

Testimony of David L. Goldwyn before the Subcommittee on International Economic Policy, Export and Trade Promotion

October 21, 2003

US Energy Security: Latin America and West Africa

Mr. Chairman and Members of the Committee, it is an honor to speak with you today about the importance of Latin America and West Africa to US energy security.

Latin America and West Africa are and will remain critical to US energy security. US energy security depends on access to diverse, reliable, abundant and affordable supplies of oil and gas. The oil exporting nations of Latin America and Western and Southern Africa provide 43 percent of US oil imports. They hold 12 percent of global oil reserves and 7.3 percent of global gas reserves. They are far closer to the US market than the Middle East. Most welcome foreign investment. The leaders of these nations are often a threat to their own people, but they do not harbor or finance groups that threaten US interests. The non-OPEC producers in these regions exert counter-pressure on OPEC's monopoly power.

Our key suppliers from these regions are at risk. The risks are that they will either fail to fulfill their production potential or expose the global economy to supply dislocations due to internal unrest, or both. Either scenario increases the volatility of the price of energy, damages the US economy and makes the United States more dependent on Middle East oil.

Our major suppliers in this hemisphere, Venezuela and Mexico, face serious challenges to their development of oil and gas for export. US policy towards these countries today is a combination of benign and malign neglect. Our policies are not advancing our energy security interests. The producing nations of West and Central Africa are poised to significantly increase oil and gas production in the next decade. Our key suppliers there, Nigeria and Angola, have weak governments and corrupt systems, and they face political instability that can impact their ability to supply the US market. They are about to get a lot wealthier very soon, as new deepwater discoveries come to market. The United States and its allies have a chance to help these governments move off the path of corruption and internal destruction, but the chance will not last long. New West African exporters, such as Equatorial Guinea and Sao Tome face a brief window of opportunity to avoid the so-called "curse of oil" if the US exercises the leadership to move them in the right direction.

US policy today does not utilize the leverage we have or the incentives we can provide to meet the challenges we face in this region. This afternoon I will address why Latin America and West Africa matter, why each region's potential to remain a key supplier is at risk and what steps the US can take to address these risks and enhance our energy security.

*Latin America is Critical to US Energy Security*

Latin America is critical to US energy security. The most important exporters, Venezuela and Mexico, consistently rank in the top four sources of US oil supply. Venezuela averaged 1.37 million barrels per day in 2002; Mexico averaged 1.28 mbpd. Many other countries are significant producers but more modest exporters or net importers. I refer to Brazil, Ecuador, Colombia and Argentina. As the populations of these latter countries grow, the energy they produce will increasingly be consumed internally. The US has two primary energy security interests at stake in the region. One is to maintain and increase hydrocarbons investment in Mexico and Venezuela so they remain significant exporters. The second is to encourage investment in the other oil producing countries in the region so they can help meet their own demand.

In the past two decades US policy in Latin America and elsewhere has been reasonably successful in fostering diversity of supply by encouraging open markets, liberalized trade regimes, privatization or commercialization of national oil and power companies and decontrol of energy prices. The so-called Washington Consensus has led to major deregulation of power and downstream markets, a welcoming

environment for investment in natural gas, and in the case of Brazil's offshore, and more recently Colombia, better terms for foreign investment in the upstream oil sector as well. US and other international oil companies have billions invested in Venezuela, Colombia, Argentina and Ecuador. Unlike Mexico, each of these countries welcomes foreign investment in their upstream sector. Power markets, gas markets and downstream crude oil product markets are being deregulated across the region. US offshore drilling technology and an investment-friendly regime have made deepwater Brazil a major source of international exploration activity in recent years. Latin America is also critical to the US electric power sector, as an important supplier of liquefied natural gas (LNG). Trinidad and Tobago is the top LNG exporter, with Venezuela poised to increase its production as well. The countries of the region are also among our most reliable suppliers. None participated in the Arab oil embargo of 1973-74. Venezuela is a founding member of OPEC, but has never used oil as a political weapon.

If we look to the future, we are going to need Latin America to maintain some diversity of supply. South and Central America possess approximately 9.1% of the world's proven oil supplies, with 6.4% in Venezuela alone. Mexico holds another 1.04% of proven oil reserves. In aggregate that is more than Africa (7.3%) or the former Soviet Union (6.2%). The region is also a major refining center, with nearly 8% of the world's refining capacity. The region's proximity to US markets makes Latin American oil and products easy to access in a crisis. Regional refineries are designed to serve the specialized needs of US markets. In the future, Latin American nations could be a reliable source of natural gas for the US market. This will depend on whether plans to create new pipelines to bring stranded gas to market and projects to develop LNG gasification plants come to fruition.

From a US energy security or national security perspective, the policy objectives should be quite clear: maintain stable democratic governments, strengthen partnerships with key suppliers, and support the rule of law, including contract sanctity and the preservation of a secure investment climate. Regrettably, many countries in the region are suspicious of the benefits of the Washington Consensus. They have not rejected market solutions, but the appetite for further deregulation has waned. Many of the regions' economies have degraded seriously and the climate for investment has suffered as a consequence. The ability of our suppliers to sustain their roles as partners in energy security is at risk. US policy today is to ignore these countries and hope for better leadership. It is not working. For the sake of our energy security, as well as the fate of the people of the region, this policy needs to change.

### *A Region in Crisis*

The hemisphere has undergone a period of economic and political crisis in the past few years. The majority of the reasons are internal to these countries. Persistent corruption, economic mismanagement and underdevelopment have put the region's governments under heavy pressure. Per capita income in the region has shrunk for two years in a row. Unemployment is up. The Washington Consensus of open markets, liberalized trade regimes and democracy has not produced prosperity or security. Poverty has not been reduced. Income distribution has not improved. Populist regimes have taken power in Venezuela, Brazil, Ecuador and Peru. All of the oil producing countries have avoided serious economic reform thanks to record high oil prices. With prices widely predicted to decline to \$25 WTI levels or lower in the next year, financial pressure will only increase on regional governments.

In the past two years, Argentina has endured a collapse of its economy, taking Uruguay and Paraguay down with it. Mexico remains deadlocked over the desirability of foreign investment, particularly in the energy sector, while it imports gas from the US and risks a power shortage that could undermine its modest economic growth. As a nation Mexico is deindustrializing; it lacks the energy to compete for manufacturing with other developing countries. Mexico's proven reserves declined in 2002, but even a historic new allocation to PEMEX for exploration and production is only likely to help Mexico maintain its production levels or grow them slightly. Under-funding and underinvestment remain persistent problems in Mexico's hydrocarbons and power sector. The victory of the PRI in Mexico's mid-term elections only complicated the chance for President Fox and minority PAN supporters to effect legislative reforms in the energy sector. The prevalence of currency controls and political uncertainty has slowed investment in Venezuela, Ecuador and Argentina. Security concerns, and until recently uncompetitive economic terms, have slowed investment in Colombia to the point where it may become a net oil importer.

Venezuela has the most fragile government in the region. Despite enormous oil wealth, poverty and income inequality have grown dramatically in Venezuela. In 1998 President Chavez won a populist victory that was in large part a rejection of the ruling elite's failure to address poverty. Before President Chavez, Venezuela was a country with weak civil institutions. Only the military and the national oil company had strong professional cadres committed to the long-term development of the country. We have seen a deep erosion of those institutions. The first erosion was from new constitutional reforms that did not provide adequate protection of minority rights. The second was by the militarization and politicization of the government civil service and of the national oil company, PDVSA. The third erosion was by a clumsy coup attempt, foolishly applauded by the US, and by a general strike that brought the country's economy to its knees. Without a doubt the single greatest factor in high world oil prices this January and tight gasoline markets in the US this winter was the strike in Venezuela, not the threat of war in Iraq.

Today the strike in Venezuela is over, the country has outperformed most industry expectations of its ability to restore crude oil and product exports, and US companies have resumed investments in both offshore and heavy oil production. But much uncertainty remains. Venezuela's new hydrocarbons law, which allows PDVSA a majority share in any new oil development, is about to be tested. With so many competing sources for revenue in Venezuela, it remains to be seen if PDVSA will have the capital to invest to stop the decline in Venezuelan oil reserves. Industry experts are skeptical about PDVSA's plans to grow its exports, both because of OPEC quotas, and questions about PDVSA's post-strike managerial capability and capital needs. If Venezuela does not invest and grow, its economy will be further damaged and its role as a long-term supplier to the US could be impaired. Venezuela's energy leaders, including PDVSA President Ali Rodriguez and Energy Minister Ramirez, are campaigning hard to prove that Venezuela will remain a reliable supplier.

Apart from the fate of its energy sector, Venezuela's economic and social crises continue. A campaign for a recall referendum is likely to begin this fall, but there are numerous legal and technical obstacles that make a referendum resulting in a change of leadership unlikely. The failure of the opposition to stage a referendum by next April could accelerate the polarization of the conflict in Venezuela. Reconciliation efforts by the OAS and the Friends of Venezuela appear stalled. The situation cries out for diplomatic attention.

### *US Policy*

US policy towards the region has been a combination of benign and malign neglect. We have ignored the region in most cases, opposed IMF help to Argentina when it began its slide into crisis, and hammered Chile and Mexico when they did not toe the US line in UN fora. Most importantly, the US response to the April 2002 coup attempt in Venezuela was an unmitigated diplomatic fiasco. Our credibility in the region was severely damaged, and our ability to play a constructive role in fostering reconciliation in Venezuela, perhaps the most important issue in the region today, was deeply impaired.

For a time, it was understandable that hemispheric relations would take a back seat to the tragedy of September 11. But since that time, other than the counterterrorism efforts in Colombia, Latin America has dropped off the diplomatic map. Our partners in the region often accuse the US of being fickle or inconstant, only interested episodically in partnership when it comes to issues external to the region: opposition to communism, opposition to Castro or opposition to Iraq. It should be axiomatic that to secure true allies, and engage countries on security, economic, social and political issues, you must treat them with respect and engage them on the merits of the bilateral relationship.

Today this is not the case. Imperiousness goes down uniquely poorly in Latin America and they are getting a heavy dose. Regional cooperation on counter-narcotics and trade, acceptance of IMF restructuring programs, and historic support for US efforts in Haiti, Bosnia and Kosovo seem to count for naught. The President of Mexico is snubbed for insufficient loyalty. Brazil is held at a respectful distance. And, Argentina was left to twist in the economic wind.

All this is bad for US diplomacy and worse for energy security. To keep markets open for trade and investment, the US must engage when regional economies drop into crisis. To foster reform in countries with inefficient state-owned industries, the White House and State Department must engage our partners at senior levels. Noble efforts by technical agencies, such as Energy and Commerce, are laudable. But true reform takes high-level engagement. US companies, customarily the partners of choice for the hemisphere's producers, could be harmed if the countries of the hemisphere believe they must look to Europe or elsewhere for respect and support.

#### *What the US Should Do*

US relations in the hemisphere are at low ebb, but they can recover quickly. For better or worse, US power and influence are indispensable to conflict resolution in the region. Our hemispheric partners will welcome a new page in our relations. I suggest four steps.

First, the US must reengage on hemispheric issues. Strong support for the Free Trade Agreement of the Americas is the critical first step.

Second, the US must revisit the migration agenda with Mexico. The US has a powerful interest in ensuring that President Fox and his reform agenda succeed. US interests in Mexico, and our deep friendship, transcend a loyalty test over Iraq. Mexico's ability to create jobs for its citizens, to grow a diverse industry and to sustain its role as a key energy supplier to the US depends on the success of its economic reform.

Third, the US must take a fresh approach to its Venezuela policy. Today's policy is one of wishful thinking. The Administration wishes the Chavez regime would just go away, but it is here to stay. To the region, it appears that regime change is our policy in Venezuela as well as the Middle East. The US cannot facilitate reconciliation by isolating or ignoring the regime in power. Venezuela needs support for civil society and reconciliation. The Administration should engage Venezuela at a high political level to talk seriously about our common concerns and disagreements. The US Congress should engage Venezuela's legislature directly and offer the support of the National Democratic Institute and International Republican Institute to strengthen Venezuela's frail electoral institutions. The US Energy and Commerce Departments should intensify and accelerate their expert level talks and resume their Strategic Dialogue to talk frankly and in detail about the problems that must be overcome and the solutions that can be brought to bear. There is a need for training, for much better and more current data on crude and product supplies, and for cooperative research. We have a common interest in restoring and expanding production and in helping revive PDVSA.

The US needs to engage Venezuela's neighbors in a collective effort to build a process that will enable all sectors of society to participate in political life. Through the IMF and World Bank, the US and its partners need to provide clear and direct economic advice and assistance to Venezuela to restore its fiscal house to order.

Fourth, the US must craft a way to use the leverage of the IMF, the World Bank and the Inter-American Development Bank to foster energy security and better governance. These institutions must use their support for energy sector reform and investment in the infrastructure of oil, gas and power to elicit more transparency in how those governments spend the revenue they earn. The US will directly benefit from the development of an integrated regional gas and power infrastructure. An external push is needed to finish, or in some cases start, the process of energy sector reform. An infrastructure fund tied to conditions of transparency and fiscal integrity could kick-start growth in the region again.

#### *West Africa is Critical to US Energy Security*

West and Central Africa are increasingly important to US energy security. In this case I am speaking about Nigeria, Angola, Chad, Equatorial Guinea, Gabon, Sao Tome and Principe and the Gambia. Today these countries supply 13-14% of US oil imports. Sub-Saharan Africa holds approximately 3 percent of the world's oil reserves, and 3 percent of the world's natural gas reserves. In ten years they could supply up to 25% of our imported oil. Nigeria produces 2.12 million b/d and exports 1.85 million b/d. It exports

621,000 b/d to the US which makes it our fifth largest supplier. Angola produces 900,000 b/d and exports 866,000 b/d. It exports 332,000 b/d to the US which makes Angola our ninth largest supplier, and our third largest non-OPEC supplier outside of the Western Hemisphere. According to EIA estimates, this year Cameroon, Chad, Equatorial Guinea and Gabon are projected to export approximately 500,000 b/d in aggregate, with 221,000 b/d going to the US.

These countries will not replace Middle East oil, but that is beside the point. The marginal barrels of oil set the price, and the ability of these mostly non-OPEC countries to compete with OPEC, when all of them are half the hauling distance to the US of the Middle East, is indispensable. The countries of West Africa are open to foreign investment and have offered competitive commercial terms and a relatively stable investment climate, despite enormous internal turmoil.

West Africa is one of the hottest oil prospects in the world today. Advanced offshore finding and drilling technologies have uncovered large commercial oil deposits off Nigeria, Angola, Equatorial Guinea and perhaps Sao Tome and the Gambia. The use of Floating Production, Storage and Offloading platforms (FPSOs) has reduced the environmental footprint of drilling and reduced production costs. Offshore oil is also less risky and therefore more attractive.

As in Latin America, US energy security policy objectives should be to maintain stable governments and open markets, strengthen partnerships with key suppliers, and promote the rule of law and contract sanctity. But unlike Latin America, energy security will require that the US and others promote political development in West and Central Africa. Only Nigeria is a true democracy and it is riven by civil unrest. The rest of the exporters are at a rudimentary stage of political development. Internal unrest is a serious threat to the ability of these nations to maintain investment and exports.

US policy in this area is headed in the right direction, but at present is insufficient to accomplish its aims.

#### *A Region in Crisis and Transition*

Effective management of oil revenues is the most important factor in Africa's economic development, bar none. Africa attracts only one percent of the world's trade and investment, but 90% of that amount is in the oil sector. West African oil producers have the chance to use the rapid increase in wealth they will soon earn for development. It is in US interests to see that they do. If they fail, as all of their resource-rich predecessor governments in Africa (other than Botswana) have failed, we will see civil unrest or war, strikes, and dislocation, as well as poverty, death and economic degradation. Today, oil prices are high and revenues are good. Foreign investment is flooding into the energy sector to develop strong exploration prospects. Nigeria has had a historic democratic succession. Angola has welcomed a limited, but important, audit of some of its oil revenue and has just completed a very positive Article IV consultation with the IMF. Chad will see the first oil from the Chad-Cameroon pipeline this year, and the World Bank supervised system for monitoring Chad's oil revenues and ensuring that they are spent on development may prove to be a model for other countries in channeling oil revenue into development. Equatorial Guinea, Sao Tome and others are welcoming and receiving engagement with the US on human rights and development issues.

But our major exporters are at risk. Nigeria's unrest in the Delta region is unresolved. Foreign workers have been held hostage for weeks at a time. Sabotage of oil pipelines has killed hundreds of Nigerians. A major strike in March knocked 800,000 barrels of oil per day off the market, adding pressure to already high oil prices. Production was shut down for months for security reasons; it is not fully back even today. Labor unions, accurately foreseeing the reduction in personnel needed to maintain offshore oil operations, are also threatening to shut down operations. Furthermore, the organized theft of 100,000 to 200,000 barrels per day in the Niger Delta, reportedly involving armed militias and criminal groups that use some of the proceeds to acquire weapons, is an indication that oil mismanagement can threaten regional stability. The Nigerian government has no credible plan at this time to foster development and reconciliation in that troubled region. Oil interruptions from Nigeria are likely to continue or worsen unless these issues are addressed.

Angola has enjoyed the benefit of an isolated oil-producing region and has insulated production from civil war. Angola has not insulated itself from corruption, starvation, underdevelopment, and repression of political opposition. The Angolan government may indeed be willing to tackle these problems, but it is unclear if they will be able to. If Angola fails, and if it remains a nation that ranks 161 out of 173 on the Human Development Index, Angola could well turn itself into a pariah nation.

Sao Tome, while not yet a producer, saw a coup attempt against its President -- only weeks after he had followed Secretary Powell to the stage of the Corporate Council on Africa Summit, espousing the need for transparency in the use of potential oil revenues.

The new producers, Equatorial Guinea, Chad and Sao Tome in particular, are about to face a choice. They will soon begin to see large revenues from the investments in their nations. Their governments may invest in their people, develop their nations, and earn the trust and recognition and support of the West, or they may follow the path that Nigeria and Angola have followed, and earn the same opprobrium.

Today the US can have a major influence on these nations. We are major investors and consumers. Nigeria and Angola have large external debts that are leverage for US policy. US influence at the IMF and World Bank can be wielded to ensure that these nations are democratic and stable. But the window of opportunity is short. China is the fastest growing purchaser of Angolan oil. China will not use its economic leverage to push for democratic reform and transparency. A large ramp-up in oil revenues could make many of these producers immune to positive influence. A forceful US policy with multilateral support is essential. If we fail, these states can be faced with war, coups, or sanctions or other pressures that could threaten their ability to supply the world market. It is more important that they respect their own people than that they supply us with oil. But if we do not act, they may not do either.

#### *US Policy*

After September 11, 2001, West Africa became a priority because regional instability, failed states and maritime security were viewed as a potential security threat. US policy in Africa is headed in the right direction. The State Department is focused on the key anchor states. It is maximizing the use of sub-regional organization like ECOWAS and SADC. It is focused on combating AIDS and promoting stability and good governance. The pursuit of an AGOA II will be a major positive step.

After an initial period where the Administration suspended any bilateral or multilateral diplomatic efforts they inherited, the Administration has retained the US-Africa Energy Ministers process created when I was at the Energy Department, renewed the bilateral energy dialogs with Angola and Nigeria, and engaged rather than isolated Equatorial Guinea and committed to open a Special Embassy Post there this year. Technical assistance programs by the US Department of Energy, the US Trade and Development Agency, the Department of Commerce and USAID are helping build capacity in these fragile states. The Millennium Challenge Account is an innovative concept which, when it is funded and ready to disburse funds, may magnetize good behavior.

But despite these efforts, the US has not yet wielded the leverage or the leadership to crack the so-called "curse of oil." In Nigeria and Angola in particular, oil has created "rentier" states. Many scholars have written extensively about this issue. The newly published study by Catholic Relief Services, titled "Bottom of the Barrel," provides a very useful synthesis of the literature on the problems oil wealth can produce and some creative ideas about how to redress them. The governments of Angola and Nigeria get their revenues from their share of oil proceeds and not from the taxation of their citizens. They do not need the consent of the governed to stay in power. The revenue is easy to capture and control and therefore to steal or to waste. Even leaders with honest intentions, such as President Obasanjo, have little influence over a deep and pervasive corrupt system that extends to the customs officers and drivers of delivery vehicles.

#### *What the US Should Do*

To ensure that the West African energy producers of today are reliable, stable energy producers of tomorrow, US policy must be geared to encourage or to pressure producing governments to spend the

money they earn on their people, to do so wisely, and to conduct their own public finances in a transparent manner. The key steps are: 1) enhance revenue and expenditure transparency, 2) provide more creative economic policy advice, 3) use our leverage, and 4) exercise more assertive diplomacy.

**Enhance Transparency.** It is broadly accepted that making public the aggregate amount of taxes, royalties and other payments earned by producing governments, and accounting for where the money is spent would empower their publics to demand accountability. The debate has largely been over who bears the burden of disclosure and how best to ensure that all the entities that compete for oil development – such as national oil companies and state owned enterprises – must meet the same burden. The UK-led Extractive Industries Transparency Initiative (EITI) proposes a voluntary system. The Publish What You Pay Campaign proposes mandatory rules for publicly listed companies, which regrettably would not cover the bulk of the world’s oil producers. I believe that the burden must fall on the producing governments, and that Western governments should use their considerable leverage to extract disclosure and transparency commitments from producing governments. As long as the playing field is level, and aggregate industry wide figures are published, US industry is unlikely to object to revenue disclosure. In most countries companies would like nothing better than for the public to know how much revenue the government is taking in, so that the burden of nation-building would rest more with national authorities and less on the local operators. The US should lead a G-7 effort to create a new set of incentives and pressures on developing nation oil producers to disclose the revenues they earn and how they spend them.

**Give Better Policy Advice.** The US needs to consider whether we can give oil producers better economic advice than we have to date on how to manage revenues. We need to say more than “open your markets, deregulate your prices and introduce competition” if we want to produce real economic development in Nigeria, Angola and other nations. The Chad-Cameroon example of creating a college of leaders to supervise a national development may work, but in the end it relies on the good graces of a state that may or may not respect the rule of law. There is new thinking by the IMF and the New America Foundation on the benefits of distributing some large portion of oil revenues directly to a population. The theory holds that this method empowers people, creates economic demand and undercuts the power of the state by forcing them to seek money through taxation and the consent of the governed. It is a theory that is being considered for Iraq. It is possible that the IMF and World Bank should be advising Nigeria and Angola to consider this mechanism as a means of enhancing both economic and political development. I would urge Congress to commission some serious analysis of its own on this issue.

**Use Our Leverage.** The key sources of leverage over oil producing nations today are: 1) renegotiation of sovereign debt, 2) help financing energy infrastructure, 3) access to trade financing, and 4) access to Western banks and capital markets. The US should muster the G-7 to lead a coalition to use this leverage to “extract” transparency and development commitments from oil producers.

*Debt for transparency.* The greatest source of influence that the West has over Nigeria and Angola is their sovereign debt. The US should consider a G-7 initiative to forgive the debt of developing oil producers that make enforceable commitments to publish the aggregate amounts of their tax, royalty and other resource payments and public expenditures, to commit to a plan of development, and to accept IMF monitoring of their commitments. Such an offer might offend the sovereign sensibilities of many nations, but it would create a domestic debate in those nations over the costs and benefits of transparency.

*Infrastructure for Development.* A second great need of African nations is for electric power and telecommunications. Many of these projects can be financed commercially, but most must be publicly financed. The World Bank has been reluctant to make a strong commitment to infrastructure finance for fear of interfering with private markets. They also rightly insist on policy reform before they are willing to invest in project finance. But a new fund, with new capital contributions by the Bank’s members, could provide a magnet for financing infrastructure for those nations willing to make a commitment to development and transparency. The Chad-Cameroon pipeline is an example of how this may work, but Chad-Cameroon was a unique case: the oil was landlocked, Exxon-Mobil refused to finance the pipeline without World Bank support, and Chad was not wealthy enough to publicly finance the project on its own. But a fund that would help finance infrastructure along with private capital could incentivize countries to swap transparency for development.

*Conditional Trade Finance.* The US, the World Bank and others have made great strides on conditioning trade finance on enforcement of environmental standards. The need for impact statements and remediation plans has changed some projects for the better and stopped others altogether. A G-7 effort to have all G-7 nations condition trade finance on some commitments to transparency and use of revenues could be a powerful tool to press developing nations to adopt honest practices.

*Raise the Standards for Access to Western Banks.* One new concept, well documented by Jonathan Winer, a former State Department colleague of mine, bears examination. This is a proposal to use the successful G-8 Financial Action Task Force (FATF) to create new standards for access to Western banks and to mimic the Kimberly Process for deterring trade in conflict diamonds to deter illegal trade in oil. In briefest summary, the proposal would be to require national banks in countries like Nigeria and Angola to disclose their ownership and document the validity of their transactions before they gain access to correspondent Western banks. This would deny capital access to illegitimate banks and track outflows from governments known for corruption. A second proposal would “tag” oil sales to ensure that all legitimate sales were traceable to their owner. This would not harm legitimate Western operators or national oil companies, but could help deter those in or out of government who divert the proceeds of oil sales for their own benefit.

**More Assertive Diplomacy.** Achieving better governance in Africa depends on the leaders of African countries having the political will to change. They care a great deal about how the US and others perceive them and whether their behavior has political price. US high level diplomacy is powerful tool we must exercise. With Angola, Secretary Powell has put transparency high on the agenda and he is getting results. We have many interests in Nigeria and their internal problems and the issue of their relations with their neighbors is not making it to the top of the agenda. The US must also be willing to step in with forceful diplomacy when internal forces threaten democratic African oil states. The US rhetorical response to the recent coup attempt in Sao Tome was strong and helpful, but in the aftermath US and UK leadership have been absent. The coup attempt was an effort by those in the military and external forces to allocate the proceeds Sao Tome may earn from its 40% share in the Joint Development Zone with Nigeria. President Obasanjo’s offer to “protect” Sao Tome was as unwelcome as it was unwise. Wedged between those in Nigeria and Angola who would compete for control of its oil, Sao Tome cries out for a US or UK commitment to preserve its independence. The US should put a USAID mission on the ground in Sao Tome, help Sao Tome build the capacity to manage its potential wealth, and warn its neighbors not to interfere. Sao Tome could be a prime case for the EITI. The US could lead an effort to get Sao Tome to pledge its signing bonuses and future revenues to the World Bank in exchange for a line of credit for development today.

### ***Conclusion***

The global economy is likely to rely on hydrocarbons for transportation fuel and power for at least the next two decades. Our national security will depend on securing diverse supplies of oil and gas and on ensuring that the governments who supply us do not use our money to harm us. As a bilateral matter this will require serious diplomatic engagement with our key suppliers and concern about their political stability. Where we can, we need to use our leverage to encourage better governance in oil producing nations so they will be stable and humane. We have many tools we can use. We are neglecting these tools, and basic tenets of diplomacy, to our detriment. A little Congressional sunshine on these issues may help the Administration to see the light. I commend you for your efforts here today.