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US Policy Towards the Gulf of Guinea

By Vicente Valle

1. Introduction

There is growing public attention to Africa's oil boom and its impact on economic growth in Africa, particularly in the context of extractive industries. Leading newspapers have recently run lengthy pieces on the Chad-Cameroon Pipeline Project. Catholic Relief Services published a report this past June on Africa's oil boom and the need to avoid the miseries that have plagued so many developing countries that have relied heavily on energy exports. At this year's U.S.-Africa Business Summit (2003) hosted by the Corporate Council of Africa, there were at least eight different workshops that discussed oil and gas opportunities and challenges in Africa – no other sector had nearly as many dedicated sessions. And there have been major multilateral efforts that have aimed at enhancing and combating corruption, particularly in extractive industries.

2. Interest in Africa's Oil

Why this seemingly sudden high interest in the African oil boom? There are two major reasons. First, oil production in Africa is now more attractive than ever, and the sector will continue to develop as long as stable, investor-friendly climates are nurtured. The revenue flows that the energy sector can generate are enormous, and we are hopeful that countries would use these revenues to promote sustainable economic growth. But this brings us to the second reason, I believe, for the intense interest we are seeing in the oil boom in Africa. That is that we have a vast backlog of first-hand observations indicative of what can happen to a country reliant on extractive industries when corruption is allowed to thrive and good governance is ignored. If revenue flows benefit only a select few rather than being used for the benefit of the citizens, broader investment and economic development will be stifled and political stability is often threatened.

Geophysical, technological, and market forces have blessed Africa with plentiful and, as I indicated before, now profitable natural resources, and these factors add up to productive advantage for many African countries. With the march

of technology and the price of oil in recent years, oil in Africa passes the cost-benefit test with flying colors. And as you all know, production of crude oil in the African region, especially in the Gulf of Guinea, is poised to rise significantly in coming years – the region is, and will continue to be, a promising global energy supplier. Africa's physical reserves aren't as large as the Middle East's, but the investment potential for U. S. and African firms, based purely on product location, quality and profitability, are very attractive.

3. Importance of Diversification

Also, from an energy security point of view, U. S. Government energy policy has a strong role to play in assuring that our energy supplies represent a diverse set of energy suppliers. President Bush's National Energy Policy, issued in May 2001, embodies these fundamental principles and recommends actions that will help achieve these objectives. The policy also recognizes that the United States cannot address its energy concerns alone, that our energy security is intricately and inextricably linked to international markets as a result of our increasing dependence on external sources of supply.

In the past, disruptions in supply were largely the result of sovereign political decisions and conventional wars. As we shift toward new sources, there are increased threats and risks stemming from corruption and governance issues, ethnic/religious strife, border or territorial disputes, poverty and other issues. These new threats to security of supply may require new policy approaches to our energy security.

The Administration recognizes these new international challenges, and the National Energy Policy calls for strengthening our global alliances through such important mechanisms as our existing bilateral relationships with key countries and regions around the world. The U.S. Government has made energy security a top priority with security and diversity of supply as the driving force behind our policy engagement on energy issues.

4. Africa's Gulf of Guinea: A Major Energy Supplier

The Administration recognizes Africa's role as a major energy supplier. Currently, 12 percent of U. S. oil is imported from Africa. Nigeria, for example, has been the fifth largest supplier of crude oil to the U.S., with exports to the U.S. averaging nearly 600,000 bpd in 2002. Overall Nigerian crude oil production averaged 2.118 million

barrels per day in 2002. Approximately 65 percent of Nigerian crude oil production is light and sweet, making it particularly suited for U.S. refineries since it yields high volumes of gasoline. Nigeria has the potential to increase its crude oil production significantly in the next few years as recent deep-water discoveries come on stream.

Gabon, Sub-Saharan Africa's third largest oil producer, currently produces about 300,000 barrels of oil per day, although this is expected to decline over the next five years. Gabon is an eligible beneficiary under the Africa Growth and Opportunity Act (AGOA), and its duty-free exports to the United States in 2001 were valued at \$938.8 million, almost all of which were oil or energy-related products. Over 45 percent of Gabon's oil output is exported to the United States.

Equatorial Guinea is emerging as a major oil producer in the Gulf of Guinea. On average, Equatorial Guinea produced 179,000 barrels per day of liquids (including crude and natural gas liquids) in 2002. By 2010 Equatorial Guinea should have 500,000 barrels per day of oil and natural gas liquids, given current trends, and will also be a supplier of LNG. ChevronTexaco, Amerada Hess, Exxon-Mobil, Marathon Oil, and Deven Energy are some of the U. S. firms with investments in exploration, production, service activities in Equatorial Guinea. We are opening an Embassy office in Malabo – currently planned for this October 2003 – that will enhance our dialogue with the government and signal our commitment to broad engagement with Equatorial Guinea.

São Tomé & Príncipe, though it currently has no oil and gas production, is rather another promising emerging producer in the Gulf of Guinea. São Tomé's petroleum reserves span both its own Exclusive Economic Zone (EEZ) and a Joint Development Zone (JDZ) with Nigeria. The JDZ is estimated to hold substantial reserves, possibly as much as 6-10 billion barrels. ExxonMobil has already made investments in São Tomé, and now that recent political turmoil has been resolved with the return to the island of President Menezes, more U.S. firms are likely to bring their capital and technological expertise to the table.

Oil began flowing this summer through the \$3.7 billion Chad-Cameroon Pipeline, the largest single private U. S. investment in Africa led by ExxonMobil, with the participation of ChevronTexaco. The Pipeline is a good example of sustained cooperative efforts among various entities – governments, international financial institutions, the oil consortium developing the project, NGOs and civil society – to balance economic benefits, transparency, and humanitarian and environmental concerns. Our Ambassador in Chad is deeply engaged with the government of Chad to ensure that the unique capacity building and transparency measures incorporated into this project are implemented.

While the unique circumstances mean that some aspects of the Chad-Cameroon project may not translate directly to other projects, many invaluable lessons are being learned. According to projections realised by the World Bank, total receipts for the project are expected to reach \$12 billion over a 28-year period. Chad could earn \$2.5 billion over the life of the project with annual revenues of up to \$200 million. Chad's Revenue Management College, an independent body that will help assure that oil wealth is used to benefit the citizens of Chad, is now established to monitor and assess the effectiveness of Chad's oil revenue expenditures.

5. The Role of U. S. Firms

Existing and new producers, such as Angola, Gabon, Equatorial Guinea, São Tomé & Príncipe, and Chad will continue to develop new oil and gas resources in coming years. U. S. energy firms – from our modern-day “wildcatters”, to our upstream producers, and our oilfield services firms – are key in Africa's ongoing emergence as an energy-supplying region. Our companies bring cutting-edge technologies, enlightened management practices, and resources to assist African countries in developing their energy resources. U.S. firms' time, talent, and money are a linchpin in developing the African oil sector. And we support this process by encouraging the reforms needed to improve investment climates in African countries.

6. U.S. Policies to Promote Investment

Policies that lead to stability in investment climates are of course mutually beneficial. West African countries' productive advantage in petroleum – high quality and physical security – augmented by a set of fair, stable, and competitive rules and laws could set the stage for long-term, stable, and broad based growth. When the rules of the game are constantly changing, rational investors won't play. But when the rules are fair and transparent, and known at the outset, the country will benefit from increased capital inflows. We are working hard to facilitate this process by helping to strengthen African institutions that give private sector greater confidence. Ensuring the careful development and enforcement of property rights, contract sanctity, and investment laws – basic rule of law and judiciary issues – are the keys to encouraging petroleum sector investment.

We are working with our African partners to promote these necessary building blocks. The Department of Commerce's Commercial Law Department Program

has assisted Nigeria in intellectual property rights reform as part of a general program to improve and harmonize the legal environment of West Africa. Under the USAID-funded Trade and Investment Program (TIRP), Sigma One Corporation has provided technical assistance on expenditure monitoring and revenue generation issues since 1998 and under the Ghana Policy Dialogue Process (GPD) activity, while USAID and the U. S. Treasury's Office of Technical Assistance have co-funded a resident U. S. Treasury budget advisor position to assist the Government of Senegal in creating a performance-based budget system for the national budget. These efforts will enhance Ghana and Senegal's abilities to offer a stable investment climate with good underlying economic performance.

Another U. S. effort designed to help Africa reach its private sector investment potential is the Sovereign Credit Ratings initiative. This initiative, conducted with Fitch Ratings, Ltd., allows the governments of sub-Saharan Africa to signal to the international market their readiness to participate in the global economy by opening their books to public scrutiny, maintaining transparency, and adhering to liberalization policies and reform efforts. Since the initiative began, 15 countries have expressed an interest in participating. Ratings for Lesotho, The Gambia, Malawi, Mozambique, Cape Verde, and Cameroon have already been completed. There are ratings visits underway or being scheduled with Mali, Niger, and Benin. We hope that with this program we may add up to 20 countries to this list and help to integrate them into the global economy.

And let's not forget that long-term economic benefits can be had not just by looking to export markets for African energy products – inward-looking energy development can have enormous economic benefits for African countries. The West African Gas Pipeline (WAGP), being developed by a consortium led by ChevronTexaco, is an important regional gas development project that will bring needed supplies to West Africa that will facilitate the development of internal energy markets while reducing wasteful flaring of gas. The \$500-million WAGP will initially transport 120 Mmcfd of gas to Ghana, Benin and Togo beginning in June 2005. The World Bank estimates that Benin, Togo and Ghana can save nearly \$500 million in energy costs over a 20-year period as WAGP-supplied gas is substituted for more expensive fuels in power generation. Ghana estimates that it will save between 15,000-20,000 barrels per day of crude oil by using WAGP gas in its power plants. The implications for the participating countries' ability to take advantage of AGOA benefits are great, as WAGP will allow greater industrial development.

7. Transparency and Accountability in Managing Oil Revenues

But the challenges won't stop at promoting investment, especially when it comes to the oil and gas sectors. Oil exports generate a large share of GDP and government revenues in Nigeria, Angola, Gabon, Equatorial Guinea, the Republic of Congo and Cameroon. Chad has joined this list, with the Chad-Cameroon Pipeline in place. Emerging potential producers such as São Tomé & Príncipe could also produce considerable new oil supplies in coming years.

And with the enormous short-term financial flows that can result from petroleum production, and high incidence of poverty across Africa, there will continue to be a very intense spotlight on energy investments – and their long-term effects. The U. S. believes it is crucial for African governments, working in tandem with civil society and the private sector, to manage their oil revenues transparently, openly, and for the benefit of their citizens. Revenues generated from oil reserves can help African alleviate poverty and enhance their economic opportunities.

As mentioned earlier, an example of this principle in action is the Chad-Cameroon pipeline. This is a project where the political will of the citizens, governments, and the private interests involved has been strong, and all stakeholders have been determined to make the most of the vast economic opportunity about to open up for Chad. This project exemplifies sustained cooperative efforts among various entities – two sovereign governments, the International Financial Institutions, the oil Consortium (which includes two U. S. companies), NGOs and civil society – to balance economic benefits, transparency, and humanitarian and environmental concerns. The Petroleum Revenue Oversight and Control Committee (CCSRP), or “College”, an independent body that will help assure that oil wealth is used to benefit the citizens of Chad, is now established and poised to monitor and assess the effectiveness of Chad's oil revenue expenditures. Of course, in a project of this size and complexity, it is not surprising that differences among relevant parties have occurred.

Concerns remain regarding adequate capacity and oversight of use of pipeline revenues, and they are being addressed by all parties involved. The project has established channels for discussion and resolution of problems that are inclusive and sensitive to impacts on the local production. The U.S. Treasury Department has provided a resident budget advisor to the Chadian Ministry of Finance who has provided guidance and ideas throughout the creation and implementation of the revenue management law and has been crucial in capacity-building efforts for the college.

8. U.S. Policies to Promote Accountability and Transparency

We have a strong interest in continuing to assist oil-and-gas-producing countries to channel their energy resources into solid and sustainable economic development, that benefit their population. Increasingly, it is commonplace to see governments and citizens in developing countries make clear their disdain for corruption and take responsibility, as African leaders have done under the New Partnership for African Development, for needed improvements in political and economic governance. Democratization and the development of responsible governing institutions are particularly important in reducing oil-related conflicts and promoting African supply stability. And we recognize the need to engage all stakeholders in broad initiatives to improve transparency and accountability, not only in the management of oil revenues, but in public financial management in general.

As such, with our G8 partners, we made a commitment in Evian (June 2003) to a broad-based anticorruption and transparency Action Plan, which includes as one key component a pledge to pilot, on a voluntary basis, an intensified approach to transparency in the extractive sectors. The action plan contains a package of mutually reinforcing initiatives: disclosure of company payments and government revenues, host government commitments to enhancing transparency and fighting corruption through public financial management and accountability; G8 technical assistance for capacity building; and technical support from the IFIs.

The extractive industries component of the G8 Action Plan is one part of a multi-prong attack on corruption. When public officials steal from their people and government institutions fail to protect them, citizens lose faith in democracy and civil society cannot survive. As such, the G8 Action Plan aims to bring all forms of corruption into the sunshine of public scrutiny. Neither corrupt officials nor their money will be welcomed in the U. S. or our G8 partner countries. And we will assist countries in recovering stolen funds that rightly belong to the people.

To accomplish these broad objectives, other broad-based G8 Action Plan components include improving public financial management and accountability and strengthening enforcement of anti-bribery laws, including implementation of OECD Convention on Combating Bribery of Foreign Public Officials. The plan also encourages ratification of UN Convention Against Corruption, denying corrupt officials entry and safe haven for their assets, and improving enforcement of laws to fight financial abuses. It also calls for encouraging transparency in government procurement and awarding of concessions.

And we also have several existing smaller-scale efforts in place now, to enhance transparency and fight corruption. Under its special objective in governance, USAID/Benin funds activities to promote accurate disclosure of revenues

and expenditures in the national budget, including providing public auditors with training and capacity, providing grants to local nongovernmental organizations enabling them to undertake civic education campaigns on the costs of corruption and to advocate for drafting stronger anti-corruption legislation and better enforcement of existing laws. Through its Democracy and Human Rights Fund Program, our Embassy in Burkina Faso has supported the efforts of a local anti-corruption NGO that conducts and publishes an annual report on corruption, and which acts as an advocate for transparency and accountability. In Mali, we have organized workshops and training sessions for the National Assembly and Supreme Court to assist them in preparing future budgets and completing future mid-year and end-of-fiscal-year budget reviews.

In Cameroon, our embassy organizes events on good governance and the rule of law, bringing in legal experts to promote the development of a system of judicial review and sponsoring joint programs with the Ministry of Finance and Budget against corruption. The Commercial Law Development Program, through Economic Support Funds, has indirectly contributed to improving the Angolan government's fiscal accountability, and a new Private Sector Reform Program will do the same.

The U. S. government's outlook and approach to assisting African governments in improving their investment climates, reducing poverty, and raising standards of living through their oil and gas sectors is a broad-based one. With political will demonstrated by host governments, and with the commitment of civil society and industry to these processes, we hope to see policies evolve in African nations that spur economic growth, trade, and investment.