American Foreign Policy Interests, 28: 225–238, 2006

ISSN: 1080-3920 print
DOI: 10.1080/10803920600791047

The Chance to Go Deep: U.S. Energy Interests in West Africa

Daniel Morris

Introduction

Looking out at the vast ocean from the beach at Takoradi, a small city in Ghana near the border with Cote d'Ivoire, a visitor would be struck by the idyllic setting—soft sand, surf-worthy waves, and an awesome West African sun. The visitor would not be able to see what lies beneath and in the distance—the Houston-based Vanco Energy's seismic equipment surveying 2.5 million acres as deep as 3,000 meters below sea level. By investing a large amount of money in the Cape Three Points Deep, as the area is known, Vanco is not only fulfilling its purpose as an energy company but is continuing to do what is an imperative for the United States—keep oil flowing to its territory.

The Cape Three Points Deep is emblematic of U.S. interests in West Africa for many reasons. The amount paid by Vanco to the Ghana National Petroleum Company remains undisclosed, like the vast majority of oil contracts across Africa. This secretiveness can breed problematic consequences, addressed later in this article. The Deep is also symbolic of the new frontier in oil drilling—deep water offshore. The three-dimensional block that makes up the Deep begins only a few miles from shore, a distance well within the 200-nautical-mile distance of every country's exclusive economic zone, yet in many ways still out of reach of the Ghanaian people.[1]

***

In his State of the Union speech on January 31, 2006, President Bush outlined a remarkable shift in energy policy. The president announced a specific goal of replacing more than 75 percent of America's oil imports from the Middle East by 2025. It is no secret that America's need for oil complicates its other geopolitical interests in the region. Stated foreign policy goals of winning the war on terrorism and spreading democracy, along with the country-specific goals of preventing Iran from gaining nuclear weapons and Iraq from falling into failed-state status, are only harder for Bush administration officials to pursue when they must depend on their negotiating partners for oil. In this way, the president's call to shift away from oil imports from the region appears to make strategic sense.

One would naturally assume that a goal of using less of one resource would be compensated by either a change in lifestyle or its replacement by another resource, but President Bush did not offer an immediate solution using either one of those alternatives. To be sure, the president addressed the replacement option, promising Americans to "increase our research in better batteries for hybrid and electric cars ... [and] fund additional research in cutting-edge methods. ..."[2] However sound those goals may be in principle, their current unattainability raises troubling questions. Alternative fuels are, by the president's own admission, in the "research" stage of development. If they are to be used for even small-scale deployment, it will take more than rhetoric, for the White House is offering only up to $150 million toward research into alternative fuels for the fiscal year starting September 30, 2006. The U.S. hydrocarbon industry turns over billions of dollars every year.

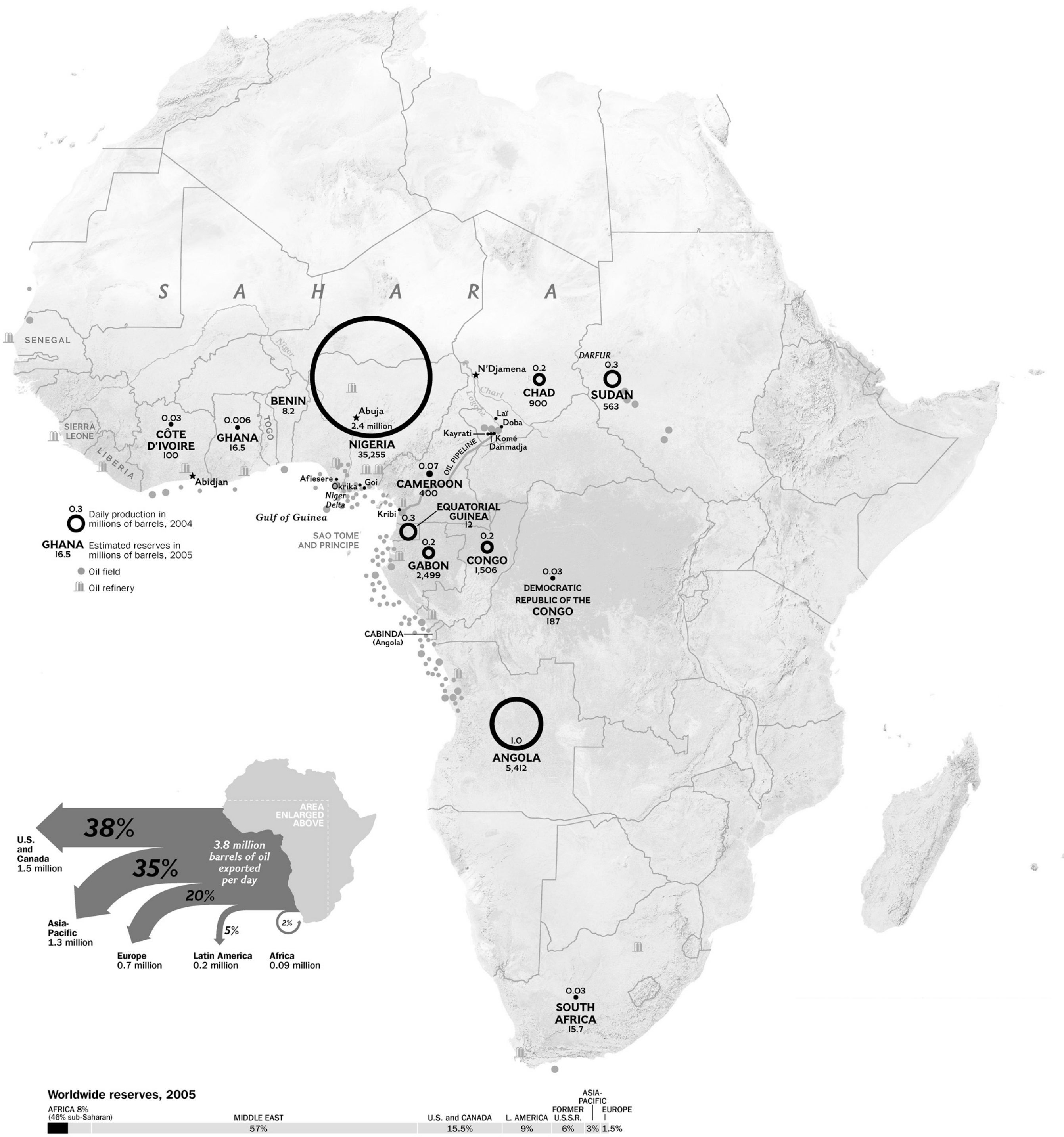
The president did not talk about raising the tax on gasoline or promoting public transportation systems, examples of policy decisions that could lessen the absolute amount of oil imported today. Indeed he did not mention the word *conservation* in his entire State of the Union speech. Without a call for conservation and with alternatives to oil in the research stage, what implications does this new direction in U.S. energy policy have for foreign policy? If the United States cannot look to the Middle East for oil, where can it look?

The answer for a growing number of analysts in the hydrocarbon industry is Africa. Large and small energy companies, including those like Vanco operating in Ghana, are already making a case for the switch. They are attracted by oil that is generally "sweet"—high quality and low in sulfur—making it suitable for products that require stringent refinement. The United States today gets about 18 percent of its oil from Sub-Saharan Africa. One energy consultant estimates that the oil production capacity in Sub-Saharan Africa could rise to 108 million barrels per day in 2015 from 87 million barrels per day currently,[3] and the Exxon Mobil Corporation predicts that Africa will be its biggest single source of oil by 2010.[4] According to the president of Vanco Energy, "West Africa is now, and will be in the future, fantastically important to the oil economy in the U.S." U.S. government officials tend to agree. Underlining the importance of this precious natural resource in Africa, a former U.S. undersecretary of state for African affairs, Walter Kansteiner, succinctly stated in 2002, "African oil is of national strategic interest to us, and it will increase and become more important as we go forward."[5]

Almost all of the oil in Sub-Saharan Africa has been found in countries that can be called West African by more inclusive definitions. Those countries generally look out onto the Gulf of Guinea, a body that greatly adds to the oil wealth of the countries that claim a stake in its waters. Along with Angola, which lies farther south, those countries form the geographical focus of this article. See the map, West African Oil, on the next page.

If there are benefits to taking oil out of the equation in Middle Eastern affairs, there are risks and challenges that accompany doing business in the African market. The U.S. government and oil companies, mindful of the no-questions-asked investment approach in the Middle East years ago that helped to contribute to its current volatility, view Africa as a chance to "get it right." Although there is concern for the future, the influence of radical Islam in West Africa is still relatively limited, and Washington maintains good relations with West African oil capitals like Abuja, Nigeria, and Luanda, Angola.

Still, in both literal and figurative senses, Africa is not far from the Middle East. Both regions are marked by ethnicities, cultures, and customs that are often inscrutable to foreigners, as well as dictators who pay lip service to democracy while ruthlessly seeking to extend their corrupt and violent regimes into difficult natural environments. African countries seem to be particularly affected by the "resource curse," perhaps now more than ever. Nigeria and Cameroon have largely patched up their dispute about ownership of the potentially oil-rich Bakassi Peninsula, but their agreement is one of the few bright spots. In the past three years, the lure of offshore deposits in Sub-Saharan Africa's third-biggest producer, Equatorial Guinea, set off a failed coup attempt; Sao Tome e Principe—a tiny archipelago believed to hold large oil reserves—was rocked by a coup that began largely as a result of rumors about future oil wealth; Chad, a new oil producer, is still grappling with an army mutiny; and Mauritania, due to start pumping a small amount of oil in the near future, experienced a military coup in August 2005. A military



West Africa: Where the Oil Is.

ruling council is now in power in that country and is promising a transition to democratic elections.

To elucidate the myriad challenges and opportunities that the U.S. government and the energy industry will face as they seek to operate in this climate, this article focuses on three broad issues: terrorism, transparency, and corruption and the challenges posed by China and other countries as they increase their presence in Africa. For the sake of brevity and clarity, each issue will deal with only one country as a case study; for example, violence in Nigeria, transparency in Chad, and corruption in Angola, although it is certain that the three issues overlap with one another in each country and elsewhere. Accordingly, each analysis illuminates issues that factor into American foreign policy and business considerations.

Terrorism

After 9/11 the calculation of terrorist threats was changed to include an effort at forecasting the conditions that breed terrorism, Africa became an important aspect of U.S. national security policy. In light of the new global war on terrorism, the view of traditionalists used to looking to Europe and the Middle East to address issues of concern was suddenly judged to be limited. The U.S. European Command (EUCOM), which includes West Africa in its geographical coverage, is increasingly devoting its resources to Africa, recognizing the strategic role and importance of African energy installations.

Unlike other parts of Africa, West Africa has not drawn to its territory the low-level infiltration of transnational terror networks like Al Qaeda and has been spared spectacular attacks like those on the American embassies in Kenya and Tanzania in 1998. But there are signs that this condition of relative safety may change rapidly. Although some cities are undoubtedly safer than others, it behooves Americans across West Africa to exercise caution. Most countries have significant Muslim populations if not outright majorities whose communities have increasingly begun to welcome the training and funds provided by Iran, Saudi Arabia, and Pakistan.

Although there is no proof that religious radicalism automatically translates into threats against Western interests, policymakers and diplomats are doing their best to monitor the evolving situation. In such an uncertain and unstable climate, a perceived threat to oil remains a cause for alarm. In an article on oil and security in West Africa, two U.S. military experts note, "U.S. national security and energy security are inexorably intertwined, particularly when considering the multiple state and non-state actors who can wreak considerable havoc on our economy based solely on our significant dependence on foreign oil."[6]

Oil installations in the region have been traditionally classified as soft targets—relatively open with modest security—because they were not set up to meet a serious threat of sabotage. That is changing for good reason. Oil companies are spending millions of dollars to employ comprehensive security measures to protect their investments. A coordinated strike on oil installations in West Africa could affect oil supplies and oil markets immediately and, by extension, world business and markets. David Goldwyn, a former assistant energy secretary in the Clinton administration and head of the Washington-based think tank Goldwyn International Strategies, warned the U.S. Senate in 2004, "We are in no position to endure a serious oil supply disruption from the Gulf of Guinea today. The global oil market is stretched to capacity."[7]

Washington is particularly concerned that militant Islamists may gain a foothold in its new oil haven where policing is often lax, millions of youths are unemployed, and the sheer size of territories makes maintaining full control almost impossible. "It's a good place for people who want to be left alone to operate outside the reach of the law—to go unnoticed, to take time to recruit, to regroup," says General Charles Wald, deputy commander of EUCOM.[8]

Unlike the situation in the Middle East, one advantage derived from oil installations in West Africa is that they are in immediate reach of U.S. naval forces from the Atlantic Ocean. This would make them useful in the face of a large-scale, spectacular attack in a scenario involving a radiation bomb attack at an American-owned refinery. Nevertheless, the waters of the Gulf of Guinea are extremely vulnerable. The International Maritime Bureau has judged Nigeria's coast to be second only to the Malacca Straits (between Indonesia and Malaysia) in its susceptibility to piracy. Because the naval forces of West African states lack the capacity to offer anything more than a symbolic presence at oil rigs and facilities, U.S. forces are in the unenviable position of having partners that may be long on goodwill but short on manpower for joint exercises.

On land U.S. forces have achieved a relatively small but growing presence. Formerly known as the Pan Sahel Initiative, the EUCOM-directed Trans-Sahara Counterterrorism Initiative (TSCI) has a current budget of 30 million dollars and a mandate for deployment in Algeria, Morocco, Tunisia, Senegal, Nigeria, Niger, Mauritania, Chad, and Mali. The idea is to train local armies and share information as part of the Pentagon's new "netwar" strategy, which seeks to mimic the organization of the terrorists it is pursuing by adopting their fluid, discrete structure.

The TSCI is deployed across the Sahel for a variety of strategic reasons. It is feared that the Al Qaeda-linked Salafist Group for Preaching and Combat (GSPC), designated a terrorist organization by the U.S. Department of State and Algeria's last powerful fundamentalist faction, is recruiting and regrouping farther south into Niger, Mali, and Mauritania after being largely contained in its homeland.

Like most government programs directed toward counterterrorism, the TSCI has its share of cheerleaders and skeptics: Some say it is too much of a bad thing, and others say it is too little of a good thing. All sides have facts on their side. Thirty million dollars is not a lot of money to finance a counterterrorism initiative across nine countries, although that allocation is expected to more than double in 2007 and reach $500 million by 2012. Others are skeptical that any amount of money will make a considerable impact in the Sahel and Sahara, the world's largest desert. Its 3.5 million square miles makes Iraq (at .27 million square miles) seem like a logistical walk in the park. Still others think EUCOM is exaggerating the threat of terrorism to the region. A former ambassador to Mali, Robert Pringle, dismissed the program, saying, "We are exaggerating the whole terrorism thing."[9] Another State Department official went further, calling the TSCI "a hammer looking for a nail."[10]

Not everyone thinks poorly of the TSCI. Indeed, many have taken a look at one country, Nigeria, and have seen all the justification they need. Nigeria dwarfs its neighbors by almost any conceivable measure of economic, geographic, or strategic significance. Since the Clinton administration, it has been called one of four "anchors for regional engagement" in Sub-Saharan Africa. Ranked both as one of the most corrupt countries on Earth and as the biggest oil producer on the entire continent, Nigeria is the region's only member of the Organization of Petroleum Exporting Countries (OPEC) and the main destination for U.S. investments in Sub-Saharan Africa. From combating bird flu to providing troops and negotiating forums to quell civil wars in the region, Nigeria is a powerhouse that evokes some of the most glaring security concerns. Osama bin Laden has labeled Nigeria as being among the most qualified for religious and political liberation.[11] Its northern states have historically practiced a religiously moderate form of Islam, but interpretations of Islam according to sharia, or Islamic law, have been instituted in recent years. Its implementation has aggravated an already tense situation between Muslims and Christians.

Meanwhile, the Nigerian government runs on oil. Oil accounts for from 90 to 95 percent of Nigeria's export revenues, more than 90 percent of its foreign exchange earnings, and nearly 80 percent of government revenues. Although no one at EUCOM would probably publicly correlate the TSCI's designs in Nigeria with U.S. oil interests, the connection is, to a certain extent, self-evident. When asked "whether cooperation [between U.S. and Nigerian forces as part of the TSCI] would include the protection of Nigerian oil infrastructure," the commander of EUCOM diplomatically replied, "Wherever there's evil, we want to get there and fight it." State Department officials have stated that the main concern for the TSCI is protecting Nigeria.[12]

The oil being pumped out of Nigeria is a small amount compared to that of the Middle East, but even small producers are important in today's oil market. They function as so-called swing producers, providing market stability in the event of oil shortages when their developed infrastructure of wells, pipelines, and refineries can accommodate a short-term increase in production to control prices or offset shortages.

Nigeria's supplies may be relatively small but, it appears, they will remain constant for quite some time. According to *Oil & Gas Journal*, its cumulative production at the end of 2002 was 22.71 gigabarrels (Gb), or 36.3 percent of 62.5 Gb; its reported estimated total recovery (EUR) area.[13]

In addition to the TSCI, the U.S. Navy conducts joint exercises with Nigeria's navy, but a look at the problems Nigeria faces today begs for more strategic U.S. involvement.

A toxic combination of corruption and violence is woven into the fabric of Nigerian society. Traveling on the western road to the economic capital, Lagos, last year, the author encountered checkpoints within sight of one another for more than 50 miles. However they introduced themselves—as immigration officials, soldiers, state police, federal police, customs, or with blank stares—those stationed there, as well as the guns they carried, testified to their willingness to detain anyone indefinitely and assured an unpleasant journey. Stops were relatively quick. Africans, however, seemed to be the targets of arbitrary questioning for the longest duration. Along the way, a stop for petrol in the territory of the fifth largest oil supplier to the United States meant waiting in a queue for half an hour.

***

If life across Nigeria is characterized by staggering amounts of institutionalized dysfunction, a great factor in the collective frustration of the people is the country's oil industry, and nowhere in Nigeria is more emblematic of what oil has wrought than its quintessential oil city, Port Harcourt. The commercial center of the more than 250 oilfields across the Niger Delta, Port Harcourt is the intersection of many opposing forces at work in Nigeria today.

A small village of Ijaw people lived on the land of what is now known as Port Harcourt for millennia before it was named for a British colonial governor and cleared for the construction of a railway station in 1913. The station attracted immigration and capital as facilities for unloading machinery, mechanical repair shops, hotels, retail stores, an airport, and other structures were built. By 1956 the small village had 50,000 inhabitants. Then the first oil company office in the Niger Delta opened in the center of the city that year, and the population growth rate went from fast to meteoric. During the next 10 years, as oil was exported in ever greater quantities, the population of Port Harcourt grew by 500 percent.[14]

Unfortunately, growth did not yield a comparative rise in living standards. Local employment was limited to a relatively small number of unskilled and semiskilled laborers. Almost all of the oil profits went in the same direction as the oil itself, to other countries. A largely unsympathetic international business community left local communities to deal with the environmental devastation and deleterious health effects. Aside from some commercial palm oil production, subsistence agriculture and fishing continued to be virtually the only economic activities of the local population. The environment, it should be noted, continues to suffer from destructive practices like gas flaring. Shell recently postponed its plans to phase out gas flaring in the Niger Delta by 2008.

Reinforcing their apparent perception that the waves of globalization have failed to benefit them, the people of the Niger Delta have begun to react in ever stronger terms. Relationships over the past year among the oil companies, the government, and the local population have deteriorated rapidly, and accusations of bad faith have been voiced all around.

In 2005 a variety of local Ijaw groups organized themselves under the name the Movement for the Emancipation of the Niger Delta (MEND). It has become increasingly organized, violent, and, perhaps just as important, media savvy. A Shell-sponsored security study completed in late 2003 showed an influx of weapons into the delta—a pattern that has been fed by the illegal trade in crude oil and culminated in widespread violence claiming an average of 1,000 lives every year.[15] In e-mails sent to journalists around the world, MEND boasts about the successes of its self-described "total war." In early 2006 it blew up two oil pipelines, held four foreign oil workers hostage, and sabotaged two major oilfields, cutting Nigeria's oil exports by more than 20 percent. MEND threatens to launch more attacks "without further warning."[16]

The government says that local groups are using the plight of the poor as a cover for stealing oil, a process known as bunkering for arms, but government officials also have been implicated. Analysts debate the question of whether the ultimate, intended targets of the attacks are the oil companies or officials of the national government that has authorized the exploitation of the natural resource. Whether the profits end up in Abuja or London, their complaint is the same: Despite the billions of dollars worth of oil that are being extracted, there has been no demonstrable improvement in living standards, that is, schools, clinics, roads, power, and so on. To the extent that their rage is directed at the government, it is more specifically focused on the Nigerian National Petroleum Corporation (NNPC), the representative of the Nigerian government in both the upstream (exploration, production, refining) and downstream (transport, processing, marketing) oil industries of the country. It comprises six functional directorates that supervise eleven principal businesses. In short, it covers the entire range and depth of the Nigerian oil industry and functions about as efficiently as one would expect from a bureaucracy of its size.

Although the oil companies recognize the need to give back to the communities in which they operate, they are not shy about offering their own points of view. Shell has attributed oil spills to sabotage for the sake of compensation claims. A Nigerian court recently upheld a decision ordering Shell to pay $1.5 billion to the Ijaws, but the company has refused to abide by the court decision, perhaps in an attempt to avoid the logistical nightmare of distributing such a sum equitably.

There is little doubt that some of the violence is in reaction to what little progress the government has made against corruption. A lead official at the state level was recently extradited from London and now sits in jail for embezzling millions of petrodollars.

The oil companies have often been criticized for not hiring more workers from the local population (Shell did not perform a "restructuring exercise" to put more Nigerians on its senior staff until 2004) and for not putting more ownership in Nigerian hands (the NNPC has a large stake in oil investments but contributes little in the way of improving local human capital and resources). But many of these issues appear to be larger than any one entity, much less a foreign business, could be reasonably expected to shoulder alone. Every business in

Nigeria is hamstrung by the inadequate and incoherent policies and legislation stemming from all levels of the Nigerian government (federal, state, local) and the generally low technological capabilities of its citizens. As industrial technology advances, the need for the low-skilled jobs the Nigerians most often do diminishes in absolute terms. The refinery in Port Harcourt, the country's biggest, employs only a few hundred people. It is estimated that as much as 95 percent of the entire oil industry is worked by Nigerians, which seems impressive until one considers that Shell, responsible for half of Nigerian oil output, employs only 4,000 Nigerians on staff and 20,000 on contract. With scarcely the mathematical possibility of increasing this percentage, roughly 50,000 employees in the most populous state on the continent (.04 percent of the total population) seems like an absurdly small number.

Ultimately the security of the region and its oil supplies is up to the citizens of the Niger Delta. It is unclear to what extent groups like MEND are representative of the general population. Nevertheless, if the militant group is not isolated and contained, it may raise the price of doing business in the Niger Delta too high. The recent decrease in oil output by as much as one fifth underlines the implications of Shell's statement that it will quit onshore oil production in Nigeria by 2008 if the situation does not improve.[17]

Of course, Shell will leave Nigeria or its dry land sooner or later anyway. Nigeria's onshore and shallow-water production has been decreasing, although total output has grown as a result of new offshore rigs coming online. In contrast to those resulting from onshore production, the risks to offshore production are negligible. Although mechanically more expensive to extract, offshore oilfields miles out to sea yield none of the property, pollution, and compensation issues of onshore oil. Taking those considerations into account, a consensus has concluded that offshore areas are actually less expensive to operate.

The future of the Nigerian oil industry and U.S.–Nigerian relations will reach a decisive moment soon, for the country plans to hold an election in May 2007. In his most recent Annual Threat Assessment, Director of National Intelligence John D. Negroponte warns, "[The election] has the potential to reinforce a democratic trend away from military rule—or it could lead to major disruption in a nation suffering frequent ethno-religious violence, criminal activity, and rampant corruption."[18]

Aid and Transparency

After growing at an average rate of 3 percent in the 1960s, the economies of Sub-Saharan Africa seemed to reflect that good first steps were being taken to advance on the road to development.[19] Africa and its politicians had come some way toward meeting the expectations of independence. Then the age of Big Manism came about in the 1970s. National treasuries were looted, rolling back many hard-won advances.

Since independence, Sub-Saharan Africa has received the equivalent of five Marshall Plans in foreign aid. It has had a negligible effect on growth. Some point to the often ignored fact that aid can actually be harmful. The IMF's chief economist, Raghuram Rajan, has argued that the flow of aid contributes to a country's rising exchange rate, undermining export competitiveness. This may occur, he points out, even when the aid provided to the government is well used.[20]

At the forefront of the debate over aid is the remote country of Chad. Many see this country, landlocked and twice the size of France, as having the best chance at getting off the dole provided by foreign governments by essentially subsidizing its own aid through recently discovered oil. Its oil industry is a phenomenon that is only three years old, having started after a group of oil companies, ExxonMobil (or Esso, as it is known in Chad), Petronas, and Chevron, formed an agreement with the Chadian government to pump oil from the Doba oilfields in the south of the country through neighboring Cameroon to tankers in the Gulf of Guinea. On the financial side, oil revenues are paid to an escrow account in a Citibank in London, and expenditures are allocated by a monitoring committee. At four billion dollars, the pipeline is the largest single investment project on the continent in its history.[21]

The World Bank plays an important role in the pipeline project. The oil companies were wary of setting up shop in Chad, an isolated and historically unstable country. Exxon insisted that Chad invest in the pipeline as a sign of seriousness about protecting the entire investment in oil exploration. Chad agreed but had to apply to the World Bank for a loan so it could make its investment. The World Bank faced objections from environmental groups but agreed to lend Chad the money under the conditions that the repayment would be at market rates and that a trust fund from oil revenues would be set up. The bank also pressured Chad to make revenue destination transparent by giving it the force of law (which it did when it passed Law 001).[22] By getting approval for a program with the well-publicized intent of spending most of the government's share on reducing poverty, protecting the environment, sharing the proceeds in a transparent and equitable way, and extracting oil in a process that would prove profitable, the World Bank obtained the minimum commitments it needed from the Chad government for the project to move forward.

The oil companies set about installing a pipeline six feet below the ground of a remote population in the Sahel Desert. Giant power plants, generating 120 megawatts of power—more than five times Chad's entire capacity, feed the oil operation.[23] Exxon says that it conducted "the most comprehensive public consultation program ever—over 6,000 village meetings held, over 150 people employed in new environmental and safety programs, and 14,000 land users in Chad and Cameroon who were compensated individually."[24]

At the center of the *troika* of foreign oil companies, the Chadian government, and the World Bank is the *Collège de controle et de surveillance des resources pétrolières*, or Collège for short. Recruited from the judiciary, nongovernmental organizations (NGOs), the religious community, and a labor union, the Collège is charged with allocating revenues according to a scheme: Learning from the mistakes of its Nigerian neighbors, it gives 5 percent to the oil-producing region (although some have criticized this percentage for not being higher); 80 percent to so-called priority sectors; 15 percent to government; and in a plan borrowed from the Norwegian playbook, it keeps 10 percent in a "petroleum fund" for future generations.[25]

The pipeline scheme hit problems almost before the ink had dried on its contracts. They began when Chadian President Idris Déby used a portion of the government's signing bonus to buy arms. Plans still went forward, and after more exhaustive rounds of meetings and compromises, the first royalties were paid out of the London account in late 2003, and the first disbursements from the Collège followed in July 2004.

For close to a year, things appeared to be going well. Despite some reports of mismanagement, nearly 200,000 barrels of oil were pumped per day. Then on December 29, 2005, Chad's National Assembly passed legislation to amend Law 001. Abolishing the trust fund and doubling the government's take to 30 percent were among the changes effected. The flagrant breach of the Chadian government's commitment to the goals of the pipeline was more than it seemed to be. It was a reaction to the fact that the conflict in Darfur, Sudan, had spilled over into eastern Chad in the face of the largely ineffective diplomatic efforts of the international community to stop the genocide taking place there.[26] The World Bank would not accept any dilution of Law 001's guarantees of transparency and froze the $124 million held in Chad's escrow account on

January 6, 2006, effectively cutting off all other loan projects in the country. Not to be outdone, Déby responded five days later by giving the Law 001 amendment his approval, thereby giving it the force of law. The two sides have since dug in their heels.

With limited resources aside from oil, Chad is dependent on the success of the pipeline for the success of the country. Judging by current events, the prospects are not encouraging. The World Bank and Déby may get past their current disagreement, but World Bank worries about the fickleness of Déby's regime will persist, as will the Chadian government's worries about the World Bank's understanding of its security concerns.

In addition, the World Bank and foreign oil companies have gambled on the efficacy of transparency in alleviating corruption, but this may not be a sure bet. The Collège's effectiveness in making sure that oil revenues are used to reduce poverty depends on the willingness of the country's judiciary to prosecute cases of misuse, fraud, or corruption.

Another concern is the discovery of more oil. The Doba pipeline comes from one region in the south of a country of more than 500,000 square miles. Many oil companies are hard at work prospecting in other regions of the country, although no one has announced any commercially viable finds. If other oil is discovered, it is unclear whether any constituency involved will have the appetite to repeat a complicated, comprehensive oil revenue management scheme that has yet to be a success.

The World Bank may have overcommitted itself to the pipeline. In the past, the bank could threaten to withdraw from a project or refuse to provide debt relief. After insinuating itself into the pipeline project as a necessary component by arranging for Chad's loan money to be invested, the World Bank's withdrawal is not an option unless its relationship with the Déby regime deteriorates greatly or a civil war or terrorism destroys the oil infrastructure. As reports that the violence from neighboring Sudan is spreading into eastern Chad become more frequent, the latter scenario has unfortunately become a greater possibility, especially if as a result Déby decides to use the pipeline's revenues for arms instead of economic development.

Despite the possibility that problem scenarios may occur, the pipeline is still capable of succeeding. If it leads to less poverty in Chad, there is no apparent reason why it could not be replicated elsewhere. The challenges that the pipeline faces may appear daunting but are not insurmountable.

Much depends on Chad's willingness and ability to tackle corruption. There was a lot of publicity in 2005 for increasing aid, but comparatively little attention was given to what destroys progress. Corruption vitiates development efforts. According to a report issued by the African Union, corruption costs Africa $148 billion a year, many times the well-publicized money recently promised by the G-8 for debt relief over the next decade.[27] Unless corruption is curtailed, the U.S. government and oil companies cannot hope to advance the safety and security of oil supplies from the region. Corruption that has been nurtured can be difficult to uproot.

Corruption

A good example of the risks and challenges of tackling corruption can be seen in Angola, the top African oil producer after Nigeria. Like Nigeria, its major growth for oil exports lies in its deep waters. The Angolan government is predicting exports of 2 million barrels per day by 2010, although some observers do not believe such high numbers are likely.

The Angolan government earns between four billion and five billion dollars a year from oil revenues. This amount is roughly 85 percent of total oil revenue collected through the government-run Sonangol, or *Sociedad Naçionao de Combustiveis de Angola*. The entity was founded in 1976 as the sole concessionaire for oil exploration and development, even though it had no resources, supplies, experience, or manpower experienced in getting an oilfield online. It still does not. For that, it subcontracts foreign oil companies. The most popular arrangement nowadays is known as a Production Sharing Agreement (PSA), whereby foreign companies bear the full cost of exploration and development but recoup their investments through "cost oil" and "profit oil." Sonangol supervises the companies and collects taxes and revenue on behalf of the Angolan government. The attraction for the Angolan government is clear. With little or no up-front investment, their involvement has been simplified to a few actions: signing rights away, waiting, and cashing out. If the oil company recoups its investment faster than planned, the second step may be unnecessary. In turn, oil companies limit their risks by allowing a faster depreciation of their investment and reducing their tax liability.

Both sides seem to be satisfied. An *Economist Intelligence Unit* report stated, "The government has ringfenced the oil sector against the inefficiencies of the rest of the economy and relations with the oil companies are generally good."[28]

Ringfenced, indeed: The "oil-igarchy" in Angola, one of the most corrupt in the world, derives 90 percent of its revenue from oil, and even though the majority of it is no longer spent on weapons, it is not being spent the way it should be. In principle, oil revenues are meant to be shared with the citizens of Angola. The founding bylaws of Sonangol clearly assign ownership of the country's oil to the Angolan people. This is in contrast to Nigeria, whose federal government claims the country's oil for itself.

Some say that oil companies are at least partially responsible for the situation in Angola. They are uniquely positioned to lean on the government for greater transparency. Oil companies have sometimes responded that they are not in the business of telling lawful governments what they should or should not spend their money on. After all, they say, governments in the West are expected to be challenged by their electorate and public opinion, not by corporations. Whether that is possible in countries racked by violence, repression, and corruption is an open question.

A consortium of NGOs based in Great Britain has been trying to persuade oil companies to "Publish What You Pay" and advocating that an international financial reporting standard be established for the extractive industries.[29] By requiring the country-by-country reporting of statistical data and commercial performance, taxes, and other revenue paid to governments, they reason, host governments could be held more accountable for the wealth derived from the exploitation of their people's lands.

Other analysts look to the root of the problem to combat corruption, the governments themselves, and assert that Western governments are too willing to excuse bad behavior. Instead of debt forgiveness, they believe that political sanctions and, when warranted, criminal prosecutions will provide the right answer. They believe that significant measures undertaken to combat corruption should serve as the overriding principle on which direct aid, international financial institution programs, and debt forgiveness should be based. Corrupt government leaders could be shunned by being denied visas and isolated by the international community.

Competition

The problem with either holding oil companies to account for host government spending or passing political sanctions is that the outcome would depend on a good-faith effort from the entire international community, not just, for instance, the United States. China, India, and other countries have shown little regard for where their payments end up, dismissing the issue as an "internal matter" for governments to decide for themselves. Their oil companies are either government run or parastatal, meaning that they do not answer to shareholders. Some refer to this with tongue in cheek as China's and India's "ethical advantage." This advantage undermines efforts at promoting democratic principles of good governance, corporate responsibility, transparency, accountability, and investment in human infrastructure and development. African governments, Robert Mugabe's Zimbabwe being the most vocal about the direction it is taking, are increasingly "looking East" to governments that do not ask uncomfortable questions.

In Angola recently, in an incident widely noted in the global oil industry, when Shell was considering selling a 50-percent stake in an oil block to an Indian company, Sonangol intervened and ensured that the stake was sold to a Chinese company. Many observers surmised that Sonangol's action was designed to reward the Chinese government, which had extended a two billion dollar loan through the Chinese Export-Import Bank at essentially no interest to Angola. Sonangol has denied that the loan played a part in its decision to redirect the sale. Such deals are by no means the province of Eastern governments, and the actions of Western governments are by no means uniform. For example, France has been directly implicated in providing arms to the Angolan government.[30]

As in Nigeria, an upcoming election in Angola could very well be one of the more decisive moments in its history. Unfortunately, its prospects for taking place at all, much less being fair, are dim. There has been talk of engaging regional actors like the South African Development Community (SADC), but its credibility has been questioned since it endorsed Robert Mugabe's reelection in 2005.

The stakes are getting higher as oil becomes more precious and more players enter the field. The energy consulting firm PFC Energy predicts that West Africa will be the number one source outside OPEC of the additional oil needed to meet the rise in world demand between now and 2015.[31] China's demand for oil is growing 7.5 percent a year, seven times faster than that of the United States. China's top offshore oil producer recently agreed to pay $2.3 billion for a stake in a Nigerian oil and gas field, its largest overseas acquisition. The oil is not for the Chinese market because China can satisfy its need for oil from fields closer to home. The Chinese intend to use some of the oil for export to the United States and Europe and allocate the rest to its reserves. As each deal solidifies ties between China and African countries and adds momentum to future contracts, the concern for U.S. energy interests is apparent. The China-Africa Cooperation Forum now operates at the ministerial level.

China is not the only country that is increasing its profile on the continent. India, Taiwan, Malaysia, Venezuela, and Brazil have all significantly stepped up their aid and investments in Africa.

Conclusion

The challenges and opportunities for U.S. foreign and energy policies vary from country to country in West Africa, but it is still possible to speak of a broad strategy covering both a wide geographic area and a range of issues. Right now there is none. The Chinese recently released a paper, numbering more than 3,000 words in English, elaborating on their policy toward Africa.[32] It can be argued that a document issued by the U.S. government should address issues like terrorism in Nigeria, revenue sharing in Chad, and corruption in Angola, but the current lack of a coherent, broad energy policy incorporating trade, aid, and perhaps a role for NATO in Sub-Saharan Africa suggests that such a strategy would not be comforting to those who seek to avoid a replay of the negative effects oil has had on populations in the Middle East. "We are not ready for trouble, but trouble is on the horizon [in the Gulf of Guinea]," says the former assistant energy secretary in the Clinton administration.[33]

The good news is that U.S. policy toward Africa retains a strong support base in Congress from both Republicans and Democrats. Immigration and greater media coverage of African events have widened and deepened support within American society for African affairs. The circumstances have never been more amenable to positive action.

About the Author

Daniel Morris is the assistant to the president of the National Committee on American Foreign Policy. He spent a good part of 2003–2005 working in the public and private sectors in Ghana.

Notes

1. The full texts of the Laws of the Sea are available on the United Nations Web site.
2. The full text of U.S. President George W. Bush's State of the Union speech, January 31, 2006, is available on the White House Web site.
3. Lisa Sanders, "Energy Advisory Firm CERA Sees No Oil-Supply Peak by 2020," *The Wall Street Journal*, December 7, 2005.
4. Jeffrey Ball, "Angola Possesses a Prize as Exxon, Rivals Stalk Oil," *The Wall Street Journal*, December 5, 2005.
5. "U.S. Presses Africa to Turn on the Tap of Crude Oil . . .," *The Times of London*, July 29, 2002.
6. Dr. James Forest and Major Matt Sousa, "Oil and Security in West Africa: A Chance to Get It Right," available at www.higher-ed.
org/JF/research.
7. David L. Goldwyn, Testimony Before the Subcommittee on International Economic Policy, Export and Trade Promotion, July 15, 2004.
8. Nick Tattersall, "West African Oil Gives U.S. New Security Challenge," *Reuters*, December 17, 2004.
9. Raffi Khatchadourian, "Arming the Camel Corps," *The Village Voice* (February 1–7, 2006): 33.
10. Ibid., 32.
11. Taped speech broadcast on Al Jazeera (February 11, 2003).
12. Tattersall, op. cit.
13. Roger D. Blanchard, *The Future of Global Oil Production*, Jefferson, N.C., 2005, 64.
14. Many facts on Port Harcourt have been taken from a descriptive history in *Oil and the Economic Geography of the Middle East and North Africa: Studies by Alexander Melamid*, ed. by C. Max Kortepeter, 1991, 73–81.
15. Karl Meier, "Shell 'Feeds' Nigeria Conflict, May End Onshore Work," *Bloomberg News*, June 10, 2004.
16. *IRIN-News*, "Delta Militants Release Hostage Photos," February 24, 2006.
17. *IRIN-News*, "Oil-rich Niger Delta Faces 'Shocking' New Wave of Violence," January 27, 2006.
18. Full text available at the Federal Emergency Management Agency Web site.
19. David Downing, *Africa: Postcolonial Conflict*, Chicago, 2004, 28.
20. Raghuram Rajan, "What Undermines Aid's Impact on Growth?," September 2005, IMF Web site.
21. The World Bank maintains a special section on its Web site for answers to frequently asked questions about the Chad–Cameroon oil pipeline project.
22. The full text of Chad Law 001 is available on the Banking Information Center Web site, http://www.bicusa.org.
23. Nick Kotch, "African Oil: Whose Bonanza?" *National Geographic*, September 2005, 61.
24. Nick Kotch, op. cit., 55.
25. The World Bank Web site, http://www.worldbank.org

26. Often a controversial term, "genocide" is used popularly to label the situation in Darfur.

27. Transparency International Web site: http://www.transparency.org.

28. Economist Intelligence Unit, "Angola: Country Report," May 2003.

29. The Publish What You Pay Web site is online at http://www.publishwhatyoupay.org.

30. The British NGO Global Witness has published extensively on oil corruption in Angola, including details of arrangements involving many Western governments.

31. Ball, op. cit.

32. "Chinese Government Issues African Policy Paper," *Xinhua*, January 11, 2006.

33. Goldwyn, op. cit.