



## Poisoned Wells: the Dirty Politics of African Oil

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Nicholas Shaxson is a journalist by background. His work as a journalist began 15 years ago with Equatorial Guinea, at the start of its oil production. He then worked in Angola for a year and a half, and became more and more involved in the politics of oil. This is a very under-researched field. There is so much material and only the surface has been scratched. *Poisoned Wells* seeks to scratch a little deeper. Originally this was intended to be an academic book, but this would have limited its reach. Nicholas put his personal experiences into the book and framed each chapter around a person. This made him look at the countries he wrote about in a very different way.

There are three essential summary points about African oil in the book:

- African oil is more important than most people think – in the next few years it will account for 25 percent of US oil imports;
- There are two positions in the standard debate on African oil: that big oil companies are trampling Africa, and that corrupt African politicians are stealing all the money. This is a stale debate, the issues are much more complex and it is important now to move beyond this;
- Africa's oil interacts with the West in ways that are poorly understood. The West is deeply implicated. Much of the answer comes in making changes at home in the West.

In 2007, OECD aid to Africa is equal to Angola's budget. Yet looking at statistics in Angola reveals the reality: it has the second worst under-5s child mortality rate in the world. This is the result of the resource curse, experienced in many oil-producing

countries. Countries suffering from the resource curse in general have lower long-term economic growth and higher inequality, more conflict and repression, and more corruption and weaker institutions. In Nigeria, as the country's oil revenue has increased, poverty and inequality have rocketed. In 1970 its oil revenues since 1965 amounted to less than US\$2 billion and there was a poverty rate of 36%; by contrast in 2000, Nigeria's oil revenues since 1995 amounted to US\$350 billion and the poverty rate was at 70%. These factors are not just the result of corrupt rulers stealing. It is more complex and worse than that.

During the 'Elf affair' magistrates in Paris discovered that oil was being used for nefarious activities. This was described as the biggest fraud investigation since the Second World War. But the money flows connected many different countries and there are still many 'Elf' type relationships out there, where the sheer size of the strategic financial relationship makes transparency and accountability impossible – the biggest being the US/UK and Saudi Arabia relationship. Corruption is a two-way thing. Is the Elf system finished? Officially yes it is, but not even the Extractive Industries Transparency Initiative (EITI) would be able to check this, as it is a voluntary initiative. 'Elf Affair' systems are so strategic they would never be open to such initiatives.

The EITI while positive is flawed, in that it focuses on single-country studies. For example, Gabon's EITI report considers Gabonese corruption as a Gabonese thing, as isolated Gabonese corruption. But in order not to be caught, corrupt monies are divided up and spread internationally. EITI also fails because of costs, nobody looks into operational costs such as those of oil rigs and helicopters properly. Under EITI, looking into costs is optional. EITI looks at what companies pay, and what governments receive, and checks to see if anything went missing between the two. This is known as cash accounting. What it does not do, crucially, is check that what should have been paid, according to the contracts, was in fact paid. This is known as accruals accounting. However, the EITI is good as it at least has people thinking about transparency. But this does help to highlight how little is known about these issues.

**Discussant: Christina Katsouris, Africa Correspondent, Energy Intelligence**

Nicholas Shaxson has done a good job on this book, giving illuminating comparisons between Francophone and private US- Equatorial Guinean corruption. It is particularly helpful in the context of post-Nigeria elections, where Yar'Adua is struggling to form a government in a system of oil-strengthened players. In his book, Mr. Shaxson explains the situation with the individuals involved drawing an analogy with delinquent teenagers; their behaviour is seen as abhorrent, but once it is understood that they come from broken homes and difficult lives, you try to tackle the problems differently.

The debate about the oil industry and corruption has indeed been too simplistic; often the focus and the blame is pushed on others for purposes of self-gain. It is easier to write and talk about problems than to come up with a solution. This book outlines the transnational nature of the problem, and the important fact that there is no law in the United States to stop the flight of looted money. But if one country introduces a law to attempt to address the problem, the cash will simply flow elsewhere. A global consensus is needed.

The other interesting point raised is on the redistribution of oil revenue. People have been struggling on the best way to distribute revenue, and there have been a series of failed projects on this, for example in the Niger Delta. Although local governments in the Niger Delta receive a lot of money from the federal government, there is no service delivery to the people. Direct distribution will only encourage people to pray on others.

### **Question and Answer Session**

**Q.** Can we expect anything from President Sarkozy in terms of a new French policy on Africa and tackling this kind of corruption?

**Q.** Should the EITI be strengthened or should we start with something new?

**A.** Relationships developed in and by France have changed since the Elf exposure. It will have to be a case of wait and see – we don't know enough about Sarkozy's policies yet.

**A.** The EITI would be more helpful if it was strengthened, but other avenues also need to be explored. At present all eggs are in one basket, and the EITI risks being a box-ticking exercise. The Publish What You Pay (PWYP) initiative has been looking for a more

mandatory approach on transparency requirements. The process should not be limited to extractive industries. Global civil society is now only just beginning to catch up with globalisation. It is important now to have a mandatory approach on issues of transparency.

**Q.** What are your thoughts on the role of China? The African Development Bank has recently been in China, and we know that China is taking a different approach to Africa.

**Q.** What are some of the best practices found in terms of communities working for themselves and linking up with others to effect proper wealth redistribution?

**Q.** What can Western oil companies practically do, given that they are facing tough competition with oil companies from other regions and have been closed out of Russia?

**A.** On China there are 2 schools of thought, a new imperialism or that China is bringing in a new paradigm. I tend towards the second – it is good that new ways of dealing with resource rich countries are being tried. There is no chapter in the book on China or Sudan – perhaps I would say something less kind to the Chinese if there had been a Sudan chapter.

**A.** there is an interesting project currently in the Niger Delta, where a company is providing benefits to a distant community rather than at the company's location.

**A.** The problem is not so much the behaviour of the companies, but the essence of the problem is the impact of the oil money. Money is cascading into top levels of government. What is needed is to change the relationships between rulers and citizens. The ultimate source of the problem is the oil money, not how the companies behave (although this matters of course).

**Q.** African countries can't deliver on domestic demand for refined petroleum products. There are real problems with the sale and delivery of refined products. What can be done to amend this?

**Q.** It is difficult to hear the EITI criticized for not doing things it did not set out to do. Its narrow remit allows it to do one thing well rather than many things badly. A new EITI secretariat is now being put in place, with tougher and more rigorous processes. The EITI is part of a bigger picture: the World Bank has proposed an 'EITI plus' and Nigeria had gone way beyond the EITI.

**Q.** I was involved in the recent EITI Ghanaian review and the Ghanaian EITI shows substantial flaws. This is a great book, and the chapter on Eva Joly was particularly enlightening. She is one person seeking to take the fight against corruption into the next stage. She pointed a finger at the City of London. How much of a key part of the problem is the City?

**A.** The issue of refining products and supplying these is being overlooked. This is a most important issue for Nigeria in particular. There must be a cross-border effort to look at this.

**A.** I agree with the point on the EITI – it never set out to do more than it already does, and there are other programmes that complement it. But this is a box-ticking exercise for those outside of a country trying to understand it – the country is seen in a positive light if it has signed up to the EITI. It is necessary to take the EITI or a similar model into the next stage and look at the international dimensions of corruption.

**A.** It is difficult to find information on tax havens. There is a tax justice network that is now functioning. There is a need to now start thinking more about the role of the City of London.

**Q.** Your central thrust seems to be that oil is uniquely corrupting. But why?

**Q.** One of your recommendations in the book is that the West reduces its consumption of oil. How important is this?

**Q.** Surely it is our own responsibility as individuals as we are all using oil. It is likely that the only thing that will save us all is a transition to a low carbon economy.

**A.** We need to ask what is corruption and where does it come from? People believe that it is either the oil companies fault or that of corrupt dictators. You can imagine societies as a queue of people waiting their turn for the benefits of oil wealth. The queue is fairly resilient and people are patient, seeing each other as part of a shared system. If, however, people see others jumping to the front or cutting in without consequences, the queue quickly collapses as everyone rushes forward, thinking only of themselves. Under such circumstances it is extremely difficult to reform the queue. Corruption happens because of people's perception of how other people behave. This creates a free for all; a scrambling over the national cake. This happens at all levels of society, and the ultimate answers will not come from leadership or anti-corruption initiatives; the problems require

systemic answers. Democracy is one systemic answer; the distribution of oil revenues directly to citizens is another, at least in theory, even if it might be impossible to implement. It is the destruction of people's perception of society that is at the heart of the problem.