

Introduction

By Rudolf Traub-Merz

Global oil markets are playing a prominent role on the world stage, again. Pushed into the limelight by security events linked to terrorism and war, the oil question is regaining its lost prominence. Fear is creeping up once more that violent conflicts will endanger energy supplies. Countries with dwindling domestic reserves and rising imports are searching for energy policies that will assure their access to foreign oil. Are there new forces to be reckoned with who might use oil as a political weapon? How should security policies be designed to protect supply routes? Should military control over transport channels be established or should the oil market be left to self-regulation?

This is not the first time that oil has been a major concern in international relations. Fears of supply problems were widespread in the 1970s. Only three decades ago the world economy witnessed one of its greatest challenges since the Second World War. The prize of a barrel of crude suddenly skyrocketed from \$2 (1972) – in real terms a historical low since 1860 – to \$12 (1974), followed by a second jump from \$13 (1978) to \$40 (1980). These price shocks were closely linked to the Arab oil embargo against Israel in 1973, which targeted the United States as well and the Iranian revolution of 1979, which overthrew the Shah regime and replaced the ‘Policeman of the Gulf’ by an Islamic regime hostile to the United States. The debate then centered on the blackmailing powers of the OPEC cartel. Oil was seen as a nefarious political-economic ‘weapon’ in the conflict between Israel and the Arab world with the ability to reshape international relations. And it was seen as a high-priced export commodity, a veritable ‘black gold’ capable of turning negative terms of trade around, and pulling raw material producers out of underdevelopment.

These hopes and fears never materialized. The oil prize collapsed during the 1980s when several factors resulted in a restructuring of the market. The world economy moved into an economic recession and world oil demand further declined when consumer countries applied energy saving measures and shifted to new sources such as nuclear energy. Non-OPEC oil producers, hiding behind the high-prize regime, rapidly expanded their production that the organization could not mitigate by lowering its own output. The cartel’s power was brought to an end and the price of a barrel fell to under \$10. From 1986 onwards, the oil market returned to its pre-OPEC terms and functioned largely without supply coordination. OECD-countries took advantage of low energy prizes while OPEC got caught in a

debt trap. Member countries could no more afford to cut on oil production or to maintain quota discipline as debt services put heavy pressures on their budgets.

There were reasons other than the economic weakening of OPEC why crude oil failed to re-shape international relations in any substantive way. After the challenges from the 1970s, the United States restructured its security policy towards the Middle East. It tilted the Iraq-Iran war in favour of Saddam Hussein, increased its military presence in the region and, when Iraq invaded Kuwait, turned against its erstwhile ally. From 1992 onwards, no Government in the Middle East had enough leverage in the Arab world to build strong alliances and use crude oil as a political weapon.

Only in the late 1990s did OPEC regain some of its lost stature and settle down once more as a relevant player in regulating oil supplies. The organisation seems to have learned its lessons. The OPEC declaration of 2000 is fundamentally different from what it had tried to achieve in the 1970s. Production targets for member states follow only one imperative: Keep the price of oil within a band of \$22 and \$28. Increase or cut supplies only to stabilise prices. No political aspirations are associated again with OPEC policies. And the economic cost of oil today poses no danger: As long as the price remains inside the official band, a barrel of crude (in real terms) is three times cheaper than it was in 1980.

So why the new concern about oil security? Some fundamental changes in the supply and demand equation are underway which may work towards a second chance for the emergence of market oligopoly. In 1980, the Middle East possessed 55% of world proven crude oil reserves, and OPEC held 65%. By 2002, the Middle East's share increased to 65%, while OPEC's had risen to 78%. There is no way around the Persian Gulf's domination of oil markets in the foreseeable future, and rising from the ashes, the regeneration of OPEC influence over prices.

Two of the big consumer regions, North America and Europe, are at the losing end of this re-distribution exercise for no new oil reserves of any significant size have been discovered in the North Sea, Alaska or the Gulf of Mexico. And output from fields within these zones has already begun to come down. Energy from renewable sources are not growing at a magnitude sufficient to offset hydrocarbons in the short-to-medium-term period. Nuclear energy is politically out in many countries, and hydrogen-based energy technologically immature. So oil and gas will in all likelihood remain the principal source of the energy used in the world. And gas – a supposed 'alternative' to oil – shares the same geographical distribution as oil.

This increasing dependency on the Middle East may not present any real danger so long as the sustainability of OPEC's new market policy is not in doubt. However, public resentment towards American foreign policy and the regimes that it has supported has grown considerably over the last decade. Energy supplies

are concentrated in those countries where a mix of internal social tensions, radical Islamism and anti-Americanism has produced a fertile breeding ground for militancy and terrorism. Oil platforms, tankers, pipelines and the whole integrated infrastructure of the petroleum industry are extremely vulnerable to attacks. Today security policy is less about building alliances with states, or applying political-military pressure on hostile regimes, and more about provision for physical protection of energy transport routes – with costs that may become astronomical.

For the major powers diversifying supplies, shortening transport routes and increasing military presence in high-risk zones are such risk-hedging strategies. Judging from the current data on production capacities and proven oil reserves, only two regions appear to exist where in addition to the Middle East, albeit at a large distance, oil production will grow and where a strategy of diversification may easily work: the Caspian Sea and the Gulf of Guinea.

The Caspian Sea has only come in the sights of the Western powers after the demise of the Soviet Union, and the United States has since entered the region and built-up a strong military presence on both sides of the lake. But there are problems facing the development of Caspian oil and gas. The five countries bordering the sea have not agreed on how to divide the territorial waters. Also the inland sea cannot be serviced by oil tankers and a pipeline needs to be installed before any deliveries could come on line. Pipelines through Russian or Iranian territory are probably the cheapest options but would give oversight rights to countries that already have a large stake on the energy supply side. Building multiple pipeline routes, or opting for the risk-reducing route Baku-Ceyhan (Turkish port on the Mediterranean) are the safest options politically, but they would add costs and raise doubts about long-term economic viability of the strategy. If energy prices fall, Caspian oil could price itself out of the market, challenging the capacity of oil companies to recoup their investments.

Some of the problems linked to Caspian oil give the Gulf of Guinea a competitive edge. Much of its oil is conveniently located offshore. With the sole exception of Chad (whose oilfields have just been connected to Cameroon by the 1,000 km Doba-Kribi pipeline) there is no oil route in the region that passes through the territories of neighbouring countries. Oil deals can be made bilaterally, rather than multilaterally. The American majors have made frantic efforts to invest billions of dollars in the region, and the American government has repeatedly declared the Gulf of Guinea to be a zone of strategic importance.

This reader takes up the new challenge facing the Gulf of Guinea. It assembles articles presented in October 2003 during an international oil conference of the Friedrich-Ebert-Stiftung (FES) in Yaoundé, Cameroon. The conference focused on the interests of ‘stakeholders’, bringing together politicians, government officials,

oil company managers, NGO activists, researchers, and representatives of international or multilateral organisations to debate key issues concerning the region's oil boom. The conference was structured – and so is the reader – into four topical categories. These are of course overlapping, and could have been organized otherwise, but their clustering was relevant to the dynamics of the conference debates, and so has been maintained here.

1. The Geo-Strategic Importance of the Gulf of Guinea.

Oil production in sub-Saharan Africa (with the exception of Chad and Sudan) is found in countries located along the Atlantic coast. While prospecting for oil in Namibia and South Africa looks promising, and while oil has been found recently in the waters of Mauritania, most of the known reserves of any magnitude are concentrated in an area that spans the Atlantic littoral from Nigeria to Angola. Geographically it is an area that includes West Africa (Nigeria), Central Africa (Cameroon, Gabon, Congo, Equatorial Guinea, São Tomé & Príncipe), and Southern Africa (Angola), but increasingly scholars are referring to it by a quaint and curious maritime term, the “Gulf of Guinea.” (Since Chad's oil is connected to Cameroon, it may be added as a player to the region).

African oil provides a secure source of energy, and it is estimated to increase its current share of US imports from 15% to 25% by the year 2025 – a percentage higher than US imports from the Middle East. Statements like this, made repeatedly by officials of the US-administration in the aftermath of September 11th are the entry point for **Johannes Dieterich** in *“The Gulf of Guinea in the Global Oil Market: Supply and Demand”*. Looking at published statistics, Dieterich tempers some of the hyperbole and over-excitement surrounding the current offshore oil boom: Africa is still no Middle East, he reminds us. But for the United States, one might add, it could become an alternative. Within the next decade oil production in the Gulf of Guinea could double, from four to eight million barrels a day (bpd), a volume that roughly corresponds to the additional oil demand of the energy hungry US economy in that same period. As noted above, the region enjoys several advantages, including its strategic location just opposite the refineries of the US-east coast. It is ahead of all other regions in proven deepwater oil reserves, which will lead to significant savings in security provisions. And it requires a drilling technology easily available from the Gulf of Mexico. The Atlantic coast of Africa is the only oil-producing region in the world that is not yet dependent on any single regional client. With the newly declared US interest, that may soon end and the Gulf of Guinea may become a region that produces oil essentially for American consumers.

Who rules the African oil industry? Today's world is no longer one where governments can open a big toolbox of state investments to advance their strategic interests. Big oil companies are privatized and multinational in character and serve the interests of their shareholders, not governments of states where they are headquartered. **Douglas Yates** takes a historical look at the *"Changing Pattern of Foreign Investment in the Oil-Economies of the Gulf of Guinea – From Political to Economic Rivalry?"* He shows how oil exploration in the region started during the colonial era, a period when oil companies still represented the national interests of their colonial metropolises. This gave European companies like Elf, Shell and BP a head start. Since then, however, the nature of the competition has changed from a political contest of national oil companies to an economic one between private multinationals. In this new contest the US majors have greatly advanced their position over the past few decades, and today find themselves on par with the once-dominant European firms. Official statements from Washington are really in a sense just pronouncements ex cathedra for what US firms are doing de facto in the field: investing heavily, and increasing their share of African production.

New players have found their way into the region, in particular Asian oil companies. But they have not as yet become a real challenge for the super-majors. Nor have African national champions. There is a marked difference between the Middle East where OPEC policy successfully pushed for nationalisation of oil production, and the Gulf of Guinea where African national oil companies are only symbolically in control. The Nigerian National Petroleum Company (NNPC) and Sonangol from Angola may be nominally important players, but they have not yet mastered the engineering of offshore petroleum platforms that would make them a force to count with in the new deepwater oil boom. For the most part they remain legally required junior partners of foreign companies.

Diversification of energy supplies is a key feature of US energy security policy, but what are its instruments in the Gulf of Guinea? According to U.S. State Department officer **Vicente Valle** there are no American government guidelines, nor any government pressures. In *"US-Policy and US-Energy Interests in the Gulf of Guinea"* Valle emphasizes the need instead to create a positive climate for investors. Political stability, rule of law, and property rights are the keys to encouraging petroleum sector investments, while accountability in managing oil revenues (see discussion below) is an important step in promoting a positive socio-political environment.

But what if democracy doesn't progress, and oil is plundered by autocratic regimes? The re-opening of the US embassy in oil rich Equatorial Guinea has raised this concern. Are US demands for democracy and human rights just rhetorical flourishes when it comes to raw materials and strategic national interests? Valle argues in favour of incentives, a voluntary basis for measures and the need

for international coordination (like the G8 Action Plan). He does not call for a concerted action or a forerunner role for the United States to boycott the purchase of oil from countries that are not progressing along the democratic path.

US interests dominate the current debate, but where do EU interests come in? How does Europe, once the dominant power in the region, react to the aggressive penetration by the Americans? **Lutz Neumann** examines this question in *“European Policy and European Energy Interests – Challenges of the Gulf of Guinea?”* Comparing US and EU policy he concludes, what others have called ‘the passive Union’. For him it remains unthinkable that an EU official would make a statement such as those being pronounced by representatives of the US administration. The European Union, one may conclude, is caught in the contradictions of its own construction. There is no sovereignty as of yet for the EU commission to take over energy policy. Meanwhile, member states leave their oil supply to the forces of the market, with a blind faith that the international trade regime will provide the cheapest energy security possible.

The “scramble for African oil” creates new opportunities for oil-producing states. Will the Gulf of Guinea remain just another zone of rivalry between foreign oil companies and overseas consumers, or will it use its oil as a platform for political unity? A veteran of the Angola wars, **Colonel de Barros** asks the question, *“Can the Gulf of Guinea Develop a Common Regional Oil Policy?”* OPEC may be the historical precedent, but membership in OPEC is limited to Nigeria. Furthermore the Gulf is a geographical area that cuts across the boundaries of several existing regional organisations (ECOWAS, CEMAC, and SADC) so any institutional capacity for a regional oil policy would have to be developed from scratch. De Barros is not optimistic. There are many reasons why a common oil policy should be developed but there is one major obstacle. American energy interest in African oil is growing, and as African governments are weak, there is nothing the region can do to stop it from behaving as a hegemon.

2. How Does Oil Policy Shape Inter-State Relations, the Nation State and Security Policy in the Gulf of Guinea?

Oil is a natural resource with a high propensity to heat up conflicts. There are some particularities in the political economy of oil that distinguish it from other commodities. “Production” of oil is a misnomer, for oil is not produced, only lifted. Oil is a gift of nature, not a product of man. Human labour is not used in producing it. With no production process creating natural property rights, oil is owned by the territorial and political structures of the state, where oil is found.

State revenues from oil are made in small part by taxes on wages and profits. To a larger extent they are made of economic rents from ownership and a monopoly component derived from the control of supplies. These rents are lucrative. Costs for lifting crude oil vary from one place to another, but on average remain below \$10 a barrel. Anything above that represents rent, and can be seen as a kind of 'free lunch'. The use of this unearned oil revenue is not guided by market principles, and it creates no obligation towards returning services to producers to maintain their productivity.

The politics surrounding these oil rents are rife with potential conflict. On the international level the creation of a supplier monopoly throws the relation between oil producing and oil consuming states into jeopardy. But even when markets are open supply competition may equally strain relations among states. Neighbouring countries become involved in ownership disputes when oil fields cross their borders and they can't agree on how to jointly exploit them.

When it comes to internal distribution of benefits the pressure on allocation politics does not ease. Within producer states, subsidies to citizens paid for food and transport compete with investment for infrastructure or self-enriching practices by the ruling elite. At the local level communities from whose soil the oil is lifted may demand "fair" compensation and special development fees based on "their ownership rights".

There is no mathematical formula to compute the "fair share" of a country, an area or a particular group. Democratic political means should be used to support claims for a higher share in oil revenue. In the absence of any fair process, such claims have frequently ignited violence. Nigeria, Angola and Congo-Brazzaville have each found themselves at different moments in their history thrown into the turmoil of civil war. The Niger Delta today is currently the hot spot for oil-related communal violence, while Angola is still fighting a secessionist war in its oil-exporting Cabinda Enclave. Chad's newfound oil riches may re-ignite the violent struggle for political power between the peoples of the North and the South.

But there is good news, as explained by **Osita Eze** and **Rudolf Traub-Merz** in their article "*Inter-State Conflicts and Conflict Resolution in the Gulf of Guinea*". No war of states has yet been fought over oil. Despite some sabre rattling over disputed borders or oil fields, conflict resolution has worked. This is demonstrated by Nigeria and Cameroon, who settled their rival claims to the oil-rich Bakassi peninsula by recourse to the International Court of Justice. Its verdict is implemented under UN-moderation. It is also demonstrated by the treaty between Nigeria and São Tomé & Príncipe for the creation of a Joint Development Zone (JDZ), including a relatively sophisticated conflict resolution mechanism with veto powers and arbitration procedures. In addition to preventing a potentially unpleasant dispute between these two countries, the JDZ may become a model for handling resource control problems between big and small states elsewhere in the world. The Gulf

of Guinea Commission is another framework for cooperation on maritime resources, including deep-sea oil and gas. Although some doubts exist concerning its membership and its state of ratification, the Commission offers the possibility for future joint policy by member states that could reach well beyond existing regional agreements.

Notwithstanding these positive developments, conflicts within societies involving oil easily turn violent. There has been a growing body of literature in recent years dealing with the analysis of resource wars and looking at the economic maintenance of conflict actors through domestic means after ‘proxy wars’ have been overcome and foreign funding for military adventures is no more forthcoming. Diamonds, timber, drugs and coltan have been identified as playing important roles in financing African insurgencies. The availability of such “lootable” resources appears to make a difference. **Wolf-Christian Paes** assesses the debate surrounding resources and violence in his paper, *“Oil Production and National Security in Sub-Saharan Africa”* and arrives at an important conclusion for oil as a conflict commodity. While alluvial diamonds can be extracted from riverbeds with modest investments and local skills, oil is a “non-lootable” commodity. Its lifting requires heavy capital outlay, a skilled workforce, and transportation on a level usually not accessible to rebels during times of insurrection. Due to its low “lootability”, oil production tends to favour governments rather than rebel groups. However, transportation routes are easily obstructed and distribution systems can be interrupted by rebel attacks on fixed installations such as pipelines. These strategic factors create two kinds of oil producers: (1) those depending on offshore oil production that is non-lootable and hardly obstructable (at least not from local groups), and (2) those depending on sources of onshore oil that are vulnerable to attack. Most of the countries in the Gulf of Guinea are in the former group, and most of the major discoveries are being made in deep waters. With production moving away from onshore locations, local conflicts are becoming less relevant and security is improving. But Chad is a landlocked country, and Nigeria still pumps half of its oil onshore.

Nigeria has indeed become the very symbol of oil-related violence. The Niger Delta where most of the oil is produced, is literally aflame: Forceful occupation of flow stations, vandalism of pipelines, kidnapping of oil managers, bunkering (stealing) of oil, clashes between heavily armed ethnic militias, retaliation by the armed forces. No form of violence seems to be spared. **Thomas Imobighe** in his *“Conflict in Niger Delta: A Unique Case or a ‘Model’ for Future Conflicts in Other Oil-Producing Countries?”* takes a closer look at what he describes as three levels of conflicts (communities vs. central state; communities vs. oil companies; communities against each other). These three levels of conflicts are interlinked and tend to re-enforce one another. The most active players in violent confrontation

are youth groups, backed by powerful local warlords. What the youths of the Niger Delta are doing is, however, not unique to the region. Violent conflict is being duplicated elsewhere in the country, and is the consequence of many years of neglect by the government of Nigerian youth. Why the Niger Delta situation seems to be more pronounced is because the militant youth groups there operate in a region where the state is most vulnerable.

3. Oil Companies and Civil Society: New Partnerships, Accountability and Social Development.

Revenues derived from natural resources do not appear to lead to economic and social development. Extractive economies make up the bottom group in comparative statistics on human development, and about half of the world's mineral-dependent states are concentrated in sub-Saharan Africa. Two arguments have been posited to explain why oil does not generate development. The economic approach blames bad macro-economic policies for the crowding-out of local producers (the "Dutch disease", see discussion below). The political approach blames the state for poor governance in rent-based economies ("Rentier theory"). The state is 'freed' from society's control when oil income replaces taxes. Historically, taxation has been closely associated with representative democracy. "No Taxation without Representation" was the battle cry of the American Revolution and it became the political parole from where British Parliamentaryism took off in the 13th century. In countries where rent income substitutes taxation, this political logic no longer holds. Rights of citizens can be rolled back and autocratic rule and rent-seeking by public officials and politicians advance.

Statistical correlations show: as oil wealth increases, autocracy, corruption and poverty increase as well. But a positive correlation is not the same thing as causation, and we are far from having what could be called an "Iron Law of Social Decline for Oil Economies." In the complex social process there are many points where intervention can break the chain of causation. During the conference three such intervention points were raised. In various ways and from various perspectives they conceptualize the need to change the relationship between the state, foreign oil companies and civil society.

Accountability and transparency are at the center of any policy for reducing corruption in resource-rich-but-poor countries. The inability or unwillingness of oil companies to publish their payments to governments has led to international initiatives, most notably the campaign appropriately named "Publish What You Pay" (PWYP) by NGOs, but also the "Extractive Industries Transparency Initia-

tive” (EITI) launched by UK prime minister Tony Blair. Both aim at the same goal, but differ in approach. The former calls for binding regulations, the latter for voluntary “pilot countries”. Oil companies are lining up behind the EITI voluntary model, but usually with reservations that agreement must come first from their contractual partners (i.e. governments). EITI recently succeeded in getting some countries committed for a “test reporting”. Nigeria has enrolled, for example. Angola has not. **Henry Parham**, the coordinator of the PWYP-Campaign, presents the inadequacies of voluntary disclosure and argues for mandatory reporting. PWYP is also lobbying donor countries and lending institutions such as the World Bank Group to give revenue transparency a higher priority in their own operations and to make it a condition of all their lending and technical assistance.

If companies fully disclose their payments to governments, accounting of revenues will greatly improve – but there is still the spending shrouded in secrecy or put to improper uses. Since the 1980s when the governments in the Gulf of Guinea first found themselves in difficulties servicing their debts, foreign interference with state expenditure has become a commonplace. The IMF, the World Bank and international donors have stipulated conditions in their relief packages and credit programmes, and have demanded cuts or re-structuring of the government budgets. Criticism on such conditionality is manifold. It undermines sovereignty of the national state or is anti-social, when spending on health, education or food subsidies is applied. Donor groups have reacted with poverty alleviation and pro-poor governance clauses that now feature prominently in lending and debt-forgiveness agreements. The World Bank has launched an “Extractive Industries Review” (EIR) to evaluate the impact of its involvement in the mining and the oil and gas sectors.

One – if not *the* – most radical approach currently being applied to the control of government management of oil revenues and social expenditures is happening in Chad. A law obliges the political executive to spend 80% of oil income on social projects; and these expenditures are monitored by a special control committee called “Le Collège de Contrôle et de Suivi des Revenus Pétroliers” (CCSRP). In this new oversight body representatives of civil society hold a blocking vote. **Emmanuel Noubissié Ngankam** from the World Bank, explains the details of the new spending philosophy in *“Gestion des Revenus Pétroliers: Le Rôle de la Banque Mondiale dans le Cadre du Projet d’Exploitation Pétrolière et de Pipeline Tchad-Cameroun”*. The World Bank used its leverage as a lender for the new pipeline (with US\$3,7 bn the biggest investment project in sub-Saharan Africa) to push for the new pro-poor governance model. On paper “The Chad Model” looks convincing, but the several **commentaries** published in this reader – two of which come from members of the Collège itself – adopt a more sceptical perspective. What really matters is implementation. The World Bank has declared its readiness to rally donor countries

if the government of Chad fails to cooperate fully, but one stakeholder was left out: the oil companies. There is no obligation for the consortium of international oil companies to reduce their production if procedures for revenue management are not honoured.

The case of Chad brings us to another problem, the role of civil society in government business. There is a tendency in some circles to assume that the loss of legitimacy by government bodies, due to inefficiency or self-enrichment, automatically confers legitimacy by default upon civil society. According to this line of reasoning, civil society should be granted rights to participate in decision-making. But there are dangers involved. With the fluidity of the concept and composition of “civil society” and the total absence of any acknowledged procedure to select those who should represent society’s political will, NGO involvement in state business may be leading to one-sided representation, and may provide opportunities for corruption. At any rate, there is need for a regular public discourse on NGOs involvement to reduce such dangers.

There is a complex debate about development responsibilities for foreign oil companies. Should they directly engage in community development? Corporate social responsibility, codes of conduct and other ethical business concepts emphasize the duty of companies to go beyond the mere quest for profits. Corporations should respect society and ecology, and such respect is an integral part of management business. The argument is even more dramatic in the case of extractive industries, whose impact on the environment has far-reaching consequences for local communities. Since the Rio Summit of 1992 the international community has demanded that fair compensation should be paid for the loss of arable land or fishing ground caused by mining activities, and areas should be rehabilitated by mining operators. The demands do not end there. In countries like Nigeria there are many community and NGO activists who are calling on the international oil companies to get directly involved in community affairs and to increase funding for social infrastructure.

The question delves into our understanding of the fundamental division of labour between governments and the State on the one side and private companies on the other. While social policy is a public responsibility of government, and companies contribute to that through the payment of taxes and royalties, what should be done when the government fails to fulfil its responsibility to provide such social infrastructure? Does it then become legitimate for the affected villages and groups, who are left out from benefiting from what is taken from their soils, to knock on the doors of foreign oil companies and to request corporations to act as a “surrogate” government?

The problem with this “privatisation” of social policy is immediately apparent when one considers how beneficiaries of this corporate welfare are selected. Companies need an authoritative and legitimate structure to identify programmes and take care of implementation. Where such structures do not exist, groups or

villages that feel left out will request support programmes on their own. In the case of the Niger Delta this problem is particularly virulent, as land ownership is embedded in a complex hierarchy of different user-rights. When oil wells are discovered, compensation becomes a matter of competitive claims that lead to inter-communal hostilities (see Imobighe).

During the 1990s, Shell-Nigeria and its operations were featured prominently in an international media campaign venting public outrage against the 1995 killing of Ken Saro-Wiwa and eight Ogoni followers by the Abacha-Regime. While the killing quelled the Ogoni uprising against destruction of their homelands from oil pollution, Shell suffered a severe blow on its international company image. 1995 was a turning point in the relationship between Shell and local communities, after which the giant multinational firm entered into the business of directly managing community development programmes. The paper by **Shell-Nigeria** reviews the history of its involvement in social corporate activities. *“Should Oil Companies Directly Finance Development Projects for Local Communities? The Case of Shell-Nigeria.”* The company arrives at some revealing conclusions. Its involvement is not sustainable under the rising demands and expectations from communities. In particular, cash payments to youth groups have instigated divisions within the communities, and worse, have contributed to armed conflicts. Shell sees the need for a new approach that brings back state agencies. One is tempted to generalize: Social corporate responsibility has its limitations as it may induce companies to act as surrogate governments, a role they cannot fulfil.

Calling the State back into community development and releasing oil companies from direct involvement – some activists from the Niger Delta, like **Alfred Ilrene**, vehemently oppose such a reversal. He even calls on Shell to pay rent and royalties directly to local communities instead of the central government. Legality and legitimacy have become antagonistic concepts. Other NGO activists from Congo-Brazzaville, however, agree with the view expressed by Shell. For **Abbé Félicien Mavoungo** and **Jean-Aimé Brice Mackosso**, the major oil operator in their country (Total) is free to voluntarily engage in any project to help (*“Les Compagnies Pétrolières Devraient-Elles Financer Directement les Projets de Développement Destinés aux Communautés Locales? Le Cas du Congo-Brazzaville”*). However, the comprehensive development policy is the duty of the state, not companies.

4. Linking Oil Production to the National Economy.

Much of the disagreement over why oil-exporting countries have not managed to benefit from their natural resources has focused on the corruption of the elite. While it is clear that self-enrichment by government officials, and outright theft of public funds, is a major contributor to the problem, there are other, larger, more

structural mechanisms at work that limit development, and would do so even in the absence of corruption. One such mechanism is the so-called ‘Dutch disease’. A high influx of foreign currency into an exporting economy (such as the US dollars that are paid for oil) leads to an increase in consumer demand without a corresponding supply by the local market. Relative prices are re-adjusted either through an appreciation of the exchange rate or by domestic inflation. When import prices become relatively lower, a boom for import commodities crowds out local products. This results in an increased dependency on the booming oil sector, and a rise in the share of the service sector (i.e. trade) while production in agriculture and manufacturing shrinks.

Albert Yama Nkouna confirms this pathology in *“Pétrole et Développement en Afrique Centrale: Quelques Axes de Réflexion pour une Meilleure Intégration du Secteur Pétrolier dans l’Économie Nationale”*. Through a quantitative analysis of the economies of the francophone CEMAC zone (e.g. Cameroon, Congo-Brazzaville, Gabon, Equatorial Guinea) he shows how growth in the oil sector has not led to diversification of these central African economies, but rather led to the contraction of other productive sectors. Oil has remained an enclave industry, with few if any upstream or downstream linkages to the surrounding economy. Its main and sometimes only economic contribution is the payment of rent. Moreover the volatility of oil revenues that are due to the volatility of oil prices on the world market have resulted in periods of extremes, either injecting massive amounts of cash into economies incapable of properly absorbing this liquidity, or alternatively, reducing inflow of income to a mere trickle and drying up the money available in the local economy. Government planners are troubled by the volatility of oil revenues, because mechanisms do not exist to minimise the negative consequences.

Such mechanism can be created. **Werner Keller** of the IMF takes up this challenge. In his *“Politiques Macroéconomiques et Gestion des Recettes Pétrolières”* he argues the case for a stable macro-economic environment. Economies suffering from revenue volatility can be stabilized by establishing special stabilisation funds that help flatten government spending. Any surplus revenues that exceed a country’s capacity to absorb them (during periods of high export prices, for instance) are to be set aside in a special account and used for times when incomes fall. Such stabilisation funds can immunize the domestic economy from boom-and-bust cycles on the world commodities market. Fiscal policies should also be harmonised with monetary policies to avoid the “Dutch disease”.

Since natural resources such as oil and gas are non-renewable, their eventual exhaustion raises the question of inter-generational equity and fairness. Stabilisation funds for flattening public spending may be interlinked with another kind of special funds called “Funds for the Future”. These are set aside to share the proceeds of natural resources with future generations.

Albert Yama Nkouna, in a second contribution, presents empirical case studies for special funds, which function either as stabilisation of government spending or as funds for future generations. Norway may be the best-known case, but the fund of Venezuela already points to the political issue of how to control the withdrawal of investments.

Funds may solve macro-economic stabilisation problems, but their establishment may prove politically difficult. No government will ever find it easy to convince politically strong groups, or the poor, that foreign currency should be kept out of circulation to avoid funding of consumption. Moreover the intergenerational equity will not be achieved by keeping funds exclusively in trusts. There is also a need for public investment in infrastructure, and programmes that benefit youths, like health and education. Funds that are set up in secrecy undermine accounting transparency and will always create suspicion. The only way funds will serve their purpose is if they are based on consensus and properly sheltered from misuse.

Designing complex institutional arrangements, management schemes or models for participation will not succeed without adequate human resources. No oil sector can ever be linked beneficially into the local economy without sufficient technical and economic cadres who know how to negotiate oil deals, how to manage revenue or how to monitor environmental impacts. Shortage of manpower is the order of the day in nearly any government business, a situation that is in particularly worrisome for the new emergent oil economies like Chad. Here, the lack of human capital and institutional capacity is particularly acute at a time when learning from the mistakes of neighbours of the past is most needed to avoid any repetition.

Margarett Désilier outlines a capacity building plan for oil-dependent economies that reflects the possible role for international financial institutions and NGOs, foreign oil companies and the national Governments. *“Capacity Building and Oil Exploitation in the Gulf of Guinea”* offers also two major warnings: First, capacity building is not to be reduced to the development of a cadre of skilled technocrats under government control, but must involve the building of institutional capacity for oversight functions that strengthens the checks and balances of government by society. Lastly, things don’t change easily.

“While pipelines and offshore platforms can be built quickly, reforming governments, building institutional and human capacity and fostering civil society and citizen oversight takes many, many years”.