (PRIO) in Norway, insisted that resources are not destiny as they can be affected by government policies and institutions. According to him, however, institutions are unlikely to become viable if the political elite have perverse incentives to use or abuse wealth from natural resources. Thus, oil wealth can be spent for social progress only if the people are not motivated by other incentives but governments must contend with dwindling space for social peace. Prof. Ildo Sauer of the University of Sao Paolo, Brazil, who was unavoidably absent, delivered his paper on "*Managing Resources for Public Benefit – What Can be learnt from Brazil?*" via video showcasing the success story of Petrobras, the state-owned oil corporation in Brazil.

Another segment of Session IV chaired by Thomas Mättig, FES Country Representative for Nigeria, was enriched by two papers assessing innovative and comparative approaches to the management of oil and gas wealth. For Michael Roll (FES Berlin) who presented a paper on "*Breaking the resource curse politically: distribution of oil revenues to citizens*", the festering of resource curse is making it particularly difficult for governments facing them to resolve lingering political and governance problems. Drawing on comparative insights from how diverse countries such as Norway, Botswana and Alaska have managed their oil revenues better, the paper set the tempo for the controversial proposal made by Dr. Emmanuel Egbogah, Special Adviser to Nigeria's President on Petroleum Matters, for 10 percent dividend of resource wealth to be directly allocated to host and oil-impacted communities representing the value of acreages, production-sharing contracts, licenses, leases, etc., an amount estimated to be to the tune of 95 billion Naira (about EURO 500million) every year. According to the scheme, this dividend-type payment will be different from the 13 percent already shared to oil communities based on the principle of derivation, and allocations by government to key intervention agencies like the Niger Delta Development Commission (NDDC) and the Ministry of the Niger Delta.

The session closed with an assessment by Dauda Garuba from the Revenue Watch Institute (RWI), Nigeria, of the EITI process adopted almost one decade ago. He seemed to have given these initiatives a positive mark by linking their domestication under the Nigeria Extractive Industry Transparency Initiative (NEITI) to the enactment of the Fiscal Responsibility and Public Procurement Act. However, there are still many proverbial rivers to cross with the NEITI process; including the fact that it faces the dilemma of stakeholders' credibility, and have not gone beyond the issue of transparency to include broader issues of poverty eradication, employment, openness in contract processes, government accountability, independence of the judiciary, etc.

Furthermore, a bone of contention continues to resonate over who should get what, when, and how? Again, as the example of Nigeria vividly shows, proposals on how to address such questions tend to raise more dust than anticipated. For instance, feedbacks from participants regarding the 10 percent proposal above reveal a number of shortcomings. First, was the concern that it advertently watered down the definition of "impacted communities" to include communities with only a few kilometers across the country. The second widely shared criticism among participants was that the proposal neither gave any credible basis for arriving at the figure of 10 percent nor from where and how this amount is to be raised. Third, was the confusion over how the money proposed should be disbursed to the so-called impacted communities directly without undue interference by gatekeepers already accustomed to receiving and disbursing such allocation in the past, along with questions of who should receive the allocation on behalf of the communities, and what accountability safeguards are to be put in place to ensure judicious management? Fourth, was the proposal that communities be sanctioned for any damage to oil installations within their locality even if they are not complicit in causing them or they are due to operational or technical faults. The final concern had to do with the error of judgment believing that what the peoples of the oil-rich but impoverished Niger Delta region, as elsewhere, need is basically money, nothing else. In truth, money is necessary but certainly not sufficient to address decades of neglect that is at the root of widespread disillusionment in the region. From experience, even, throwing money at the problems of the oil region alone as successive governments have done over the years has only deepened the rentier mentality of the people and that predictably cannot be sustained in the long run.

By the time the curtain drew on the long hours of lively – and sometimes exhausting debates over two days – often well into the nights, it was clear to participants at the conference that the issue of resource governance, security and development have indeed been exhaustively discussed; even if creative solutions to them are still in the draft status and the quest for security and development in the oil-rich but volatile Gulf of Guinea region continues.

Conference Programme

International Conference

Fuelling the World – Failing the Region?

New Challenges of Global Energy Security, Resource Governance and Development in the Gulf of Guinea

25th-26th May 2010, Nicon Luxury Hotel, Abuja, Nigeria

Tuesday, 25th May 2010

8.30 – 9.30	Registration of participants
9.30 – 11.00	**Opening Ceremony and Introduction**
	Moderator: Sebastian Sperling, FES Abuja
9.30 – 10.00	**Welcome by:** • Thomas Mättig, Friedrich-Ebert-Stiftung Nigeria • Matthias Veltin, Deputy Head of Mission, German Embassy Nigeria • Dr Edimaro, Head Bilateral Relations, National Planning Commission, Nigeria
10.00 – 10.25	**Official Opening and Keynote Address: Oil and Gas Governance in the Gulf of Guinea – Fuelling the World, Failing the Region?** By: Minister for Petroleum Resources, Nigeria, through Emmanuel O. Izuegbu , Director for Planning, Policy Analysis, Research & Statistics, Ministry for Petroleum Resources
10.25 – 10.40	Brief Introduction of participants
10.40 – 11.00	Introduction of the programme
11.00 – 11.30	*Coffee break*
11.30 – 15.30	**Session I: Global interest in the Gulf of Guinea's oil and gas**
	Chair: Charles Ukeje, Obafemi Awolowo University, Ile Ife, Nigeria

11.30 – 11.50	1) **The relevance of Oil and Gas to the Gulf of Guinea region** By: Abdoulaye Ly, Transparency International, Senegal
11.50 – 12.10	2) **Towards Future Markets: Negotiations and Market Prospects for the Gulf of Guinea** By: José Mba Abeso, Deputy Executive Secretary General, Gulf of Guinea Commission, Angola
12.10 – 12.45	Discussion
12.45 – 14.00	*Lunch break*
14.00 – 14.20	Session I continued: Global interest in the Gulf of Guinea's oil and gas
14.20 – 15.30	3) **Perspectives on Oil and Gas in the Gulf of Guinea from Germany** By: Rolf Hempelmann, Member of Parliament, Spokesman on Energy Policy, SPD Parliamentary Group, Germany Discussion
15.30 – 16.00	*Coffee break*
16.00 – 18.00	**Session II: Preventing conflict and insecurity related to oil and gas – Regional responses**
	How do resource wealth (oil and gas in particular) and security interact and what are the implications? What are the recent trends and emerging threats? How can oil and gas-related insecurity effectively be addressed? Two papers address these questions by focusing on different aspects: (1) "New oil finds in the region – New risks for security in the region?"; (2) "Organized Crime and illicit bunkering: Only Nigeria's problem?". The authors of the papers as well as other experts are going to discuss the challenges in a form of talk show panel: • Dr Matthias Basedau, GIGA, Germany • Nnamdi Obasi, ICG / WANSED, Nigeria • Dr Steven Manteaw, Coalition for Human Rights, Oil and Gas, Ghana • Rear Admiral Ben Acholonu, Commanding Flag Officer, Eastern Naval Command (Niger Delta), Nigeria • Agnes Ebo'o, Gulf of Guinea Citizens Network, Cameroon Moderator: Sebastian Sperling, FES, Regional Office Abuja
19.00	**Evening Reception** Nicon Luxury Hotel, Poolside

Wednesday, 26th May 2010

9.15 – 11.00	**Session III: What leverage do regional organisations have?**
	Moderator: Prof Oumar Ndongo, WACSOF
9.15 – 9.30	Input: **Any prospects for regional responses? – an assessment** By: Prof Joseph Vincent Ntuda Ebode, University of Yaoundé II, Cameroon
9.30 – 10.30	**Perspectives from Regional Organisations:** 1) Gulf of Guinea Commission: José Mba Abeso, Deputy Executive Secretary General 2) ECOWAS Commission: Dr Abdel Fatau Musah, Director of Political Affairs, DPAPS 3) CEMAC Parliament: Patrice Kadia, Chairman of the Committee on Economic & Customs Cooperation
10.30 – 11.00	Discussion At the side of the conference hall: Regional Initiatives – Information Fair
11.00 – 11.30	*Tea Break*
11.30 – 17.45	**Session IV: Making oil work for sustainable development and democratic governance – Possible solutions**
	Moderator: Simon Asoba, FES Abuja
11.30 – 11.45	**Comment: A Labour Perspective from the Region** By: Peter Esele, TUC / PENGASSAN, Nigeria
11.45 – 12.15	**Empirical evidence: The link between oil and gas governance and economic, social and democratic development** By: Prof Indra de Soysa, Norwegian University of Science and Technology, Norway
12.15 – 13.00	First Round of discussion
13.00 – 13.30	**Managing resources for public benefit – What can be learnt from Brazil?** By: Prof Ildo Sauer, University of Sao Paolo, Brazil (via Video)
13.30 – 14.00	Second Round of discussion
14.00 – 15.00	*Lunch break*
15.00 – 16.30	Continuation of Session IV: Assessing innovative approaches

15.00 – 15.20	**Breaking the resource curse politically: Distribution of oil revenues to citizens**
	Moderator: Thomas Mättig, FES Nigeria
15.20 – 15.40	Input by: Michael Roll, FES
15.40 – 16.45	Input by: Dr Emmanuel O. Egbogah, Presidential Advisor on Petroleum Matters, Nigeria
	Discussion
16.45 – 17.00	*Coffee Break*
17.00 – 17.45	Continuation of Session IV: Assessing innovative approaches
17.00 – 17.25	**Is there a need for 'EITI reloaded'? An assessment of the EITI process**
	Moderator: Mebenga Mathieu Barthelemy, TI Cameroon
17.25 – 17.45	Input by: Dauda Garuba, RWI, Nigeria
	Discussion
17.45 – 18.00	**Closure**
	Farewell by Sebastian Sperling, FES Abuja
17.45 – 18.00	*Press Conference*

List of participants Oil and Gas Conference Abuja

S/N	NAME	COUNTRY	INSTITUTION
1	Abeso Mba Jose	Angola	Gulf of Guinea Commission (GoG)
2	R. Admiral Acholonu Ben	Nigeria	Nigeria Navy
3	Auwal Mohammed	Nigeria	National Planning Commission (NPC)
4	Abdel-Fatau Musah	Nigeria	ECOWAS
5	Atakpu Leo	Nigeria	ANEEJ, Benin
6	Amenaghamon Joseph	Nigeria	Open Society Institute in West Africa (OSIWA)
7	Adam Mohammed Amin	Ghana	PWYP-Ghana
8	Asoba Simon	Nigeria	FES Regional Office Abuja
9	Basedau Matthias	Germany	GIGA
10	Bruening Karl	Nigeria	GTZ Abuja
11	Burgis Tom	Nigeria	Financial Times
12	Cosmos Iwuaze	Nigeria	Presidency
13	De Soysa Indra	Norway	Norwegian University of Science and Technology
14	Dimka Sam	Nigeria	Nig Sao-Tome
15	Esele Peter	Nigeria	Trade Union Commission (TUC)
16	Ezirim Gerald	Nigeria	University of Nsukka, Nigeria (UNN)
17	Egbogah Emmanuel	Nigeria	Presidency
18	Ebimaro C. S	Nigeria	NPC
19	Ergoro Luis	Nigeria	Embassy of Equatorial Guinea
20	Evuna Alejaudro	Nigeria	Embassy of Equatorial Guinea
21	Ebo'o Agnes	Cameroon	Gulf of Guinea Citizens Network (GGCN)
22	Esebagbu Ray	Nigeria	National Democratic Institute (NDI)
23	Ebode Joseph Vincent Ntuda	Cameroon	University of Yaounde II
24	Feese Amanda Lumin	Nigeria	World bank
25	Gabrielle Maschal	Nigeria	German Embassy
26	Garuba Dauda	Nigeria	Revenue Watch Institute (RWI)
27	Ikpoki Ibi	Nigeria	European Union
28	Hempelmann Karl Rolf	Germany	Member of German Parliament, SPD Spokesman on Energy Policy

29	Imeh Okon	Nigeria	USAID Nigeria
30	Isuegbu Onyedikachi Uzoma	Nigeria	Civil Society Legislative Advocacy Centre (CISLAC)
31	Knaup Horand	Kenya	Der Spiegel
32	Kadia Patrice	DRC	Congo Parliament
33	Ly Abdoulaye	Senegal	Transparency International, Senegal
34	Magbonde Leance	Nigeria	WAGP Authority Abuja
35	Manteaw Steve	Ghana	CHROG-Ghana
36	Massaka Mfulu Jose	Brazzaville Congo	National Assembly
37	Mebenga Mathieu Barthelemy	Cameroon	University of Yaounde/ TI
38	Nodem Valery	Cameroon	RELYFA-PWYA
39	Ndongo Oumar	Nigeria	West African Civil Society Forum (WACSOF)
40	Obasi Nnamdi	Nigeria	International Crisis Group (ICG)
41	Oluchi Uba	Nigeria	OAU, Ile Ife
42	Onwuemene Henry	Nigeria	NPC
43	Otsemaye Newton	Nigeria	Publish What you Pay (PWYP) Nigeria
44	Omatete Shako	Nigeria	Embassy of D. Congo
45	Olumide Olaniyan	Nigeria	Coalitions for Change (C4C)
46	Amb. Pindar. S. S	Nigeria	Nig-Sao Tome Joint Dev. Authority
47	Polyakov Alexander	Nigeria	Russian Embassy
48	Rafsanjani Auwal Musa	Nigeria	Civil Society Legislative Advocacy Centre (CISLAC)
49	Roll Michael	Germany	FES Berlin
50	Saizonou Michael	Benin	
51	Sperling, Sebastian	Nigeria	FES Regional Office Abuja
52	Teschendorf Peer	Germany	FES Berlin
53	Ukeje Charles	Nigeria	Obafemi Awolowo University, Ile Ife
54	Waeringsaasen Kristin	Nigeria	Norwegian Embassy

The geostrategic importance of Africa's Gulf of Guinea region is growing. Oil and gas exports are rising, new oil-exporting countries such as Ghana are emerging, and China and other Asian economies are joining Europe and the USA as energy-hungry customers. We are witnessing a new scramble for Africa's oil and gas in the 'new' Gulf of Guinea. On the other hand, many of the region's countries remain fragile, badly governed and poor. While the region's oil is 'fuelling the world' it is completely failing the large majority of its citizens. Going beyond narrow conceptions of the 'resource curse', this book analyses the challenges the countries along the West and Central African coast face in translating resource wealth into stability, peace, economic growth, social justice and democratic governance. It assesses existing initiatives for making oil and gas work for the benefit of the people and suggests new, innovative solutions to the 'resource curse'.

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