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Securing Oil from West Africa and Latin America: The Challenge of Internal Turmoil

A key factor in protecting United States energy security is gaining and maintaining access to diversified sources of oil and gas from different regions in order to minimize the likelihood of severe disruption. West Africa and Latin America are already important sources of diversity in the US oil supply. In particular, Venezuela accounted for over 13 percent of US imports of crude oil in 2002, while Nigeria and Angola accounted for 6.4 percent and 3.5 percent respectively. Furthermore, oil exploration and development of extractive capacity in West Africa are increasing rapidly. Angola's production alone is expected to increase from an average of 696,000 barrels per day in 2001 to over a million barrels per day in the next few years and it could go as high as 3.2 million by 2020, according to some estimates.

US continued access to these important sources of oil, however, is threatened by the political instability that affects all three countries. Oil supplies from Nigeria are routinely disrupted by politically motivated incidents that close down pipelines and, more

rarely, production facilities. In December 2002 a general strike sent Venezuela's exports plummeting.

The problems of oil producing developing countries are related at least in part to the negative impact of oil exploitation. Some analysts have talked about the "curse of oil" that afflicts countries where oil is the major, often the only, asset and thus dominates the economy. These countries suffer from a typical set of problems. Other economic sectors, including agriculture and manufacturing, are usually neglected; unemployment levels are high as a result, and the oil industry, which is capital intensive, does little to alleviate the problem; and income disparities tend to be very wide, as a privileged few profit from the oil revenue, often through corruption, while the rest of the country stagnates. Even more serious are the political problems associated with oil wealth in poor countries. The first is corruption, an endemic problem when large amounts of revenue start pouring suddenly into countries with weak institutions and systems of accountability. Indeed, a lot of the oil revenue of countries like Nigeria and Angola has never been accounted for, disappearing in the hands of politicians and their cronies without ever appearing in the state books. Finally, the population of oil producing countries often develops a sense of entitlement to wealth--if the country is rich in oil, the population should also be rich. The expectation that oil revenue can take care of all problems is usually unrealistic, particularly in countries with a large population.

The distortions created by oil revenue are not the only cause of the problems that produce instability in countries such as Nigeria, Angola and Venezuela, but they are an important part of it. As a result, these countries cannot achieve stability without addressing the problem of how oil revenue is used and accounted for. If the United States wants to

secure uninterrupted access to oil from these countries, it must help them find a more transparent and more beneficial way to use oil revenue. Oil companies also have to play a role. While in recent years oil companies have become much more aware of the disruption their presence causes and have taken some steps, many problems persist and need to be addressed.

Nigeria and Angola

Both Nigeria and Angola are deeply troubled countries. Political problems have proven, and continue to prove, extremely disruptive to oil production in Nigeria. In Angola, the oil industry has been somewhat insulated from the civil war that raged in that country since it attained independence in 1975 because most oil deposits are off-shore. Indeed, Angola became an important oil producer in the midst of war. After the death of UNITA leader Jonas Savimbi in early 2002, the war has largely ended and the country is struggling toward stability. Paradoxically, oil may well become a new source of domestic strife, as Angolans turn their attention from wartime survival to the present socio-economic problems and discover how much of the oil revenue has been misused or, worse, has disappeared without a trace.

With or without oil, Nigeria would be a very troubled, difficult to govern country, but oil has created additional complications. At the root of all problems is the extreme ethnic diversity of the country. There are over three hundred ethnic groups, but most importantly three dominant blocs. Northerners have historically dominated the military, the Yorubas from the west have been prominent in the business sector, and Ibos from the east have provided disproportionate numbers to the civil service and business. The tensions

among the three major blocs exploded in the civil war of 1967-69, which started when the Ibos of the eastern region seceded from Nigeria and set up their own state of Biafra. Biafra was eventually defeated and Nigeria was reunited, but the underlying problem of achieving stability in such diverse country remains.

In fact, the political picture has become even more complicated recently. The division between Muslims, that dominate the north, and Christians, more numerous in the rest of the country, has become politicized, as Muslims in Nigeria follow the worldwide trend toward greater assertiveness. Several northern states have recently incorporated aspects of the Islamic *sharia* into their legal systems. Another very important source of tension is the increasing militancy of the population of the oil producing Niger Delta. This population, composed of many small ethnic groups, has long paid the price of oil exploitation, losing land and suffering from the consequences of high levels of air and water pollution. However, very little of the oil revenue has been invested to alleviate its problems. Until recently, all oil revenue has gone to the federal government, which doled it out to states and localities. Oil producing areas, which have little political clout, were short-changed. While the distribution of oil revenue has become much more equitable in the last few years under President Obasanjo and control has been decentralized, many militant ethnic-based organizations continue to operate throughout the delta. These groups cause considerable disruption of oil production by sabotaging pipelines and occasionally even taking over oil platforms. To their activities must be added the problems caused by "entrepreneurs" who tap into the pipeline to siphon off and resell oil. This highly dangerous business has repeatedly caused fires and explosions, killing or seriously injuring hundreds and forcing the temporary shut-down of pipelines.

An additional source of instability in Nigeria is the ever-present threat that the military, which has governed the country through most of its existence, will seek to seize power again. Nigeria's return to civilian government with the election of 1999 remains fragile and a renewal of military rule is a possibility. The new government has taken some steps to address the country's economic and social problems, particularly in the Niger Delta, but the challenges are immense and popular confidence in the government is low.

Even this abbreviated sketch should make it clear that many of Nigeria's problems are not caused by the misuse of its oil riches, and would not go away completely even if oil revenue was used better and more equitably and if oil companies implemented more effective remedies for the ills their operations produce. But whether oil is the cause or not, Nigeria's problems can disrupt oil flows and cannot be ignored.

The Angola situation is somewhat less complicated. Although the country has experienced a almost thirty years if civil war, the conflict was a bilateral one between the ruling MPLA and the insurgent UNITA, and did not have the intricacy of Nigeria's multiple layers of conflicts. Furthermore, it did not seriously affect the growth of the oil industry because fields are located mostly off-shore. The civil war ended after the death of Unita's leader Jonas Savimbi in February 2002. Angola is moving toward elections and there is a real possibility that elections results will be respected, rather than precipitating a new conflict as they did in 1992. This does not mean that Angola will soon be a democratic country. Elections are unlikely to be truly free and fair, given UNITA's present weakness, the MPLA's strong grip over the country and the oil revenue, and the virtual absence of any other viable political party. But elections will at least be a step in the right direction.

With the return of peace, however, the enormity of the socio-economic problems the country faces is becoming more evident and it is more urgent to address them, lest they become source of new conflicts. Many of these problems are related to oil and the misuse of oil revenue. Thus, oil production in the future will be at the center of political conflict in Angola, while during the civil war it was not. The first problem that needs addressing urgently is the fact that the country's economy is dead, except for the oil sector. This is the result of war--agriculture has been completely undermined by the fighting and above all by mines both sides planted in large numbers, making it impossible for peasants to tend their fields in many areas. Furthermore, the urban economy was initially choked by the government's socialist policies, which put all enterprises under state control. While those policies have now been abandoned, the pace of economic restructuring has been painfully slow and stagnation continues. Unless the economy revives and creates jobs, the cities will become unstable. Economic revival depends on restructuring and investing oil revenue in the development of economic sectors that can become viable on their own after the start up period. Unfortunately, many oil-producing countries succumb to the temptation to use oil revenue to subsidize consumption or invest in enterprises that seem prestigious but never become viable.

The second problem Angola needs to tackle immediately is that of establishing accountability for oil revenue. Oil royalties so far have been spent financing war and lining the pocket of government officials. Large amounts have never been accounted for--for example, increase in oil prices during the Gulf war were never reflected in the Angolan official oil revenue figures.

Failure to address these problems is likely to create further instability in Angola. This could affect oil production. While the oil installations are not particularly vulnerable to sabotage because of their off-shore location, sabotage of installations is not the only form disruption of oil production can take. The strikes of December 2002 and early 2003 in Venezuela, discussed briefly below, show that political action, particularly strikes, can have a dramatic effect on oil production. An additional problem in Angola is that one of the major oil producing areas is the Cabinda enclave, where an independence movement has been operating persistently, although without much success, since Angola became independent.

Venezuela

The problems experienced by the oil industry in Venezuela, when a politically motivated strike beginning in December 2002 cut oil production from over 3 million barrels a day to under 400,000 a day, are a reminder that oil supplies can easily be disrupted by political unrest. Equally importantly, the crisis that led to the strikes, which is far from resolved, shows the economic and ultimately political problems that can emerge in a country overly dependent on oil revenue.

Venezuela, for forty years considered to be the most democratic and stable country in Latin America, has been in turmoil for over a decade now. At the heart of the crisis is the breakdown of the social and political pact on which democracy was based as the country outgrew its ability to live off oil revenue without having developed sufficient sources of alternative revenue. Venezuela's stability was based on a power-sharing agreement among major political parties, backed up by oil revenue that allowed the

government to keep the population relatively prosperous. As the population increased and oil revenue failed to keep pace, the pact started unraveling. An impoverished population became increasingly distrustful of the old political class. The resentment only increased when drastic economic reforms enacted to wean the country away from dependence on oil and revive the economy were introduced suddenly without explanation.

The crisis stretched for several years, through two attempted coup d'etat and eventually led to the demise of the old political class and the election of a populist former army officer, Hugo Chavez in 1998. Under his leadership, the government slipped toward semi-authoritarianism, and the opposition became more willing to resort to direct action rather than the ballot box, leading to the December 2002 crisis. At the time of this writing, there is a good chance that Chavez's presidential mandate will be terminated by a recall referendum and that new elections will be held. Even if this happens, the crisis will not be over--and Venezuela will not become again a dependable source of oil for the United States--unless a new social compact is negotiated that addresses the grievances of the large impoverished segment of the population.

Taking Steps

Neither the US governments nor the oil companies have the capacity, let alone the obligation, to address all the problems these countries face. On the other hand, it is in the interest of both to do something to help make these oil producers into more reliable sources of energy and easier environments in which to operate. The chance that the US government and the oil companies will have a positive impact is greater in Angola and by far most

remote in Nigeria. I will deal with the case of Venezuela separately, because the situation in that country is very different.

In general, the measures the US government can attempt fall into two categories: first, support for the attempts to resolve the conflicts created by oil in a democratic fashion, through negotiations and compromise, rather than through violence. While support for a democracy writ large in Nigeria and Angola is a good thing in itself, it is unlikely to have much impact on oil-related conflicts. Even in a best case scenario, it will take many years before the political systems of Nigeria and Angola function democratically. But the problems of how to distribute oil revenue among levels governments and regions, of how to use it, and how to ensure that it will be used productively have to be addressed immediately. The government needs to engage the governments of Nigeria and Angola and the groups with a stake in the distribution and use of oil revenue these issues.

It is also important that in encouraging this process the US does not try to impose solutions based on models that are either unproven or modeled on countries with very different characteristics. For example, there has been much talk recently of the advantages of the "Chad model" or the "Alaska model." The Chad model takes control over oil revenue out of the hands of the executive, giving it instead to a broad coalition of government officials and NGOs, under international supervision. While it has appealing features, it is also cumbersome, gives much responsibility not non-elected domestic groups and to foreign bodies. Most importantly, the system is still untested and will remain such until Chad's oil fields go into full production and generate a steady revenue stream. The Alaska model puts part of the oil revenue into a trust fund, the dividends of which is are distributed directly to the citizens. This works well for Alaska, where state and localities

also have revenue from taxes. It may not be a realistic model for countries where oil is the only source of public revenue and thus has to finance the entire budget, including all public services such as education, health, and the provision of basic infrastructure. The US should help countries design a system to allocate and control oil revenue that fit each country's requirements but not try to impose specific solutions.

The second step the US can and should take is much easier in theory, although it requires political will: working simultaneously with the governments of the oil producing countries and the oil companies to ensure that the information about how much revenue the government is receiving becomes public domain. Transparency will help stop the corrupt diversion of oil revenue to private bank accounts. It will also facilitate an apportioning of funds among regions and levels of government based on real figures rather than myths. Finally, it may also help curb the unrealistic expectation of the population that oil revenue can make everybody rich. The Extractive Industry Transparency Initiative, launched by British Prime Minister Tony Blair in June as a result of NGO pressure, deserves full US support. The initiative would make it mandatory for oil companies and other extractive industries to disclose how much they pay to the producing countries. Information about oil revenue is not a sufficient condition to ensure transparency in how the recipient government spends that money, but it is a precondition for it. Oil companies should be required to make that information public, but certainly have no responsibility for monitoring the expenditure.

The case of Venezuela is different. The problem there is not the absence of mechanisms of accountability or even less the incapacity to manage a democratic political system--only a few years ago Venezuela was considered, and in fact was, a consolidated

democracy. Rather, the problem is the breakdown of the social and political pact that ensured the country's stability. It is in the interest of the US to help as much as possible in the renegotiations of such a pact. This is much more important than trying to support Chavez's ouster in a referendum or specific candidates in the next elections. Who wins is less important than whether the winner represents a new consensus rather than another deep division in the body politic.

Major oil producing countries in West Africa and Latin America can make an important contribution to US energy security, since they are not affected by the difficult problems of the Middle East. However, they have considerable problems of their own, which the US cannot ignore.