

STRATEGIC RESOURCES, INTERNATIONAL POLITICS AND DOMESTIC GOVERNANCE IN THE GULF OF GUINEA

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1. Although for long a major provider of crude oil, only in the last decade has the Gulf of Guinea region of West-Central Africa been accorded first-rate strategic status in the global energy economy.¹ A number of factors have contributed to this ongoing reassessment. They include technological innovations such as ultra-deep water machinery and 3-D seismic expertise that allow the extraction of previously unreachable deposits; new finds in older oil producers like Nigeria and Angola; and major oil finds in previously “frontier” states such as Chad and Equatorial Guinea. These momentous developments have upped the stakes and led the Gulf of Guinea into a high-profile international role with escalating involvement by a myriad of external actors. Multinational oil companies scramble for the chance to invest billions in the region’s promising acreage. Governments of oil-importing states the world over – from North America and Europe as well as Asia’s booming economies – vie for influence over their Gulf of Guinea counterparts in search of national security of energy supply and investment opportunities for home firms. Throughout and for the foreseeable future, mammoth amounts of resources are showered on Gulf of Guinea governments. Until 2010, an estimated US\$43 billion of oil investment are projected for the region. As a recent report estimates, oil states will receive US\$200 billion dollars from the sale of their oil in the next decade alone² and US\$349 billion dollars

¹ This background paper uses “Gulf of Guinea” not in the strictly geographical sense, which contemporary cartography defines as the Atlantic maritime space between Benin and Equatorial Guinea’s continental enclave of Rio Muni, but in the wider sense of a Southern Atlantic oil-producing region, which has been popularized by the media and the oil industry over the last decade.

² Ian Gary and Terry Lynn Karl with R. Soares de Oliveira (contributing writer), *Bottom of the Barrel: Africa’s Oil Boom and the Poor* (Baltimore: Catholic Relief Services, 2003).

³ PFC Energy, "Appendix A: West Africa Petroleum Sector: Oil Value Forecast and Distribution", in Walter H. Kansteiner III (chairman) and J. Stephen Morrison (executive secretary), *Rising US Stakes in Africa: Seven Proposals to Strengthen US-Africa Policy* (Washington, D. C.: CSIS, 2004), pp. 151-61.

⁴ Gary and Karl with Soares de Oliveira, *Bottom of the Barrel*.

by 2019.³ This far exceeds any previous or intended aid flows, and is arguably Africa's largest inflow of money in history.⁴

Table 1 Oil producers and oil production in the Gulf of Guinea (Source: EIA)

	Angola	Cameroon	Chad	Congo Brazzaville	Equatorial Guinea	Gabon	Nigeria
Crude Oil Production 2005 (‘000 bpd)	1250	60	249	247	350	233	2400

2. Current oil production is around 4.8 million barrels per day (bpd), with 7 million bpd expected by 2010. Individual oil producers will fare differently in the coming years. Nigeria and Angola will remain the principal exporters, with Angola in particular experiencing the doubling of its output in the next five years. Gabon and, to a lesser extent, Congo, will see their production decline rather steeply. Equatorial Guinea's oil production will continue to grow. Cameroon's oil sector is very small and widely seen to be on the decline, but may be reinvigorated by the favorable resolution of the Bakassi Peninsula dispute with Nigeria; moreover, the government will earn important transit fees from the Chad-Cameroon pipeline. By virtue of ongoing exploration, Chad is likely to see an increase in oil production as well as of transit fees for the Central African Republic's exports, if exploration for oil in that country proves successful. São Tomé and Príncipe is likely to start exporting in 2007-8, although estimates of its oil reserves diverge widely. Other states in the region such as Niger and Benin are currently the subject of considerable exploration efforts by oil companies. In addition, the Gulf of Guinea's previously neglected wealth of natural gas resources is finally of interest to investors who are making considerable commitments in this area as well.

3. The attractiveness of the region's oil resources must be balanced by its prevalent record of bad governance. Despite the availability to governments of financial resources that are atypical in the context of sub-Saharan Africa more generally, oil-rich countries in the Gulf of Guinea present one of the most pronounced regional clusters of state failure, human immiseration and lack of freedom. There is little economic activity of a legal kind outside the oil sector, with governments budgets on average 68 percent dependent on oil rents (the OPEC members' average, for instance, is 48 percent). Human Development Indicators have either not progressed in line with the increase in oil revenues, or have actually decreased over the last decades, as in the case of Nigeria. According to Transparency International, most states in the region are ranked amongst the ten most corrupt in the world. According to Freedom House and Amnesty International, human rights violations are widespread; according to the International Bar Association, the rule of law *outside the oil sector enclave* is virtually non-existent. Except for São Tomé and Príncipe, no state in the region can be properly called democratic, despite the holding of elections, and states such as Equatorial Guinea rank amongst the most authoritarian in the continent. The Gulf of Guinea has a high incidence of civil war, separatist activity, or other medium- and low-level insecurity. Crime is rife, especially in Nigeria which is the host to a number of international criminal syndicates. Particularly over the last two decades, the always fragile institutional apparatus of most states in the Gulf of Guinea has started to crumble, leaving behind essential sovereign prerequisites of the state such as the provision of public goods, territorial coverage or a monopoly of violence. In this context, what could possibly be mentioned as the "plus factors" of the Gulf of Guinea?

Table 2 Non-oil taxation per country, 2000 (Source: IMF)

	Angola	Cameroon	Chad	Congo Brazzaville	Equatorial Guinea	Gabon	Nigeria
% of non-oil revenue in total government revenue	10.6	68.3	–	22.6	16.5	32.5	17.8

4. The Gulf of Guinea presents investors with a number of paradoxical advantages. The first set of advantages is political. Despite the appearance of chaos, the Gulf of Guinea's track record in business is rather positive if compared to other regions of the developing world. When it comes to international politics, its oil producers are pliant and cooperative, showing no hint of anti-Western radicalism⁵ or likelihood of a joint price hike, 1973-style. Quite the contrary: when most oil states were nationalizing their oil sector and either booting out or at least hampering the activities of multinational oil companies, Gulf of Guinea oil exporters kept pragmatic relationships with their indispensable foreign partners. This was particularly evident in the case of the Marxist governments in Congo Brazzaville and Angola until the late 1980s. The Gulf of Guinea's only OPEC member, Nigeria, enacted a number of indigenization measures in the 1970s but allowed foreign operators to retain managerial control over the fundamentals of the oil industry. In regard to the widespread political violence, most of it is directed not at the oil industry per se, but at political incumbents, i.e., it is a contest for the spoils of the state between ruling elites and their challengers rather than a campaign against foreign firms. Furthermore, the industry is, in a growing number of cases, re-centering offshore, that is to say, away from the political mayhem of the host state. This was underscored by the continuing of oil sector activities throughout a number of Gulf of

⁵ Islamic fundamentalism, though rife in Northern Nigeria, has not been aimed at oil companies in the country. Furthermore, it is not present in any substantial way in areas of oil production.

Guinea civil wars, as in Congo and Angola: they were scarcely affected by it. The situation in the Niger Delta is different insofar as companies and oil output have been targeted (on this account, it is the exception throughout the region), but thus far the industry has weathered out this serious but intermittent challenge, and does not plan to leave. Finally, and although the oil potential of the region is much exaggerated by armchair strategists, especially in Washington D.C., several major oil consumers in Asia and the West have come to think of the Gulf of Guinea as playing a role, together with oil provinces such as Russia, the Caspian Basin and Central Asia, and Latin America, in diversifying their sources of supply away from over-reliance on the volatile Persian Gulf.

5. The second set of advantages are business-related. To start with, the Gulf of Guinea has some of the most attractive tax regimes in the world for oil companies. Differently from regions such as the Persian Gulf, where they are barely allowed in, or Venezuela and Russia, where there is great contractual uncertainty, oil firms have full access to the region's investment opportunities. The technical complexity of the oil industry, lack of credit financing for billions-worth investments, and paucity of human resources on the governments' side mean that companies have a free hand in the day-to-day running of the business. Governments, while incapable of running the oil industry, have fairly competent teams dealing with negotiations and finance and, in cases such as Sonangol, have ensured that the government end of the relationship is reliable and smooth⁶. Despite contractual uncertainty outside the oil industry, when it comes to oil and the rapport with the major firms – especially Total, Chevron, Exxon-Mobil, and Royal-Dutch/Shell, which together produce about 90 percent of the region's oil⁷ – governments strive to be predictable and trustworthy, and do not break contracts, which are at any rate

⁶ Oil states in the Gulf of Guinea could be paradoxically defined as “successful failed states” insofar as they present many of the symptoms of weak or failed statehood but have managed to insulate the oil sector and a few essential institutions (like the armed forces and the national oil company) which allow them to go on functioning in a manner that is negative for most of the population but rewarding and viable for those at the top.

⁷ British Petroleum is a major investor in Angola and Italy's Agip is an important regional player as are companies such as Norsk Hydro, Amerada Hess and Petronas. In addition, scores of medium-sized and small companies are active in the Gulf of Guinea upstream.

⁸ This includes two high profile efforts. The Publish What You Pay campaign calls for the legally binding requirement that companies divulge the amounts they pay governments of oil-rich countries as a precondition to being listed in Western stock exchanges. In response, the British government (with Prime-Minister Blair's personal involvement) has put forth an Extractive Industries Transparency Initiative (launched in June 2003) that calls on both governments and companies to render public their transactions *on a voluntary basis*.

⁹ Corporate Social Responsibility (CSR) appeared as an attempt by companies to both deflect criticisms on the environmental and social impact of their activities and prevent the creation of putative transnational regulatory frameworks to tackle them.

The noteworthy innovation of CSR lies in the fact that companies now admit as "their responsibility" tasks and consequences that were until recently seen as situated beyond their profit bottom-line and their writ. Many major companies have since adopted non-binding good behavior codes and can cope with criticism of their operations with less of the old awkwardness. The UN has put forth with great fanfare its "Global Compact", a voluntary forum where member companies publicize their CSR good performance in the hope of creating benchmarks for industry best practices. For the activities of the Compact see www.unglobalcompact.org.

¹⁰ The three major reports on corruption in Angola's oil sector by the British NGO, Global Witness, were instrumental to this.

protected by clauses referring disputes to international courts. International financial institutions, though critical of the rampant corruption in the oil sector and more generally of the region, are keen on supporting investment in the extractive industries as these are the only competitive sectors in otherwise very poor, undeveloped economies. And the Export Credit Agencies (ECAs) of the developed world are enthusiastic in their support of home firms wanting to invest in oil production in the Gulf of Guinea.

6. For decades, the oil economy of the Gulf of Guinea worked as a mutually interdependent *realpolitik* partnership between oil states, oil companies, and major oil-importing states in the West; its leitmotif was the reliable provision of energy supply to the latter and financial rewards to the other two. Strictly speaking, the implications of the oil economy for the domestic governance of these states were a non-issue until recently. The advent of the prolonged oil boom of the last decade, however, has coincided with the rise of a number of reformist agendas on transparency⁸, the responsibilities of corporations towards "stakeholders"⁹, and the consequences for the poor of investment in extractive industries. The mainstreaming of these agendas occurred in tandem with high profile scandals with major companies such as Royal-Dutch Shell (in Nigeria), the former Elf-Aquitaine (throughout the region) and states like Angola¹⁰ which shed some light over practices of a questionable or even criminal nature.

These developments have resulted in the adoption by most actors involved in the relationship (including, more recently, oil states themselves) of a reformist discourse of some sort.

7. Policy suggestions vary from the voluntary and faintly reformist to the radical call for tough regulation. The enthusiasm of different actors has also varied considerably, from enthusiastic adoption to the grudging acceptance of what some dismiss as the latest “international policy fad”. Companies, though consistently against any sort of mandatory approach, have reacted differently to the reformist discourse. Of the major operators, BP is perhaps the best example of an oil firm moving fairly early in the day into a “progressive agenda”. Likewise, Royal-Dutch/Shell’s terrible experience in the Niger Delta has led the company to at least pay lip service to the need for reform and increase its commitment to community projects in Nigeria from an estimated US\$100,000 in 1995 to a staggering US\$74 million in 2003. Companies like Total and Chevron, despite the absence of overt hostility towards reform, have been much slower in catching up, while Exxon-Mobil is in many ways the laggard of the group. These differences notwithstanding, oil companies do not want to either absorb responsibilities that they do not see as their own (such as bringing about benign governance in the Gulf of Guinea) nor endanger their relationship with local rulers, with whom they are densely networked. Oil-producing states, in turn, range from the “transparency enthusiasm” of President Obasanjo of Nigeria (which is often overstated and is yet to produce concrete gains) to the die-hard family authoritarianism of President Teodoro Obiang’s Equatorial Guinea. In between lie a series of states like Congo Brazzaville and Angola that are highly suspicious of reform but have belatedly accepted the need for audits of their national oil companies and began engaging with voluntary disclosure efforts such as EITI.

8. For their part, Northern governments have been torn between this progressive agenda and the *realpolitik* agenda that sees security of energy supply and good relations with oil producers as a priority. On the one hand, important sectors of their state bureaucracies, especially in the US, UK, and Scandinavian cases, have pushed for reform with some zeal, and the need for good governance is at the center of their foreign policies towards the Gulf of Guinea region. More generally, many in the Western media and civil society have clear expectations on what constitutes acceptable business behavior by companies and states, and expect their governments to contribute towards the amelioration of the strategies that produce Gulf of Guinea governance outcomes. On the other hand, there is the “old” reasoning whereby the supply of oil – on whose uninterrupted flow the very survival of industrial societies depends – must not be subjected to destabilizing reformist agendas that impinge on the sovereignty of oil producers and damage their pragmatic business rapport with companies. According to this view, the unique status of oil leads to the overriding of “prosaic concerns” with governance. The challenge to policy makers in the West has been to make these opposing agendas, if not compatible, then mutually co-opting through inclusive partnerships in which the goals of multiple actors are partly and incrementally fulfilled. Chad, the newest oil exporter in the Gulf, is where the most ambitious attempt at bringing the two together is being enacted. This is an innovative and frankly experimental framework in which NGOs, IFIs, oil companies and foreign governments, in addition to the Chadian State, are all playing along.

9. The 2000-03 Chad-Cameroon oil and pipeline project involved the development of oil deposits in the Logone region of Southern Chad and the construction of a 1078 km long pipeline to transport the oil to a terminal in the Atlantic coast. The

\$3.7 billion project – the most important onshore investment in Africa – included the consortium of three major oil companies¹¹, the governments of the two countries and, crucially, that of the World Bank. In response to the many concerns voiced in regard to the project, the Bank made its presence conditional on what became a framework of de facto shared sovereignty for the administration of oil revenues. The Law of Petroleum Revenue Management includes social earmarking schemes, scrutinized offshore holding of revenues in escrow accounts and future generations' fund, and leaves only 5 percent of revenues at the discretion of the government.¹² A nine-member Revenue Oversight Committee (the *Collège de Contrôle*) with four civil society representatives was created to oversee the use of the oil set aside for priority sectors. The International Advisory Group (IAG), a five-expert team appointed by the World Bank in February 2001, monitor the project through periodic trips to the region. The government had to adopt and implement an estimated 250 different agreements verging from protection of minorities to environmental regulation. The novelty of these arrangements and the claim that they could begin to address the governance mess of one of the world's poorest states attracted the attention of the international media and NGOs and made it a *cause célèbre*.

10. While an evaluation of the Chad-Cameroon pipeline goes beyond the ambit of this background paper, it seems safe to say that, two years hence, few would see it as the stellar model for reform in the Gulf of Guinea. Its relevance was always limited to other very weak states (such as São Tomé and Príncipe) which do not mind the partial loss of sovereignty for the chance to access oil revenues, but not to Angola, Nigeria and other cash-rich and fairly empowered states, which would never tolerate such degree of foreign intrusion. Furthermore, there were always enough

¹¹ The consortium is composed by the operator, Exxon-Mobil (40 percent), ChevronTexaco (25 percent), and Petronas (35 percent).

¹² 80 percent are earmarked for social spending; 10 percent for a future generation fund, and 5 percent to the oil-producing region.

loopholes to drive a coach and horses through, including those which limited the whole arrangement to direct taxes (leaving out about 30 percent of revenues) and to the initial Doba fields (future oil developments including those being conducted at present are not included). But now it is the World Bank itself, amongst many others, that chastises the despotic rule of President Déby and his clan and the misuse of oil money. The crux of the matter seems to lie in the fact that, even when the *letter* of the law is being violated, the *spirit* of the law has not been accepted by local rulers. In turn, this takes us to the vexatious absence of a reformist constituency amongst Chad's and the Gulf of Guinea region's elites. More generally, there is a growing feeling amongst observers that, reformist tinkering over the past five years notwithstanding, most loudly proclaimed measures, in Chad and throughout the region, are "spasmodic, selective and oversold internationally".¹³ The international community has thus far failed to contribute towards either the improvement of local governance or even a change to the cutthroat competitive character of the industry in the region, which the arrival of Asian companies may in fact have deepened.

¹³ Michael Peel, "Britain and Nigeria's half-hearted war on corruption", *Financial Times*, 17 October 2005.

11. While the tension between progressive and *realpolitik* agendas means that Western actors in the Gulf of Guinea are ultimately ambivalent about reform, Asian diplomacy and oil company activity in the region are unproblematic in their pursuit of the national interest of China, Malaysia or India. The Chinese economy is showing an unquenchable thirst for oil and Africa is one of its key growth areas, providing an estimated 25 percent of daily imports. China's approach to oil is based on a preference for ownership of resources rather than their acquisition that mirrors "a distrust of international energy markets [and a focus] on direct political and economic action by the government and the state companies".¹⁴ In addition to oil trading activity, three of

¹⁴ "China: Surging oil demand changes energy scene", *Oxford Analytica*, 26 February 2004.

China's oil companies, CNPC, CNOOC and Sinopec, are rapidly expanding across the Gulf of Guinea. In addition, Malaysia's Petronas is now involved in oil exploration in 16 African countries and is an equity partner in Chad and Sudan. Asian companies pay generously, have no governance preconditions for engaging with the Gulf of Guinea, no vocal civil society and shareholders back home criticizing their African partnerships, and are not as concerned as their Western counterparts with their "corporate image".¹⁵ Moreover, they benefit from their governments' unswerving political support and are unlikely to be broken by international transparency demands. They are thus perfectly situated to capture a share of oil activity in the Gulf of Guinea – especially the technically unsophisticated onshore production – should the rapport with Western investors and donors become overly dependent on the need for reforms. These reforms are not welcomed by local elites¹⁶ who see the Asian presence as a future way to stave off foreign (i.e., Western) conditionality.

12. Many analysts, particularly from Europe where there is a precedent for tight collaboration between oil companies and home governments, tend to regard the confluence of Western European, Asian and US interests in the Gulf of Guinea as the recipe for a "Great Game" around scarce oil resources. While there is an element of that in the Asian case insofar as there is great proximity between the strategies of, say, China's oilmen and diplomats, in reality, the "race" is fundamentally of a commercial nature. No "nationalism" hampers pragmatic agreements between the major corporate players whose presence on the ground is very competitive but also frequently enmeshed in operating partnerships. This does not of course mean that there is no role for home governments to play, though this pertains to a wholly different set of tasks.¹⁷ While the American presence in the Gulf of Guinea is spearheaded by the "Houston

¹⁵ Howard W. French, "China in Africa: All Trade, With No Political Baggage", *New York Times*, 8 August 2004.

¹⁶ Already Sonangol, the Angolan national oil company, has opened up a Singapore-based Asia oil trading office and although commercial reasons were pointed out, at least one Angolan senior official referred to the "strictly business" attitude of the Asians as an incentive.

¹⁷ In the French case, the transition took place with the privatization of Elf-Aquitaine and its subsequent merger with TotalFina. The new conglomerate, Total, is the world's fourth private oil company and operates in a manner that is far more akin to that of its Anglo-American competitors than did Elf, altogether a different animal.

¹⁸ Philippe Copinschi, Pierre Noel, and Ricardo Soares de Oliveira, *La politique africaine des compagnies pétrolières américaines* (Paris: IFRI for the Délégation aux Affaires Stratégiques, Ministère de la Défense, 2004).

¹⁹ Assistant secretary of state for Africa, Walter Kansteiner, quoted in “Black Gold”, *The Economist* 24 October 2002.

vision” of profit-seeking oil companies, the Bush Administration has supported their involvement by concocting its own “Washington DC” vision of great US engagement there.¹⁸ This is multilevel, including the full roster from human rights and improved governance to anti-terrorism and military cooperation but, unsurprisingly, it is the latter that has caught up the media’s attention. The involvement of EUCOM in the Gulf of Guinea and speculation about a putative US permanent base in the region is presented as a complex engagement going beyond *realpolitik* to include the fight against rampant disease and the improvement of institutions. Yet there is little doubt that it is oil that has led American policymakers to define the Gulf of Guinea as an area of “national strategic interest”.¹⁹ It remains to be seen whether the US “carrots and sticks” approach to the region will bear fruit, or whether it is the latest of a centuries-old pragmatic commercial engagement between foreigners seeking a valuable commodity and locals willing to sell it that is sadly recurrent in the history of Africa’s Atlantic coast.

13. Questions for discussion:

- a) Is the pursuit of energy of supply self-interest compatible with improving governance in the Gulf of Guinea?
- b) Assuming that the oil relationship is presently rewarding for all those involved – companies, importing states, and the elites of oil-producing states, though not for the region’s populations – what are the incentive structures for reconfiguring that relationship in a more development-friendly way? And what would those incentive structures look like, i.e., what actual changes need to be enacted in order to have consuming states, oil-producing states and oil companies think differently about the Gulf of Guinea?

- c) How can reform be successfully implemented in the absence of a meaningful reformist constituency at the domestic level of the oil states?
- d) Assuming that “bad governance” is oftentimes a euphemism for bad government, what would the implications of a committed, pro-poor international stance on the Gulf of Guinea be for relations with local regimes?