

## **Praise for Oil, Profits, and Peace**

“Jill Shankleman asks whether oil and gas companies can, and should, do more to promote peace and mitigate conflict in the fragile countries where they operate. Her answer is an emphatic “Yes!” Intensely conscious of both the opportunities and the constraints that corporations face in difficult environments, she focuses on three case studies: Azerbaijan, Angola, and Sudan. The result is a balanced, comprehensive, and practical analysis that is thoroughly readable. Shankleman offers concrete recommendations encouraging companies to increase shareholder value while at the same time reducing conflict risk. A must-read for the governments of oil-producing countries, officials from donor countries and multilateral organizations, NGOs, students of conflict resolution, and, most of all, oil industry executives.”

—Pauline H. Baker, President, the Fund for Peace, and founder, the FFP Human Rights and Business Roundtable Fund for Peace

“Oil, Profits, and Peace is a masterly and accessible analysis of the rising social costs of oil production in emerging countries. This well-researched, appealingly written book points up the dangers posed by volatile oil prices, and the links between oil export and conflict. In a compassionate and sincere tone, Shankleman presents compelling suggestions to oil companies on how their activities can promote peace, even in difficult environments. This should be obligatory reading for anyone interested in the politics of oil and global development.”

—Toyin Falola, the Frances Higginbotham Nalle Centennial Professor and University Distinguished Teaching Professor, University of Texas at Austin, and coauthor of *The Politics of the Global Oil Industry*

“A superb nonideological, analytical primer on the oil industry, the ‘resource curse,’ and the efficacy of corporate social responsibility programs. Essential reading for corporate managers, NGO advocates, and serious students of oil and conflict.”

—David Goldwyn, President of Goldwyn International Strategies, LLC, and former Assistant Secretary, U.S. Department of Energy

“If you read only one book about the international oil industry, this should be it. This advice applies whether you work for an oil company, a government, an NGO, or the media, or are just a member of the general public interested in how the presence of oil companies affects the lives of people and nations. Shankleman’s scope is vast, and the data she marshals daunting, but she imposes order effortlessly on what could so easily have been chaos, presenting her arguments and recommendations in lucid, easily read prose. Speaking from some thirty-eight years’ exposure to the issues involved, I find her analysis scrupulously fair both to governments and to the oil industry, well founded on practical examples, and clear on the limits to responsibility and freedom of action. Her focus on revenue-associated issues and their potential solutions as the critical concern is wholly correct, yet she also emphasizes the other areas—especially responsible social impact management and employment creation—where more systematic and proactive oil company action than is currently the norm can improve things greatly. Here as in other areas, her suggestions for the path ahead are pragmatic in the extreme. As a long-term oilman, I would find it a matter for regret if Shankleman’s book did not become required reading for the in-house courses run by oil companies for their graduate staffs, or if a well-thumbed copy did not have a place on the desk of every oil company executive.”

—Donal O’Neill, Resource Advisors Ltd., retired from Shell International, Exploration and Production

“Managing ‘resource curse’ and its elements of conflict is one of the greatest challenges facing future supplies to world oil markets. Shankleman’s book is a balanced, intelligent, and innovative contribution to the growing debate on what the nature of that challenge is and how it might be managed by all players but especially the oil companies. It should be compulsory reading for all involved in investing in upstream oil.”

—Paul Stevens, Professor, the Centre for Energy, Petroleum and Mineral Law and Policy, University of Dundee, Scotland

# Oil, Profits, and Peace

*Does Business Have a Role  
in Peacemaking?*

Jill Shankleman



UNITED STATES INSTITUTE OF PEACE PRESS  
Washington, D.C.

The views expressed in this book are those of the author alone. They do not necessarily reflect views of the United States Institute of Peace.

UNITED STATES INSTITUTE OF PEACE  
1200 17th Street NW, Suite 200  
Washington, DC 20036-3011

© 2006 by the Endowment of the United States Institute of Peace.  
All rights reserved.

First published 2006

Printed in the United States of America

The paper used in this publication meets the minimum requirements of American National Standards for Information Science—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1984.

### **Library of Congress Cataloging-in-Publication Data**

Oil, profits, and peace: does business have a role in peacemaking? / Jill Shankleman.

p. cm

Includes bibliographical references and index.

ISBN-13: 978-1-929223-98-5 (pbk. : alk. paper)

ISBN-10: 1-929223-98-6 (pbk. : alk. paper)

ISBN-13: 978-1-929223-99-2 (hardcover : alk. paper)

ISBN-10: 1-929223-99-4 (hardcover : alk. paper)

1. Petroleum industry and trade. 2. Petroleum industry and trade—Angola. 3. Petroleum industry and trade—Azerbaijan. 4. Petroleum industry and trade—Sudan. 5. War—Economic aspects. I. Title.

HD9560.5.S438 2006

338.2'7282—dc22

2006024309

*To Hannah and Josh, and other family members and friends,  
with thanks for putting up with all those dinnertime talks  
about oil wealth and pipelines.*



# Contents

Foreword <i>by J. Robinson West</i>	ix
Acknowledgments	xiii
<b>1.</b> Introduction	3
<b>2.</b> The International Oil Industry	13
<b>3.</b> Links between Oil and Conflict in Producing Areas	37
<b>4.</b> Corporate Social Responsibility	55
<b>5.</b> Azerbaijan: Oil, Conflict, and the Business Role in Peacebuilding	75
<b>6.</b> Angola: Oil, Conflict, and Postconflict Reconstruction	93
<b>7.</b> Sudan: Oil Wealth, Civil War, and the Peace Agreement	115
<b>8.</b> Conclusions	143
Notes	165
Appendix: List of Acronyms	197
Bibliography	201
Index	205



# Foreword

**E**NERGY SECURITY—RELIABLE SUPPLY AT REASONABLE COST—has become the subject of front pages and summit meetings. But *governance* of the energy sector, though central to the issue, is not nearly so well understood, and all too often ignored. To understand it, we must decouple the physical exploration, development, production, transportation, and consumption of oil and gas from the funds that these activities generate.

The physical functions are largely technical, and best practices and state-of-the-art technology are well known and recognized. The revenues generated from oil and gas, however, are a different matter altogether. Most of these moneys are controlled by despotic governments accountable to no one but themselves. The fiscal management process is opaque by design, and the result, almost always, is massive corruption.

Oil and gas are exceptional natural resources, controlled by the state and overshadowing all other potential sources of revenue. Very few oil- and gas-producing states have strong institutions of government based on rule of law, transparency, and accountability. Most are in the Middle East, Africa, Latin America, and the former Soviet Union, where democracy and civil society are still only remote concepts, much less functioning institutions.

Oil and gas activities are capital intensive, not labor intensive, requiring huge sums of money based on little labor; thus, only a small number

of workers must be paid. Moreover, much of the critical labor is provided by the international oil service companies themselves, using professionals paid by arm's-length contact at established market rates. In general, then, oil production brings scant employment opportunities to local populations.

Since funds from oil and gas investment production dwarf all other government receipts combined, control of those funds becomes an enormous potential prize. It represents control of the government itself. With large oil receipts, the government doesn't need tax revenues. Unfortunately, with no need for taxes, the government has no need to seek the people's permission to levy them. Thus, the people have no leverage for holding officials accountable, and consent of the governed goes out the window.

Corruption and despotism are the predictable results of oil and gas production in all but a few places. High oil prices simply lead to greater misrule, since governments that have more money to steal or squander will cling to power ever more desperately.

Given the current high prices and correspondingly huge revenues, the citizens of oil-producing countries are furious that they have received no benefits from their corrupt governments. And their governments, rather than share the benefits, either repress opposition and disrupt or fix elections, or blame others—often the developed world—for the suffering and indignity wrought by their own greed and incompetence. Because rulers of oil-producing countries will do anything to hold on to power, which equals wealth, their decisions are calculated to centralize power, not diffuse it. Large, inefficient government-controlled enterprises are encouraged, since they provide money and jobs to friends, while small businesses are discouraged because, living by market rules, they challenge the state.

Patronage and corruption, by definition, lead to bad political and economic decisions. One area of massive corruption in the energy sector is the fees and kickbacks surrounding the investments necessary to generate further revenues. Huge bribes are paid to government officials in exchange for inflated contracts in large projects. Platforms, pipelines, refineries, tankers, and other infrastructure investments cost billions, and officials at all levels take their cut.

The result is inefficient, undemocratic governments, which are inherently unstable, controlling the essential commodity of the international

economy: energy. And yet, the options for externally imposed reform are seriously limited, since control of natural resources is fundamental to national sovereignty; that is, the oil and gas lying beneath the land belong to that nation alone, as does the money generated by those resources.

The leading international oil companies (IOCs) are frequently and wrongly blamed for this disastrous situation. Their job, as they see it, is to produce efficiently the oil and gas owned by the host countries, and to pay taxes, bonuses, and royalties consistent with their contractual requirements. All the large IOCs are barred by law from paying bribes, and they have enormous reputational risk as well. The populations of energy-producing countries are deeply frustrated and look to the IOCs to meet their aspirations for civil society, sustainable growth, and a clean environment—considerations typically ignored by their own governments. Although IOCs are making efforts to correct these ills through corporate social responsibility, the solution to many of these issues lies beyond both the resources and the responsibilities of the companies.

An added obstacle to corporate social responsibility is the arrival of new IOCs from emerging countries, competing directly with established IOCs. These companies will not scruple to pay bribes and have little interest in international public opinion or corporate responsibility. Free of the constraints governing the established IOCs, they can do great harm.

To the extent that an answer to this destructive situation exists, it lies in transparency. Precisely who is stealing the money or taking the bribes? Where is the money being banked? The World Bank and the International Monetary Fund are pushing for transparency, as are the established oil companies, though their efforts are hindered at every turn by the laws and traditions in many of the producing countries, where stealing money and receiving bribes may not even be illegal.

That said, even in the most blatantly corrupt countries, misappropriation of funds is deeply embarrassing and can threaten the legitimacy of the government, and corruption identified can bring down some of the worst governments. A key to promoting transparency rests with the international banking community, which has been woefully lax about accepting corrupt funds, and diligent in keeping the sources of those funds quiet.

Governance of the petroleum sector is a vital and pressing international problem that must be confronted at the highest levels of author-

ity, and now rather than later. The reasons for this urgency are twofold: one humanitarian, the other pragmatic. Millions of people suffer needlessly under corrupt, unstable governments, while the lifeblood of the world economy, petroleum, is being grossly mismanaged by those in power—a situation that is both untenable and unacceptable in political, economic, and moral terms.

In her timely and perceptive book *Oil, Profits, and Peace*, Jill Shinkleman explores in detail how the oil companies can be agents of change in alleviating the “curse of oil,” and the limits to their ability to exert influence over the governments that own oil resources. Faced with activist demands for reform and the escalating costs of conflict in oil-producing countries, the industry is now paying more than lip service to the notion of corporate social responsibility, because concern for the people living in production areas, and for where the oil revenues go, is making better business sense than ever before.

Shinkleman, a veteran consultant to oil companies, governments, and nongovernmental organizations (NGOs), presents an evenhanded, insightful picture of the incentives and impediments that Western oil companies encounter in the effort to lessen or even prevent conflict in the host countries where they operate. In exploring and analyzing the links between oil and conflict, and the rapidly evolving field of corporate social responsibility, she focuses on Azerbaijan, Angola, and Sudan, three countries whose experiences with conflict and the oil industry vary widely. Shinkleman’s conclusions and recommendations for industry and government policymakers are uniquely tailored to each situation, and yet they resonate with wider implications for anyone involved in the many political and social issues facing oil-producing countries worldwide. Increasingly, companies are taking the route of enlightened self-interest, seeking collaboration with governments and NGOs to increase transparency, improve local livelihoods, and create a new paradigm for the pursuit of both profits and peace. The strategies discussed in this important book will prove indispensable in bringing this about.

J. Robinson West, Chairman of the Board  
United States Institute of Peace

# Acknowledgments

I WOULD LIKE TO EXPRESS MY GRATITUDE to the United States Institute of Peace for the wonderful opportunity provided by the Jennings Randolph Fellowship Program, for the support, encouragement, and stimulation provided by the institute's staff, and for its excellent library services. I would also like to thank Hugh Attwater, Ginny Bouvier, Michael Carr, Harriet Hentges, Nigel Quinney, Rachel Siddy, Robin West, and the anonymous reviewers for contributing in no small measure to the insights, arguments, and structure of this book. I take sole responsibility for its weaknesses.

