CSIS AFRICA PROGRAM

Promoting Transparency in the African Oil Sector

A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa

Cochairs
David L. Goldwyn
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Promoting Transparency in the African Oil Sector

Recommendations for U.S. Policy

David L. Goldwyn and J. Stephen Morrison

Overview

The United States has vital—indeed rising—national interests in West and Central Africa, concentrated in, but not restricted to, Nigeria and Angola. Increasingly, the future of this complex, unsteady zone is critical not just to the security and diversification of U.S. energy supply, but also to: regional peace and U.S. global counterterrorism efforts; promotion of democracy and equity, sound environmental practice, and human rights; control of HIV/AIDS and narcotics trafficking; and containment of crime syndicates. Proven oil reserves in the region doubled in the past decade, to over 60 billion barrels.

In recent years, U.S. diplomatic and security engagement in West and Central Africa has expanded. Since 1999, U.S. administrations have actively supported the restoration and consolidation of Nigeria's fledgling democracy. Since 2002, Washington has made clear its willingness to assist Angola's transition from war to peace and autocracy to democracy, following Jonas Savimbi's death, the end of UNITA as a military movement, and the conclusion of a peace agreement in April 2002. Despite transitions in both these nations that raise hopes that true reform may follow, their citizens remain at the bottom of every index of human development,[1] and their societies bear an exceptional burden of corruption and weak rule of law.[2] As a result of persistent interethnic, religious, and political conflicts, Nigeria's internal stability remains uncertain. Though Angola's

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1. The UN Human Development Index measures poverty, literacy, education, life expectancy, and adjusted real income. In 2003, Nigeria and Angola ranked 152 and 164 respectively.
2. Nigeria and Angola rank 132 and 124 respectively on the Transparency International Corruption Perception Index 2003. See Ron Gold, *Going Where the Oil Is* (New York: Petroleum Industries Research Foundation, July 2002).

government is relatively secure, its commitment to reform is ambiguous, its infrastructural capacities have been ravaged by war, and popular patience has frayed over the uncertain path to democracy and greater accountability in the use of Angola's energy wealth.

In the next few years, the political transitions under way in Nigeria and Angola will enter an exceptional moment that holds both promise and peril.

Having squandered billions of dollars in national wealth on war and corruption, Nigeria and Angola in the next decade will experience a steep boom in oil wealth. Equatorial Guinea, Chad, and possibly São Tomé and Principe will also experience rapid growth in production earnings, although Angola and Nigeria will dramatically dominate the region's energy economy.

The Nigerian government's oil earnings between 2004 and 2010 will likely exceed $110 billion. The Angolan government's earnings in this same period could reach $43 billion, while Equatorial Guinea's will be approximately $10 billion and that of Chad slightly more than $2 billion.[3] Such abundant revenues, produced overwhelmingly from offshore oil production (Chad is an obvious exception) explored and developed by U.S. and European companies, potentially provide these states a chance to develop their political and economic institutions, reduce poverty, expand opportunity, and for the first time in their histories, widely share their national wealth with their citizens. Of course, projected revenues alone will not cure any of these countries' ills. On a per capita basis these revenue gains will translate into $820 for Nigeria and $4,000 for Angola. But many of these revenues are already encumbered. Both Angola and Nigeria will be under pressure to pay out their past-due "cash call" shares of exploration and development investments, which to date have been borne by international oil companies. Further, in Angola, an unknown portion of revenues has already been mortgaged for prior purchases of weapons or other goods.

Nonetheless, the sheer scale of these future earnings and their ultimate use will shape these countries' futures. At a time when the world is focused on transparency, the energy-rich countries of West and Central Africa have a chance to use these substantial inflows of cash for transparent, developmental ends as a means to normalize their international standing, move beyond egregiously negative past reputations, demonstrate adherence to new norms of accountability, and build new partnerships, internally and externally, with institutions committed to reform.

Inversely, should these governments squander this moment, they could accelerate instability that would imperil the region and be contrary to U.S. interests. The threat to U.S. stakes is urgent and real. The world today has little excess production capacity outside of Saudi Arabia. Though modest in

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3. PFC Energy, *West Africa Petroleum Sector Oil Value Forecast and Distribution* (Washington, D.C.: PFC Energy, December 12, 2003). Models forecasting revenues assume that oil prices will fluctuate between $17 per barrel and $27 per barrel. The numbers cited are the mean expected value that the governments will receive from oil production.

comparison to Saudi Arabia, West and Central African oil is a major and growing source of diversity in global oil supply. Moreover, Nigeria and Angola are increasingly important suppliers of natural gas, at a time when the United States faces rapidly growing reliance on imported natural gas to fuel electricity plants. The risk calculus for the global economy is straightforward: if African producing nations remain stable, they will grow as reliable suppliers of oil and gas. If they face internal unrest and disruption, they will create shocks to the global economy. Hence U.S. economic and energy security rests increasingly on fostering internal stability in Central and West Africa. No less important, the threat reaches well beyond energy and economics. An Angola, Nigeria, Chad, or Equatorial Guinea in distress could well become a vector for violence, crime, terror, and wanton disregard for democratic norms, human rights, equity, and stewardship of the environment.

What are the odds that Nigeria and Angola—as well as Equatorial Guinea, Chad, and São Tomé and Principe—will capitalize on this historic opportunity?

Most experts on resource-rich economies are skeptical of the ability of a developing nation to diversify its economy, minimize rent seeking and corruption, and expand respect for democracy and human rights. Yet there are budding reform efforts under way in both Nigeria and Angola, mandated by the leadership in their respective countries, that purportedly seek to establish more transparent fiscal practices, combat corruption, and liberalize their national economies to attract critical investment in basic infrastructure such as roads, electric power, and schools. Each reform team has become a signature element of the respective transitions under way in Nigeria and Angola. Neither has yet produced concrete irreversible achievements. Neither is guaranteed success.

In Nigeria, an elected government is in its second term, with leadership rhetorically committed to fiscal reform, anticorruption, and modernization of the petroleum sector. But Nigeria's performance has yet to match its declarations. The government has not yet taken concrete steps to reform procurement, reveal the size of signing bonuses and new contracts, eliminate corruption in the concession or licensing process, or create accurate and complete accounts of government revenue and expenditure. Realizing these goals would have a profound demonstration effect throughout Africa, and beyond. An awareness of that potential and what is at stake for Nigeria's future viability has motivated President Olusegun Obasanjo to hang much of his legacy on this attempt at structural reform. The significance of this moment has also prompted British prime minister Tony Blair and World Bank president James Wolfensohn to publicly endorse Obasanjo's reform ambitions.

Angola is emerging from decades of internal war and the end of UNITA as a strategic threat and is beginning to grapple with how to renew a democratic process, eliminate corruption, reduce its debt, and manage its energy sector. A recently accelerated dialogue with the IMF, if carried successfully to the next stage of a formal staff-monitored program, could usher Angola into an entirely different set of relations with the United States, other major donors, and international financial institutions and organizations as the best means to expedite and consolidate reform.

These early reform efforts in Nigeria and Angola coincide with rising U.S. national interests in Africa, concentrated in energy, counterterrorism, and HIV/AIDS.

Following the terrorist attacks of September 11, 2001, oil supply disruptions in Venezuela in 2002 and 2003, and the U.S. armed intervention in Iraq in 2003, U.S. policy has increasingly emphasized diversification of U.S. energy supplies, especially from sources outside the Persian Gulf.[4] Between 2004 and 2010, according to Cambridge Energy Research Associates, West and Central Africa, far closer to U.S. refining centers than the Middle East, will add 2 to 3 million barrels per day to world production, accounting for one in five new barrels of oil—that is, fully 20 percent of new production capacity worldwide. This oil will be the low-sulphur, light product that U.S. refiners require. To meet projected rising U.S. demand for natural gas, ample new and reliable external sources will also be required. If projects currently under evaluation and development in Nigeria, Angola, and Equatorial Guinea are brought successfully to fruition in the next decade, they will increase West Africa's liquefaction capacity from 9 million to 30–40 million tons per annum. (Current worldwide capacity is 115 million tons per annum.) The United States will also increasingly rely on imports of refined products, such as gasoline, as U.S. refinery capacity fails to meet growing demand. West and Central African refiners can help to fulfill these needs.

Second, U.S. policymakers have become increasingly concerned about the threat of terrorist attacks on U.S. personnel, investment, facilities, and maritime traffic in West and Central Africa. Accelerating in 2003 and continuing apace in 2004, the U.S. European Command has dramatically turned its attention to Africa: it has concluded multiple new bilateral military-access agreements; launched the Pan Sahel Initiative to build counterterrorism capacities in Chad, Mauritania, Niger, and Mali; doubled naval visits and begun exploring means to strengthen host-country coast guards. Also under active consideration are expanded U.S. programs of peacekeeping training and support for West African and other African troops, for deployment into African crisis situations.

Third, President George W. Bush, in his January 2003 State of the Union Address, announced the President's Emergency Program for AIDS Relief (PEPFAR), a five-year, $15-billion program, concentrated on assisting 12 African and 2 Caribbean countries (and a 15th country outside Africa and Latin America, yet to be selected) to expand HIV treatment, care, and prevention programs. The dual rationale for this historic initiative, detailed in the September 2002 National

4. The importance of diversifying oil supplies by deepening relations with sub-Saharan Africa and other regions was a focal point of President Bush's National Energy Policy. See National Energy Policy Development Group, *Reliable, Affordable, and Environmentally Sound Energy for America's Future* (Washington, D.C.: GPO, May 2001), p. 8-1. The report is also available online at http://www.whitehouse.gov/energy/index.html.

Security Strategy, is that the United States has both a moral obligation to respond to this rapidly worsening epidemic and a security interest in curbing what is now understood to be a transnational security threat. Nigeria is one of the initiative's focal countries. Of the $15 billion, $5 billion is to be allocated to countries other than the 15 focal countries, including potentially Angola and other energy-rich countries of Central and West Africa.

The Work of the CSIS Task Force

Beginning in mid-2003, the CSIS Task Force on Rising U.S. Energy Stakes in Africa began to assess whether enhanced, high-level U.S. engagement, bilaterally and multilaterally, was warranted to raise the probability of promoting democracy and development in those nations. Its work gave priority attention to Nigeria and Angola, recognizing that the challenges in Equatorial Guinea are urgent and grave, that the fate of the Chad-Cameroon pipeline project will strongly influence future oil revenue management efforts, and that Congo-Brazzaville, Gabon, and potential new producers in Mauritania, Uganda, Sierra Leone, and a host of other energy-rich countries in Central and West Africa bear serious examination. Although the task force report speaks specifically to what concrete bilateral and multilateral steps are essential to support reform in Nigeria and Angola, its recommendations outline a broad, aggressive regional approach that can and should address other important energy-rich African countries.

The task force was composed, by design, of a highly diverse group of Africa policy experts, congressional staff, executive agency officials, energy company representatives, academics, members of nongovernmental advocacy and policy groups, and CSIS experts on Africa and energy policy. It held eight working sessions (see Annex 1) in a spirit of exceptional openness, collegiality, and active give-and-take, at which several additional outside experts were invited to make focused presentations. Key agencies, most notably the Departments of State, Treasury, Energy, and Commerce, and the U.S. Agency for International Development, generously provided expert substantive input throughout the task force's work and at its conclusion provided extensive comments on repeated drafts. The National Security Council and the Office of the Vice President also participated at select moments. None of these agencies was asked to take a formal position on the specific findings and recommendations contained in this final report.

Task force members were encouraged to endorse the final report in their individual capacities. The task force findings and policy recommendations were reached by a strong majority consensus, in which members endorsed the overall policy thrust and judgments contained in the report, but did not necessarily embrace each finding and recommendation.

The task force reached two overarching conclusions: Nigeria, Angola, and other West and Central African energy-rich nations are at a promising moment of opportunity; and enhanced high-level U.S. engagement, in concert with other nations, will matter greatly as to whether this moment can be successfully exploited.

The opportunity stems from the emergence of credible reformers in the Angolan and Nigerian governments, from the attention major donors and international organizations and advocacy groups increasingly focus on promoting revenue transparency, and from the projected oil revenue increases that Nigeria, Angola, and others will enjoy that will make it more possible for them to invest in their citizens.

In the next few years, the task force concluded, the opportunity to achieve durable reform will rise, creating an important window for engaged, external partners to provide meaningful assistance.

Today, both Nigeria and Angola lack the resources to repay debt, address social needs, and invest in the infrastructure they require for sustainable development. While they will be much wealthier from approximately 2006 forward, as new offshore projects come on stream and the "cost recovery" phase is completed during 2004–2005, they are, and will remain, fiscally constrained. At the same time, they face intensifying popular pressures to demonstrate that rising energy wealth brings improved social benefits. Hence, to sustain domestic support, the governments of Nigeria and Angola are under pressure to negotiate debt relief, attract donor assistance, increase internal investment, and respond to a vocal and globalized international community. These factors create the opportunity for the United States and other nations to support reform efforts in concrete and powerful ways.

The task force concluded that a key to promoting political, economic, and social reform is transparency in public finance. If leaders tell their citizens how much revenue the government takes in and where it is spent, the resulting transparency will engender more realistic public expectations, more plausible national development programs, and better means to combat corruption and promote democracy, respect for human rights, and the rule of law. Transparency will benefit U.S. companies as well. Respect for the rule of law, codified regulatory practices, and transparent bidding and award practices deter corruption and encourage a level playing field for U.S. companies.

Task force members further concluded that although transparency in governance is strongly in the interests of Nigeria and Angola, determined reformers confront formidable internal obstacles—most notably, powerful, entrenched interests that are well positioned to resist or undermine reform. This reality argues strongly in favor of an external "big push"[5] to raise the probability of success. This push will be most effective if it occurs before massive additional revenues accrue to these governments, at which point their receptivity to external

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5. The term is drawn from Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor* (Baltimore, Md.: Catholic Relief Services, 2003), at http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report_full.pdf.

pressure may very well decline. Admittedly, U.S., European, and international organizations' leverage will not be the predominant driver of reform in West and Central Africa. The decisive factor will be top-level, sustained leadership by the West and Central African governments themselves. Nonetheless, their odds of achieving reforms will increase if their reform ambitions are reinforced through Western provision of debt relief, donor aid, financing, carefully calibrated diplomatic engagement, and assistance conditioned on concrete, irreversible demonstrations of transparency.

The task force recommends a set of regional, multilateral, and bilateral policies to advance U.S. interests in Nigeria and Angola and within the broader community of energy-rich West and Central African states. Overall, it calls for the United States to pursue sustained, high-level engagement to promote transparency and reform in West and Central Africa, with special emphasis upon Nigeria and Angola. The approach the task force advocates is broadly consistent with, and supportive of, closely related initiatives: the Extractive Industries Transparency Initiative (EITI), spearheaded by the UK government; the 2003 Evian Declaration on Fighting Corruption and Improving Transparency and the subsequent G-8 Transparency Initiative now being advanced by the United States; the Publish What You Pay Campaign, launched by George Soros and the Open Society Institute; and the Africa Union's New Partnership for African Development (NEPAD), which is just beginning peer-review exercises.

The task force applauds the major strides that EITI and the G-8 Evian Declaration, in particular, have made in defining what transparency means, in committing to assist countries that volunteer to participate in these initiatives, and in raising the profile of the central issue of revenue and expenditure transparency. Though opinions among task force participants varied on specific elements of these and other proposals, there was considerable convergence of opinion that EITI represents a signal achievement in multilateral support for transparency. The future lies in clear definition of specific actions that will demonstrate transparency, in accelerated implementation of the multilateral commitments, and in high-level and sustained pressure on producing governments to translate rhetoric into reality. There are many paths to producing transparency, and UK, U.S., and other efforts can and should be complementary, not competitive.

The task force specifically proposes that a special adviser to the U.S. president and secretary of state for African energy diplomacy be designated to lead interagency policy. It calls for an annual African energy summit, expanded peacekeeping training and International Military Education and Training (IMET) support, and expanded maritime security programs. The task force calls on the international community to forge a multilateral commitment to secure the revenue needed to make existing debt relief commitments credible and to provide funds for expanded commitments where they are justified, support for electric power production in exchange for good governance, a capacity-building trust fund, conditional trade finance, and expanded capital market access, contingent on performance. The task force calls on the U.S. government to establish high-level bilateral consultative mechanisms with both Nigeria and Angola. Finally, the task force emphasizes that the 2004 G-8 summit, scheduled for June 8–10 in Sea Isle, Georgia, provides a timely, high-level international platform on which the United States can exercise leadership and mobilize the support of Europe, Japan, and the international financial institutions behind a common set of goals.

Rising U.S. Energy Stakes in Nigeria and Angola

Energy Investment Is Rising

U.S. energy investment in West and Central Africa, particularly in Nigeria and Angola, has been on the rise for several years. International oil companies have committed $30 billion to $40 billion in investment during this decade alone.[6] Nearly all of this investment is to develop deep offshore oil and gas fields. According to PFC Energy, U.S. companies' investment in Nigeria and Angola totaled $1.8 billion in 2003, while European companies' investment totaled $3.5 billion.

These nations have been able to attract investment, despite civil war, unrest, and great internal instability, for several reasons. The first is access. Both Nigeria and Angola offer international oil companies willing to risk their money in oil and gas exploration share ownership of the hydrocarbons they produce. This differs from Saudi Arabia, Kuwait, and Mexico, which do not permit foreign ownership of oil resources.

A second factor is an attractive investment framework. Both Nigeria and Angola have offered packages of taxes, royalties, and other fiscal terms that enable international oil companies (IOCs) to earn, on average, a 15 percent rate of return on their investment.[7]

A third reason is the predominance of new, offshore discoveries in West and Central Africa. Deepwater drilling is exorbitantly expensive and risky, restricting development to a handful of companies with the technology and financial wherewithal to manage the exploration risks. Offshore drilling also partly mitigates political risk by enabling the operator to conduct business miles from the host country's mainland. Nigeria's onshore development is aging, while all new discoveries and production are offshore. Angola's oil and gas reserves are predominantly offshore. As long as fiscal terms remain attractive, major oil companies are likely to sustain or expand investment in these countries.

A fourth reason Nigeria and Angola remain attractive is high world oil prices. With oil prices well above $20 West Texas Intermediate (WTI), nearly $37 at the time of this report, deep offshore investment is attractive. If oil prices were to drop

6. PFC Energy, *West Africa Petroleum Sector Oil Value*, p. 11.

7. Angola's new petroleum legislation may provide less generous returns, commensurate with declining geological risk. Whether this new framework is competitive will depend on the fields open for bid, world oil prices, and other fiscal terms.

below that benchmark, to the $10 levels seen in 1998, for instance, new investment in Nigeria and Angola would slow considerably.

A fifth reason West and Central African oil is attractive is the absence (with the exception of Nigeria) of OPEC quotas. Angola, Chad, Equatorial Guinea, and Gabon are not OPEC members. IOCs can sell whatever share of oil they are entitled to under their agreement with the host government. As an OPEC member, Nigeria is obliged to enforce production quotas and prevent oil in excess of its quota from being sold, even if it is produced. While some amount of excess production is tolerated, export quotas are enforced. If OPEC mandates a cutback, Nigeria must either refrain from selling its own share of produced oil (reducing government revenues) or require producers to hold back production (delaying further investment). Nigeria negotiated the share of a cutback that each company must take when it signs an exploration and production contract, but in the long term companies will not invest in production that greatly exceeds Nigeria's quota without some assurance that it will be permitted to sell the oil. The alternative is to slow the development of the fields themselves, reducing Nigeria's income while mitigating costs.

As long as the geology and investment framework remains attractive, and the political risk manageable, Nigeria and Angola will attract substantial international investment.

Government Revenues Are Rising

From 1980 through 1999, West African oil production rose from approximately 2 million to 3.5 million barrels per day. Government revenues did not grow significantly because oil prices declined over this period, with major price collapses in 1986 and 1998. Since 1998, oil prices have been rising steadily. The government "take," or net return to the government after companies recover their up-front development costs, could potentially provide Nigeria with $110 billion and Angola with $43 billion between 2002 and 2010.[8]

The structure of IOC investment in Nigeria and Angola provides that the companies absorb the lion's share of the financial risk of exploration and production.[9] The companies are then entitled to recoup these costs and, after costs are recovered, to share profits (in cash or in oil) with the governments. On

8. Although much of Angola's windfall has been mortgaged for prior purchase of weapons and other goods, and portions of Nigerian and Angolan revenue will be owed to meet delinquent payments to partners in the joint ventures that produced these revenues, the increase in cash flow will be dramatic.

9. Many national oil companies act as joint venturers or partners in development consortia, where they oblige themselves to contribute capital for development. Historically, many of these partners—particularly Angola's SONANGOL and the Nigerian National Petroleum Company—do not meet their full financial obligations, forcing international oil companies to carry the capital burden for a substantial part of the project's life.

average, the government of Nigeria will retain 78 percent of the profit of oil investment in this decade; Angola will retain 60 percent.[10]

The deep offshore projects that will bring Nigeria and Angola major revenue flows are in this "cost recovery" phase in 2004–2005. Beginning in approximately 2006, government revenues will accelerate rapidly. With some variation, Equatorial Guinea and São Tomé and Principe later in this decade will also see a sharp rise in incomes. Chad's earnings from the newly launched pipeline will also rise.

Once governments earn these new large flows of revenue, their incentive to drive difficult, structural reforms past powerful, recalcitrant interests will diminish greatly. In the case of Nigeria, the beginning of a new election cycle in 2006 may shorten the opening for reform to the next 18 months. This current window of 2004 to 2007, before revenues accelerate, and while global attention remains high, therefore provides the greatest moment of opportunity for the United States and other governments to bolster reformers in Nigeria, Angola, São Tomé and Principe, Equatorial Guinea, and other energy-rich countries in West and Central Africa, and use diplomacy and international incentives and pressures to promote positive change.

West and Central Africa's Importance to the Global Market Is Rising

West and Central Africa is increasingly important to the global oil market. Since 1998 OPEC has adopted a policy of restraining production to maintain oil prices at $22 to $28 for the OPEC basket of crude oils, often sustaining prices above $30 per barrel. OPEC nations have cut back their own production to sustain high oil prices, losing market share in order to elevate price. As a result, it is non-OPEC suppliers that have met rising demand. (Nigeria consistently produces in excess of its OPEC quota, but OPEC's tolerance for this may be limited if other producers are reducing their market share to support prices.)

In this environment, it is incremental oil suppliers that exert downward pressure on prices, counteract OPEC power, and enhance U.S. energy security. West and Central Africa's share of the global market was 4.02 percent in 2003 and will increase to 5.9 percent by 2007.[11] But its importance as an incremental supplier is greater: the region will add 2 million to 3 million barrels per day of oil to the global market in the next five years. This will represent one in five new barrels of oil brought onto world markets—that is, fully 20 percent of new worldwide production capacity.

The region is important to the diversity of U.S. oil supplies as well. In 2002, West and Central Africa was the fifth-largest source of U.S. oil, after Mexico, Canada, the Persian Gulf, and Venezuela. Africa currently supplies nearly 15

10. PFC Energy, *West Africa Petroleum Sector Oil Value*, p. 5. The difference in profit share reflects the higher exploration risk of deep offshore drilling in Angola.

11. Based on PFC Energy's current total world supply forecasts (crude + NGL production) of 77.4 million barrels per day in 2003 and 86.0 barrels per day in 2007.

percent of all U.S. oil imports—of that amount, Nigeria and Angola together supply 8.25 percent of total U.S. imports and 4.76 percent of total U.S. oil supply.[12]

The greatest share of investment in Nigeria and Angola comes from Europe, not the United States, and the majority of the two countries' oil exports go to the Asia-Pacific region and Europe. Europe and Asia therefore share with the United States a strong interest in Nigerian and Angolan political evolution and stability. Further, any U.S. strategy of enhanced engagement to promote reform in West and Central Africa will have to be heavily multilateral if it is to have a reasonable chance of achieving results.

U.S. Interests in West and Central Africa

Task force members believe that the United States has vital national interests in ensuring, as a top priority within West and Central Africa, that Nigeria and Angola, as well as São Tomé, Equatorial Guinea, and Chad use their rising oil wealth to develop their nations.

Governance

Conspicuously poor governance in Nigeria and Angola, as well as in second-tier, emergent producers such as São Tomé and Principe, Equatorial Guinea, and Chad, undermines both national and regional stability. Accordingly, the United States must make every effort to promote equity in development, democratic norms, respect for human rights, responsible environmental stewardship, and effective emergency response to human suffering. Egregiously tyrannical rule, as for instance during the era of General Sani Abacha in Nigeria (1993–1998), puts in stark relief the clash between governance interests and commercial and energy security interests, which can effectively derail U.S. foreign policy initiatives. Nigeria, as the most populous democracy in Africa, attracts special outside scrutiny. The same can increasingly be said of Angola, given its growing sway in energy production and regional security. So too, the U.S. government and U.S. corporate interests closely identified with commercial and energy development in Angola, Nigeria, and other growing energy producers in West and Central Africa are increasingly called to account—by Congress, the media, advocacy groups, and nongovernmental human rights organizations—to explain what measures they are pursuing to improve governance in these difficult environments. These are tough conversations that cannot be avoided. To move ahead on other fronts requires an aggressive, smart governance strategy for each of these countries.

The United States also has major interests in the human costs of poor governance. No policy of promoting transparency, stability, or development can succeed where freedom of expression, association, political participation, and the press are inhibited. The United States cannot seek energy security and turn a blind

12. In 2002, the United States imported 332,000 barrels per day from Angola and 621,000 barrels per day from Nigeria. U.S. total imports in 2002 amounted to 11.53 million barrels per day. Total U.S. demand in the first quarter of 2003 was 20 million barrels per day.

eye to poverty, degradation, and abuse of human rights. The United States should not invest U.S. taxpayers' money in helping countries in which national revenues are stolen or diverted for the personal gain of corrupt government officials.

Poor governance puts both Nigeria and Angola, in distinct ways, at risk of internal instability. Nigeria is at risk of continued internal violence and unrest, strikes, killings, oil theft, and expansion of its numerous crime syndicates. Ethnic and religious tensions make Nigeria a tinderbox in the best of times; rising oil wealth may heighten expectations among its population and aggravate existing tensions. The threat of internal unrest that impairs U.S. economic, commercial, and security interests is high. While the political risk of a disruption of oil supply in Angola is low, Angola continues to face grave internal challenges of moving to a more democratic, accountable form of postwar governance. Angola has only a nascent private sector and no middle class. Rising oil wealth will heighten expectations for improved living standards in Angola as well. The country's civil society is still inchoate, leaving few institutions or organizations that can peacefully channel political dissent. Angola's electoral transition has yet to be defined with precision, its demobilization and reconciliation programs are moving haltingly ahead, and its dialogue with the IMF, the linchpin to opening a broader dialogue on postwar relations with major donors and international donor organizations, has vacillated between promising beginnings and periodic ruptures. In early 2004, that dialogue entered a period of demonstrable progress, and optimism rose that agreement would soon be reached on a staff-monitored program.

Regional Stability

Internal unrest and cross-border violence are major causes of Africa's underdevelopment. Africa has drawn a major portion of international development assistance over the decades, much of it devoted to alleviating the effects of migration flows, internally displaced persons, ravaged infrastructure, and the famine and disease that result from conflict. U.S. military assets are frequently deployed for evacuation of U.S. nationals from conflict zones or to support UN peacekeeping operations. As two of the three largest powers in sub-Saharan Africa, events in Nigeria and Angola play a disproportionate role in their neighbors' economies and polities. If Nigeria thrives, the economic benefits to Cameroon, Gabon, Equatorial Guinea, and others will be powerful. If unrest in Nigeria expands, crime syndicates will continue to exploit that unrest to help finance conflict in neighboring areas, such as Côte d'Ivoire, or to support money laundering or fraud operations. Angola's civil war fueled regional instability in the Democratic Republic of the Congo, Namibia, São Tomé and Principe, and Zambia. A peaceful Angola will reduce regional arms trafficking and competition in the region.

The United States also has interests in sustaining Nigeria's role as a leader of peacekeeping operations in Africa and developing Angola's role as a provider of peacekeeping troops. Nigeria has played the leading role in the West African–sponsored peacekeeping force in Liberia. As U.S. forces are spread thin around the globe and the U.S. appetite for involvement in foreign peacekeeping operations remains tepid, it will be important to sustain Nigeria's military capacity for peacekeeping operations at existing levels and to invest in the professionalization of its forces.

Angola's development as a peacekeeping force could be a major source of stability inside and outside of Angola. With two large, underemployed military forces inside Angola, creative ways must be found to demobilize government and UNITA forces and at the same time offer them opportunities for employment. Angola's defense minister announced in January 2004 that he intends for Angolan armed forces to participate in peacekeeping and humanitarian aid missions. This would help expand the ability of African nations to mitigate conflict on the continent.

HIV/AIDS

Nigeria, Angola, and other energy-rich West and Central African states remain acutely vulnerable to the HIV/AIDS pandemic that has laid waste to southern and eastern Africa. It is highly probable that, simultaneous with the arrival of substantially heightened energy earnings, Nigeria and Angola will in the latter part of this decade confront a worsening public health crisis that will significantly impact labor markets, agricultural production, local security, and social services (especially education and elementary heath care). Rising budget demands for HIV treatment, care, and prevention may result in an increasing share of national wealth going toward public health.

There are also likely to be increased appeals by Nigeria, Angola, and others to the United States, other bilateral donors, the Global Fund, and the World Health Organization and other UN agencies for expanded assistance. The response of international donors will hinge to some degree on the coherence of government programs and the demonstrated political and financial commitment of national leaders. Though resources available globally for HIV/AIDS have grown significantly in recent years, and now total approximately $6 billion per annum (including local resources), competition for these resources has intensified, and the energy endowment enjoyed by Nigeria and Angola could weaken their appeal for significant outside support, especially if domestic funding for programs remains weak.

In Nigeria, with a population exceeding 125 million, prevalence of the HIV virus among adults is estimated at 5.8 to 10 percent. The National Intelligence Council (NIC), in its September 2002 analysis, *The Next Wave of HIV/AIDS*,[13] projected that by 2010, 10 to 15 million Nigerians—between 18 and 26 percent of adults—will be infected with HIV. The virus has already spread considerably in Nigeria, and Nigerian public health capacities are exceptionally weak. Although

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13. NIC, *The Next Wave of HIV/AIDS: Nigeria, Ethiopia, Russia, India, and China* (Washington, D.C.: CIA, September 2002), at http://www.cia.gov/nic/PDF_GIF_otherprod/HIVAIDS/ICA_HIVAIDS20092302.pdf.

President Obasanjo has shown outstanding leadership on HIV/AIDS, most notably in convening the 2001 Abuja HIV/AIDS summit of African heads of state, the NIC prediction has in the 18 months since its release been largely confirmed. Early plans to introduce antiretroviral treatment to an initial 10,000 persons, to be extended to 100,000, are in disarray.

Nigeria is included in President Bush's Emergency Plan for AIDS Relief. Current U.S. support to HIV/AIDS programs amounts to $20 million per year. In FY 2004, that figure is expected to double. The U.S. Global AIDS Coordinator's Office, in concert with the U.S. embassy in Abuja, is in the midst of preparing plans for further expansion of support in FY 2005.

Angola and the other energy-rich countries of West and Central Africa are still at a very early point in creating effective surveillance systems, putting in place coherent national policies and programs, and enlisting external support. Angola in particular is at considerable risk of steeply rising prevalence rates as freedom of movement improves and the postwar domestic economy revitalizes, reopening trade routes with neighboring countries with far higher prevalence rates. Angola's Ministry of Health has virtually no capacity and scant funding. Officially, Angola's adult prevalence rate is estimated at 5.5 percent. Most expert observers believe the actual rate is much higher.

Counterterrorism

Since 9/11, U.S. counterterrorism concerns in West and Central Africa have jumped significantly, resulting in heightened, evolving engagement in the region by U.S. intelligence and military personnel. This shift has dramatically reversed the calculation, born in the immediate aftermath of the Cold War in the early 1990s, that West and Central Africa mattered minimally to U.S. global security interests. Indeed, West and Central Africa is becoming a priority zone in global counterterrorism efforts, evinced most overtly by the recent, sudden projection southwards of the U.S. European Command.

New threats and vulnerabilities are emerging in the region: (1) indigenous militant Islamic groups, concentrated in Nigeria and neighboring states, that are linked to externally supported local madrassas; (2) the migration southwards from Algeria and other North African venues of terrorist movements, most notably the Algerian Salafist Movement for Combat and Prayer, which reportedly has established training bases in Mali and Niger; (3) Lebanese trading communities, long-standing support networks for Hizballah, some of which are reportedly engaged in illicit diamond trafficking, money laundering, and the movement of lethal materiel; and (4) a rising number of conspicuous, minimally protected economic installations, especially in the energy sector, that are overtly tied to Western corporate interests. Early in 2003, Osama bin Laden publicly exhorted his followers to make Nigeria a global priority: it is a country divided along a Muslim/Christian fault line; its wealth and stability are tied intimately to Western capital and technology; and it offers multiple entry points and local partners.

The U.S. European Command, mandated to reconfigure the deployment of U.S. assets to the south in Africa and eastward in Europe, has begun expanding activities in West and Central Africa. This has taken the form of the Pan Sahel initiative, intended to build the counterterrorism capacities of Chad, Niger, Mali, and Mauritania through training and the provision of equipment. A number of other access agreements have been concluded (Ghana, Senegal, Gabon, Algeria, and Morocco) or are under discussion (Angola, São Tomé and Principe, and Nigeria). There is also active consideration of expanding assistance to strengthen the coast guards of energy-rich states whose maritime security is weak.

Economic Security

U.S. economic security depends on access to stable and diverse supplies of oil and liquefied natural gas (LNG). Today, the region as a whole supplies 13 to 14 percent of U.S. oil imports, led by Nigeria and Angola. In 10 years, if the region remains attractive for investment, West and Central Africa could supply up to 20 percent of U.S. imported oil, further bolstering U.S. energy security. These countries' supplies will not replace Middle East oil. But they will provide ample volumes of new non-Gulf barrels that will greatly influence world prices.

The region is equally important for natural gas. The United States will rely increasingly on imported natural gas to fuel power generation as its own supplies mature and as U.S. demand grows. The United States will rely on liquefied natural gas for a substantial portion of its imports. Angola and Nigeria can contribute to the diversity of U.S. (and global) LNG supply for decades to come.

Both nations have reserves of natural gas, but Nigeria today is the major gas power.[14] Environmental concerns, particularly the flaring of enormous quantities of gas produced in association with oil exploration have led Nigeria and Angola to set deadlines and penalties for the flaring of natural gas, obliging the producing companies to capture and attempt to monetize this gas. As a consequence, Nigeria will likely become a regional supplier of gas to Togo, Benin, and Ghana through the ChevronTexaco-led West Africa Gas Pipeline. Nigeria, Angola, and Equatorial Guinea are also poised to become major suppliers of LNG as existing investors in oil exploration monetize associated gas by increasing their gas liquefaction capabilities.[15]

U.S. energy and economic security interests require that Nigeria and Angola remain stable suppliers of oil to the global market. Companies will only invest where political and operating risks are tolerable. In Angola production has been

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14. According to the Energy Information Administration, Nigeria has the ninth-largest proven gas reserves in the world with 124 trillion cubic feet (March 2003 estimate); and Angola has 1.6 trillion cubic feet (February 2004 estimate).

15. This trend is likely to grow, and the World Bank gas-flaring initiative motivates countries and companies to reduce gas flaring. See Mourad Belguedj, *Africa Gas Initiative: Main Report*, vol. 1 (Washington, D.C.: UNDP/World Bank, February 2001), at http://www.worldbank.org/html/fpd/energy/AGI/240-01%20Africa%20Gas%20Initiative%20Main%20 Report.pdf.

only minimally affected by protracted onshore instability. Nigeria is a different case, however.

Conflict in the Niger Delta poses a serious threat to Nigeria's stability, and indeed viability, as an oil producer. The human costs of the conflict have been significant. Foreign workers have been held hostage, and sabotage of oil pipelines has killed hundreds of Nigerians. The economic disruptions have been dramatic as well. A major strike in March 2003 knocked 800,000 barrels of oil per day off the market, adding pressure to already high oil prices. Production was curtailed for months for security reasons. As of early 2004, more than 200,000 barrels per day remain shut in by violent internal action. Labor unions, accurately foreseeing the reduction in personnel needed to maintain offshore oil operations, are also threatening to shut down operations. No less alarming, armed ethnic militias, acting in concert with criminal syndicates, steal 100,000 to 200,000 barrels per day in the Niger Delta and are able to defy the power of the dilatory Nigerian military, illicitly supply regional refineries, and thereby undermine regional stability. Poor governance combined with simmering ethnic tension puts the ability of the oil companies to operate onshore in Nigeria at risk.

Oil price volatility can provide severe economic shocks to the U.S. and global economies. Today there is no excess capacity outside the Persian Gulf that can replace Nigerian or Angolan oil production if it comes off the market due to political unrest. Even OPEC nations have less than 1.6 million barrels per day in excess capacity available to mitigate an oil supply disruption. Nigeria produced 2.3 million barrels per day in January 2004. The impact of a supply interruption can be damaging. Refiners accustomed to a grade and quality of oil, like Nigeria's, cannot retool quickly. The Energy Information Administration estimates that every 1 million barrels per day disrupted and not replaced add $3 to $5 per barrel to world oil prices. Each 10 percent increase in the price of oil can lower U.S. GDP by 0.05 to 0.10 percent.

Commercial Stakes

The United States also has substantial commercial interests in Central and West Africa. U.S. companies have invested billions of dollars in Africa's energy sector and are scheduled to invest billions more. Both "super majors" such as ExxonMobil and ChevronTexaco, and "independents" like Devon, Amerada Hess, Marathon, and Unocal have major interests in the protection of thousands of U.S. employees and a stake in the promotion of a stable investment climate and respect for the rule of law. U.S. energy investment in Africa may account for over 100,000 U.S.-based jobs, concentrated in Louisiana, Texas, and California.

U.S. Policy Options

Given U.S. security, economic, commercial, and governance interests in Nigeria and Angola, the United States should use its leverage to structure appropriate incentives to elicit transparency in governance from these nations as a means of promoting their stability and development.

The United States must be clear about the limits of its leverage and the differences between Nigeria and Angola. Where possible, U.S. policy approaches and programs to build transparency in these countries should apply to other African energy-producing nations.

The task these nations face is daunting. For decades, political power has been rooted in access to the nation's wealth, distributed to a small coterie of supporters, and in Angola's case, opaque use of national wealth to purchase weapons. A commitment to transparency will cut off those who have grown dependent on special access and illicit gains. It will turn political allies into adversaries or competitors. It will expose past criminal activity and risk political ruin for those who cooperated in past diversion of public funds. For political leaders to willingly accept the political pain that transparency will bring, they must be confident that change will bring substantial political gain.

The United States and its allies must determine if their own interests will be sufficiently advanced to justify creating rewards for nations that have already squandered enormous wealth. If they determine the benefits to their interests are insufficient, they must be prepared to tolerate the consequences of further corruption and degradation in these nations. If they decide the benefits are worth the costs, they must be serious about committing the resources required to foster change.

The CSIS task force concluded that benefits to U.S. interests are well worth the costs of the incentives that will be needed. Some of these costs should be borne by the United States, as it fashions bilateral policies towards Nigeria, Angola, and other West and Central African oil-producing countries. Other costs should be shared multilaterally—with fellow shareholders of the international financial institutions, fellow members of the Paris Club, or with G-8, Asia Pacific Economic Cooperation, or European Union partners.

U.S. Leverage with Nigeria and Angola

There are four main categories of U.S. leverage with Nigeria and Angola: reputation, debt relief, support of infrastructure finance, and trade financing. These leverages also apply, although in vastly different degrees, to Equatorial Guinea, São Tomé and Principe, and Chad.

U.S. bilateral leverage with Nigeria is limited. Nigeria enjoys major flows of oil revenue. With its oil reserves and investment framework, it can choose among U.S., European, and other major oil companies for investment. Nigeria is also deeply disinclined to accept an externally branded reform program. It has endured good and bad international advice, from ill-advised loans in the 1960s and 1970s, which constitute a substantial portion of its current sovereign debt, to draconian structural adjustment programs. With Nigeria embarked on a fledgling economic reform program and anticorruption effort, U.S. efforts to bolster this process and facilitate the political acceptance of the burdens of economic transition in Nigeria are most likely to be effective.

There are powerful tools that the United States can deploy. Reputation matters greatly to President Obasanjo and to Nigeria. International recognition of reform efforts strengthens the president's hand domestically. Recognition of Nigeria's reformers will strengthen their hand against recalcitrant interests as well. Debt relief is an important tool. If debt relief can be delivered while Nigerians are enduring the pains of reform, the president will have more fiscal latitude to help the poorest of the poor and ensure the liberalization of prices for goods and services. In the end, President Obasanjo's political leadership will matter more than any action of external actors. Yet, helping Obasanjo to provide services to the poor will also strengthen his ability to combat the inevitable resistance of those who have taken Nigeria's oil wealth for private use.

Nigeria also requires enormous investment in infrastructure. The Nigerian electric power system is decrepit. Nigeria needs investment in transmission, distribution, and rehabilitation of its generation system. Nigeria's oil refineries are in disrepair due to policies that have made refining uneconomic. Nigeria's ability to attract investment will depend on its ability to deliver basic services, such as electricity, to industry. Poverty alleviation will also depend on providing access to electricity in rural areas. A U.S.-led commitment to provide infrastructure finance for Nigeria, tied to policy reform and verifiable commitments to transparency, will be a powerful political incentive for Nigeria's leaders. Trade financing will also be crucial to attracting investment. A G-8 effort that conditions trade finance on transparency measures will highlight the government's commitments to fulfill pledges to make oil revenues and public expenditures transparent.

U.S. bilateral leverage over Angola is also limited, but its ability to support multilateral relief for Angola is significant. The IMF and World Bank, as the gateways to donor relief and reconstruction and resettlement assistance, are the key drivers of reform. The United States can use its influence in these institutions to support these efforts. Reputation also matters greatly to President José Eduardo dos Santos, and the United States can use high-level diplomacy to steady President dos Santos on the course to free elections and reform. Angola has taken important, limited steps to audit its oil sector and is negotiating a standby agreement with the IMF. Angola's external debt is unsustainable, and its needs for internal resettlement of displaced persons and reconstruction of roads and electric power are formidable. Several countries are discussing debt relief and donor aid to Angola. A coordinated effort to press Angola to conclude an IMF standby agreement and to tie rapid debt relief and donor aid to transparency could comprise the "big push" needed to create lasting reform in Angola.

Recommendations

The principal policy recommendation of the CSIS task force is that the U.S. government should pursue sustained, high-level engagement, bilaterally and multilaterally, to promote transparency and reform in all African oil-producing nations. Key ingredients are benchmarks and leadership.

- Benchmarks. The United States should devise clear and transparent benchmarks for regional behavior, complementary to the standards of the Millennium Challenge Account. The touchstone should be a public commitment to transparency in public finance, with benefits contingent on verifiable, sustained, and public disclosure of government revenues and expenditures and adoption of open public finance practices. Examples of transparency practices could include: disclosure of aggregate revenues (royalties, taxes, and other fees) from extractive industries; disclosure of oil-backed loans, publication of IMF Article IV reports (which report annually a country's macroeconomic management and compliance with IMF programs); open procurement practices; transparent processes for bidding oil concessions; public disclosure of signature and other bonuses; auditing of national accounts and national oil companies; expenditure transparency in public budgeting; legislative access; and review of public finances.
- Leadership. For a nation with global reach and numerous crises to attend to, prioritization of U.S. leadership on the issue of transparency will entail dedicating diplomatic resources to promote a new and important effort. If change is to be made in the energy-rich countries of West and Central Africa, it will need to be from the top down. The ministers and national oil company leaders will not be the champions of transparency and reform. Change will come from African presidents themselves, or it will not come at all. This will require that any U.S. diplomatic effort be targeted to intervene at the head-of-state level and carry the blessing and imprimatur of the president of the United States.

The task force further proposes that a special adviser to the U.S. president and secretary of state for African energy diplomacy (S/AED), with ambassadorial rank, be designated to lead interagency policy.

The United States demonstrates the priority it assigns an issue by the level of diplomatic attention the issue receives. If the president or secretary of state raises an issue—or delegates a senior emissary to do so on their behalf—the host country will clearly understand its importance. Though the United States has long been concerned with governance in Nigeria and Angola, other issues consistently crowd the agenda and dominate the activities of the resident U.S. ambassador and his staff. If the United States is to send a message that transparency matters in Central and West Africa, and the president truly expects results, another mechanism is required that is commensurate with the task at hand.

The task force recommends that a special adviser with ambassadorial rank be designated, who would be housed at the State Department but endowed with authority by the president and the National Security Council to lead interagency policy. An ambassador who travels frequently to the region, interacts with heads of state and government, musters support from friends and allies, can most effectively forge initiatives with individual countries and build bridges among existing transparency initiatives. Appointment of such an ambassador, an unprecedented act of commitment in this area, would powerfully and concretely signal U.S. leadership on this issue. The ambassador must have a clear mandate and the authority to interact with the G-8 process and other multilateral fora and to coordinate policy with the U.S. ambassadors of Central and West African nations.

The task force acknowledges serious concerns that the United States not have a special adviser for every issue and that authority of existing officials and agencies not be undermined. Yet, the successful Caspian Basin Energy Diplomacy (CBED) model provides a highly successful example of effective interagency coordination of political, economic, and governance issues for the nascent Caspian nations for several years. The CBED office, proposed by the Department of Energy, blessed by the White House, supported by the State Department, and sustained by both Democratic and Republican administrations, promoted the political and economic autonomy of the Central Asian states by promotion of multiple East-West oil and gas pipelines. The CBED ambassador was widely viewed as enhancing the effectiveness of U.S. ambassadors overseas and multiple bureaus and agencies across the U.S. government.

The special adviser would develop relationships with senior African leaders, coordinate political, economic, military, and governance policy for the U.S. government, liaise with like-minded nations, and brief the Congress on U.S. policy. The special adviser should chair a U.S.-Africa Energy Policy Business Advisory Council to work with U.S. agencies and industry on a coordinated and consistent basis to address transparency, governance, human rights, and democracy issues.

Regional Policies

The United States should declare publicly its benchmarks for regional behavior, in close parallel with those benchmarks set out for the Millennium Challenge Account. Although the task force focused on Nigeria and Angola, all of the regional and multilateral programs proposed should apply to all energy producers in Africa. Any leader who makes such a commitment would meet with the secretary of state and be eligible for regional support programs. The level of support for a nation would be calibrated to concrete irreversible actions and the level of development. The United States should continue to utilize Africa Growth and Opportunity Act (AGOA) eligibility as a means of leverage for good governance. With oil-producing economies, AGOA eligibility can be an important sign of prestige. For this reason eligibility standards should be rigorously enforced.

Regional programs that committed nations would be eligible for include:

- African Energy Producer Summit. The United States now holds a biannual U.S.-Africa Energy Ministers Conference. When this conference is held in the United States, the United States should consider a summit or head-of-state-level meeting with selected African oil producers. The summit would provide a platform for governance issues and could be appended to the G-8 meeting or the annual AGOA summit. Meetings with the president of the United States in conjunction with these biannual summits should be restricted to those countries practicing transparency and good governance and would serve to single out countries that manage their oil wealth well. Subcabinet officials could have functional meetings on energy (as well as agriculture, trade, and other issues) to develop relationships and reform programs with committed nations.

- Peacekeeping and IMET Training. The United States should dramatically increase peacekeeping training and International Military Education and Training (IMET) support for nations that commit to respect human rights norms and adhere to transparency criteria. Increased support should follow positive steps on transparency and governance, not precede it.
- Maritime Security Program. The United States should help to establish and train an African maritime force to protect offshore oil rigs, contingent on mandatory human rights training. This force would police borders and strengthen customs enforcement, counter-narcotics efforts, and counterterrorism. Maritime security programs would also protect offshore infrastructure from piracy or attack and intercept cargoes of stolen crude oil. Efforts should be made to foster a regional security program to make efficient use of limited resources and to foster better relations among neighbors where possible.
- Support for Civil Society. The United States should expand its support for development of civil society in the region by providing training and assistance for nascent groups and by using its diplomatic power to support individuals and groups who exercise their rights of free expression, association, and political participation. Indigenous nongovernmental organizations in energy-rich countries should be encouraged, trained, and empowered to monitor and report on their governments' progress in implementing reform and fulfilling their public commitments to transparency in revenues and expenditures, especially within the oil sector.

Support for World Bank and IMF Policies

The World Bank and IMF will play a lead role in fostering transparency in many countries by upholding standards for staff-monitored programs or conditions of revenue and expenditure disclosure contained in Poverty Reduction Strategy Papers. The United States and G-8 allies must reinforce these standards diplomatically to deter countries from shopping for aid or assistance from countries willing to lower standards for commercial access. The IMF's role in Angola and Nigeria is noted above. The IMF is also pressing for transparency in Equatorial Guinea, Cameroon, and other energy producers.

- Promote Oil Revenue and Expenditure Transparency. The United States should support a common and consistent agenda of promoting oil revenue and expenditure transparency, especially where the World Bank provides financing for the oil sector.

- Support World Bank Standards for Chad-Cameroon Pipeline. The United States and G-8 allies should focus diplomatic support on the implementation of World Bank standards for the Chad-Cameroon pipeline.[16] There is great hope that Chad-Cameroon can be a model for public-private partnerships that can foster investment and transparency. Public confidence in such efforts will hinge on how the Chad-Cameroon project proceeds and how the international community deals with inevitable problems that arise. Global diplomatic attention must be focused on Chad to ensure that it lives up to its development commitments. The United States and G-8 partners should intervene with the government when it falters, to strengthen the enforcement of Chad's pledges and to deter or reverse unacceptable government behavior when it occurs.

Multilateral Policies

Multilateral programs for which committed nations would be eligible would include:

- Debt for Transparency. The burden of debt puts pressure on public budgets, stunting development and giving politicians little space for satisfying public demands.

  The task force recognizes the central importance of both the Paris Club debt-rescheduling process and the IMF staff-monitoring programs that precede Paris Club reschedulings. However, the task force also concludes that more generous U.S. appropriations for debt rescheduling and heightened U.S. leadership in multilateral reschedulings can provide a powerful tool for promoting reform in countries such as Nigeria and Angola.

  OECD governments should give serious consideration to offering a debt-for-transparency swap. The United States today insists that host governments agree to adopt public budgeting, make income and expenditures accessible to the broad public, and negotiate domestic investment programs with the World Bank before creditor governments can enjoy conditional long-term rescheduling of sovereign debt or debt forgiveness. The task force recommendation with regard to the World Bank–IMF mechanism for debt relief for heavily indebted poor countries (HIPC) is to ensure that funds for debt relief are promptly and generously appropriated. In addition, it proposes that non-HIPC eligible countries, such as Nigeria, also be eligible for debt relief if they make appropriate commitments. The task force recognizes the challenge of obtaining funds for debt relief from Congress, particularly for non-HIPC countries. Debt relief must be structured. Governments should

16. Chad is now emerging as the critical test case of whether African oil-producing nations can use their oil windfalls for development purposes and not sink into the typical pattern of corruption and autocracy. The Chad-Cameroon pipeline project is the largest development project in Africa today. It has spawned a unique multi-stakeholder experiment in transparency that involves civil society, governments, the World Bank, and oil firms.

take public, irreversible steps on transparency and governance before they earn significant relief. Any rescheduling should be cancelled if the government fails or reneges on its transparency and development commitments.

- Electric Power for Good Governance. African nations will need multilateral financing support for electric power and other infrastructure. Public-private partnership initiatives will be integral to most national programs. The United States should lead a G-8 effort to fund a fresh, conditional commitment to financing national electrification, with appropriate focus on restructuring and regulatory capacity building, including revenue management to help recoup investments and operating costs, as well as rural electrification and distributed generation, based on new contributions by World Bank shareholders, in exchange for transparency and development commitments by the recipient nation. The World Bank investment in the Chad-Cameroon pipeline is an early model of how such an investment can be leveraged. The vast majority of electrification projects in Africa should be the product of public-private partnerships, where private capital finances power generation and distribution and public authorities guarantee policy reform and insure against political risk. Power transmission is customarily a public function, and African nations should receive loans for transmission if they create a sustainable economic framework and commitment to appropriate transparency measures. Electric power is expensive to provide, but the political and economic benefits of providing it are powerful. Real help with electrification can be a formidable incentive for transparency even among nations with generous cash flows from oil and gas development.
- Capacity Building Trust Fund. Most African nations lack the human capital to prepare, audit, and monitor public finance and to manage their petroleum reserves. The United States and other nations must support a long-term capacity-building program to train national officials in these essential skills, and link U.S. and African academic institutions to provide education on an ongoing basis. The program must be based in Africa and tailored to African needs. The United States can work in cooperation with Britain and build on programs that are part of EITI. In addition, programs should include capacity building for civil society and local nongovernmental organizations that are interested in monitoring government revenues and expenditures. The United States could consider establishing trust funds for capacity building through the G-8, the United Nations, or an ad hoc donors group to maximize the effectiveness and quality of these efforts. A trust fund would allow collaboration—or at least enhanced coordination—on country strategies among the efforts of different countries and institutions that seek to strengthen public expenditure management.
- Conditional Trade Finance. Energy development is capital intensive, and trade financing through the Export-Import Bank, the Trade and Development Agency, and international equivalents plays a critical role. The primary role of U.S. trade agencies is of course to promote trade—by making it attractive to

buy U.S. goods. Any system that unilaterally adds costs or conditions to U.S. trade finance, without parallel measures by Europe and Asia, is doomed to fail in its objectives and to punish U.S. companies. Yet there is now widespread acceptance of the need for an environmental impact assessment before any project receives Ex-Im or World Bank financing. If it can be universally adopted, it may be worth adding a developmental impact statement for projects in underdeveloped countries. To obtain financing, countries would need to demonstrate a commitment to using the proceeds of the resources for national development and to agree to transparent monitoring and auditing of project revenues to obtain finance. The task force does not recommend proceeding with conditional trade finance unless there is G-8 and EU agreement to common principles.

- Capital Market Access. G-8 nations can ensure that all national or correspondent banks that have relationships with G-8 banks disclose the beneficial owners of those accounts to prevent government officials from using Western banks to hide misappropriated funds. G-8 banking authorities should also consider mandating all G-8 banks to disclose to the IMF any oil-backed private loans made by oil-producing nations. This disclosure would assist the IMF in verifying a country's entitlement to debt relief.

Bilateral Policies

U.S. policy should be flexible. In some cases the United States should support indigenous efforts and conduct quiet bilateral diplomacy or support reform through multilateral efforts. The U.S. goal should be to maximize the support for reform rather than a U.S. brand on reform efforts.

- Nigeria. The U.S. State Department should establish a high-level bilateral consultative mechanism to work in conjunction with the proposed special adviser for African energy diplomacy to encourage and assist the Nigerian government in its reform efforts.

  The United States should encourage President Olusegun Obasanjo's early steps toward reform in his second and final term in office. The United States should encourage current plans for implementation of a reformist economic plan, reimplementation of an anticorruption commission, and reforms at the Natural Resource Ministry by showcasing these promises of reforms at the 2004 G-8 summit or the 2004 World Bank/IMF meetings.

  The U.S. secretary of the treasury should travel to Nigeria to develop a bilateral debt relief program with Nigeria's new finance minister to bolster her leadership.

  The United States should provide Nigeria with technical assistance on public sector finance.

  The Voluntary Principles on Security and Human Rights is a key global initiative that helps oil companies navigate (with U.S. government support) some of the toughest operating challenges they face: avoiding complicity with human rights abuses, and engaging positively with local communities with whom they must retain a de facto social license to operate. The United States should support the implementation of the Voluntary Principles in Nigeria by restoring funding for an office in the U.S. embassy in Abuja.

The United States should consider expanding its diplomatic presence in Nigeria to include a consular presence in the Delta region.

The United States should develop and propose G-8 adoption of an oil-tagging system, analogous to the Kimberly Process for identifying conflict diamonds, to curb the growing problem of the illicit theft of over 100,000 barrels of oil per day. Technology exists to chemically trace oil in a way that would allow purchasers to distinguish between legitimate and stolen oil and products. Industry supports this effort. If the Nigerian government agrees to this program, it would serve to reduce corruption of government officials involved in oil sales, shipping, and customs. The United States should engage regional oil importers to train customs and border security officials to inspect imports to detect stolen oil as part of U.S. border security programs and should consider a rewards program for successful detection of stolen goods.

The United States should engage Nigeria on its management of the Joint Development Zone with São Tomé and Principe. The inclusion in the upcoming bidding round of a number of small, unknown Nigerian companies suggests that there may be potential for rent seeking in the process. The United States should press for reexamination of eligibility criteria in the bidding process to eliminate opportunities for corruption.

- Angola. As with Nigeria, the U.S. State Department should establish a high-level bilateral consultative mechanism to work in conjunction with the proposed special adviser for African energy diplomacy to encourage and assist Angolan efforts for reform.

  The United States should press Angola to conclude a staff-monitored program with the IMF to ensure transparent spending of oil money, attaching conditions of transparency to its loans and debt relief.

  The U.S. government should support and sustain the U.S. Treasury Department, IMF, and World Bank programs of capacity building for Angola, encourage full budget disclosure, and encourage Angola to commit to take part in transparency initiatives such as the UK-sponsored EITI and the G-8 Transparency Initiative.

  The United States should work in coordination with other donors, investors, and debt holders to forge a common policy and ensure that the Angolan government respects the terms of agreement. The possible use of Angola's future oil revenues to collateralize loans will require priority study and attention. The State Department should support an international donor conference contingent on the government's implementation of transparency reforms.

The G-8 Summit

The task force encourages the United States to launch its renewed leadership on this issue at the G-8 summit in Sea Isle, Georgia, this June. The G-8 nations account for the vast majority of investment in Africa and dominate decisionmaking in the international financial institutions. The United States can build on the 2003 G-8 Evian Declarations and British prime minister Blair's leadership on the Extractive Industries Transparency Initiative with an U.S.-led governance initiative. The United States should also use global attention to the summit to announce a new set of U.S. bilateral efforts to work with partner countries, producing nations, multilateral organizations, and the U.S. energy industry to advance its new agenda.

Conclusion

As a nation with global reach, significant fiscal deficits, and active leadership roles in three major conflict zones, the United States must set diplomatic priorities and make hard choices over the allocation of scarce resources. For decades, Africa has often failed to make the cut. The CSIS task force believes that it is deeply in U.S. interests to make Africa a higher diplomatic priority and to appropriate resources needed for debt relief, capacity building, and better governance. African commitment and performance in transparency in public finance and use of oil and LNG revenues for development must precede U.S. funding. But if the commitment is there, the United States should ensure that this unique moment in history, when Nigeria, Angola, and other West and Central African energy-rich states can follow the path to democracy and development rather than disruption and despair, is not lost.

Annex 1. CSIS Task Force Working Sessions

July 30, 2003	Opening Meeting: U.S. Strategic Interests and Current Policy
September 11, 2003	Transparency and U.S. Leverage: International Financial Institutions Financing and Debt Relief Banking and Regulation
September 24, 2003	Nigeria: Reform of the Petroleum Sector in Nigeria
October 23, 2003	Angola: Role of the International Community and IFIs U.S. Leverage for Reform
November 3, 2003	Angola (Special Session with the Open Society Institute): Prospects for Angolan Democracy Report on Human Rights in Cabinda
November 6, 2003	Nigeria: Nigeria's New Reform Team Nigeria and the EITI
January 21, 2004	New Developments in Nigeria and Angola: Sao Tome and Principe and the Joint Development Zone A Comparative Look at Sudan
February 18, 2004	Review and Recommendations
March 10, 2004	Comments on Draft and Recommendations
March 30, 2004	CSIS Conference to Launch the Task Force's Final Report

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17. Company names are listed for identification purposes only. All members have signed on to this report in their individual capacities.