

**Remarks of Bennett Freeman
Principal, Sustainable Investment Strategies**

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I want to thank the State Department for inviting me to address this important and timely conference. With all eyes around the world focusing on the environs of the Persian Gulf, not the Gulf of Guinea, it is heartening but even more sobering that we are focusing on African oil in Washington today.

I am reminded of the first major speech on U.S. policy toward Africa given in the previous Administration, by Secretary of State Christopher in May 1993. He observed that "during the long Cold War period, policies toward Africa were often determined not by how they affected Africa, but by whether they brought advantage or disadvantage to Washington or Moscow." He went on to declare that "Thankfully, we have moved beyond the point of adopting policies based on how they might affect the shipping lanes next to Africa rather than the people *in* Africa. And that's an improvement."

My point ten years later is that if the United States Government adopts policies toward Africa based on how they might affect the security of oil supply, then those policies must be based fundamentally on how they affect the people of Africa. The Gulf of Guinea will be no more stable than the Persian Gulf, and probably far less so, if we fail to put the greatest emphasis on promoting accountable, transparent governance and development. Security of African oil supply depends on addressing the aspirations of millions of African people, not just on bringing billions of barrels of oil to market.

It is essential to remind ourselves that the durable foundations of access to and supply of oil are governments which are accountable to their own peoples, including to the peoples of their oil-producing regions. Without such accountability, the legitimacy and even stability of those governments are open to challenge. Then the cycle unfolds of local community unrest and even violent strife, complicated by tensions among ethnic groups; attacks on oil pipelines and facilities; production shutdowns and disruptions of supply. The Niger Delta has experienced that scenario in repeating cycles now for a decade, cresting in the mid-Nineties and then resuming in the late Nineties. After nearly several relatively quiet years, non-violent protests last

summer against ChevronTexaco as well as Shell were serious enough to interrupt production.

Fortunately, the U.S. Government recognizes the importance of addressing the fundamentals of African governance, but it must strengthen that commitment now that African oil is on its strategic agenda. If the United States is serious about reform both for its own sake and in the interest of security of oil supply, there are several building blocks which must be reinforced now:

- The African Growth and Opportunity Act (AGOA) now encompasses 38 sub-Saharan countries, offering tariff preferences in recognition of progress toward economic and governance reform as well as strengthening workers' rights and the rule of law. The eligibility criteria should remain stringent and sharpen its focus with respect to human rights.
- The Millennium Challenge Account links a substantial amount of U.S. foreign assistance to governance reform and anti-corruption efforts as essential to development. But even after the significant commitment made at last year's Monterrey Summit, U.S. foreign assistance to Africa and the rest of the world remains unacceptably low relative both to the needs which are in our national security interest to address and to other donors measured as a percentage of GDP.
- The pledge made by President Bush in his State of the Union address to commit \$15 billion (including \$10 billion in new money) over the next five years to fight HIV/AIDs in Africa and around the world is an historic step forward. Now the difficult challenge is to get the full appropriation through Congress in the face of the Iraq war and against the backdrop of rising budget deficits.
- The Bush Administration has carried forward the Voluntary Principles on Security and Human Rights, the standard negotiated with oil and mining companies together with international human rights NGOs to guide company interactions with security forces in countries such as Nigeria, Indonesia and Columbia. Now that standard must focus on gaining the full support of host country governments and security forces, especially in Nigeria but also in Chad, Cameroon, Equatorial Guinea as well as Angola.

Security of supply for the United States depends on good governance and sustainable development for the oil-producing countries of Africa. It also depends on sustainable investment for the oil companies themselves. Sustainable investment is confidence in a business environment which is secure, stable and profitable because it is underpinned by good governance, the rule

of law and respect for human rights; which is maintained through dialogue and partnership with the local communities where the companies operate; and which is connected to a balanced development strategy backed by revenue transparency. Another way to define sustainable investment is simpler: the degree of confidence that a company like Shell has when it commits upwards of \$6 billion as it has to new investment to the Niger Delta, and that other companies have when making investment decisions of whatever magnitude in Nigeria and elsewhere.

Revenue Transparency: The Heart of the Matter

Extractive revenue management and transparency are really the heart of the matter: the problems and opportunities they present are at the nexus of security of supply for the U.S.; accountable government and sustainable development for the people of the oil-producing countries; and sustainable investment for the companies.

Opaque and inequitable revenue distribution is usually due to a combination of raw political calculation, gross corruption, and sheer mismanagement. These factors are hardly unique to Africa; they have converged in varying combinations in Indonesia and more recently in the Caspian region with similarly distorting effects on governance and development. Yet their effects in the oil producing countries of Africa are now deeply entrenched. The squandering of public revenue skews patterns of investment and further enriches elites; it corrupts governance and erodes the rule of law; it exacerbates regional conflicts and threatens national unity; it deprives local communities of their right to development and condemns them to poverty. Companies' bottom lines may not be affected in any one year, but the cumulative squandering of revenues takes its toll: it challenges their social license to operate; endangers their local operations; and threatens their global reputations. It does so by stoking tensions between oil-producing communities and the companies operating amidst or in close proximity to them. It puts companies in the unwanted position of acting as de facto surrogate governments, due both to the default of the real government authorities and to the sometimes violent demands of the local communities. And it can make the companies appear complicit in human rights abuses committed by security forces called in to quell local unrest and disruption of oil operations.

If revenue management and transparency are the heart of the matter, Nigeria is where these issues matter most at the heart of West Africa. That nation has mostly squandered some \$30 billion in oil revenue over the last three decades, and to its credit the democratic government of President Obasanjo is addressing the problem through a plan to share oil revenue with the oil producing states of the Niger Delta. But the implementation of

that plan has faced delay and drift, and few tangible benefits have been delivered to satisfy the expectations of the long-impooverished communities of the Delta. Yet at least there is a blueprint for action. Now it will take renewed political will in Abuja and greater governance capacity at all levels to make good on the commitment to the Delta states, while meeting the broader challenges of maintaining national unity and consolidating Nigerian democracy after the upcoming election. The U.S. Government shares a common stake with the government of Nigeria, the states and communities of the Delta, and the oil companies in a more stable and prosperous future for the Niger Delta. It is particularly encouraging that the State Department is sharpening the focus of the Embassy in Abuja, including the USAID mission, to work more closely with the government, communities and especially the companies to advance this objective.

At the same time, the U.S. Government has an immediate opportunity to lend its voice and weight to the goal of revenue transparency across the African oil-producing countries. It should embrace the Extractive Industries Transparency Initiative (EITI) spearheaded by British Prime Minister Blair. This broad-based, globally-focused initiative stems from the "Publish what you pay" campaign launched last June by the Open Society Institute, Global Witness and an international coalition of NGOs. EITI's objective is to achieve "greater transparency in payments and contributions made by companies and revenues received by governments for natural resource extraction."

The U.S. Government can help forge a consensus with American companies in support of this voluntary initiative, if it can address reasonable concerns that companies committing to such transparency are not put at competitive disadvantage. It can help ensure a level playing field in at least two ways: first, by urging the support of host country governments, including those of the key African oil-producing countries; second, by building support on the part of the home country governments of state-owned oil companies such as PetroChina and Petronas which are also taking stakes in African oil. The U.S. should advance this initiative together with the UK and other like-minded governments through the G-8 and OECD, as well as in conjunction with NEPAD and other initiatives beyond Africa, to build support for revenue transparency as a global standard.

Equatorial Guinea: Focus Now Before It's Too Late

As the two dominant sub-Saharan African oil producers, Nigeria and Angola appropriately command the greatest attention at this conference. Despite their immense natural and human resources, the complexity of the governance problems which each country faces should keep us clear-eyed about the challenges they present to the U.S. in its search for security of supply, and to

the companies in their quest for sustainable investment. But another country along the wide arc of the Gulf of Guinea should also command our attention to a much greater extent than it has so far: Equatorial Guinea.

Until the late Nineties, Equatorial Guinea was only really known internationally among the real cognoscenti. Some read about it as Robert Klitgaard's laboratory for the frustrations of structural development in *Tropical Gangsters*; others recognize it as the setting for Frederic Forsythe's thriller *The Dogs of War*, as a place where foreign mercenaries could find employment opportunities in the freelance coup business.

But over the last several years, Equatorial Guinea has assumed a new and much higher profile as it has emerged as the third largest oil producer in sub-Saharan Africa— following only Nigeria and Angola. Major offshore oil and gas finds since the mid-Nineties have pushed output to more than 200,000 barrels a day, with official reserves estimated at 2 billion barrels—enough to sustain astronomical annual growth rates of up to or even over 50% for a country with a population of about half a million. Suddenly Equatorial Guinea is on the map in ways unrecognizable to readers of Klitgaard and Forsythe— as what some call the next "Kuwait of Africa."

Equatorial Guinea has also been on the U.S. Government's map since investment there on the part of American companies reached \$5 billion in 2000; the country is now the fourth largest destination for overall U.S. investment in sub-Saharan Africa (following Nigeria, Angola and South Africa). Several American companies have established a substantial presence so far: Marathon Oil, which acquired the Equatorial Guinea assets of CMS; Amerada Hess, which acquired those of Triton; ExxonMobil; ChevronTexaco and Vanco. It is basically an American game; only TotalElfina of France and Petronas of Malaysia are non-American companies with significant footholds.

This rapid development comes against a backdrop of poor governance and grave human rights abuses, together with serious ethnic tensions. Even with an official transition to multi-party democracy, Equatorial Guinea is still essentially a family and clan-based dictatorship. There is no doubt that Equatorial Guinea has come a long way from its killing fields years of the Seventies, when the Nguema regime murdered thousands of opponents and compelled about one-quarter of the population to flee the country before the coup led by current President Obiang in 1979; nor is there any doubt that Equatorial Guinea is still (according to the State Department Country Reports on Human Rights and NGO reports alike) a country where human rights are not respected, impunity prevails, and governance remains fundamentally undemocratic and unaccountable.

Moreover, governance is undermined by corruption and a lack of capacity to direct the substantial oil revenue that began to flow two years ago (after most revenue in previous years went to the companies to defray their initial investment costs). Revenue management remains opaque and uncoordinated, without an overall development plan for using and safeguarding the country's oil revenue for public purposes rather than private gain. The government's development priorities are unclear, and its ability to deliver basic services to the population is very limited. Although the oil companies are beginning to fund some commendable community development and infrastructure projects, these do not appear to be linked to an overall development strategy. Although the World Bank is beginning to focus, it has not yet reached an agreement with the government or committed resources.

Yet resource development in Equatorial Guinea represents an opportunity as well as a problem; it is too early to write off Equatorial Guinea as an irreversible governance, human rights and development disaster. Although the clock is ticking and time may well run out, there may be grounds for optimism for at least three reasons. First, oil development is still at a relatively early stage; the development model and its governance underpinnings are not necessarily unalterable. Second, there are useful lessons to absorb and perhaps apply from elsewhere in Africa, not only from Angola and Nigeria but also from the promising aspects of the Chad-Cameroon process guided by the World Bank. Finally, two key sets of actors with commercial and strategic stakes in Equatorial Guinea also share an interest in addressing the implications of operating in such a repressive environment with such little governance capacity or apparent political will so far to change.

The American companies on the ground in Equatorial Guinea should be concerned about the risks to reputation that may develop over the next few years if the revenue flows continue to accelerate without accountability and transparency, and the human rights and labor rights situation remains bleak. If the companies disregard these risks, no doubt some of the international NGOs that are beginning to focus on Equatorial Guinea will be prepared to help them focus. The U.S. Government should also recognize its interest not only in safeguarding the reputations of its companies operating abroad, but also in not identifying itself too closely with such a repressive regime in its strategic search for stable oil supply in West Africa.

Fortunately, there are encouraging indications that the U.S. Government is recognizing this interest and focusing on ways that it might engage more closely with the government as well as with the companies. The consulate to be opened in Malabo will finally provide a platform to work on both political and commercial matters on the ground in Equatorial Guinea. But that platform must be backed by a clear policy commitment in

Washington for the relevant bureaus at the State Department (along with USAID) to sharpen and coordinate their focus on governance and human rights issues together with the development challenges. There are also encouraging indications that the American companies with a stake in the country are discussing their concerns through the Corporate Council on Africa's new working group on Equatorial Guinea.

There are two other grounds for optimism. One is the willingness of UNDP to work directly with the government of Equatorial Guinea on an overall strategy for advancing social and economic development in conjunction with the country's new oil wealth. The other is the fact that several meetings have taken place to address these issues which might be the basis for a more structured dialogue. Twice in the last four months, interested NGOs have met in London under the auspices of Chatham House with a senior figure in the government of Equatorial Guinea together with oil company representatives: the first meeting focused largely on human rights issues, the second mostly on revenue transparency and management; apparently both were frank and substantive discussions. And here in Washington several months ago, the Fund for Peace brought together the companies and NGOs to discuss the issues at stake for the first time on this side of the Atlantic.

The most immediate challenge is to coordinate these developments, and put together a comprehensive process of engagement which can lead to tangible commitments. Such commitments should address the human rights situation and governance environment in Equatorial Guinea in ways which will first and foremost benefit the people of the country, but also advance the U.S. Government interest in diversity and security of oil supply, and the companies' interest in sustainable investment. The process should be based on appropriate roles and responsibilities: the companies can focus most constructively and comfortably on broad business environment issues such as the rule of law, infrastructure priorities and community development initiatives; the U.S. Government should address the more sensitive human rights, governance, corruption and revenue transparency issues, while taking both NGO and company concerns into account. Policy recommendations in these areas could be coupled with capacity-building commitments so that technical assistance from institutions such as the UNDP, World Bank, and the ILO (as well as USAID) can contribute to an overall strategy. The New Partnership for Africa's Development (NEPAD) initiative might also be a useful framework both for convening a policy dialogue and for mobilizing technical assistance.

Of course there is an issue as to whether the U.S. Government and the international institutions have real leverage with a regime suddenly awash in oil revenues. To be sure, the government of Equatorial Guinea no longer needs financial

assistance. But it does need technical assistance to build its infrastructure and develop its governance capacity, both to support a workable business environment for the companies and to meet the aspirations of its people. International institutions, especially the UNDP and the World Bank, are indispensable to meeting those challenges. It would be reasonable at least for the World Bank to impose conditionality for its assistance. Such conditionality could link technical and other capacity-building assistance to clear commitments and measurable progress on the part of the government of Equatorial Guinea, with respect to human rights and labor rights as well as revenue transparency.

As a stakeholder in the World Bank, the U.S. Government can press for such a conditional approach. Moreover, the U.S. Government has the leverage to determine the level and quality of its diplomatic relations with other governments, not least when official visits are requested. It should not hesitate to use that perhaps intangible but nonetheless powerful asset in its relations with the Government of Equatorial Guinea. The test need not be the transformation of the country overnight, but instead a willingness to engage on these governance issues and make concrete commitments to reform.

It would be a tragedy if the people of Equatorial Guinea are unable to benefit from the oil boom that has accelerated so suddenly. It would be an unacceptable outcome, not least after so many lessons have been learned about the misuse of oil wealth, the fundamental importance of governance to development, and the key contribution that corporate responsibility can make both to good governance and sustainable development. The U.S. Government and American companies have an opportunity to focus now before it is too late.

Conclusion

Of course there must be African solutions to African problems, and there will be; NEPAD is a potentially promising initiative largely because it takes responsibility for finding those African solutions to African problems. But at a time when the shifting of the geopolitical tectonic plates has put Africa's oil in a new light, when the U.S. Government and our companies view it as a strategic interest and commercial prize, then we share that responsibility.

We can avoid making a false choice between ensuring the security of African oil supply and pressing for the reform of African governance. We should recognize that reform will be our best security, and act accordingly.

Bennett Freeman is Principal of Sustainable Investment Strategies, a Washington DC-based consultancy advising multinational corporations, international institutions and NGOs on corporate responsibility and human rights. As U.S. Deputy Assistant Secretary of State for Democracy, Human Rights and Labor, he led the multistakeholder dialogue culminating in the Voluntary Principles on Security and Human Rights and Labor, the first human rights standard developed by companies and NGOs for the extractive sector. He also developed a U.S. Government initiative announced by President Clinton in August 2000 to work with oil companies and local communities on governance and human rights issues in the Niger Delta.