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Introduction

The presence of oil resources in developing countries presents a huge paradox. On the one hand, oil and gas discoveries make the eradication of poverty and the development of strong economies a possibility. This is what happened, for example, in Texas and Alaska in the nineteenth and mid-twentieth centuries. More recently, in 2004, then Prime Minister Mari Alkatiri of East Timor declared that oil discoveries in the Timor Gap could provide "the money to immunize and educate every child"[1] in his country, one of the world's newest and poorest states. Angola, too, sees its burgeoning oil industry as a means of escaping poor economic conditions. Forecast government earnings from oil exports alone will average between $350 and $700 per capita per year between 2002 and 2019. This compares with Angola's entire per capita gross national income of just over $1,000 in 2004.[2]

On the other hand, the "curse of oil" is evident in many oil-rich countries worldwide, with oil-producing states showing a high incidence of corruption and violent conflict, and low scores in education and health services and economic strength. Countries with petroleum resources made up over a quarter of the seventy poor countries potentially eligible for aid under the U.S.-sponsored Millennium Challenge Account (MCA) launched in 2004, but only two (Bolivia and East Timor) were among the twenty-three countries that gained eligibility in

2005 by meeting the required criteria: "ruling justly," promoting "economic freedom," and "investing in people."[3] And whereas oil might be expected to provide the economic means for preventing or resolving conflict or for rebuilding countries that have suffered civil war, the reality is that countries with oil and gas resources, much like those producing diamonds or narcotics, are among the world's most persistent trouble spots. Of the seventy-four countries considered to be in situations of current or potential conflict by the International Crisis Group in February 2006, 35 percent have known oil or gas resources.[4]

This book explores these paradoxes, focusing on the links between oil and gas resources and conflict in producing countries and considering the potential for, and limits to, corporate social responsibility approaches, by which corporations look beyond short-term profits to their wider impacts, as a means of weakening these links. In considering local violent conflict and civil war, I define "peacebuilding" to include, along with the traditional sense of "peacemaking" (i.e., conflict prevention and resolution), the added aspects of postconflict stabilization and reconstruction. I take a close look at the international oil industry—the hundreds of private-sector, state-owned, and hybrid companies that lead the business of exploration and production of oil and gas—and more specifically at the operations of these businesses in Africa and the Caspian region, where most foreign investment goes to the oil and gas sector.[5] The book focuses on oil rather than gas production because, as set out in greater detail in chapter 3, while the links between gas and conflict are broadly similar to those for oil, they are generally less strong because higher production costs reduce the government revenue that is the key factor linking oil and gas production and conflict.

This work builds on the efforts of two developing schools of endeavor: (1) the emerging discussions in business, policy, and academic circles on the extent to which the long-term business interests of corporations create a "business case" for their engagement in conflict prevention and resolution; and (2) the growing interest of those involved in peacebuilding in the role of economic factors and agents.

The first three chapters set out a framework for understanding the two key links between oil and conflict. The first and strongest link derives from the wealth that oil production generates for the governments of producing countries. Control of this wealth can be a powerful stimulus for conflict; resource-based wealth in general is often, paradoxically, an obstacle to economic development and is thus an indirect contributor to conflict. The second link derives from the damaging impact that oil production can have on the stability of oil field areas, in the form of environmental damage, social tension, and incentives for secession. Oil companies are aware of these problems, and corporate social responsibility concepts, reviewed in chapter 4, provide a framework for addressing the role of business in solving them. The specific links between oil and conflict, and the ways in which oil companies have confronted and may confront them in the future, are then examined in three case studies: Angola, Azerbaijan, and Sudan. The final chapter presents overall conclusions addressing three main questions: First, what is the causal relationship between oil production revenues and violent conflict, and what potential actions can oil companies take to improve this relationship? Second, what is the relationship between oil and gas production methods and violent conflict, and how can oil companies effect positive change? Third, what is the potential for oil companies, as major foreign investors, to play a role in conflict prevention and resolution and postconflict stabilization by virtue of their size, resources, and networks?

The issues surrounding business's role in peacebuilding are important to petroleum companies because violent conflict in oil-producing areas jeopardizes investments. Consider that in the mid-1980s an American oil company had to abandon its $2 billion operation in Sudan; production facilities lie unused today in parts of the Niger delta because operations cannot be protected from attack; and corporations risk damage to both their share value and reputation by doing business in conflict zones unless they have convincing arguments that they contribute to peacebuilding.

Governments and the wider international community have their issues, too. Sharp increases in oil prices in mid-2004, with consequences for the world economy, are attributable in part to concerns about the security of supply from strife-torn Nigeria, Iraq, and Venezuela. For the United States in particular, efforts to diversify sources of oil imports away from the Middle East depend on stable access to supplies from emerging oil states in Africa, the former Soviet Union, and Latin

America. It is therefore vital to ensure that economic, political, and social decline does not accompany the growth of oil production.

Meanwhile, the human cost of present-day violent conflict, whether localized or on the scale of civil war, is rarely confined to active combatants. Attacks on, and forced expulsion of, civilians have characterized post–Cold War conflicts, as has the spillover of conflict into neighboring states, adding to demands for international humanitarian assistance and intervention.

This book is aimed at students, researchers, and practitioners in the business and policymaking communities. The analysis of the oil industry, and the oil-and-conflict framework presented, as well as the references to key information sources, is intended to provide a starting point for analyzing oil, conflict, and corporate responses in any producing country. The country case studies should be of interest to researchers and policymakers involved in these countries, in part because they highlight the complexity of the relationships between oil and gas resources, economic development, conflict, and corporations, and the importance of undertaking country-specific assessment before making policy decisions.

I decided to write this book because, as a consultant to the oil industry on the social impacts of investments in developing countries, I have seen gaps in the resources available to industry decision makers, policy makers in oil-rich countries, planners of development programs, and activists in nongovernmental organizations (NGOs).

One gap is in analysis that explores, in a nontechnical way, why oil company investments in developing countries often have the unintended consequence of increasing rather than reducing stability, and why in countries with oil wealth it is particularly difficult to achieve a democratic, market-based economy and a peaceful environment. Though much excellent research has been done by political scientists and economists, little of this has yet percolated through to decision makers in corporations, government departments, and civil agencies. Further, among those who are alert to the risks that oil production may exacerbate conflict, some overestimate the degree to which individual corporations can influence outcomes. The specific trigger for researching this book was the repeated discussions with NGO activists about whether the oil companies investing in Azerbaijan could, or should, contribute to resolving the Nagorno-Karabakh conflict, and, more widely, about whether investor companies have a responsibility for engaging in peacemaking if they invest in conflict zones.

The approach of this work is to draw together the findings of academic research on natural resources and conflict, and information from industry and corporate sources about how the oil industry is structured, where it invests, and how decisions are made, in order to develop a framework for understanding the links between oil and conflict at both the national and the local level. Then, using a mix of document-based research and interviews, I test and refine this model by applying it to three country case studies. I aim throughout to keep the focus on how individual oil companies could influence outcomes, and on the incentives and disincentives for doing so.

Although the Middle East accounts for the largest share of world oil production (31 percent) and proven reserves (62 percent),[6] no countries from this region are included as case studies in this book. This is because, since the nationalizations of the mid-twentieth century, international oil companies have had little involvement in exploration and production in the area. Thus, in Saudi Arabia, where the largest reserves are located and the greatest share of the world's oil is produced, almost all reserves are controlled by the state oil corporation, Saudi Aramco.[7] However, while consideration of the role of the international oil industry in peacebuilding is therefore not directly relevant to the Middle East, the broader questions explored in this book, particularly those relating to the political and economic effects of government revenues from oil, are nevertheless relevant.

Many countries could have been drawn upon to provide insights and evidence for this study. Of these, Azerbaijan, Angola, and Sudan were selected for a mix of practical and analytical reasons. I have worked in both Angola and Azerbaijan as a consultant to oil companies, seeing firsthand how the issues of revenue, local impact, and conflict are being understood and addressed, and discovering how governments, civil society organizations, and businesses outside the oil sector view the actual and potential roles of oil companies. The case of Sudan poses critical questions about the influence, responsibilities, and competitiveness of

Western companies in the context of an increasingly globalized oil industry, and about international leverage to control maverick regimes that thrive on earnings from oil. Sudan is an important focus area for the United States Institute of Peace. During my fellowship tenure at the Institute in 2003–04, I was privileged to attend meetings of the Sudan Peace Forum that the Institute hosts, and to meet many of those from Sudan and elsewhere concerned with the north-south peace negotiations then underway.

The countries profiled in this study share interesting similarities. All have a growing oil industry and increasing government reliance on oil revenues as a source of income; all have high levels of poverty; all have governments with poor human rights records and weak or, in the case of Sudan, nonexistent democratic credentials; and all have embryonic market economies. With these common themes in mind, the three case studies provide an opportunity to explore different business and conflict contexts.

Angola has nearly doubled its oil output in the past decade to become the second largest producer in sub-Saharan Africa (after Nigeria), and many of the largest stock market–listed oil companies, as well as some smaller businesses and state oil companies, do business there. Angola's oil fields are mostly offshore, so the industry was able to expand virtually unimpeded during the thirty years of civil war. This complex war started with competing anticolonial liberation movements and, after independence, became enmeshed with Cold War competition between the superpowers. At the end of the Cold War, Angola's civil war was increasingly financed by oil (and, to a lesser extent, diamonds) until a peace agreement was made in 2002 following the death in battle of the leader of UNITA, one of the two contesting forces. A long-standing intermittent and violent secession conflict remains unresolved, however, in Angola's oil-rich Cabinda Province. This is a barrier to stabilization in Angola and a contributor to tensions in the wider Central African region. In the post–civil war environment, one of the key issues for Angola, and a major factor in its international relations, concerns control and management of the country's extractive industry earnings—whether and how they will be used to build a stable, democratic, peaceful country. This case gives insights into a historic relationship between oil production and conflict, and the challenges faced in changing this relationship in a postconflict environment.

Azerbaijan, in the former Soviet Union, is another country on track to become a major source of oil and gas to world markets, albeit on a smaller scale than Angola. Its economic and political development is circumscribed by the unresolved conflict with neighboring Armenia over the contested territory of Nagorno-Karabakh, which fell under Armenian control after the bitter conflict of the late 1980s and early 1990s, which erupted into full-scale war during 1991–94. Although a cease-fire has been in place in Nagorno-Karabakh since then, sporadic incidents causing fatalities among soldiers and civilians have continued, and there is little popular or political momentum toward peaceful resolution. The border between Armenia and Azerbaijan remains closed. This "frozen conflict" is a barrier to economic development in the South Caucasus region, and a flashpoint that carries the risk of drawing in the neighboring countries of Iran, Russia, and Turkey. Long-standing international diplomacy, in the form of the Minsk Group process, has been ineffective in brokering a solution. Hundreds of thousands of people remain displaced in temporary accommodations and camps. Azerbaijan's rising oil and gas exports will alter the balance of power between Azerbaijan and Armenia by providing large additional financial resources to Azerbaijan's government. International investment in Azerbaijan's oil industry is dominated by one large company that has a strong commitment to corporate social responsibility. This case, therefore, gives insight into the opportunities for, and limits to, business engagement in conflict prevention and resolution.

The third case study, Sudan, like Angola, has suffered a long and complex series of civil wars dating from before its independence in 1956. The principle conflict has been between the Arab north and African south, but there is also conflict within these two regions: in Darfur in western Sudan and, to a lesser extent, in the east. While disputes over the scarcity of some resources (agricultural land and water) have contributed to conflict, so has an abundance of other resources, particularly oil. Oil fields were discovered in Sudan in the 1970s, in the area straddling north and south, during the thirteen-year peace that separated the first and second periods of civil war. Although production stopped shortly after civil war resumed (because of attacks made on oil facilities), in the late 1990s oil exploration and production restarted in some areas amid ongoing civil war. Other oil areas have remained undeveloped because of the war. The initial discovery of oil raised the stakes in the north-south conflict, and export production since 1999 has provided the government of Sudan with sufficient resources to prosecute wars. The sharing of oil wealth between north and south in the future is an integral component of the Sudan north-south peace process, first formalized in the July 2002 Machakos Protocol. In mid-2004 the "Framework Agreement on Wealth Sharing," which includes provisions for sharing oil revenues between north and south, was negotiated as part of the package to end the north-south conflict—a first example of oil revenue management comprising an explicit component of a peace agreement. As well as examining links between oil and conflict, this case illustrates how the distribution of oil wealth can be a key component of peace agreements. It also highlights the limited impact of an individual company's presence or withdrawal on conflict dynamics.

I did much of the research for this book in 2003–04, while a senior fellow at the United States Institute of Peace. The book also draws on my experience as a consultant to international oil companies and nongovernmental organizations on the social impact of international investments. The research has benefited from discussions with many people in the oil industry, governments, NGOs, and academia, as well as with colleagues at the United States Institute of Peace. In several cases, those I spoke with did not want to be identified, because they were critical of the organizations they worked for or were associated with. Consequently, few quotations are included, and interviewees are usually not identified. Nevertheless, every effort has been made to reflect accurately what was said. I acknowledge with gratitude the insights and comments of all those I have spoken to and worked with on these subjects. The study's limitations, however, are wholly my responsibility. In the two years since my tenure at the Institute ended, the doubling of crude oil prices has exacerbated the forces that I discuss. As final edits were being made, in spring 2006, hopes in the New Year for a settlement to the Nagorno-Karabakh dispute have faded, the 2005 north-south peace agreement is threatened by a laggardly transfer of wealth to the autonomous South Sudan created by the agreement, and the government of Angola and the international community have failed to resolve their dispute over transparency about oil revenues, so that hopes of a post-conflict donor conference to support the country's transition to peace are at an end. In the countries discussed to a lesser extent in this book, the bold effort to prevent oil wealth from fueling conflict in Chad is under duel threat: from the government, which is reneging on laws intended to ensure good management of oil wealth, and from rebels challenging the government's hold on power. In the Niger delta, some 40 percent of oil production is "shut in" due to conflict, and conflict over the sharing out of Iraq's oil wealth continues to bedevil a political settlement there as well. This book seeks to explain why such impasses occur and to outline the ways in which corporations can seek to exercise a restraining influence. Ultimately, however, it is the people and the governments of oil-rich countries, not the corporations that invest there, who determine the outcomes.