# Breaking the Oil Syndrome

## RESPONSIBLE HYDROCARBON DEVELOPMENT IN WEST AFRICA

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Congressional Black Caucus Foundation, Inc.

CENTER FOR POLICY ANALYSIS AND RESEARCH

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# EXECUTIVE SUMMARY

Government officials and observers have consistently asserted that the United States has a strategic energy interest in hydrocarbon development in West Africa. Worldwide growth in energy consumption is consistently outpacing production, and reports indicate that in the United States demand for oil may reach 28.3 million barrels per day by 2025. Coupled with energy price volatility, political instability, and supply uncertainty, many have recognized that the United States can ill afford to remain predominately dependent upon oil-imports from certain regions. Simultaneously, this recognition has generated a chorus of calls for more investment in alternative energy sources and "greater diversity of world oil production."

Ultimately, investment in alternative, non-carbon energy sources represents the greatest possibility for reducing U.S. dependence upon foreign oil sources. Nevertheless, it will take some time to develop mass technologies utilizing alternative energy sources across the various carbon-dependent industries. While it is important to support the development and application of non-carbon energy sources in the meantime, it remains vitally important to diversify how and where the U.S. imports its oil.

There is no doubt that certain countries in Sub-Saharan Africa could be the source of expanded U.S. oil imports. Yet, despite calls to look beyond traditional oil markets and allies, efforts to create a *mutually beneficial framework that systematizes relations* between the U.S. and West African hydrocarbon states have fallen on deaf ears. Paradoxically, as the U.S. explores its sourcing options in the face of a looming energy crisis, its narrow vision with regard to broadening the nature of its engagement with West African states has prevented it from establishing dynamic relationships that could ensure energy supplies, while forging necessary alliances in the global war against terrorism.

In the end, the United States is missing an opportunity to connect its quest for energy security to an array of other important initiatives, such as the promotion of good governance practices, the campaign to enhance human development in Sub-Saharan Africa, the reduction/eradication of poverty, and the war against terrorism.

*The fundamental conclusion of this report is that the United States can capitalize on the interconnectedness of these initiatives by recognizing that good governance, infrastructure, and human development are the keys to the development, security, and sustainability of oil-exports from West African hydrocarbon states.* Only by aggressively pursuing these measures can the United States and West African nations reap the benefits of oil-import/exports and enhanced trade opportunities.

Systematizing these relationships through a dynamic engagement framework can result in mutually beneficial outcomes, such as: a reduced reliance on oil from more volatile regions; the development of additional strategic partners in the war against terrorism; an enhanced exports market for U.S. and African goods and services; a practical "oil-revenue for poverty-reduction policy" framework that reduces African reliance on foreign aid; and the strengthening of democratic regimes and indigenous efforts to move African authoritarian regimes closer to democracy.

The basic findings of this report are threefold:

- **The socioeconomic and political context of West Africa requires that the United States employ a more comprehensive and systematic approach to encouraging oil-exporting nations to practice good governance techniques.**

- **To support good governance and economic development goals, a dynamic engagement framework must include transatlantic cooperation in the business, education, and civil society sectors.**

- **The United States must support the adoption of best practices from new and existing revenue sharing models, stakeholder collaborations, and investment strategies in West African oil-exporting nations.**

This critical analysis provides an overview of how energy security in the United States could be enhanced by a mutually beneficial, good governance-driven framework for hydrocarbon development in West African nations.

"Sub-Saharan Africa holds 7 percent of world oil reserves and comprises 11 percent of world oil production. Along with Latin America, West Africa is expected to be one the fastest-growing sources of oil and gas for the American market. African oil tends to be of high quality and low in sulfur, making it suitable for stringent refined product requirements, and giving it a growing market share for refining centers on the East Coast of the United States."

— Bush Administration, National Energy Policy Development Group, May 2001[1]

"Certainly, Africa remains in the early stages of democratic development, but further U.S. engagement would serve as a catalyst in supporting the development of democracy and improving governance in the region. Defining Africa as a continent of strategic interest to the U.S. is mutually beneficial to the U.S. and Africa. The tradeoff for Africa's provision of reliable sources of petroleum and for its cooperation with U.S. military intelligence agencies in the war against terror would be greater U.S. investment in African information and transportation infrastructure. This, coupled with debt relief, will serve as a catalyst for jump-starting Africa's economies as well as providing a substantial incentive to improve governance."

— CBCF Chairman William Jefferson (Louisiana — Second District), Spring 2003[2]

"Well, we think the region [West Africa] is making progress as a whole, and as you say, a lot of the security concerns that I think these companies have or the countries and our companies that are operating there have experienced have really come more from these sources of conflict that are inherent within the region than they have from terrorism themselves. But the fact that they are politically unstable places and the fact that there already are existing other types of conflict, I think makes these countries a potential breeding ground for future terrorist activity. So, you know, to what extent are the terrorists there and active today? I really don't know. To what extent are terrorists really looking at these conflicted areas as possible places to carry out terrorist activities in the future? I don't know either."

— Testimony of Paul Simons, Assistant Secretary of State, Department of State,
Senate Foreign Relations Committee, on the subject of the Gulf of Guinea and U.S.
Strategic Energy, July 15, 2004

# INTRODUCTION

Over the last few decades, America has become increasingly concerned about reliance on imported oil to meet its energy consumption needs.[3] Growth in worldwide energy consumption is consistently outpacing production, and reports indicate that in the United States oil demand may reach 28.3 million barrels per day by 2025. Recent fluctuations in oil prices and sociopolitical unrest in the Middle East have generated intense debate about U.S. energy and economic security given its continued dependence on foreign oil, the war on terrorism, homeland security, and the global spread of democracy.[4] The convergence of concern over energy price volatility, political instability, and supply uncertainty is a constant reminder that America can ill afford to remain predominately dependent upon oil-imports from certain regions (See Table 1).

**TABLE 1: TOP 15 COUNTRIES EXPORTING OIL TO U.S. (THOUSAND BARRELS PER DAY)**

| COUNTRY | JAN-05 | DEC-04 |
|---|---|---|
| SAUDI ARABIA | 1,602 | 1,449 |
| CANADA | 1,552 | 1,563 |
| MEXICO | 1,420 | 1,552 |
| VENEZUELA | 1,349 | 1,344 |
| NIGERIA | 878 | 1,006 |
| IRAQ | 477 | 626 |
| ANGOLA | 409 | 306 |
| ECUADOR | 309 | 249 |
| KUWAIT | 197 | 205 |
| RUSSIA | 176 | 196 |
| UNITED KINGDOM | 162 | 287 |
| NORWAY | 162 | 63 |
| ALGERIA | 146 | 199 |
| GABON | 145 | 233 |
| COLOMBIA | 122 | 119 |

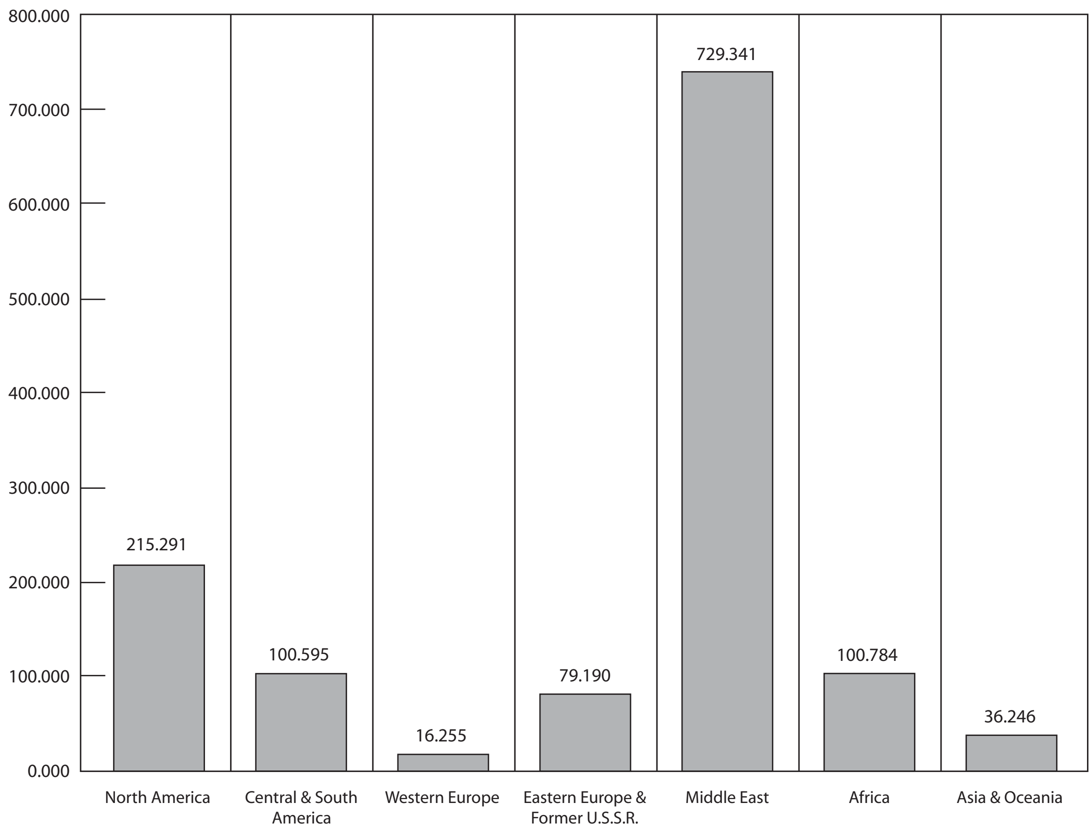
Source: United States Energy Information Administration, Petroleum Data Publication

Well before September 11th, the Bush Administration released a National Energy Policy Development (NEPD) Group report that outlined a comprehensive energy policy to address America's needs.[5] With the help of Congress and under the leadership of Department of Energy Secretary Spencer Abraham, the U.S. moved forward with many of the report's recommendations.[6]

Yet, the NEPD Group report also identified a host of challenging areas for increasing America's economic security, including a "diversity of supply" concern given OPEC-related price volatility and market instability. In stating that such forces "have worked against the shared interests of both producers and consumers," NEPD identified West African oil reserves as *both* helping America diversify its oil supply and as needing additional resources designed to increase investment and oil production capabilities.[7] After noting efforts by the United States Agency for International Development (USAID) to help West African countries develop technological expertise, the NEPD Group concluded with a series of recommendations calling for the need to reinvigorate US-Africa trade cooperation in addition to looking towards Africa as a means of increasing geographic diversification of U.S. energy supplies.

Figure 1 illustrates the importance of proven African oil reserves to America's energy security. Out of the world's total 1,277.07 billion barrels of proven crude oil reserves, Africa's share amounts to 7.9 percent of the total, higher than every other region, excluding the Middle East and North America.[8] Most of that 7.9 percent is driven by proven oil reserves in Algeria, Libya, Nigeria, and Angola. According to the U.S. Energy Information Administration, "Proven reserves are estimated quantities that analysis of geologic and engineering data demonstrates with reasonable certainty are recoverable under existing economic and operating conditions." As such, it is likely that such figures *underreport* the potential scope of African oil resources.[9]

**FIGURE 1: PROVED OIL RESERVES ACROSS REGIONS AS OF JANUARY 2005 (IN BILLIONS OF BARRELS)**




**Source: US Energy Information Administration, International Petroleum Information, Oil Reserves and Resources, adopted from *Oil and Gas Journal*.**

Given the production of existing fields and the discovery of new West African oil reserves (e.g., Săo Tomé and Principe), the impact of African oil on U.S. energy security could be tremendous. Unfortunately, this region does not possess the capacity needed for expanded crude oil exploration and refinement. Given this, advocates for increasing America's energy security must also address the role of African technological capacity and infrastructure development as part of plans to deal with rising oil prices.[10]

In light of the tremendous potential, it is surprising that concerns facing West African nations — like transparency, sanctity of contracts, and security — have not been effectively dealt with in the context of energy security. Yet, these issues are intimately connected to other issues of good governance across the African continent namely: corruption, parliament-executive relations, poverty reduction strategies, civil society participation, and accountability.[11] As such, the development of West Africa's hydrocarbon potential raises profound questions about the United States' role in the region; in promoting good governance practices in general; in promoting good corporate governance with specific regard to the management of hydrocarbon resources and revenues; and in promoting sound environmental policies associated with hydrocarbon industry. Questions that must be addressed include:

- How can the U.S. assist West African oil-exporting countries in developing and implementing good governance practices related to the oil industry? How are such practices vital to African and U.S. interests relative to the global war on terrorism, the U.S. global promotion of democracy, and to global trade and national domestic economic production?

- How can the U.S. assist West African oil-producing nations to devise methods of revenue disbursement that diversify import and export markets for their long-term economic security?

- How can the U.S. help these West African nations target oil revenues for poverty reduction and infrastructure development activities?

- In what specific ways can the U.S. help these nations ensure internal and regional stabilization given widespread poverty, health, and developmental issues facing the West African region?

- What environmental management practices can the United States help West African nations develop to minimize the ecological system upheavals, soil-nutrient displacement, and other agricultural and social externalities associated with hydrocarbon exploration, production, and export?

- In what specific ways can the United States help West African governments to monitor whether the benefits of oil exploration and production accrue to indigenous stakeholders outside the realm of government officialdom?

This report considers these questions and outlines the strategic importance of U.S. interest in promoting sociopolitical stability throughout the West African region, but especially within those nations identified with proven oil reserves. It also presents a framework for establishing good economic governance and poverty reduction development for governments of oil producing and exporting West African countries. The report concludes with a series of recommendations designed to assist the United States Congress and other officials concerned about promoting stability in West African oil-producing nations.

## THE SOCIOECONOMIC ENVIRONMENT OF WEST AFRICA

Cartographical maps from the United Nations define Western Africa as consisting of the following countries: Angola, Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mail, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.[12] Popular understandings of West Africa often add Cameroon, Chad, Equatorial Guinea, Gabon, and the Republic of the Congo (Congo-Brazzaville). Both definitions include the island nation of São Tomé and Principe residing within the waters of the Gulf of Guinea (the Atlantic southwest). However no matter which nations are included in the colloquialism "West Africa," the problems plaguing these countries are similar.

### Human, Economic, and Political Development in Africa

International bodies consistently rank countries in Sub-Saharan Africa at medium to low levels of resource management and investment across a variety of development indicators. At 46.3 years, the average life expectancy in Sub-Sahara Africa is the lowest in the world due, in part, to HIV/AIDS. Figures for education are equally distressing. Save the region of South Asia, Sub-Saharan Africa lags well behind the rest of the world when examining adult literacy rates and the number of students enrolled in primary, secondary, and tertiary levels of education. Similarly, the Human Poverty Index (HPI-1) reveals that in 2000, this region contained 29.3 percent of the global population living on less than $1 a day, 273 million people without access to improved water sources, and 299 million people without access to adequate sanitation.[13]

In many instances, the economic condition of Sub-Saharan African states, many saddled by significant debt burdens, contributes to the socioeconomic context of deprivation in the region. Of those few countries that have experienced growth, the rate of growth has been modest. For example, Ghana recorded $62 billion in Gross Domestic Product (GDP) and $2,130 dollars in per capita GDP, presumably facilitated by 1.8 percentage growth from 1990-2002 and a relatively small change in the Consumer Price Index from 2001 to 2002.

Imports continue to dominate huge portions of Sub-Saharan Africa's GDP. In 1990, the region's importation of goods and services accounted for 26 percent of GDP and by 2002 it had risen by almost 9 percentage points. Unfortunately, Sub-Saharan Africa did not experience a significant upward movement in its ratio of imports to exports in order to compensate for increased domestic demand. In 1990, exports accounted for 27 percent of GDP for the Sub-Saharan region. But by 2002, it had only risen to 34 percent. In comparison, East Asia had an upward movement from 34 to 49 percent.

Repressive political structures also complicate the economic prospects of many Sub-Saharan African states. Good governance is essential for generating the productivity needed to attain sustainable development as it links governmental institutions and civil society in a joint effort to promote economic development and social progress by ensuring the freedom of all citizens to contribute. Furthermore, given the relationship between democracy, good governance, and political stability, both donor and recipient countries have begun to recognize why the promotion of good and democratic governance is vital to long-term development strategies.

## THE CURSE OF OIL: DEMOCRACY AND DEVELOPMENT

Scholars interested in developmental studies have long lamented the infamous "resource curse."[14] They also recognize that it is not a phenomenon localized to Africa. One such scholar, Terry Lynn Karl, employed a varied methodological approach to examine economic growth in five petroleum-exporting states in depth (Venezuela, Algeria, Iran, Indonesia, and Nigeria). In his work, *Paradox of Plenty*, Karl attempts to explain why the oil revenue booms of the 1970s contributed to economic declines, societal disappointments, and political unrest. Karl documents the extent to which nations effectively mismanaged the discovery of oil in the context of poverty, economic inequality, social stratification, and inefficient administrative structures. Addressing the fiscal and political insolvency facilitated by heavy reliance on oil-exporting revenues, Karl writes that,

> …dependence on petroleum revenues produces a distinctive type of institutional setting, the petro-state, which encourages the political distribution of rents. Such a state is characterized by fiscal reliance on petrodollars, which expands state jurisdiction and weakens authority as other extractive capabilities wither. As a result, when faced with competing pressures, state officials become habituated to relying on the progressive substitution of public spending for statecraft, thereby further weakening state capacity.[15]

Other scholars addressing issues confronting Africa cite parallel concerns.[16] The organization Christian Aid released a December 2003 report entitled *Fueling Poverty: Oil, War and Corruption*, outlining the most egregious results of misdirected oil-revenues, for example finding slower economic growth, higher military expenditures and larger militaries, slightly lower life expectancy rates, and slightly lower literacy rates. The organization report also noted that oil-exporting economies failed to benefit the average citizen.[17]

In short, the "oil syndrome" facilitates stagnant, single-sector economies, political unrest (including civil war as different ethnic groups fight for control of natural resources), and radically bifurcated, elite-controlled societies where authoritarian and/or military rule crowds out democratic influences. The consequences of living in such polities are dear for its citizens: exacerbated levels of poverty and disease, lower chances for a fuller and happier life, and general societal deprivation. Tragically, the following facilitate such a state of affairs:

- Governments striking non-disclosed deals for oil development, channeling payments from oil companies into offshore accounts or into the hands of a small group of associates;
- Non-transparent dealings with multinational oil companies;
- Financial institutions that fail to install adequate accounting procedures and financial reconciliation measures to ensure transparency;
- Policy leaders and bureaucracies that neglect to develop pro-development and pro-growth strategies for dealing with oil-development, and for the periods of decline in oil-revenues;
- The lack of a strategy for diversifying the economy and increasing gross domestic production; including the provision of resources directed at training citizens to enter the (global and indigenous) labor force;
- Political systems that neglect to fully incorporate the relevant sectors of civil society and affected citizens in discussing the use of oil-revenues for poverty reduction and enhancements in human and infrastructure development;
- The lack of technological and administrative capacity for states affected by the enormous windfalls and societal pressures generated by oil-exporting revenues and, problematically, oil-dependence; and,

- The lack of a coherent system of land titling and recordation, a necessary condition to protect property rights, encourage private investment, and enable citizens to build legacy wealth through a vibrant real estate sector.

Fortunately, there are existing internal and external initiatives aimed at increasing good governance in Africa, like the New Partnership for Africa's Development (NEPAD), the African Growth and Opportunity Act (AGOA), and Millennium Challenge Accounts (MCA), which provide the beginnings of a workable framework for addressing the economic and societal pressures generated by exporting oil.

## EXAMINING INTERNAL AND EXTERNAL POLICY EFFORTS IN THE REGION

Across the continent, African nations are developing internal mechanisms of monitoring good governance. For example, the New Partnership for Africa's Development (NEPAD) outlined a series of benchmarks related to developing the natural, political, economic, and social resources of constituent countries.[18] The constituent representatives of NEPAD have reinforced their commitment to "democracy and political governance initiatives," by establishing an African Peer Review Mechanism (APRM) to "ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance."

By early 2004, only 16 countries had acquiesced to internal peer review: Algeria, Burkina Faso, Cameroon, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Mozambique, Nigeria, the Republic of Congo, Rwanda, Senegal, South Africa, and Uganda. But according to published reports, by early 2005, "some 23 of Africa's 53 countries have so far signed up to peer review, hoping to enhance their transparency credentials." With the reports for Ghana and Rwanda pending release later in 2005, "Nigeria, South Africa and Senegal are waiting in the queue for a review, which is now running months behind schedule."[19] No matter how the 2005 first wave final reports turn out, the APRM framework reflects a *willingness* to engage in self-examination regarding good governance practices.

Unlike NEPAD, the Economic Community of West African States (ECOWAS) is a fifteen-member regional organization founded in 1975 and does not include an expansive list of countries.[20] This organization and its ECOWAS Military Observer Group (ECOMOG) continue to contribute to the training of peacekeeping forces and the provision of humanitarian aid. Personnel from ECOMOG have been instrumental in helping resolve conflicts in West Africa, namely Liberia, Sierra Leone, and Cote d'Ivoire. ECOWAS has also had a role in moving the regional economic integration plans forward (e.g., the West African Monetary Union).

The internal efforts by African nations further augment well-documented efforts by the U.S. and other countries to encourage good governance, poverty reduction, and economic liberalization across the continent. For example, the MCA select countries for assistance based upon three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. Other initiatives are equally important: AGOA; initiatives within USAID; U.S. contributions to both the International Development Association and the African Development Fund; and the U.S.-Africa Trade and Economic Cooperation Forum.[21]

Outside the United States, there are other efforts by the international donor community to sustain democratic and economic liberalism reforms: the Tokyo International Conference on African Development, the Commission for Africa created by British Prime Minister Tony Blair; the African Capacity Building Foundation; the United Nations Development Programme; the Millennium Development Compact; and the IMF and World Bank.[22]

It is important that the U.S. ensure by word and deed its commitment to helping implement the Millennium Development Compact and to reaching The Millennium Development Goals.

With identifiable and measurable targets, the Millennium Development Goals include: eradicating poverty and hunger, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability, and developing a global partnership for development.

Collectively, the internal and external efforts outlined above have helped to yield some democratic returns for citizens in Sub-Saharan Africa. South Africa has celebrated its 10th anniversary as a democratic nation, the civil war in Angola has abated, citizens have replaced an authoritarian regime with a legitimate government in Liberia, and Libya has bowed to international pressure to abandon its quest to acquire restricted weapons. Furthermore, reports have credited AGOA with creating economic opportunity and thousands of jobs throughout the continent.[23]

## Concerns About Existing Efforts

Despite these aforementioned internal and external efforts to promote good governance, there is still a disturbing disconnect between these efforts and attempts to counter terrorism and ensure human development across Africa and promote U.S. energy security.

The Bush Administration has long recognized the strategic importance of ensuring internal stability and democratization in Africa.[24] Members of Congress and the National Intelligence Council have also lamented the importance of providing African nations with the resources to combat poverty, HIV/AIDS, and societal deprivation. All have also come to realize the symbiotic nature of societal deprivation, terrorism, and state destabilization: terrorist organizations are able to set-up, recruit, and operate in weak states, especially states experiencing powerful centripetal forces that pull at the social, economic, cultural, and administrative foundations of a citizen's life.[25]

Last year it was reported that officials in the State Department's Trans-Sahara Counter Terrorist Initiative, which has trained troops in Niger, Mauritania, Chad, and Mali to act on U.S. supplied intelligence, "acknowledged that the main concern in the region is protecting Nigeria, the continent's biggest oil producer, the region's only OPEC member and a main destination for U.S. investment in Sub-Saharan Africa."

However, the underlying importance of this effort was highlighted months earlier during testimony before the Senate Foreign Relations Committee. On one panel, Assistant Secretary of Energy John Brodman provided insight into the centrality of African oil for U.S. energy security and the possible benefits derived from a U.S.-Africa relationship designed to combat terrorism, halt retrogressions in development, and to promote good governance:

> [In my earlier testimony] I noted that there are a considerable number of obstacles to realizing successful development of commercial trade and investment flows directly related to economic, political and security risks, and that many of the new sources of supply, such as those in Africa, are more dispersed geographically, are often located in undeveloped and conflicted regions, and they often carry very high recovery transportation and infrastructure costs. I also outlined *new risks* from *so-called nontraditional and often internal sources of conflict*, such as corruption, the lack of rule of law, political instability, ethnic and religious conflicts, and other so-called governance issues. I noted that the capabilities of energy companies and financial institutions to handle these risks, in order to allow energy development projects to become economically viable, is itself a tremendous challenge.[27] [*emphasis added*]

It is in this context that good governance of oil-generated revenues is so critical for American security. In order to realize anti-terrorism and energy security goals, the U.S. must support good governance measures while creating mechanisms for helping hydrocarbon exporters to develop and strengthen non-hydrocarbon economic sectors, human development, and basic social service delivery. The nontraditional linkage of these seemingly discrete policy goals must form the framework of a systematic and dynamic approach for engaging West African hydrocarbon states.

While the African Growth and Opportunity Act, Millennium Challenge Accounts, and Millennium Development goals provide a strategic backdrop for developing an integrated, dynamic engagement approach, inconsistencies of approach within and across these initiatives present cause for some concern.

For instance, AGOA identifies a number of oil-exporting West African countries as AGOA-eligible but fails to explicitly determine their "continued progress" by examining their efforts in the context of recent Human Development and Human Poverty Indexes provided by the United Nations Development Program, as well as the Freedom House ratings.

In contrast, the Bush Administration has consistently presented the MCA initiative as a part of a comprehensive effort to combat terrorism, stating that funds will be distributed to "developing countries that demonstrate a strong commitment toward good governance principles, investment in citizens, and strong economic policies that foster enterprise and entrepreneurship."[28] The Millennium Challenge Corporation currently employs 16 indicators, utilizing 25 sources from 18 different organizations, when determining the eligibility of a "candidate country." Sources for determining eligibility include data from Freedom House, the World Bank Institute, the World Health Organization, the World Bank Educational Statistics, the Heritage Foundation, Institutional Investor, and the International Monetary Fund.[29]

Aside from the disparate sources used to determine eligibility, the MCC selection process represents another interesting paradox in U.S. foreign aid/development paradigms. On May 6, 2004, the Millennium Challenge Corporation (MCC) announced the first countries eligible to apply for assistance: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka, and Vanuatu.[30] On November 8, 2004 the MCC met to select countries eligible for fiscal year 2005 assistance, adding Morocco to the list. However, a March 2005 White House press release congratulated Madagascar as "being the first country to have its Millennium Challenge Account Compact approved by the Millennium Challenge Corporation." It further states, "The $110 million program with Madagascar epitomizes this new approach, focusing on raising rural incomes and investment through a comprehensive plan that links land titling, banking, and agricultural investment."

On the one hand, West African hydrocarbon states, many of them susceptible to becoming (or remaining) oil-dependent or mineral-dependent, are the most vulnerable to instances of political instability, societal deprivation, and de-investment in the health of their citizens. At the same time, they are being encouraged to reform politically without the probability of receiving MCC financial incentives. Tragically then, these countries are some of the most in need and the least likely to be awarded the resources necessary to combat the problems. Even worse, these countries have mineral-resource wealth but not the administrative capacity (or political will) to direct revenues toward supporting human development and poverty reduction.[32]

Rewarding movements towards greater levels of good governance is one thing, incentivizing a nation's desire to overcome political inertia is something very different. The current reliance of the United States to do the former precludes real opportunities to do the latter. Only a balanced approach will both move the United States closer to energy independence and the West African region closer to consolidating democratization efforts.

## A DYNAMIC ENGAGEMENT MODEL FOR U.S.-WEST AFRICAN COLLABORATION

It is clear that only through innovative measures and policy commitment can the United States combat terrorism and expand human development in West Africa while furthering its quest for independence from volatile oil-exporting nations. These mutual interests can only be met if the United States takes deliberate measures to ensure that the stakeholders most affected by oil-exploration in the West African region are involved in the processes of linking oil-resource development to human development and counter-terror efforts. These stakeholders include: the United States, African Heads of State and Parliaments; oil exploration and production companies; international financial institutions; and non-governmental organizations (NGOs).

An innovative approach also requires that the US incorporate the very best elements from other models of revenue sharing/investment and transparency to fully yield the results necessary for enhancing U.S. security interests and the human development and poverty reduction potential of African nations. Developing an alternative framework for dynamic engagement will require six elements:

- Revisiting the Chad-Cameroon Pipeline Project
- Replicating (and Expanding) the São Tomé and Principe Plan
- Building Mutually Beneficial Collaborations
- Properly Managing Local Content
- Engaging the African American Community
- Carefully Monitoring China-Africa Relations

## Revisiting The Chad-Cameroon Pipeline Project

There are many lessons that can be drawn from the Chad-Cameroon Pipeline Project (CCPP). Often called the "Chad Model," CCPP has been alternately disparaged as a failure and hailed as an exemplar of how to use oil revenues to promote human and economic development in Africa. The Chad Model generated unique relationships, especially an enormous amount of cooperation between the government of Chad, the World Bank, and a consortium of oil companies including: ExxonMobil, Chevron Texaco, and Petronas, a Malaysian oil company.

In "The Chad-Cameroon Pipeline Project: Prospects and Problems," Former U.S. Ambassador to Chad Donald Norland writes that the project has "accelerated education programs and policy reforms and add[ed] momentum to privatization of such sectors as telecommunications and energy."[33] Noting the extraordinary commitment of the World Bank and its ability to secure legal revenue-destination transparency from the Chadian government (i.e., aspects of which would eventually become Chad Law 001), Norland also stated that the "project has resulted in exponential growth in the country's GDP, increasing from 0.8 percent in 1999 to 8.9 percent in 2002, and anticipating an increase to 10.6 percent in 2002[SIC]."

The latest report from the consortium, *Chad Export Project Report #17* (4th Quarter 2004, Annual Summary 2004), presents a wealth of information about the positive impact of the collaboration — ranging from local jobs, revenue destination transparency, development tempered by environmental sensibilities, consultations with local stake holders, and investment in human development.[34] The Report also notes the contributions of oil-development to health initiatives, saying that, "…funding has now been approved for a series of public health campaigns in Chad and Cameroon that will fight malaria, prevent cholera, and renovate health clinics. The programs will be implemented through partnerships between the Project, the national ministries of health, and local and national NGOS. A total of $1.5 million in funding will come from the ExxonMobil Foundation as part of a new charitable giving program called the Africa Health Initiative."

The Chad-Cameroon Pipeline Project is an important model of development because of three critical elements: monitoring, capacity building, and revenue sharing.[35]

- **Monitoring:** The CCPP requires that stakeholders monitor transparency mechanisms to ensure that both the host governments and the oil companies maintain full compliance. The resulting reports are posted on the Project's website and hard copies are distributed to key stakeholders, including Chad and Cameroon citizens without Internet access.

- **Capacity Building:** The CCPP project reports that citizens are involved in the decision-making processes involved in the health initiatives and that employment opportunities related to the project benefit citizens. Furthermore, Chad has instituted a petroleum revenue management law that requires a "majority of *direct revenues* from oil production — royalties and dividends — be earmarked and spent on "priority sectors" targeting poverty reduction. In addition, a joint government-civil society petroleum revenue oversight committee (the *Collège*) has been established to play a "watchdog" role, approving projects and monitoring the quality of their implementation."

- **Revenue Sharing:** According to a financial analysis of the project, "over the estimated 30-year Project lifetime, about equal shares of the net revenue from crude oil sales will go to the host countries and the Consortium. During the early years, the Consortium and the pipeline company shareholders must work to pay back the construction loans and to recover the money invested to build the Project. In later years, the Consortium will pay to Chad a corporate income tax ranging from 40 percent to 65 percent on its audited level of profits. In addition, the Project will continue to pay royalties and other charges such as licensing fees and employee taxes."

On the surface, all three elements suggest that the CCPP initiative has benefited the average Chadian citizen. However, indigenous critics of the Chad project claim that the Chadian government is not doing enough.[37] Outside critics also contend that formal transparency is not enough for it cannot ensure that oil revenue from the pipeline is being used for its intended purposes. While Congresswoman Sheila Jackson-Lee agrees that the *Collège* is a good starting point, she would warn against over glorifying it until further progress is made. The statements of Ian Gary and Nikki Reisch, authors of *Chad's Oil: Miracle or Mirage? Following the Money in Africa's Newest Petro-State*, are worthy of full inclusion on this point:

> Experience to date has shown that the *Collège* has made promising strides to establish itself and exert its authority. At the same time it needs increased access to information, an improved ability to investigate expenditures and the cooperation of government to prosecute any wrongdoing identified. The *Collège* lacks an independent and steady source of funding, and without support from Chadian civil society will be unable to effectively carry out oversight in a country as large as Chad. Finally, the government has placed trusted allies — such as President Déby's brother-in-law — on the *Collège* and has interfered with the selection of civil society members. While the *Collège* can influence the budgeting process, reject ill-founded expenditures and investigate the execution of projects it approves, ultimately its ability to ensure that oil revenues are used for poverty reduction depends on the willingness of the judiciary to prosecute cases of misuse, fraud or corruption that the *Collège* may uncover.

This statement reminds us that formal rules without formalized practices mean little in ensuring that the wealth generated by oil-revenues accrue to those most in need: the impoverished citizens. As such, Gary and

Reisch (2005) remind us that U.S.-backed efforts to encourage formalism without a proper balance of citizen input will only further ***decrease*** American energy security in the long run. They write,

> Chad's experience shows that transparency is *but one* essential ingredient in a system of oversight, accountability and sanction. Transparent information can be used for both formal and informal enforcement of the law, but the tools to use it have to be in place. Investigative and judicial arms of the government must be independent and capable of prosecuting wrongdoing. Elections must be free and fair and Chadians must have the ability to change their government through the ballot box if they think it has not managed the oil wealth well. Informal enforcement — through monitoring by civil society and publicizing information on the radio and via other media — must be part of a system of accountability. Transparency is only meaningful if information is understood by the government and the public, and if the findings of oversight bodies lead to action.

While it is much too soon to say whether CCPP has been effective, it is clear the initiative is the most visible effort yet that attempts to use oil revenue to meet poverty reduction goals in Africa. The uniqueness of its approach suggests that elements of this model may need to be revisited before replicating it for other West African hydrocarbon states.

## Replicating (and Expanding) the Săo Tomé and Principe Plan

The island nation of Săo Tomé and Principe in the Gulf of Guinea has developed the most recent plan for oil revenue management. In December 2004, the President of the Democratic Republic of Săo Tomé and Principe, Fradique de Menezes, signed into law a Petroleum Management Law governing the 6 to 10 billion barrels of oil that lie under the waters of the Joint Development Zone (JDZ) connecting Nigeria and the country. The path from conceptualization of a plan for transparency and adoption of the plan was a long one. The World Bank, the International Monetary Fund, Columbia University's Center on Globalization and Stabilization Development (CGSD) assisted the President in identifying problems and solutions for dealing with the externalities of oil-exportation.

In March 2004, the country hosted a forum, "Seminar on Mechanism of Oil Revenue Management," which provided the de Menezes Administration an opportunity to solicit input from a wide range of participants: members of the ad hoc parliamentary oil commission, the Oil Cabinet, the United Nations Development Program and its special consultant at the Oil Cabinet. The Columbia Oil Advisory Group, an affiliation of CGSD, assisted by analyzing the information shared at the Oil Revenue Management Seminar, along with Săo Tomé and Principe laws and regulations applicable in order to draft a sample "oil revenue and management law." The salient areas of the proposed legislation included, but were not limited to: State Proprietorship of Mineral Natural Resources; Creation and Management of the National Oil Account; Investment of National Oil Account Funds; Limitations on Deficits; Transparency; and Public Integrity.[38]

The influence of the U.S. and organizations such as Columbia University and the Congressional Black Caucus Foundation, which has a "Memorandum of Understanding" with the Săo Tomé and Principe government, has been critical to the government's efforts to employ independent, knowledgeable organizations in its quest to help include acceptable oversight and technical mechanism within the governmental framework.[39]

São Tomé and Principe law continues to be praised for its standards of transparency and its dedication to directing oil revenues to human development and poverty-reduction initiatives. It creates "a national oil fund to be held by an international custodial bank," ensures that "all oil payments, very broadly defined, must be made directly into the account," and that "fund withdrawals and fund holding as well as all related oil contracts are also to be made public." Going further than the Extractive Industries Transparency Initiative announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002, the São Tomé and Principe law "mandates public access to all payments into the fund on an individual payment basis."[40]

Observer reports also indicate that "the Nigeria-São Tomé and Principe Joint Development Zone is the seventh such arrangement in the world and Africa's second" to be included under the umbrella of Prime Minister Blair's Extractive Industries Transparency Initiative.[41] Early projections suggest that São Tomé and Principe will receive approximately $50 to 60 billion over the lifetime of the project. In February 2005, the government signed its first offshore oil exploration and production sharing agreement, resulting in a "front-end bonus payment of US $49 million — 10 times as much as the small country's annual export earnings from cocoa."[42] Signing of the agreement was reportedly held up by discussions concerning public disclosure and transparency, a marked improvement over other agreements where governments made secret deals.

However, even with a law on the books and international praise, political will is still important.[43] The elements of the São Tomé and Principe Plan are however only *the second* element within a larger framework for ensuring good governance, proper investment of oil-revenues, and civil society input. Other elements required in a dynamic engagement framework concern fostering mutually beneficial collaborations between African-American owned businesses, oil-exploration companies, and West African hydrocarbon states.

## Building Mutually Beneficial Collaborations

The first and essential step in the process of building mutually beneficial collaborations between West African hydrocarbon states and oil companies is to include individuals and entities who are the most affected stakeholders: citizens, nations, NGOs, and the oil companies. Lessons from Nigeria and Alaska are helpful in this regard.

The strikes and violence of Spring 2003 in Nigeria's oil fields provided demonstrative evidence of the importance of fostering mutually beneficial collaborations between oil companies and indigenous stakeholders. Recently Chevron Corporation has announced that Nigerian-owned companies will get a sizeable piece of the contracts awarded on the massive Agbami field project and has reportedly discussed finalizing relinquishment of its stake in a marginal field to an indigenous operator.[44] By including local enterprises in oil production activities (albeit in the lower risk, lower-return end of the market), Chevron Corporation is able to foster a mutually beneficial collaboration that promotes revenue sharing and political stability. Oil companies should be encouraged to follow Chevron Corporation's lead in this area.

Host governments may want to consider enacting laws that limit the acreage that foreign companies can own at any time, forcing them to cede marginal fields in order to pursue new, more costly exploration and production opportunities. This would single-handedly create a thriving market for indigenous operators willing to employ enhanced recovery techniques to tap the residual reserves of so-called "brown fields," rewarding the entrepreneurial spirit and increasing the output capacity and potential tax revenue.

Oil companies must also be required to hire indigenous workers. Recent actions by Alaskan Labor Commissioner Greg O'Claray to subpoena the records of major oil producers to "to determine where their employees live, how the workers are classified and whether all paid wages have been reported" shows that employment requirements are a concern of governments everywhere not just in Africa. According to published reports, "the audits are being conducted to find out whether the companies are following an administration initiative that calls for a company's work force to be made up of at least 90 percent Alaska residents."[45]

Furthermore, efforts to ensure the proper collections of tax revenue must be enforced. Again Alaska's innovation in this regard has garnered international attention including study by the President of São Tomé and Principe and his advisors. The Alaska Fair Share bill (Senate Bill 50), it is worthy of special mention. Introduced by State Senator Hollis French and others, it provides direct evidence that indigenous efforts have emerged to make the famous Alaskan Oil model more responsive to the evolving needs of constituents. According to Senate Bill 50, it is designed to modify "the oil and gas properties production (severance) tax as it applies to oil," as well as establish a minimum rate of tax, provide an adjustment to increase or reduce tax, and provide for a tax relief. These efforts are designed to "make two adjustments to the state's production tax on oil: 1) it would require all producing fields to pay a minimum 5 percent production tax. This provision alone would raise $75 million in state revenue at an oil price of $22 per barrel; 2) It would tie the production tax rate to the price of oil, something more substantive. The bill sets a 'normal' price range of $16 to $20 per barrel. Within that range, no adjustment would be made to the production tax rate. However, outside that range, the bill would allow the production tax rate to go up as prices go up and, to be fair, to go down as oil prices go down."[46]

Although controversial, the Alaskan Senate Bill 50 presents two points that are relevant to U.S.-West African hydrocarbon state collaborations. First, a dynamic engagement framework outlining revenue sharing and the responsibilities of oil companies must evolve with the changing needs of nations and their citizens. Second, indigenous preferences must remain paramount during any discussions on revenue, local content, environmental responsibility, and human development. Good corporate governance and proper resource management requires that the citizens of oil exporting governments (and their representatives) need to know how oil revenues are reported, captured and dispersed, and they need to know whether and to what degree indigenous individuals actually benefit from oil exploration.[47]

## Properly Managing Local Content

Since good corporate governance and proper resource management can only work in a context of local content, a comprehensive plan for U.S.-West African hydrocarbon state collaboration must include benchmarks for local content and offsets. The former term may simply refer to the degree to which indigenous markets and businesses are incorporated into the benefit packages of development. The latter term defines the practice by which the award of contracts by foreign government and companies are exchanged for commitments to provide industrial compensation. This characterized the system of purchases orchestrated by U.S. as a trading partner with allies in Europe and Asia during most of the Cold War period. In defense trade, such plans included mandatory co-production, technology transfer, counter trade, and foreign investment. From the perspective of the countries that benefited from offsets, they were employing their leverage as potential customers to obtain agreements from private companies that benefited their economy at large.

The use of offsets is commonplace today, where virtually all defense trading partners of the United States impose some type of offset requirement and do so for a variety of reasons: to ease the burden of large defense purchases on their economy, to increase or to preserve domestic employment, to obtain desired technology, and to promote targeted industrial sectors. Yet, according to the most recently released report by the U.S. Department of Commerce, Bureau of Industry and Security, *Offsets in Defense Trade, Eighth Report to Congress*, July 2004, the only African nation participating in the offset program from 1993 to 2002 was South Africa.[48] And, although there are serious questions about whether these programs produce the expected qualitative results in the area of technology transfer, offsets have tended to help local manufacturers attain the necessary foundation or take-off point for product transformation and development.

Interestingly enough, the Commerce Department has noted the growing trend of America's European trading partners to impose a greater number of offset requirements. The report states that, "Europe alone accounted for nearly two-thirds (65 percent) of total offset agreements (by value), but less than half (46 percent) of the value of U.S. defense export contracts."[49] By comparison, the totals for other regions regarding export contract values were paltry: 90.8 percent for the North and South America region (comprising of only Brazil, Canada, and Chile); 40.0 percent for the Asia region; and 44.0 percent for the Middle East and Africa region.[50]

To further illustrate the point of how offsets impact regional development, the Commerce report states the following:

> Austria led Europe and the rest of the world in terms of its offset percentage; on average, U.S. weapon system exports to Austria were associated with offset agreements worth 174.2 percent of the value of the weapon system. At the same time, Austria offered the lowest reported multiplier for offset transactions carried out in fulfillment of the agreements… In the rest of the world, only one country, South Africa, required offsets greater than the price of the weapon systems it purchased; its average offset percentage was 116.7 percent.[51]

These quotes are not intended to cause a debate about whether offsets to European nations are an appropriate foreign policy strategy.[52] Rather, they are meant to illustrate the point that offsets can and should be used to effectively leverage human development in oil-exporting West African nations.

Since offsets can come in a variety of forms (e.g. direct, indirect, and unspecified), and can fall into one of nine categories (e.g., Purchases, Subcontracts, Technology Transfer, Credit Assistance, Training, Overseas Investment, Co-production, Licensed Production, and Miscellaneous), it is imperative that African governments develop an understanding of and insert this concept into negotiations for establishing collaborative agreements for oil-field exploration.[53]

Offsets could help citizens of West African hydrocarbon nations benefit from the technical assistance, education, and training in areas other than oil exportation. This is especially important since part of the "oil curse" is the heavy dependence of the government on revenues from oil exportation coupled with the unwillingness of oil companies to provide adequate local content. Similarly, part of the "oil curse" is the inability of governments to use revenues to diversify the local economy. Offsets can facilitate overseas investments (e.g. joint ventures, subsidiary expansions, etc.) that are key to enhancing indigenous entrepreneurship and a diversified local economy.

While offsets have not been widely employed in Africa, there are signs that support for local content initiatives are gaining support. At a 2003 forum on local content, Nigerian President Olusegun Obasanjo said that his Administration's objective was "to achieve 45 percent local content in the oil and gas sector by the year 2006."[54] The Nigerian President went on to state that "it was regrettable that 47 years after the discovery of oil, the nation was contributing less than 20 percent local content to that vital sector," adding that "local content does not mean just local ownership but Nigerian content in human and material terms." And, according to journalist reports, the "Ministry of Petroleum Resources on its part, noted that unlike other oil-producing countries like Norway, Brazil, Malaysia and Indonesia with between 45 percent to 75 percent local content contribution, Nigeria's local content was very low due to mainly inadequate and incoherent policies and legislation, low technological capability and inadequate infrastructure. It suggested a national policy on local content development and the setting of realistic and achievable targets."[55] These remarks are illuminating given that in mid-September 2003, the Nigerian National Petroleum Company (NNPC) directed that 40 percent of the contracts awarded for the $2.5 billion Agbami deepwater oilfield must be sourced from within Nigeria.[56]

It is clear that non-defense related "local content" programs can provide developing countries such as those in the Gulf of Guinea the opportunity to leverage and incentivize major international firms into supporting and sustaining indigenous manufacturers and service providers. Such local content initiatives, whether legislated or initiated by the private-sector, would most likely result in greater employment rates, reduction in foreign currency outflow, and probable infrastructure enhancements such an increased dispersion of electricity throughout rural areas.[57]

## Engaging the African American Community

To facilitate achievement of dynamic engagement model goals in West African hydrocarbon states, it is imperative to involve individuals and groups that have a demonstrated interest in the development of Africa. In the U.S., many African Americans have maintained an active interest in the welfare of the continent of their origin and have sought to launch self-directed initiatives establishing business, educational, and other linkages with African nations. It would be prudent to take advantage of these natural connections through the promotion of multi-sector collaborative initiatives involving African American businesses, NGOs, educational institutions, and policymakers.

A collaborative effort between Compact Manifold International (CMI) and Chevron Corporation represents a successful local content case study involving an African American-owned firm interested in helping to promote African development. A Lafayette, Louisiana based company with sales offices in Houston, Texas and an international office in the greater Washington, D.C. area, CMI specializes in the design and construction of high-pressure manifold systems.

In June 2003, CMI entered into discussions with Chevron Corporation to present its expertise on items essential to offshore and onshore drilling equipment. In an attempt to combine its business interests with its interests in the development of Africa, CMI executives entered into discussions with Chevron Corporation and Cabinda Gulf Oil Company, Ltd. to review various tenets of the latter's Local Content Development (LCD) Program. After consultations, the parties agreed to pursue a mutually beneficial relationship in Cabinda, Angola. The steps taken were as follows:

1. CMI submitted its company's capabilities profile for evaluation;

2. Chevron Corporation certified CMI's ability to participate in the LCD Program;

3. The parties agreed to explore potential Angolan joint venture partners to further CMI's foray into Angola via the LCD Program;

4. Chevron Corporation representatives recommended several local businesses and CMI consulted with several business contacts it developed through its earlier travels to Africa;

5. The parties spent several months reviewing background information on potential joint venture partners;

6. A list of potential local partners was identified for interviews and capability evaluations;

7. Parties discussed and developed potential "timelines" including dates to meet in Cabinda to identify specific opportunities, physical operations locations, and to meet with potential local partners.

In May 2004, CMI representatives completed a fact-finding mission to Angola to satisfy several of the above enumerated steps and to further the company's efforts to establish a viable operation under the LDC program. Several potential Angola partners were identified. Currently, CMI and its local partners are formulating a comprehensive business plan to further the venture.

Just as CMI has sought to engage indigenous African entrepreneurs on a business level, African American NGOs and policymakers have been extremely active in Africa's development. On the nonprofit side, groups such as the Congressional Black Caucus Foundation, Africa America Institute, Constituency for Africa, Trans Africa, Africa Action, and Africare have developed deep partnerships and robust programs in Sub-Saharan Africa. On the policy side, members of the U.S. Congressional Black Caucus, and African American elected officials at the state and local levels have sought to push an agenda beneficial to African countries and people. From HIV/AIDS to development and trade, these African American policymakers have been at the forefront of shaping U.S. policy towards the continent. These groups and individuals will continue in their efforts to help implement a broader, more comprehensive framework for ensuring that advances in human development occur across the continent of Africa.

## Carefully Monitoring China-Africa Relations

Given the changing dynamics of the global economy, it is perhaps not surprising that China's demand for crude oil has resulted in massive efforts to invest in Africa. Total trade between Africa and China reached over \$18 billion in 2003, up \$8 billion from 2002. Also, China established the China-Africa Cooperation Forum in 2000, which now operates at the Ministerial level. As the second largest consumer of oil, China has pursued an aggressive and multi-pronged strategy to secure reliable supplies of African crude.[58] It will be instructive for the U.S. to carefully monitor China-African relations while strengthening its own relations with African countries.

**China and Angola:** In 2003, China reportedly initiated a $2 billion loan to Angola for a "secured supply of 10,000 Angolan crude per day." While it is not clear whether the China-Angola loan was approved by Angola's executive or legislative branch or whether the two main factions involved in the civil war reviewed the loan agreement, it is clear that a loan is very different than a grant. It also appears that the $2 billion loan was not a direct purchase of crude. This suggests that the loan — particularly if not "forgivable" — may have disastrous consequences on the long-term development of Angola if the country is unable to pay it back. To prevent defaults, other countries like Japan have had a long history of avoiding such large loans to countries that are "heavily indebted" preferring to offer debt relief and *grants* instead. China's operational approach in Angola may have lasting long-term consequences for relations between the two countries that may also have an influence Angola's relations with other nations.

**China and Sudan:** According to published reports, China is purchasing 25 percent of its foreign oil from Africa facilitated by partnerships in Sudan, Nigeria, and Gabon.[59] Sudan is the largest, single-source African exporter of crude oil to China. This arrangement is facilitated by the China National Petroleum Corporation (CNPC), which bought into a Sudanese consortium.

Chinese-Sudanese relations are alarming for a number of reasons. First, if as news reports suggest, China has indeed invested significant sums on Sudan's oil sector, including the construction and maintenance of a thousand mile pipeline, the current political situation in the Sudan precludes effectively implementing the transparency and accountability mechanisms needed for enhancing human development capacity. Essentially without such mechanisms, the citizens of Sudan will continue to suffer societal deprivation despite the infusion of resources.

Second, if PetroChina, a subsidiary of the state-owned CNPC, indeed owns 40 percent of Sudan's Greater Nile Petroleum Company (GNPC), such an agreement may preclude the type of local content and local investment needed to enhance human development. Similarly, if the CNPC owns 40 percent of the GNPC — "a consortium that dominates Sudan's oil fields in partnership with the national energy company and firms from Malaysia and India" — local investment devolves into a euphemism for divestiture in Sudanese citizens.

Third, and most problematic, if the Sudanese government is using oil-revenues to "double its military budget," or if it is using Chinese assistance and the "local content" construct to build weapons near Khartoum, the humanitarian crisis in Darfur will continue. According to a journalist's report, "From its seat on the United Nations Security Council, China has been Sudan's chief diplomatically. In recent months, the Council has neared votes on a series of resolutions aimed at pressuring Sudan's predominately Arab government to protect the African tribes under attack in Darfur and stop support for militias by threatening to sanction its oil sales. China has threatened to veto such actions while watering down the threat of oil sanctions."[60]

Collectively these episodes in Chinese-African relations illuminate the other sides of the oil curse: first, the vulnerability of nations with medium- to low-human development rankings and their propensity to seek revenue support despite the risks; second, the susceptibility of these nation states to being manipulated by their so-called benefactors; third, the inability for multinational organizations to assist those being most affected by such maneuvers; and fourth, the danger of unfettered, unmonitored, and misdirected local content initiatives. If China is allowed to pursue current efforts at improving its oil security problem, the United States will surely face additional threats to energy security and, tragically, the continent of Africa may continue to be stymied in its attempts to reach those goals set out in the Millennium Development Compact.[61]

## CONCLUSION

Government officials and observers have consistently asserted that the United States has a strategic energy interest in hydrocarbon development within the West Africa region. This recognition has generated a chorus of calls for "greater diversity of world oil production."

Yet, despite these calls to look beyond traditional markets and allies, efforts to create a *mutually beneficial framework that systematizes relations* between U.S. and West African hydrocarbon states have fallen on deaf ears. In the end, the United States is missing an opportunity to connect its quest for energy security to an array of other United States initiatives: the war against terrorism, the promotion of good-governance practices, the campaign to enhance human development in Sub-Saharan Africa, and the reduction/eradication of poverty.

At the July 2004 launch of a Senate Foreign Relations Committee hearing on the Gulf of Guinea and U.S. Strategic Energy, Senator Chuck Hagel underscored the importance of recognizing when U.S. and West African interests converge. Speculating aloud about whether the United States had pursued any of these mutual interests, Hagel posed the following questions: "Does the United States have a comprehensive strategic policy for West Africa? Is energy security being adequately addressed in our foreign policy objectives? Are we allocating the necessary resources to deal with regional stability and security issues in the Gulf of Guinea?"

Given the shifting dynamics of the Middle East and the uncertain outlook for other traditional U.S. energy sources, it is not only prudent but necessary that the U.S. engage Gulf of Guinea nations in its quest to secure its energy supply. This effort should not employ military strength or other coercive measures but should draw upon a comprehensive framework incorporating the democratic principles of good governance, corporate responsibility, transparency, accountability and investment in human and infrastructure development. Furthermore, pursuing a dynamic engagement framework would ensure the proper participation of the most affected stakeholders: West African Governments; Oil Companies; International Financial Institutions; Civil Society (e.g., NGOs, the Media and Legal Communities; Educational Institutions, Environmental Groups; Child and Women Advocacy Groups); Regional/International Organizations involved in peer review mechanisms; and other individuals outside Africa committed to enhancing infrastructure development (e.g., African American businesses, representatives, and officials).

Only through a mutually beneficial framework that systematizes relations between the West African nations and the United States, can the U.S. harvest the multiple benefits of diversifying its oil supply: a reduced reliance on oil from volatile regions; the development of additional strategic partners in the war against terrorism; an enhanced U.S. exports market; a practical "oil revenue for poverty-reduction policy" framework which reduces African reliance on foreign aid; and the strengthening of democratic regimes and of indigenous efforts to move African authoritarian regimes closer to democracy. As such, this comprehensive framework refines and complements the strategies currently put forth by the Bush Administration to ensure security at home and to further democracy abroad.

# RECOMMENDATIONS

These recommendations, in keeping with democratic foreign policy principles including the promotion of good governance, economic development, human rights, and enhanced relations with the United States and the African-American community, are submitted for consideration. Many of the recommendations echo calls already made by major stakeholders interested in ensuring sustainable development in the West African energy sector.

## U.S. GOVERNMENT

The United States Congress should:

- Establish immediately a bi-partisan Congressional Advisory Committee that should:
  - Meet with oil companies and other interested parties to discuss how to promote sustainable development through innovative energy sector initiatives.
  - Host a summit with African heads of state and other officials to promote the importance of West Africa-U.S. energy relations.
  - Prepare legislation to establish a Commission for Sustainable Development in West Africa.
- Establish a Commission for Sustainable Development in West Africa that should:
  - Consider legislation declaring West Africa of strategic interest to the United States.
  - Conduct meetings with experts to gather information about improving and coordinating U.S. aid, trade, economic, environmental, and counterterrorism efforts in the region.
  - Review efforts by African governments, oil companies, international institutions, and non-governmental organizations to advance development goals using innovative revenue-sharing models.
  - Formulate a strategy for engaging West African states in a mutually beneficial partnership that seeks to promote specific economic, social, political, infrastructure, environmental, and counterterrorism goals.

- Support the development of a world-class West African Science and Technology Institute that offers a curriculum that promotes excellence in higher education and research and development in science and engineering. The ultimate goal will be establish an education and training vehicle that will enable Africans to have a key role in improving Sub-Saharan Africa's living standards through increased productivity, economic growth, and diversification.

- Provide additional debt relief to West African hydrocarbon states contingent upon achieving measurable targets related to financial transparency and good governance benchmarks.

- Require federal grant recipients, West African hydrocarbon states, and oil companies to submit documentation of capacity building programs related to human development initiatives. Submit capacity building proposals to the aforementioned Commission for review and recommendations.

- Review U.S. businesses operating in the area to ensure compliance with the U.S. Foreign Corrupt Practices Act.

- Provide additional incentives to U.S. businesses to purchase goods and services from AGOA-eligible countries.

## WEST AFRICAN HYDROCARBON STATES

Governments of West African oil-producing nations should:

- Establish oil ministers whose appointments are approved by parliamentary bodies.

- Publish information on all oil revenues and participating oil companies.

- Establish advisory bodies with representation from political parties, civil society groups (e.g., human rights activists and advocates for women and children), independent third parties (e.g., World Bank or major investment banks with stated and monitored priorities that earmark significant portions of oil revenue for investment in infrastructure and education), and members of the media.

- Make public any recommendations on reforming real property laws conducted in the last five years.

- Consider legislation that encourages relinquishment of inactive marginal fields by foreign companies to indigenous operators willing to develop their residual reserves through enhanced recovery technologies.

- Submit to an audit of oil revenue distribution conducted by representatives of the International Monetary Fund, the World Bank, USAID, and ECOWAS.

- Charge the appropriate parliamentary committees with examining the benefits of creating a Development Trust Fund based in Nigeria to fund the indigenous petroleum industry and to support a Gulf of Guinea School of Petroleum Technology (possibly located in Port Harcourt), with the cooperation and assistance of USAID.

## OIL COMPANIES

Oil companies interested in West African oil-producing nations should:

- Make public annual audits conducted by reputable international firms relating to activities in West Africa to augment participation in the concept of "publish what you pay" initiatives.
- Immediately publish oil-field specific and cumulative environmental and social impact assessments.
- Participate in and expand local content and joint venture projects with indigenous operators/businesses with verifiable long-term social, cultural, and historic ties to the region/country.
- Conduct capacity building and technology transfer initiatives in order to provide valuable skill sets to indigenous employees that may be used across different economic sectors.
- Consider establishing *at least one oil refinery* for the host country.
- Collaborate with host governments to relinquish or farm out inactive marginal fields, make their technical data available, and finance (if possible) local operators that will develop them.
- Reach out to the African-American community, both through encouraging African-American owned businesses to take an active role in the enterprise of West African development and through the informational promotion of positive impacts that oil companies have in the region.

## INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

International financial institutions should:

- Require demonstrated progress on enforcing laws relating to good corporate governance, including sanctions by the government for violations of procurement regulations.
- Ensure that governments do not create a second, separate system of oversight for revenues generated by new oil fields.
- Require that governments support the public dissemination of information about oil revenues by helping to offset costs of reproduction, distribution and communication of information to the public.
- Ensure that public documents related to oil exploration and oil revenues are made available in both the official language and the indigenous languages spoken most predominately throughout the country.
- Support and publish an independent assessment of the human development constraints facing citizens of Chad, Congo-Brazzaville, Equatorial Guinea, and Săo Tomé and Principe, as well as all other hydrocarbon states in the near future.
- Establish and publish benchmarks for determining whether a country is granted a loan or a grant, and how these benchmarks are tied to transparency, investment in human development initiatives, and good governance indicators.

## NON-GOVERNMENTAL ORGANIZATIONS (NGOs)

Non-governmental organizations should:

- Establish additional and enhance current monitoring programs that track compliance with transparency and revenue destination agreements between African governments, IFIs, the United States, and oil companies.

- Establish a scorecard for African oil producing nations on the management of oil revenues, raising media awareness of "worst offenders" and "best practitioners," and including civil society participation in determining revenue destinations. This will initiate a healthy competition to attract direct foreign investment.

- Submit recommendations to the Commission for Sustainable Development in West Africa on sustaining improvements in human development in hydrocarbon states.

- Develop strategies to mobilize citizens for effectively engaging governments over policies to develop oil resources.

# ENDNOTES

[1] *Reliable, Affordable, and Environmentally Sound Energy for America's Future*, Report of the National Energy Policy Development Group, May 2001, pg. 8–11.
[2] Congressional Black Caucus News, Vol. 5, No. 1, Spring 2003.
[3] Timothy E. Wirth, C. Boyden Gray, and John D. Podesta, "The Future of Energy Policy," *Foreign Affairs*, July/August 2003, Vol. 82, Issue 4; Paul Joskow, "U.S. Energy Policy During the 1990s," *National Bureau of Economic Research* (NBER) Working Paper 8454, 2001; *Mapping the Global Future*, Report of the National Intelligence Council's 2020 Project, December 2004.
[4] *African Oil: A Priority for U.S. National Security and Development*, African Oil Policy Initiative Group, 2002; "Parallels with earlier energy crises underscore US vulnerability to oil supply shocks today," James L. Williams and A.F. Alhajji, *Oil & Gas Journal*, February 3, 2003, pg. 20. See also, "Questions Raised About OCS Moratoriums, U.S. Security," Nick Snow, *Oil and Gas Journal*, December 6, 2004, pg. 24. The OCS is the Outer Continental Shelf with the federal government administering "the submerged lands, subsoil, and seabed, lying between the seaward extent of the States' jurisdiction and the seaward extent of Federal jurisdiction."
[5] Op. Cit, Report of the National Energy Policy Development Group, May 2001.
[6] For a contrary view, see Gregg Easterbrook, "Turn On," *The New Republic*, October 18, 2004, pg. 17. Also, for a retrospective on American foreign energy policy, see Amory B. Lovins, "Energy Strategy: The Road Not Taken" *Foreign Affairs*, October 1976, Vol. 55, Number 1.
[7] Op. Cit, pg. 8–6.
[8] Estimates are taken from the U.S. Energy Information Administration, International Petroleum Information, Oil Reserves and Resources. Data as of March 2005 and adopted from *Oil and Gas Journal* estimates, January 1, 2005.
[9] The oil resource base is defined by three categories: proved reserves (oil that has been discovered but not produced); reserve growth (increases in reserves resulting mainly from technological factors that enhance a field's recovery rate); and undiscovered (oil that remains to be found through exploration).
[10] *Annual Energy Outlook 2005*, Energy Information Administration.
[11] *African Oil* (2002); *Our Common Interest: Report of the Commission For Africa* (2005).
[12] United Nations Map Library, World Macro Regions and Components.
[13] Op cit, pg. 271 (Definitions of Statistical Terms).
[14] Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, Cambridge: Harvard Institute for International Development, Development Discussion Paper No. 517a. (1995).
[15] Terry Lynn Karl, *The Paradox Of Plenty: Oil Booms And Petro-States* (Berkeley: University Of California Press, 1997), pg. 16.
[16] Nick Cohen, "The Curse of Black Gold," *New Statesman*, December 2, 2003, Vol. 132, 4640, pg. 25–27; Antonio de Figueiredo, "The Curse of Oil," *New African*, December 1, 2002, 413.
17 The report can be accessed at **http://www.christian-aid.org.uk**. The report indicates a methodology in which data from "six oil-producing countries — Angola, Iraq, Kazakhstan, Nigeria, Sudan and Venezuela — were compared to corresponding data from a group of six countries that do not produce oil — Bangladesh, Bolivia, Cambodia, Ethiopia, Peru and Tanzania."
[18] NEPAD is a merger of the Millennium Partnership for the African Recovery Programme (MAP) and the OMEGA Plan, finalized on 3 July 2001
[19] Manoah Esipisu, "NEPAD peer review faces big delays," *The East African Standard* (Kenya), March 7, 2005

[20] ECOWAS was a sixteen-nation strong group until Mauritania withdrew in 2002. The revised treaty of 1993 outlines a variety of aims, including promoting regional integration and cooperation "in order to raise the living standards of its peoples, and to maintain and enhance economic stability, foster relations among member states and contribute to the progress and development of the African continent." It also included provisions to enhance other aspects of sociopolitical mutual development and assistance.

[21] *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative*, Larry Nowels, CRS Report for Congress, updated August 26, 2003

[22] Debt relief and debt forgiveness have been mechanisms for helping countries that are heavily indebted shift resources from debt repayment to infrastructure development and poverty-reduction initiatives. See the Congressional Research Service report, *Africa, the G8, and the Blair Initiative*,March 17, 2005

[23] *According to the Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act* (2004), "the United States imported more than $14 billion in merchandise duty-free under AGOA in 2003, a 55 percent increase from 2002, largely due to an increase in oil imports." The report also states that "U.S. merchandise exports to sub-Saharan Africa were $6.7 billion in 2003, up 15 percent from 2002, with notable gains in agricultural goods, machinery, and transportation equipment…The United States was a leading provider of foreign direct investment to Africa in the period 1997–2001, with $8.9 billion of cumulative flows. U.S. direct investment in Africa supports U.S. trade with the region and enhances U.S.-African business partnerships."

[24] Remarks by President Bush, June 26, 2003 to the Corporate Council on Africa's U.S.-Africa Business Summit in Washington, D.C. Remarks by President Bush in Abuja, Nigeria, July 12, 2003. Also, in the summer of 2002, former Secretary of the Treasury Paul O'Neil, along with entertainer Bono from the rock band U2, toured Ethiopia, Ghana, South Africa, and Uganda on a 'fact finding' mission regarding poverty reduction and to assess 'obstacles' to African prosperity and human development.

[25] The US Institute of Peace has consistently reported on this. See for example *AIDS and Violent Conflict in Africa*, Special Report No. 75 (October 15, 2001), *Responding to War and State Collapse in West Africa*, Special Report No. 81 (February 1, 2002), *Global Terrorism after the Iraq War* Special Report No. 111 (October 2003), *Terrorism in the Horn of Africa*, Special Report No. 113 (January 2004).

[26] Nick Tattersall, "Africa's unrest blunts oil-search enthusiasm: Coups, terrorists and pirates threat to big investment," *The Houston Chronicle*, December 21, 2004, pg. 5. Tattersall does indicate that a Congressional Research Service report for August 2004 indicated "no evidence of international terror groups in Nigeria but voiced concern that could change." The title of the report is not given.

[27] Witness Panel I, July 15, 2004. Emphasis added.

[28] *Millennium Challenge Account Update*, USAID, Fact Sheet, June 3, 2002.

[29] Millennium Challenge Corporation website: **http://www.mca.gov/countries/selection/data.shtml**

[30] Remarks by the President at Ceremony Celebrating Countries Selected for the Millennium Challenge Account, Press Release, Office of the Press Secretary, May 10, 2004 .

[31] "Statement on Madagascar's Millennium Challenge Account Compact Approval," Statement by the Press Secretary, Office of the Press Secretary, March 14, 2005.

[32] The Administration's position concerning the amount of time it has taken for the MCC to announce actual awards is curious. See the Press Briefing by Scott McClellan, James S. Brady Briefing Room, March 14, 2005, Topic: Millennium Challenge Account.

[33] This article is available at **http://www.unc.edu/depts/diplomat/archives_roll/2003_10-12/norland_chad/norland_chad.html**.

[34] *Chad Export Project Report #17* (4th Quarter 2004, Annual Summary 2004), This report was prepared by Esso Exploration and Production Chad Inc., in its capacity as Operator of the Consortium and as Project Management Company on behalf of the Tchad Oil Transportation Company S.A. (TOTCO) and the Cameroon Oil Transportation Company S.A. (COTCO). The Quarterly and Annual Reports are posted on the Project's website (**www.essochad.com**).

[35] All the following information comes from the Chad report noted above, see footnote 66.

[36] Ian Gary and Nikki Reisch, *Chad's Oil: Miracle or Mirage? Following the Money in Africa's Newest Petro-State* (February 2005), pg. 2.

[37] PBS COVER STORY: The Chad Pipeline, June 28, 2002 Episode no. 543.

[38] The "Publish What You Pay" campaigns are also noteworthy; see *A Crude Awakening* by Global Witness (December 1999).

[39] At a September 2002 private dinner reception in Washington, D.C., President Fradique de Menezes called on the guests, including representatives from ExxonMobil and the U.S. Congress, to provide details on the Alaskan Oil Trust to be used as a potential model for his country's share of the oil revenue from the Joint Development Zone (JDZ).

[40] For additional information see **http://www.eitransparency.org/about.htm**. The initiative's stated aim is to increase transparency of payments by companies to governments and transparency of revenues received by those governments.

[41] "Nigeria-Sao Tome and Principe: Obasanjo, Menezes Sign Pact to Publish Joint Oil Accounts," *IRIN News.Org*, UN Office for the Coordination of Humanitarian Affairs, June 28, 2004. Ghana announced its intentions to pilot EITI in June 2003. Nigeria President Olusegun Obasanjo committed to EITI in November 2003 and launched EITI Nigeria in February 2004, facilitating the development of a National Stakeholders Working Group (NSWG) comprising of 27 individuals from civil society, media, government, indigenous, national and multinational companies, steers implementation.

[42] "Săo Tome and Principe: Government Nets $49m from signature of first oil exploration deal," *IRIN News.Org*, UN Office for the Coordination of Humanitarian Affairs, February 2, 2005; Heather Timmons, "Chevron Corporation And ExxonMobil In West Africa Oil Deal," *The New York Times*, February 1, 2005.

[43] See for example a report authored by Gerhard Seibert of the Institute for Security Studies (Situation Report, 9 November 9, 2004) noting the importance of Damião Vaz de Almeida, former minister of labour in the previous government, replacing Maria das Neves as prime minister on 19 September 2004, "effectively becoming the fifth prime minister since President Fradique de Menezes was elected in July 2001." The report notes that, "Prime Minister Das Neves had demanded the resignation of the Minister of Natural Resources, Tomé Vera Cruz (the MDFM leader) and Minister of Foreign Affairs Mateus 'Nando' Meira Rita on the grounds that they were signing agreements without her consent. It was only a matter of time before President Menezes, angered by the Prime Minister's direct confrontation with the MDFM component within government, dismissed her."

[44] Kelvin Ebiri, "Nigeria: Government Assures of Local Roles in the Oil Sector," *The Guardian* (Nigeria), May 19, 2003.

[45] Matt Volz, "State subpoenas oil company accounting, employment records," The Associated Press State & Local Wire, January 7, 2005

[46] **http://www.akdemocrats.org/index.php?ss_id=32**. See also, other indigenous responses, State Representatives Les Gara and Steve Gutenburg, "HB 441 will give fair share of oil wealth to the people," *Alaska Star*, February 19, 2004; Dawn Mendias, "Looks Like Four More Years of Bowing to Big Oil," *Alaska Star*, November 8, 2002.

[47] Elizabeth Bluemink, "Dems Tout Oil-Tax Restructure," AlaksaLegislature.Com, January 12, 2005. It can be accessed at **http://aklegislature.com/stories/011205/dems.shtml**

[48] *Offsets in Defense Trade, Eighth Report to Congress*, July 2004, Table 1-1. Reports on the impact of offsets in defense trade are prepared pursuant to Section 309 of the Defense Production Act of 1950,1 as amended (DPA).

[49] Ibid, pg. 17

[50] The figures for South Africa were withheld from the report to protect company proprietary information.

[51] Op cit, pg. 9

[52] A number of studies have examined both the advantages and disadvantages of these programs. In summary, these studies tend to conclude that while overseas defense firms were boosted in the short run, they became vulnerable to structural changes because of the ad hoc nature of these programs, see Gary Pursell, *Australia's Experience with Local Content: Lessons for India and Other Developing Countries*, World Bank, World Bank Policy Research Working Paper No. 2625, March 1999.

[53] According to the report, "During the time period 1993 to 2002, 42 U.S. defense companies reported 5,903 offset transactions with a total value of $23.5 billion. The reported offset transactions were completed with 39 different countries. The offset transactions were conducted in fulfillment of 230 U.S. weapon system exports, some dating from the 1980s." Direct offset transactions are those that are directly related to the weapon system that is exported. Indirect transactions are not related to the exported system. A transaction is classified as unspecified when there is not enough information available to determine whether it is direct or indirect.

[54] "Nigeria Earns N 36 bn from oil and gas taxes," *Alexander Gas and Oil Connections*, Vol. 8, Issue #23, November 27, 2003.

[55] Ibid. For a discussion on Indonesia's problems related the oil industry and release of government fuel subsidies, see "Indonesian oil and gas liberalization constitutes a real heavyweight test." *Alexander Gas and Oil Connections*, Vol. 10, Issue #1, January 17, 2005.

[56] Economist Intelligence Unit, November 28, 2003

[57] Local content remains a critically significant political and economic issue to West African nations, particularly in Nigeria. See "Nigeria tries to build new economy without oil, guns, and corruption." *Alexander Gas and Oil Connections*, Vol. 9, Issue #23, November 25, 2004.

[58] Marianne Lavelle, "Hostage to Oil," *U.S. News and World Report*, Vol. 138(1), pg. 42, January 10, 2005

[59] Peter S. Goodman, "China Invests Heavily in Sudan's Oil Industry; Bejing Supplies Arms Used on Villagers," *The Washington Post*, December 23, 2004.

[60] Ibid.

[61] See also Mengdi Gu, "China Wants More Pipelines for improved Oil Import Security," *Oil and Gas Journal*, January 3, 2005, pg. 59

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