THE COLORADO SPRINGS SCHOOL

African Union Intermediate Council

December 7, 2013

Topic 1: Averting the Resource Curse - Managing Africa's New Oil Boom

The Council

This council will be modeled after the African Union. The AU was founded in 1963 as the Organization for African Unity. The OAU was often criticized as being a 'dictator's club' that did very little to help the people and stability of Africa. In 2000, the heads of the OAU agreed to adopt a new charter that would form the African Union. There are currently 54 member states, the only African state that is not a member is Morocco, and the Central African Republic, Egypt, Madagascar and Guinea- Bissau have been suspended temporarily due to political crises and coups against the government The AU consists of 13 organizations: The Pan-African Parliament, The Assembly, African Union Authority, African Court of Justice, Executive Council, Permanent Representatives' Committee, Peace and Security Council, Economic Social and Cultural Committee, Specialized Technical Committees, African Central Bank, African Investment Bank, African Monetary Fund, and The African Commission on Human and Peoples' Rights. The goal is to generally improve the Social, Economic, and Political situation in Africa. Our simulation will essentially combine the powers of the two most powerful branches of the AU: The Executive Council and the Assembly. The Executive Council is made up of the Ministers of Foreign Affairs of each country in the AU and has the power to "coordinate and make decisions in matters such as foreign trade, food security, water resources and irrigation, humanitarian action, and disaster response relief. The Assembly consists of the heads of state and government of all Member States and is the most influential organ as it determines the common policy of the Union and approves decisions and the budget." (Guide to AU Structure and Processes, 2009)

Special Rules for this Council

"The African Union is the world's only regional or international organization that explicitly recognizes the right to intervene in a Member State on humanitarian and human rights grounds" (Cohen, *The African Union.)*

This council will begin together to open the council with roll call. After we open, we will split into two councils with a representative from each member state in each council. Debate will then take place in each council independently. When we are nearing the end of debate, both councils will rejoin for a short final debate and voting procedures on the resolutions that the individual councils have come up with. To pass resolutions, we will follow the AU rules that essentially state: "Decisions made in both the Assembly and the Executive Council are reached by consensus; however if consensus is not reached, a two-thirds majority by Member States of the Union is needed." (AU Structure and Processes, 2009)

Background for Topic 1: Avoiding the Natural Resource Curse

Current Situation

Since 1990, over $20 billion dollars have been invested in exploration and production of oil in Africa. Countries in Eastern Africa, such as Kenya and Uganda, have discovered large oil reserves recently. Their democratic governments contain a certain degree of transparency that forces the governments to sell the oil legally, and not steal the profits. The major problem is the lack of transparency and government accountability in oil producing nations in Africa, and there is serious and well justified concerns that even some of the more successful democratic states may find themselves becoming severely corrupted by this new oil wealth. There are twelve new nations poised to benefit from the new oil finds in Africa including : Senegal, Gambia, Sierra Leone, Liberia, Cote d'Ivoire, Sao Tome and Principe, Malawi, Tanzania, Kenya, Uganda, Ethiopia, and Ghana. (see maps at end of this guide) Ghana is one of the best examples of current regulation in these new oil producing nations. Ghana has a notoriously good record of governance and low levels of corruption. Ghana is currently on track to be the picture of new oil production as long as they can keep from allowing the oil to corrupt their system. Even in Ghana, however, there are significant fears that the Resource Curse could erode the hard earned democratic gains made in the past decades.

The Resource Curse

The discovery of natural resources is often seen as a gift that will bring great wealth to a nation; however, many countries have been victims to the “resource curse”, also called the “Dutch Disease”. It takes its name from the situation that developed in the Netherlands in the 1960's after the discovery of vast natural gas reserves in Dutch national waters. More national capital was allocated to the natural gas industry; therefore, making other national industries suffer. When the natural gas began to dry up, people realized that national wealth had decreased and almost all goods sold in the Netherlands were being imported. They were able to recover with government assistance to the industries that had suffered major losses, and by limiting the production of natural gas. Other nations that have discovered vast national resource wealth have been able to avoid the resource curse with the aid of the government, such as Sweden which has used its oil wealth to create a national investment fund to assist in the future development of the nation.

One of the major problems with the recently discovered natural resources in Africa is the infamous level of government corruption. Nations such as Nigeria are funded almost entirely by profits from oil reserves. This gives little incentive for these nations to change their ways for the benefit of the people, as they are not able to be held accountable by the people. When the government is not funded by the people, it has no incentive to listen to its people, so government officials act only in their personal best interest by accepting large bribes from foreign oil companies, so they can drill cheaply inside these countries. This flips on it's head the famous saying from the American Revolution, to it's reality in countries facing the Resource Curse – that with "no taxation, there is no representation."

In Nigeria, the Nigerian National Petroleum Corporation controls the majority of oil production. However, international oil companies such as Shell, Mobil, and Chevron are issued two types of licenses by the Nigerian government. First, is an Oil Prospecting License, which allows a company to prospect for oil for up to three years before a renewal is required. Second, is an Oil Mining License, which allows a company to drill for oil for up to 20 years before a renewal is required. The most recent agreement on oil drilling in Nigeria is the Memorandum of Understanding, which was produced behind closed doors and remains a secret document. This allows for Government officials to tax and regulate oil in a day-to-day basis. This has produced up to $180 million reported in bribes paid to attain oil contracts and licenses. Another major problem facing Nigeria's oil production is the social division of people in oil producing states. Six of the nine states classified as oil producers and inhabited by minority groups. When the constitution was set up these people were allocated less return of profits from their state production than states containing majority groups. This created much tension, which is only being aggravated more by the new found wealth in these states. Corporate responsibility is also an issue, as oil companies set up boundaries on areas allocated for oil exploration, it forces out traditional occupations such as fishing and farming. These oil producing areas also draw in a large number of people hoping to strike it rich in black gold. When these people can not fulfill their hopes of riches, crime rates increase in these areas forcing oil companies to hire private security which further strains corporate-community relations. The resource curse shows its effects as before oil production in Nigeria, 97% of exports were agricultural, and today oil and natural gas account for 90% of exports.

For a second example, consider Equatorial Guinea. It produces about 500,000 barrels of oil a day, and has the highest per capita income in Africa at almost $35,000. The current president is Tedororo Obiang Nguema, who has held the office since 1979 when he led a coup d'etat against the former single party leader, his uncle. They have one of the highest disparities of wealth in the world with over 77% of the population living below the poverty line. Equatorial Guinea has become the fourth most popular country for American Investments. The problem is that the president maintains complete control over the government, the people, and the oil resources. He is known to abuse his people, and is ranked among the worst countries in the UN human rights index. As of 2007, at least $35 million had been paid to Obiang alone, with large sums being paid to other high ranking officials in the government, specifically in petroleum regulation departments.

Gabon can be viewed as a possible success story of African oil production. They are scored highest on the UN human development index of all the African oil producers, and with a per capita income of $8,600 it is very high for the region. It also has the most democratically elected government of the oil “rich” countries with the current president, Ali Bongo Ondimba, having been elected in 2009. He has made strides to streamline the government and reduce corruption by getting rid of 17 ministers, and introducing a program called Gabon Emergent. This program is focused on reducing the wealth gap, increasing industrialization, and moving away from dependence on petroleum production. Currently the top 20% of the population controls 90% of the wealth and one third of the population lives below the poverty line. 69% of Gabon's exports are petroleum, and at one point they were the largest importer of Champagne in the world. The new government has vowed to be committed to reducing oil dependence, but there is a long way to go. The successes of Gabon in part, may be unique to Gabon’s combination of remarkably low population density (the whole country is less populous than most African capitals) and massive foreign direct investment.

The Democratic Republic of the Congo is one of the worst examples of the resource curse with the country having been reliant on physical wealth imports since its colonization. Throughout their history they have been major exporters of rubber, diamonds, coltan, and most recently oil. DRC is rated as the most resource rich country in the world with more than 30% of the world's diamond reserves and 70% of the world's coltan. The production of petroleum is used primarily domestically with only about 20,000 barrels of oil being exported per day as of 2007. Although they are rated to have over 180 million barrels of oil remaning in reserves which is second only to Angola. The DRC is rated as the lo country on the UN human development index and they are a specially recognized country in the UN council on development of Women. Corruption has been almost institutionalized in the DRC, "Mobutu would ask one of us to go to the bank and take out a million. We'd go to an intermediary and tell him to get five million. He would go to the bank with Mobutu's authority, and take out ten. Mobutu got one, and we took the other nine", explains a former minister.

Angola contains vast mineral and oil resources, but has been unable to make use of them due to an almost continuous state of civil war from 1975 to 2002 when a ceasefire agreement was reached. Since then, Angola has consistently grown its economy in the double digits. As of 2008, diamonds and oil make up 60% of Angola's economy. Although they have the fastest growing economy in Africa, life expectancy and infant mortality rates remain among the highest in the world. The new constitution of 2010 eliminated presidential elections, as the parliamentarians with the highest number of votes will become president and vice president. As of 2006 Angola is producing 1,460,000 barrels of oil a day. On the Ibrahim Index of African Governance, Angola was ranked 44 of 48 countries, and has been classified as 'not free' by the World Freedom Report of 2013.

With the knowledge that increased oil production has contributed to increased corruption, violence, and sometimes even war, the World Bank, along with Exxon-Mobil, took on one of the biggest, most expensive development projects ($3.7 billion) in modern history, the Chad-Cameroon oil pipeline project, which started in 2000. In order to allay fears that this project would bring the resource curse to both Chad and Cameroon, increasing corruption, as well as environmental degradation, the World Bank made strict investment guidelines part of the requirements for Chad to receive any funding. Within the first year of the project however, Chad was already breaking these rules to use their new wealth to make military purchases instead of the promised investments in education and social services. The World Bank was essentially powerless to stop Chad, whose government then doubled from 15% to 30% the amount of oil money that went into their general fund, to be spent on whatever they wanted. Looking back over the past 10 years of this project, it seems that very little improvements were made to the lives of the vast majority of the populations of either Chad or Cameroon, whereas these governments and Exxon-Mobil have made enormous profits.

Proposed Solutions

In general, plans to help African countries avoid or reduce the impact of the resource curse agree that transparency, human rights, and “publish what you pay” are three main things that can help. Transparency is currently a major problem in many African countries and it exacerbates the issues of the resource curse by allowing more corruption and less accountability. Human rights have become a major issue as the people in these countries are being neglected by their governments and in some cases abused in favor of pleasing oil companies. These human rights violations range from lack of government aid in construction of infrastructure and medical aid, to murdering people to allow oil companies to explore and drill in populated areas. The “publish what you pay” movement encourages international companies in all industries to publish their costs and how funds have been allocated. This plan would help to counter the lack of transparency in governments and increase transparency in oil drilling corporations. These three important concepts focus attention on a combination of responsibility being taken by all of the major actors involved, especially the country that is producing oil, the international corporations who are doing most of the production, and the international community that has the ability to pressure both corporations and governments to approach natural resource exploitation in a more positive way.

Another approach that has proven effective is that of Norway. As one of the world's largest producers of oil, Norway could easily succumb to the resource curse, but with careful governance, they have been able to avoid it. The Norwegian plan consists of a national pension fund into which profits made from oil production from the national oil company are put. This national fund has been nicknamed "the Future Generations Fund". This fund invests in safe international stocks and bonds in an attempt to increase its value with little risk of losses. With its nickname, it makes it difficult for politicians to allocate money from the fund to other projects. This project would be very difficult to implement in many African nations due to the weak state of many governments and low trust in their governance.

Another proposed plan, dubbed "oil to cash", proposes a solution more likely to be effectively implemented in Africa. This plan would take all revenue made by oil production, licensing, and taxation, and pay it out to each person in the country. This money would then be taxed by the government, allowing the state to significantly increase it's own budget based on a successful oil boom. This plan attacks the issue of transparency and government accountability. By paying the citizens, the citizens will be more interested in government spending, as it would directly affect the check they receive. Currently, the revenue brought in by oil and the exploitation of other natural resources funds many governments, and as mentioned above they become "rentier states," in which politicians are sheltered them from any sense of democratic accountability. By transferring their source of revenue from resource exploitation to direct taxation, you create a powerful connection between politicians and their constituencies, with a hope that politicians will be held more accountable to the people. While this plan might seem radical to some, it could realistically be implemented, anda variety of serious experts are strongly advocating this plan, used in collaboration with much of the above suggested solutions. For more information on this plan, please see Diamond and Mosbacher in Foreign Affairs (Sept/Oct. 2013)

Questions to consider?

1. Can the African Union create an international protocol for more responsible exploitation of Oil?

2. Can the AU (or the Int'l community) create better standards to require major multi-national corporations to follow the legal standards that exist and are upheld in the developed world?

3. How can national governments and leaders be held accountable to invest oil boom wealth in their country's growth, rather than in their own personal enrichment?

4. Would "oil-to-cash" programs work? Should they be aggressively championed by the African Union?

Sources and Resources for further information

Larry Diamond and Jack Mosbacher, Foreign Affairs, Sept./Oct. 2013 (you can download the entire article at:
http://media.hoover.org/sites/default/files/documents/diamond_mosbacher_latest3.pdf

For more on the African Union: http://au.int/en/about/nutshell

Other helpful articles, charts, and websites:

http://policymic.com/articles/68221/this-awesome-interactive-map-will-make-you-think-twice-about-africa

http://www.columbia.edu/itc/sipa/martin/chad-cam/overview.html#project

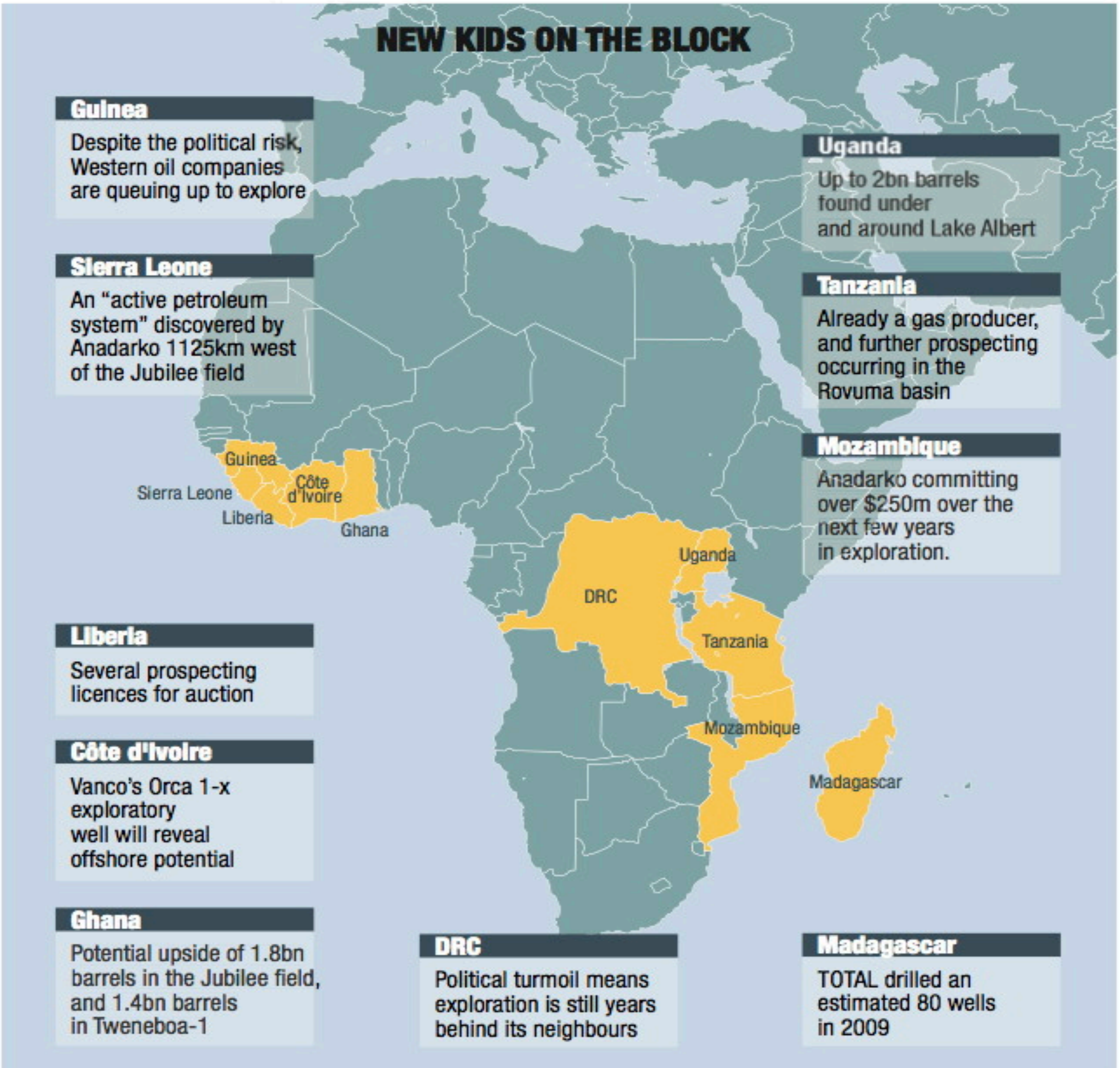
http://www.peaceau.org/uploads/au-act-en.pdf

http://knowledge.wharton.upenn.edu/article/the-resource-curse-why-africas-oil-riches-dont-trickle-down-to-africans/

http://www.nytimes.com/2012/09/14/opinion/kofi-annan-momentum-rises-to-lift-africas-resource-curse.html?smid=tw-share

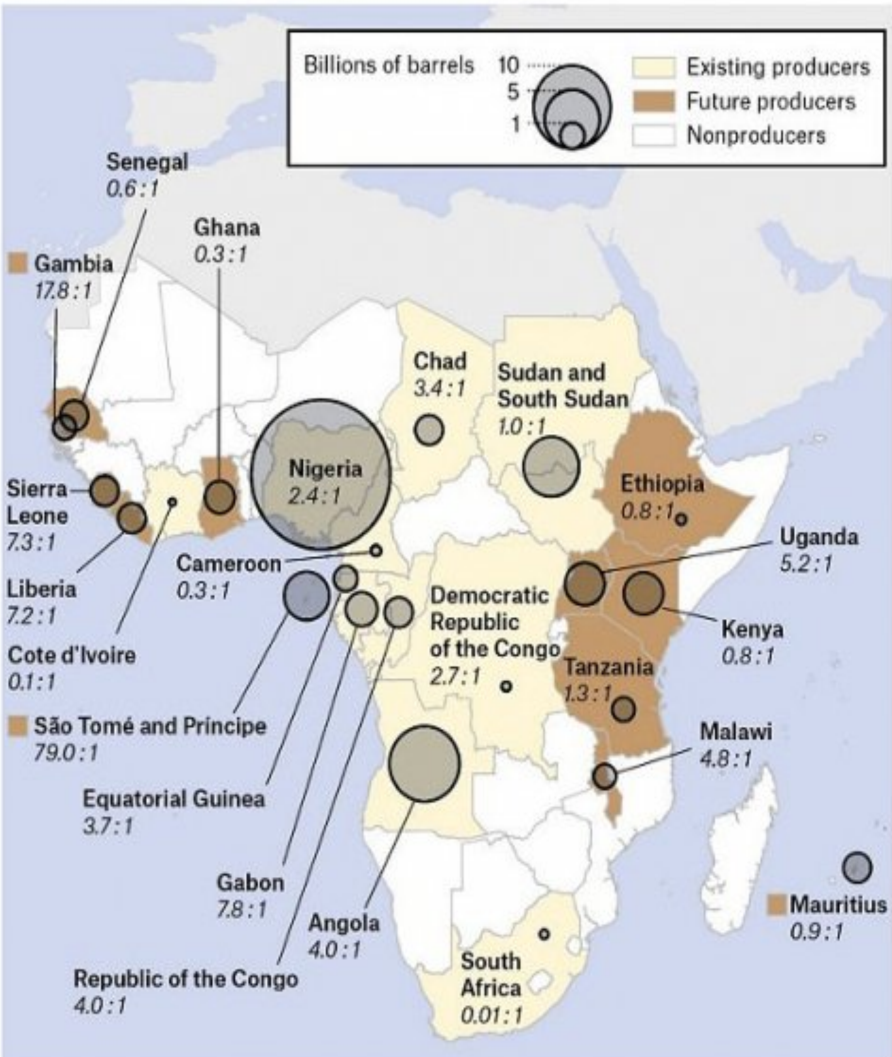
http://www.cfr.org/africa-sub-saharan/beating-resource-curse-africa-global-effort/p28780#cid=soc-twitter-at-none-beating_the_resource_curse_in_-080112

http://www.csmonitor.com/Environment/Energy-Voices/2013/1023/Can-Africa-dodge-curse-of-new-oil-wealth?cmpid=addthis_twitter#.UoVCaLllaTs.twitter


NEW KIDS ON THE BLOCK
Guinea
Despite the political risk, Western oil companies are queuing up to explore
Sierra Leone
An "active petroleum system" discovered by Anadarko 1125km west of the Jubilee field
Liberia
Several prospecting licences for auction
Côte d'Ivoire
Vanco's Orca 1-x exploratory well will reveal offshore potential
Ghana
Potential upside of 1.8bn barrels in the Jubilee field, and 1.4bn barrels in Tweneboa-1
DRC
Political turmoil means exploration is still years behind its neighbours
Uganda
Up to 2bn barrels found under and around Lake Albert
Tanzania
Already a gas producer, and further prospecting occurring in the Rovuma basin
Mozambique
Anadarko committing over $250m over the next few years in exploration.
Madagascar
TOTAL drilled an estimated 80 wells in 2009
Guinea
Sierra Leone
Côte d'Ivoire
Liberia
Ghana
Uganda
DRC
Tanzania
Mozambique
Madagascar

Africa's Oil Boom

Oil Reserves and Ratios of Oil Revenues to Tax Revenues for Current and Future Exporters in Sub-Saharan Africa



NOTE: The ratios of oil revenues to tax revenues are derived from comparisons of aggregate national tax revenues (using World Bank data) and projections of oil revenues based on estimated reserves, projected export capacity, and estimated future oil prices.

FOREIGN AFFAIRS *Source: Sept./October 2013 issue*

A UNESCO appeal for responsible natural resource investment: