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swisspeace Annual Conference 2003
Adding Fuel to the Fire
The Role of Petroleum in Violent Conflicts

swisspeace

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swisspeace sees itself as a center of excellence and information platform in the area of conflict analysis and peacebuilding. We research the causes of wars and violent conflicts, develop tools for early recognition of tensions, and formulate conflict mitigation and peacebuilding strategies.

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Editor:
Matthias Dettling

With contributions from:

Christine Batruch
Paul Collier
Heinz Krummenacher
Gilbert Maoundonodji
Anita Müller
Rudolf Rechsteiner
Egbert Wesselink
Andreas Zumach

April 2004

About the contributors

Christine Batruch is Vice-President of the "Corporate Responsibility" division of the Swedish oil company Lundin Petroleum AB, which has its main branch in Geneva.

Prof. Paul Collier is Director of the Centre for the Study of African Economies (CSAE) at the University of Oxford. He headed the Development Research Group of the World Bank until April 2003. His most recent publications include "Breaking the Conflict Trap: Civil War and Development Policy".

Dr. Heinz Krummenacher is Managing Director of swisspeace.

Gilbert Maoundonodji is the coordinator of the "Groupe de recherches alternatives et de monitoring du projet pétrolier Tchad – Cameroun" based in Chad.

Dr. Anita Müller is Project Director of the Center for Peacebuilding (KOFF) at swisspeace.

Dr. Rudolf Rechsteiner is an economist and university lecturer in environmental policy at the University of Basel. He is also a member of the Swiss Parliament. He recently published his book "Grün gewinnt – Die letzte Ölkrise und danach".

Egbert Wesselink is the coordinator of the "European Coalition on Oil in Sudan" in Utrecht/Netherlands, a coalition of over 80 European organizations working for peace in Sudan.

Andreas Zumach is a journalist at the UN headquarters in Geneva and a correspondent for the Swiss public TV news program.

About the editor

Matthias Dettling worked for swisspeace until the end of 2003 and is now Project Manager at the Swiss Academy for Development in Biel.

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1 Preface

Heinz Krummenacher

When you buy coffee, bananas, or mangos you are able to choose products with known origins and conditions of production. You can make sure that you buy ecologically sound or fair-trade products with labels that guarantee sustainable production and fair prices for farmers. This also applies to carpets, clothes, and flowers. Organizations such as the Max Havelaar foundation provide consumers with freedom of choice and ensure, for example, that carpets were not made by a child's hands.

However, the same standards do not apply to petroleum products. At the petrol station, it is futile to look for pumps with a label similar to Max Havelaar's. We don't seem to care whether or not petrol has been refined from oil that was produced according to acceptable ecological and social norms. Oil, the lifeblood of the industrialized world, only becomes an issue for the consumer when petrol and fuel oil prices rise, or when we feel that environmental pollution compromises our quality of life.

It comes as no surprise that the topic "Petroleum and Violent Conflicts" plays only a marginal role in political and scientific discourse. Before the last Gulf War started, there were discussions whether the reasons for going to war were Saddam Hussein's alleged weapons of mass destruction or the control over oil reserves in Iraq and the whole region. However, such strategically inspired discussions obstruct one's view of a different phenomenon: the fact that oil is a curse rather than a blessing to developing countries. Fossil wealth has not diminished poverty and hardship in any conceivable way. On the contrary, oil generates corruption among political elites leading excessive lifestyles and whose primary concern is to augment their power and wealth.

What is the relationship between oil and violent conflict? Why have so many countries been plagued by violent conflicts after the "black gold" was discovered? On the other hand, why is this not the case in a country like Kazakhstan despite its huge oil and gas reserves? And how can the vicious cycle be broken so that governments and rebels who permanently destabilize entire countries and regions do not use revenues from oil and other natural resources to buy weapons?

These are some of the questions that we want to address in this conference paper. Throughout its 15-year history, swisspeace has turned its attention to the ecological causes of violent conflicts. Therefore, the 2003 annual conference entitled "Adding Fuel to the Fire? The Role of Petroleum in Violent Conflicts" continued a long tradition. As a Swiss organization, we don't only want to look at what some of the major countries should be doing. We also want to focus on what we can do here in Switzerland, a small country that could still exert some significant influence.

Finally, we not only want to deal with the here and now, but we want to look into the future and ask ourselves what a conflict-sensitive resources policy could look like. Sheikh Jamani, the Saudi oil minister during the 1970s, recently predicted: "The Stone Age came to an end not because we had lack of stones, and the oil age will come to an end not because we have lack of oil."

Maybe this end is already near – but we just don't know it yet. Perhaps because we don't know, it is even more imperative to begin designing concepts and strategies for a resources policy in harmony with peace.

I hope that you will enjoy reading this conference paper. It features articles from conference speakers and panelists as well as transcripts of two panels. On behalf of swisspeace, I thank those who have contributed to this interesting and worthwhile publication.

2 Lifting the Oil Curse

Paul Collier

Oil discoveries provide resources to some low-income countries on a scale that dwarfs aid. Yet their effects have often been adverse. Oil has been associated with economic stagnation and the destruction of other export activities.[1] At the political level, it is associated with violent conflict.[2] Why has oil been so damaging and what can be done about it?

Why has oil been damaging?

Historically, representative government arose because governments needed to raise large revenues for warfare. Conceding representation and scrutiny to taxpayers was the price of popular compliance in taxation. By reducing the need for taxation oil reduces pressure for scrutiny: people are less concerned about the misuse of public money if they have not been taxed in order to generate it. How much this weakening of pressure for accountability matters depends upon the pre-oil situation. If the country was already a functioning democracy, as in Norway, accountability can easily be maintained.

In addition to the lack of accountability, large revenues induce a contest for the control or influence. Resources devoted to the struggle to capture control are a pure waste from the social perspective – termed 'rent-seeking'. Yet if rent-seeking is unchecked, people will devote resources to it equal to the value of the rents available. If this happens the society will be no better off, but in the process the character of the society will have radically changed. Rent-seeking might draw the brightest people into politics instead of business, because the returns to political power are so high. It might also draw people into criminality. For example, highly organized gangs tap into pipelines and ship plundered oil out of the country. Criminal and political actions sometimes shade into each other. In the Delta region of Nigeria, a movement that was initially protesting against injustice and environmental degradation rapidly evolved into gang warfare between villages for the control of the right to run protection and kidnapping rackets.

The purest form of politically expressed rent-seeking is secession. Civil wars in oil exporting countries are almost always secessionist, whereas elsewhere many civil wars are ideological. The people living in the vicinity of the oil have an obvious economic interest in claiming the resources for themselves. Nation states are usually recent agglomerations of previously distinct political entities, and this process of assimilation has often been contested. Hence, oil is often discovered in regions where some political groups – albeit often on the fringe – are already claiming autonomy. The presence of natural resources enables such groups to add a credible economic argument to what is otherwise likely to be merely a romantic appeal. An example of this transformation is the (non-violent) rise of Scottish nationalism which can be precisely dated to between the 1970 and 1974 general elections. At the 1970 election, as in all previous elections, the Scottish National Party won only a tiny share of the vote and gained only a single seat in parliament. In 1974 its vote rose to 30%. The transforming event that brought about this change was surely OPEC's dramatic increase in the world oil price in 1973. The oil off the shores of Scotland was suddenly seen as valuable: the party campaigned on the slogan 'it's Scotland's oil'.

Oil may be distinctive in its romantic connotations of affluence. For example, the GAM, the rebel movement that has been attempting to achieve secession of Aceh from Indonesia, has used the analogy of Brunei in its propaganda, claiming that the population of Aceh could be equally rich. This is a massive, and presumably deliberate exaggeration, but may well appeal to the popular imagination. A million people came out into the streets to support the GAM. Of course, the economic attraction of secession is compounded by the detachment of government: grievance reinforces greed.

While government detachment and the lure of secession provide motives for rebellion, oil may also make rebellion materially more feasible. Rebellion is usually expensive. Oil companies are threatened with sabotage of pipelines, and their employees are kidnapped and ransomed. A related phenomenon is 'war booty futures'. Here the rebel group finances its activities by selling extraction rights contingent upon subsequent victory. This is reputedly how President Sassou-Nguesso returned to power in the Republic of Congo.

In addition to these political effects, oil can have directly damaging economic effects. The classic economic analysis is 'Dutch disease': oil displaces other exports. In economic terms this is an efficient response, at least in the short run. Because the society is richer, it needs to produce more of the goods and services that cannot be imported, and these are produced with resources released by the now-redundant export sector. Although in narrow economic terms this restructuring might be efficient, it might have political-economy effects that are dysfunctional. As the non-oil export sector withers away, pressure to stay internationally competitive diminishes, and this may slow the pace of productivity growth. Remaining industry may look only to the domestic market and seek its profits through lobbying the government for protection rather than through maintaining competitiveness.

A further economic effect is the likely imbalance between public and private investment. Even if the government invests the oil revenue, it directly controls only public investment such as infrastructure. Private investment may become less attractive as a side-effect of the contest for control of the oil rents. For example, in Nigeria a huge increase in public capital formation coincided with a collapse in private investment. Currently Nigeria has around three times as much public capital as private capital, whereas the average for both the OECD and East Asian economies is five times as much *private* capital as public capital. In such circumstances public investment is likely to be relatively unproductive.

A final economic effect of oil is exposure to price shocks. Even post-OPEC oil prices have swung massively - between $10 and $30 a barrel. During the booms governments take on commitments that cannot be sustained during the slumps. A particularly common approach – Congo, Cameroon - has been to protect and subsidize high-cost manufacturing industry in good times, being forced to abandon it in the slumps. The capital invested in these unsustainable activities is a pure waste.

What can we do?

These political and economic effects of oil have cumulatively been sufficiently serious to waste a huge opportunity to finance development. What can the international community do about it?

The most direct action is to promote revenue transparency. Until oil revenues are transparent it is not possible to scrutinize how they are spent. Transparency is therefore necessary to address the problem of 'detachment'. In addition, transparency can reduce the problem of secessionist pressure. Recall from the example of the GAM in Aceh that rebel movements deliberately exaggerate the value of oil revenues. Secrecy makes such exaggeration easier.

The NGO *Global Witness* has led efforts to encourage transparency. One approach is to demand compulsory reporting of payments by individual oil companies. However, this has disadvantages. It is politically difficult to achieve international action on the basis of compulsion: some companies see it as a breach of confidentiality, and the governments that receive oil resource revenues see it as yet another developed country insinuation that they are corrupt. Further, if companies were to report using different accounting years, or different concepts of revenue, it would be impossible to arrive at a credible aggregate figure: too much disaggregated information would, paradoxically, provide too little information for effective scrutiny. An alternative approach, which has been suggested by the UK government, is for companies to be required by the government of the oil-rich country to report on a confidential basis to an international agency, which would then publish aggregate information. This has several advantages. First, the host government would have the choice as to whether to make reporting a requirement. Hence, it would not itself be the subject of compulsion but would rather be a critical participant in producing transparency. Once a 'template' for revenue reporting is established, governments adopting it would be signaling their commitment to honest governance. This ability to signal would itself be most useful to governments that face a problem of poor reputation – it provides a mechanism whereby they can live down the past. The template would require all companies, including national companies, to report. By contrast, if the reporting requirement were to come from OECD countries it would apply only to some companies and so would disadvantage them – in turn making OECD countries reluctant to impose such discriminatory requirements. Finally, by introducing an informed international intermediary, the reported data can be required to conform to some standard concepts.

Transparency of revenues is only a step towards the scrutiny of expenditures. Without transparency of revenues scrutiny of expenditures loses much of its point, but transparency is not in itself scrutiny. The purpose of scrutiny is to establish how oil revenues are spent and this in turn requires scrutiny of the entire budget. In most oil-rich developing countries the institutions that would normally undertake such scrutiny – parliamentary committees, allied with an auditor-general office and an investigative press – are currently insufficiently effective. The international community can promote scrutiny both by building the capacity of these institutions and by pressuring governments into accepting their enhanced role. The reward for change in government behavior is greatest for those governments burdened by a poor reputation – whether with their own electorates or with foreign investors. In some contexts institutions of scrutiny need to be established from scratch. For example, in Chad as a result of the Chad-Cameroon pipeline new government institutions were established, - helped by pressure from oil companies - along with an ad hoc group drawn from civil society. Experience to date suggests that even this ad hoc approach has been quite effective. The precise architecture of scrutiny would need to differ, country-by-country, depending upon what is already in place.

Between them, transparency and scrutiny would curtail rent-seeking. They would also reduce the incentive for secession. Secessionist groups would no longer be able to exaggerate the scale of revenues, nor would they be able to contrast the prospect of local accrual of revenues with embezzlement at the national level. The best defense against secession is likely to be credible evidence that revenues are being used for nationally equitable expenditures such as primary education. Transparency and scrutiny provide at least some counter to the problem of 'detachment'. Gradually, the population may come to recognize that oil is indeed owned by the nation.

Exposure to price shocks can be reduced through insurance, savings, and export diversification. As an example of insurance, the World Bank is a major creditor to both oil exporting countries and oil importing countries. Currently, debt service to the Bank by oil exporters is around $6 billion per year, and debt service by oil importers is around $12 billion per year. Hence, there is at least in principle the potential for these two payments streams to move in a precisely offsetting fashion, conditioned on the oil price. When oil prices were high, oil exporters would take over some of the debt service obligations of oil importers and vice versa. The World Bank would gain by reducing its default risk, and both oil exporters and oil importers would gain from less volatile net incomes.

Transparency, scrutiny and stability would improve the climate for private investment. This in turn would facilitate export diversification. Indonesia shows that it is possible: over the same period that oil destroyed Nigeria's other exports, Indonesia broke into a range of non-traditional export markets. Dutch disease need not imply an absolute decline in non-oil exports.

Conclusion

Oil revenues have been a missed opportunity for many developing countries, yielding stagnation and corruption. At the heart of this failure has been a lack of transparency in the receipt of revenues, a lack of scrutiny in how they have been spent, and a lack of stability in the economy. The international community is now seriously concerned to transform such countries. Hesitantly, and with setbacks, it is moving beyond using aid as the only instrument, towards 'policy coherence' – the attempt to make other policies, such as trade and military intervention, more supportive of development. The disastrous cocktail of secrecy and instability in oil-rich societies is not inevitable. A few specific actions could make a large difference.

Notes

[1] See Gelb (1988) and Sachs and Warner (2001).
[2] See Collier et al. (2003) and Collier and Bannon (2003).

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3 Oil Fuels War in Sudan

Egbert Wesselink

"There is no security problem." Awad Ahmad al-Jaz, Minister of Energy about oil exploitation, in Al-Sharq al-Awat, October 7, 2003, London.

Dirty business

In 1997, the Greater Nile Petroleum Operating Company (GNPOC) completed an oil pipeline in Sudan from Western Upper Nile in southern Sudan to the Red Sea. Most of the work force were Chinese convicts who earned a reduction in their sentences. Finances came from international money markets. Confidence and technical know-how came from Talisman Energy of Canada, 25% owner of the GNPOC. Security was to come from the government of Sudan (goS) armed forces and the poorly engineered 1997 Khartoum Peace Agreement, which temporarily brought over a number of local military leaders to the side of the government.

Before 1997, Western Upper Nile was a quiet side-show in Sudan's civil war. Its rural areas had been outside of the control of the government since 1983 and had been administered successively by the Sudan People's Liberation Movement/Army (SPLA/M) and the former South Sudan Independence Movement/Army (SSIM/A), now merged with the SPLA/M. After 1997, Western Upper Nile became a major focus of military activity. Control over the oil fields became a key military objective for the government; oil development and civil war converged. The human rights situation worsened dramatically. Thousands of civilians were killed and many tens of thousands were forcibly displaced.

The war in Western Upper Nile is part of the wider civil war between north and south that has raged for decades, but oil changed its pattern. The conflict zone was extended. The armed opposition attempted to maintain control over its traditional Nuer and Dinka territories by attacking military and economic targets, while government forces established control over vast stretches of land by attacking their armed opponents and chasing away the civilian population. Oil income transformed a low-budget bush war, fought by rag-tag armies into modern counter-insurgency warfare between asymmetric parties. The companies built an all-weather oil road which allowed the government to set up garrisons deep into Nuer territories and support them through the wet season. Oil income allowed the government to modernise its army and to purchase new weapons: helicopter gunships, battle tanks, precision guidance systems for high altitude bomber planes, armed personnel carriers etc., resulting in an escalation of the level of violence. In 2001, oil revenues represented 38.5 percent of the state income, up from zero in 1998. According the IMF, Sudan's military expenditures were US$242 million in 1999, almost 40% of the state budget, and rose to US$362 million in 2001, a rise of 50%, roughly proportional to the total rise in government earnings as a result of the oil boom. They have stabilised since. Government oil revenues are expected to reach US$600-700 million in 2003.

Much of the dirty work was done by government controlled militias, allowing the GoS and oil companies to call it inter-ethnic strife. Very large areas were cleared of their original Nuer population, in 1997-1999 along the pipeline to the Heglig operation site, then along the new all-weather road north of Bentiu. The systematic burning of houses, destruction of livelihood and the frequent planting of mines indicated a strategy of deliberate depopulation. Meanwhile, ethnic composition of large areas is being changed by the settlement of Arab speaking Northerners in traditional Nuer territories.

Late 1999, the main theater of forced depopulation operations shifted south from Blocks 1 and 2, operated by Talisman Energy, to Block 5A, coinciding with the construction of the 150 km all-weather road from Bentiu to Adok, near the Thar Jath oil field. Lundin Petroleum from Sweden and OMV from Austria together held a majority stake in this concession area, with Lundin as the operating company. The international observers from the Civil Protection Monitoring Team found that in January 2003 in Block 5A "Many thousands of civilians have been forcibly displaced from their villages by direct military attack in the areas Lara-Tam-Nhialdou-Leel and the villages south of Mankien and Mayom. Conditions are equally bad along the new Bentiu-Adok main road where most villages are now empty or destroyed."

The impact of oil exploitation on the population of Western Upper Nile has been devastating. It is arguably the world's most destructive and socially irresponsible economic activity. While some of the oil companies have been forced to realise that they cannot simply ignore the human catastrophe surrounding them, on October 7, 2003, Minister of Energy Awad Ahmad al-Jaz was quoted in *Al-Sharq al-Awat* (London) saying "The areas in which drilling first started in the south were one day rugged territory and there were no inhabitants there. We created development there and people settled in these areas. There was no talk about north and south or east and west."

International concerns

In 1999, an alarmed Canadian government sent a fact-finding mission to Sudan. Its finding, published as the "Harker Mission's report", was that "oil is exacerbating the war in Sudan". Canada took no action against Talisman Energy. Foreign Minister Lloyd Axworthy stated that there was no legal basis for that without international sanctions against Sudan. Instead, his government made a moral appeal to Talisman to adopt a non-binding regulation, which it did. Talisman soon adopted an exemplary code of conduct, financed local charity, and produced a social responsibility report that was partly verified by PricewaterhouseCoopers. The company improved its public reputation, but the facts on the ground did not change.

Three consecutive UN Special Rapporteurs for Human Rights in Sudan also concluded that oil exacerbated war in Sudan. In June this year, the UK Special Envoy to Sudan, Mr. Alan Goulty, stated that "Government income from oil has fueled the war". The last UN Special Rapporteur, Mr. Gerhart Baum, identified the following human rights concerns:

- forced displacement of indigenous populations and associated abuses to provide security for oil operations;
- the security arrangements and the use of oil industry infrastructure by government forces and militias leading to abuses;
- oil revenues intensify warfare.

A separate concern that he mentioned was the absence of proper monitoring of the human rights situation in the oil areas.

There was no international response to these alarms.

Governance gap

Since 1997, European governments and the EU have treated oil's nefarious impact on Sudan as a non-issue. Instead, the IMF-instigated GoS financial reform was welcomed. The declining inflation rate and the fact that the GoS, oil income permitting, started to fulfil its international financial obligations was seen as an encouraging step towards Sudan's international respectability. While the EU and its member states were seriously engaged in promoting peace and respect for human rights in Sudan, and while they were spending hundreds of millions of Euros each year to alleviate the war-related suffering of the Sudanese people, not once did a European government or institution express concern about the allegation that European industries "exacerbated war in Sudan". On the contrary, the role of European companies was downplayed. In 2003, several European Ambassadors expressed their regret that Asian companies had taken over from the Canadian and European ones, as the latter were believed to care about human rights. Needless to say that the superior human rights performance of the Western vis-à-vis the Asian companies is lost to the population of Western Upper Nile.

The USA has a less ambiguous stand on Sudan, having banned all US commercial relations with the country. The ban will be lifted after the signing of a comprehensive peace agreement only. In 2001, a majority in the House of Representatives adopted an amendment to the Sudan Peace Act that would additionally delist non-US oil companies working in Sudan from the New York Stock Exchange. This would have been a serious blow, especially to the Chinese National Petroleum Company. The Congress, though, rejected the amendment, supported by the White House, which followed Mr. Greenspan's objections against non-economic criteria in financial market regulations.

The international neglect of oil's role in Sudan's war before 2002 remains puzzling. The companies completely failed to regulate themselves. When in early 2003, the European Coalition on Oil in Sudan launched its *Benchmarks for Oil Exploitation in Sudan*, not one company reacted, except OMV, whose CEO stated that if the company had to respect such rules, it would have to close down.

Current situation

In 2002-2003, Western companies' interests in Sudan were reduced. Talisman and OMV sold their assets to ONGC Videsh (India), while Lundin Petroleum sold its majority share in block 5A to Petronas Carigali. Still, Lundin holds its 24.5% interest in Block 5B. Total holds the 120'000 km^2 Block 5 stretching almost to the Kenyan border. The company is expected to start working as soon as the peace agreement is signed. The Netherlands has a low-profile interest in oil exploitation in Sudan. Talisman used to work through an Amsterdam-based subsidiary company, and until 2002 paid at least EUR 100 million in direct taxes to the Dutch Government, making the country a major beneficiary of Sudan's oil wealth. ONGC Videsh, the Indian buyer of Talisman's assets, also works through an Amsterdam-based special purpose company, ONGC Nile Ganga B.V., managed by Rejus. Current aggregate Dutch tax income from oil exploitation in war-torn Southern Sudan probably exceeds EUR 200 million.

Talisman, Lundin and OMV made hundreds of millions of dollars profits from the sales of their interests, almost doubling their investments or better. Still, provided that the peace process will enable further development of the fields, their Asian buyers are believed to have a very good deal. Overriding motives for the Western companies to sell their assets were security and reputation risks. Domestic public pressure forced the companies to express concern about the way the GoS managed security, but the Sudanese government refused to take these concerns into account. The January 2002 GoS offensives in Block 5A forced the companies to suspend operations for a second time in two years. Meanwhile, during the summer of 2002, when the wet season slowed down the fighting, the GoS demanded resumption of the work, threatening to annul the concession contract, under which the companies were obliged to develop block 5A. In October 2002, OMV and Lundin went to Malaysia and China to propose a combined oil industry plea with the GoS to change the security management. They received a blunt no.

The basis of trust between Lundin/OMV and both its business partners and the government was seriously eroded now. Also, senior management of OMV had begun to doubt whether any peace agreement would ensure lasting peace in Western Upper Nile. Late 2002 and early 2003, the GoS went on the offensive again, despite the 2002 ceasefire agreement between GoS and the SPLM/A. A devastating report by an international monitoring team, detailing attacks on villages along the oil road, smashed the companies' claim that they were a force for good. By the summer of 2003, both Lundin and OMV had sold their interests in Block 5A.

Sudan's up-stream oil industry is currently dominated by Asian and Arab companies, notably the Chinese National Petroleum Company (CNPC, state owned), Petronas Carigali (state dominated, Malaysia), ONGC Videsh (state owned, India), Gulf Petroleum Company (Qatar). CNPC and Petronas are allegedly deeply involved in the security management of their concession areas. They stand accused of arranging weapons deliveries, providing military advice and services, in the Chinese case including armed units. Nevertheless, the GoS is reportedly unhappy with its dependence on these companies. It slows down the rise of Sudan's international economic status and the Asian companies are less competent. They are less reliable, less swift and less efficient than Western oil companies.

It is expected that Western oil majors are interested to step in as soon as a peace agreement is reached. It is noteworthy in this respect that the CEO of Chevron paid a visit to Khartoum last August.

Oil as an obstacle and an opportunity for peace

Even before September 11, the USA concluded that peace was the surest way to eliminate Sudan as a potential basis for terrorism. Peace would allow for the full exploitation of Sudan's oil resources, and was presented as an incentive for peace. A durable peace settlement will allow Sudan to maintain and expand its total oil revenue at US$1 billion for at least a decade. If well managed and equitably distributed, this could help consolidate peace. The EU copied this line of thinking. Before, EU member states did not consider oil's potential leverage for peace and kept silent about its negative impact. Neither Lundin nor OMV have ever been contacted by their respective home governments, let alone be called to account for their operations in Sudan.

There is no reason to believe that oil exploitation has been a vital precondition for the current peace process. The peace dividend would have been much bigger if there had not yet been any oil production. The desire to secure oil revenues has undermined mutual trust and has played into the hands of hard liners on all sides of the civil war. Oil will pose a danger to the dynamics of the peace process as long as the GoS and the oil companies are prepared to pursue oil development by whatever means necessary. The aggression in the oil areas have fuelled the armed opposition groups' suspicion that the Northern elite only support the peace process because it offers them an opportunity to grab the oil. It also widened fissures between the SPLM/A and government-aligned Nuer militias. The GoS *divida-et-impera* tactics is a potent threat to security and stability in the south, whether peace is concluded or not. Without international supervision and enforcement, the greed for the oil income and the risk of local clashes will continuously jeopardise peace.

Governance gap

Why do countries like Switzerland and the EU member states make a formidable political and financial effort to end a war, and ignore the business operation that is at the heart of that war? Why allow the private sector full freedom to undermine foreign policy objectives? Why engage with the Sudanese government to respect human rights and keep silent about the bags of money made from those very same violations?

Decisions made by private sector parties can have considerable impact on peace and stability, development, security, human rights, good governance and other key foreign policy objectives. However, the private sector is not held responsible for its impact or called to account for its responsibilities. Despite the huge damage that the private sector can do to foreign policy objectives, and despite the universal legal obligation to promote respect for human rights, not one country in the world is considering mechanisms that would ensure corporate compliance with international norms and standards. The core objective of the international community, peace, is not considered to be an binding concern for business. The leading industrialised countries have no legal framework that impose international legal obligations on their subjects. Governments advocate voluntary regulation, knowing that it will not do the job. By doing so, they falsely assume that peace and international law are essentially moral issues and matters of personal choice.

The regulation of businesses during armed conflicts is an imperative for conflict management. An international regulatory framework should prevent the continuation of 'business as usual' when such business plays a negative role on the course and impact of violent conflict.

What can be done?

International law already obliges private enterprises to respect all basic international principles, but there is no forum for which non-state actors can be called to account for this obligation. When the *ius cogens* is at stake, and it always is in matters of war and peace, the issue is Corporate Social Accountability rather than Corporate Social Responsibility. Developments in international law point to an emerging legal obligation on the part of states to ensure that their nationals do not commit, participate or profit from the commission of human rights violations. We need an international regulatory framework to deal with the worst cases of business involvement in human rights abuses, where they support or profit from violent conflict.

Very often situations are not black or white, but we see clashes of rights and interests. In ordinary legal practice, a court balances these rights and interests. In cases where the international community has taken *ad hoc* measures against certain business operations, the balancing has been a political process. This is not ideal because political actors are interested parties. In absence of an independent international forum that balances rights and interests, I propose to institute a mixed forum of business, governmental, experts and civil society representatives to advise our political leadership on how to judge the impact of business operations in zones of violent conflict. The business community itself will have a key role to play, the system should be transparent and practical, and focused on removing the worst offenders from the international markets. Applied to the EU, it could look like the following: (with many thanks to the excellent study Deconstructing Engagement, by Georgette Gagnon, Audrey Macklin and Penelope Simons. Ottawa, January 2003).

1. The EU must adopt mandatory regulations, applicable to business in conflict zones and based on existing international legal principles. It should make enterprises responsible for ensuring that their conduct does not contribute to human rights abuses, and that they do not profit from such abuses. It should oblige companies to undertake independent risk assessments that include the human rights and humanitarian consequences of their activities. These risk assessments must be shared with the European Commission. The Commission will dispose of a range of incentives and penalties to promote respect for the rules.

2. The EU establishes a Working Group comprised of representatives from industry, international organisations, NGOs and independent experts. The Working Group will review companies' risk assessments and will investigate complaints received. It will have the capacity to monitor certain situations. The Working Group aims to achieve observance of the rules by engaging with individual companies, proposing revisions of business operations if necessary. In the worst cases, it can recommend to the EU to impose modifications of company operations or to outlaw a business activity.

3. The Working Group reports to the European Commission; its reports will be made public. The Commission reports its response to the European Parliament, which can demand the Commission to revise its decision.

4. The mandatory regulations are supported through the EU international trade policy.

5. As we cannot wait for all this to happen, EU immediately develops short manuals of do's and do not's for companies in relevant countries. The embassies of member states promote this manual actively in their contacts with their national companies, and report home in case of non-cooperation. These reports are shared with the national parliaments.

6. The EU Member States adopt legislation that allows non-national civil parties to demand compensation before a national court in a company's home state, for damage sustained as a result of a business operation outside of its national jurisdiction.

If Canada, Switzerland and the EU had had such a system in 1996, it would have prevented Sudan's oil misery. A good set of rules and mechanisms for Total to observe before the company kicks off in Block 5 in Southern Sudan is urgently required. A system like this would be extremely helpful to limit the risks of future internal strife in the many resource-rich regions of Sudan.

Map of Sudan

swisspeace

4 Oil and Conflict: Lundin Petroleum's Experience in Sudan

Christine Batruch

Introduction

Lundin Petroleum[1] obtained the rights to explore for and produce oil and gas in concession Block 5A, Unity State, Sudan, in February 1997; it sold these rights in June 2003.

During the period in which the company was active in Sudan, it operated in the belief that oil could benefit the economic development of the area and the country as a whole, and that this would have a catalysing effect on the peace process. The problems which it encountered in the area, however, led the company to constantly reassess its activities, role and responsibilities there.

This chapter examines the reasons why Lundin decided to operate in Sudan, the challenges it faced in the course of its activities, the steps it adopted to satisfy both its commercial objectives and ethical concerns, and its efforts to promote a peaceful resolution of the conflict.

Sudan's war

Sudan has been embroiled in a civil war that began shortly after it gained independence from the United Kingdom in 1956. It is one of the longest and most tragic wars of modern history: fighting has taken place for nearly 50 years, with a single reprieve between 1972 and 1983.[2] The Government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A), led by rebel leader John Garang, are the main protagonists in the conflict which resumed in 1983, although armed militias in different parts of the country have also been involved at various times. The fighting has taken place chiefly in the southern-most parts of the country although other areas, such as the Nuba Mountains region, Unity State and more recently the Darfur region of western Sudan, have also witnessed periods of intense combat.

It is difficult to ascertain the root causes of the war and the contributing factors over such a long period of time. Nonetheless, certain elements have, at various times, played a role in the conflict. They include: (*a*) he country's extreme poverty—Sudan is ranked among the poorest nations of the world;[3] (*b*) the religious/racial divide—northern Sudan is mainly Arab and Muslim, while southern Sudan is African and Animist or Christian; (*c*) the competition for power—political opponents seek a greater participation in power, while regions seek greater autonomy from the central government; and (*d*) the competition for resources—southern regions contest the government's control over national resources such as water and oil, which originate in the south.

When peace is achieved, it will be easier to determine which of these elements played the decisive role in the conflict and its eventual resolution. What is clear, however, is that the war began years before the presence of oil was even suspected, and it was only after oil was produced that a material basis for a sustainable peace was seen to have been achieved. It is only then that an active, internationally mediated peace process began.[4]

Until that time, Sudan's war had been largely ignored, except from a humanitarian perspective. The conflict was seen as another typical African war: over local issues and involving local parties. The situation seemed insoluble because of the many problems to be resolved and the slight foundations for sustainable peace. However, in the course of the 1990s a number of developments brought the world's attention to Sudan.

The early 1990s had seen the rise of Islamic fundamentalism, which figured prominently in the Sudanese Government; the harbouring of renowned terrorists such as 'Carlos the Jackal' and later Osama bin Laden; and the suspicion that Sudan was linked to the 1995 assassination attempt on Egyptian President Hosni Mubarak. At this stage, Sudan was considered a 'rogue nation' which had to be isolated from the community of nations.[5] In the latter part of the 1990s, however, the government adopted certain progressive measures, which the international community interpreted as signals of impending reform and of Sudan's interest in shedding its pariah status. The steps taken by Sudan included the handover of Carlos to French authorities, the expulsion of Osama bin Laden, the purging of key Islamic fundamentalists from the government, allowing the return of political opponents from abroad, the signing of the 1997 Khartoum Peace Agreement with southern opposition groups (see section III), improved relations with neighbouring countries, and the adoption of a new Constitution and Bill of Rights.

Whereas the United States was reluctant to recognize these efforts immediately, the European Union (EU) decided to engage in a constructive dialogue with the Sudanese Government because it believed that this approach was more likely to bring results than keeping Sudan isolated. Thus, when Lundin acquired the rights to explore for and produce oil and gas in Block 5A, world opinion regarding Sudan was beginning to change.

Lundin in Sudan

The company's primary concern when considering a new area for activities is geological. If an area presents the required geological profile—that is, if it is assumed to contain oil reserves—Lundin proceeds to study the technical and commercial feasibility of exploiting the oil. In the case of Sudan, the main risk identified in the course of the company's risk analysis was financial. The company decided, however, that the estimated potential oil reserves were important enough to justify the significant investments required for the venture, in particular investments in infrastructure development. It did not identify any legal risks—there were no international or EU sanctions against Sudan that prohibited a European company from doing business there—or political risks—there were no SPLA forces in the concession area, as the civil war was proceeding further south.

The company therefore engaged in negotiations to obtain a licence to explore for and produce oil and gas in Block 5A. As in most countries, mining rights in Sudan belong to the central state. Negotiations were therefore held with representatives of the Sudanese Ministry of Energy and Mining (MEM). The terms of the agreement were standard for the trade, with an initial period for oil exploration—in exchange for a work commitment and the carrying of costs—followed by a period of oil production, with cost recovery sought after initial production. The only terms that were specific to the exploration and production-sharing agreement (EPSA) concerned the 'Sudanization' of the operations. At the request of the MEM, the company committed itself to hire and train Sudanese with a view to their constituting 50 per cent of the staff within 5 years of the commencement of operations and 80 per cent within 10 years. There was also a provision that the company would carry the costs of its Sudanese partner, Sudapet, which had a 5 per cent interest in the venture.

On its first visit to the concession area, Lundin met with key representatives of the local community, who welcomed oil activities as the only way to promote long-term economic development in their area.[6] They also committed themselves to providing a safe environment for the company to operate in. This commitment arose out of the terms of the Khartoum Peace Agreement, which they had signed with the Sudanese Government and which set out the parties' respective rights and responsibilities in the area.[7]

Security, however, proved to be elusive. The prevalence of arms, coupled with the division of tribes into various factions, contributed to making the situation volatile.[8] Within a few years, instances of fighting started to increase. While the company was not directly affected by the fighting at the time, it was nevertheless worried about the safety of its staff and its operations. It was also concerned because of the criticisms that were being directed against an oil consortium situated in a nearby concession. To better understand these developments, Lundin decided in 1999 to commission a socio-political assessment of the area.

The study, conducted both at the Lundin head office in Geneva and in Sudan, was based on an analysis of reports on the political and human rights situation in Sudan, on interviews with company representatives in the head office and in Sudan, and on meetings with members of the Government of Sudan and humanitarian organizations. It also included a visit to the concession area.

The report's conclusion was that, despite the lack of evidence of a direct link between the sporadic fighting that had taken place in the concession area and company activities, there was a potential risk of deterioration if the local communities ceased to perceive the role of oil companies as beneficial. The report also noted that in view of the limited positive benefits of the oil activities at the time—revenues were not expected for a number of years, since activities were at the exploration stage—there was a distinct possibility that the local communities would grow disgruntled.[9] The report's main recommendations were that the company should continue to monitor socio-political developments in the concession area and reinforce its existing relationship with the local community.

Community relations

From the time it started its activities in Block 5A, Lundin adopted a proactive approach to community relations. The company not only met with representatives of the local community but also sought to show goodwill towards the population by hiring local staff and improving the infrastructure in the area.[10] The company believed that, if the local population obtained tangible benefits from oil activities, they would be even more supportive of these activities. However, given the lack of required skills locally, the number of people who were hired was minimal and the impact of this effort was limited. Similarly, while infrastructure developments such as bridge and road building increased local mobility, because they had been carried out for operational purposes the company did not consider them as community projects.

The company therefore sought ways to make a more direct contribution to the local community. It initiated a number of projects, which later became an integral part of the company's Community Development and Humanitarian Assistance Programme (CDHAP). The projects had three main objectives: (*a*) to promote better health, hygiene, education and general quality of life for the current and future inhabitants of the concession area of Block 5A, Unity State; (*b*) to contribute to the economic and social development of the area; and (*c*) to reinforce relationships between the local community and the company.

Through this programme, the company also wished to demonstrate to the local and central authorities that it was concerned with the interests and welfare of the population and was prepared to make significant contributions, despite the fact that it would not obtain any revenues from its activities for a number of years.

In order to ensure that its projects were relevant, Lundin had consulted with a number of local actors, in particular non-governmental organizations (NGOs) that were active in the area. With their assistance, it identified areas of need where it felt it could make a contribution, such as the supply of fresh water, health, education and capacity building.

In the three years Lundin ran CDHAP, it spent over $1.7 million on its various projects. These ranged from the delivery of fresh water by trucks, to the drilling of water wells and the construction of a water filtration unit. In the field of education, Lundin started by supplying educational materials to existing schools and orphanages, then built schools with local materials, and eventually constructed a permanent building to accommodate several hundred children. Through a team of five Sudanese doctors, assisted by local nurses, Lundin provided medical assistance in mobile tent clinics, temporary straw clinics and eventually in a fully equipped permanent clinic which it had built. Similarly, it relied on two veterinarians and local paraveterinarians whom it had trained to tend to local cattle in a vet station and in mobile vet clinics. The capacity-building projects included the creation of a mobile brick factory, a women's development centre and a nursery as well as a programme for training local people as midwives, paraveterinarians, nurses, brick layers, vector control specialists, computer analysts, and so on. In times of emergency brought about by climatic or security conditions, the company provided ad hoc humanitarian assistance by supplying people with water containers, soap, blankets, mosquito nets and medical services.[11]

From its inception, CDHAP was a constant element of the company's presence in Unity State. Not only were CDHAP staff members often the first to go to projected areas of activities and the last to be pulled out when the security situation deteriorated, but they stayed there even when operations were suspended. During the company's temporary suspensions of activities in 2001 and 2002, services to the community continued to be rendered in the two main towns of the area, Rubkona and Bentiu, and in surrounding villages. Maintaining its presence in the area through CDHAP was the company's way of demonstrating its long-term commitment to the local community and the area.[12]

If CDHAP was the company's most tangible way of showing its concern for the people in the area, it was by no means the only way. Outbreaks of fighting, coupled with allegations that these conflicts were related to oil, led Lundin to re-assess its role and responsibilities and seek ways of exercising a positive influence on the protagonists in the conflict.

Internal review

In the latter part of 1999, civil rights activists started to question the role of the Greater Nile Petroleum Operating Company (GNPOC) oil consortium in the conflict.[13] This consortium, which was operating in a concession area adjacent to Lundin's, had participated in the construction of a pipeline linking the southern oilfields of Unity State to the northern city of Port Sudan and was beginning to produce oil. Activists claimed that human rights violations, such as population displacement, had taken place in order to pave the way for the consortium's activities. The consortium consistently refuted these claims. The activists also believed that the revenues obtained by the Sudanese Government from GNPOC operations would be used to build up its military arsenal and quash the rebel SPLA.[14]

There was a marked discrepancy between Lundin's first-hand experience in its concession area and reports about what was being alleged to have taken place in the neighbouring GNPOC concession. The report commissioned by Lundin confirmed that many elements distinguished the two operations. First, the GNPOC concession area was sparsely inhabited, which gave credence to the claim that population displacement had taken place prior to the commencement of operations, even though this was disproved by satellite images.[15] Second, the local community there was partly of Dinka origin, the main tribal group behind the SPLA; it was therefore conceivable that there could be clashes between them and government forces. Finally, GNPOC operations had started generating revenue for the government, of which little, if any, appeared to be reinvested by the government in the area.

Despite these differences, Lundin recognized that negative perceptions of the effects of oil operations could also come to be applied to its area and therefore decided to set out, in a Code of Conduct, the conditions under which it was prepared to operate.

The Lundin Code of Conduct

The process of development of the Code of Conduct was important for Lundin, as it required the company to assess the role of its business from a different perspective. Lundin's management had always seen (and continues to see) itself as making a positive contribution to economic growth by providing a necessary source of energy. It had also witnessed how oil revenues in undeveloped areas acted as a catalyst for economic development, paving the way for other businesses and international loans.[16] Lundin was aware of the potential negative impacts of its operations on the environment, and took mitigating measures to address them. The socio-political dimension of its activities, however, was not something the company had had particular reason to consider before the Sudan experience. It believed that these were issues beyond its field of competence.

When faced with the possibility that its activities could have a negative impact on the conflict in Sudan, senior management re-examined the company's role from this wider perspective. Lundin established its objective to play a positive role not only directly, in the economic field, but indirectly in the socio-political field as well. As stated by its chairman, the company's 'aim is not only to find oil and gas, we are also committed to developing this valuable resource in the best socio-economic manner possible for the benefit of all our partners, including the host country and local communities'.[17]

The Code of Conduct was developed after the company had consulted documents in the field of corporate responsibility[18] and after discussions with members of the Board of Directors as well as senior corporate and countrybased management. The Code was adopted as a consensus document which served as a guide for the company's activities worldwide.

The Code set out the company's values, responsibilities and the principles by which it was guided. The company recognized that it had specific responsibilities towards its shareholders, employees, host countries and local communities, as well as to the environment. It committed itself to act in a fair and honest way, to observe both national and international laws, and 'to act in accordance with generally accepted principles on the protection of human rights and the environment'.[19] After the Code of Conduct had been adopted by the Board, Lundin disseminated it to its employees in Geneva and in Sudan, and to the company's affiliates. It became an integral part of the company's contracts of employment.

The adoption of the Code was followed by other initiatives, such as the publication of the company's policies on health and safety, the environment and community relations. The company also arranged for an awareness session on human rights and developed a human rights primer, explaining the origins of and guiding principles for the protection of human rights and how they relate to business. The company's security liaison personnel in Sudan were provided with information regarding human rights and security, to sensitize them to such issues in conflict situations, and were encouraged to report any violations they witnessed.[20]

The internal dissemination of the Code of Conduct was necessary in order to ensure that the staff understood what the company stood for and what was expected of each and every one of them. It also became the basis for discussions with stakeholder groups in Sudan.

Stakeholder engagement

In the course of developing its Code of Conduct, the company defined more precisely who its stakeholders were in relation to its activities in Sudan. In the first few years of its operations in Sudan, it had cultivated friendly relations with business partners, government representatives at the central and local levels, and community representatives. It also had informal relations with other oil companies and NGOs active in the area. However, it decided, that in view of the competing claims being made about the impact of oil in the region, it needed not only to widen the scope of these contacts but also to alter the content of its discussions to include socio-political issues.

The company's early consultations with central and local authorities had revealed a shared view that oil represented a momentous opportunity for the development of the country and the area. Even the humanitarian and development organizations it had consulted at the time recognized this potential, but they remained more reserved as to whether the wealth produced would be properly shared among the population.

This general consensus began to erode, however, when representatives of the local communities whom Lundin had met at the outset accused the Sudanese Government of reneging on its commitments under the Khartoum Peace Agreement and decided to resign from their governmental posts. Their decision, coupled with the defection of a local tribal faction to the SPLA, represented a turning point both in the conflict and for the company. Interfactional fighting escalated into a conflict which pitted against each other militias that were backed by the two contenders in the civil war—the Government of Sudan and the SPLA.

Judging the situation as representing an undue risk to the safety of its staff—the SPLA having then indicated that it considered oil operations and staff as legitimate military targets—Lundin decided to temporarily suspend its operations. It made its resumption of activities conditional upon a peaceful environment, noting that this could only be achieved with the support of the local community.

Lundin also decided to enhance its knowledge of the situation by consulting not only those with whom it had formal relations, such as its partners in the consortium and the government, but also those with particular knowledge of, or interest in, the conflict in

Sudan. The purpose of these discussions was to share information and opinions about the conflict and to establish what was required for company operations to resume.

The institutions with which the company met included the following:

The Sudanese Government (host government) and the Government of Unity State (local government)

Discussions with the Sudanese and local governments focused on the means to render the area conducive to oil operations. The company expressed its view that the long-term security required for sustainable oil activities could only be achieved with the support of the local community. Lundin made it clear that, in its view, military action—except for defensive purposes—was not an acceptable option.

The Nuer opposition (local community)

In its discussions with representatives of the Nuer opposition, the company attempted to convey its view that oil presented the best opportunity to achieve sustainable peace and growth in the area and encouraged them to seek a peaceful way to assert their rights to the area.

The Swedish Ministry for Foreign Affairs (home government)

It was important for Lundin, as a Swedish company, to share with the Swedish Ministry for Foreign Affairs (MFA) its views about the situation in Sudan and its approach there. Given the allegations about wrongdoings committed in its area of operations, the company kept the MFA informed of its first-hand experience in the area and the steps taken to address local needs and concerns. As a member of the European Union, Sweden had adopted a policy of constructive engagement in Sudan: the activities of the company fell within this approach, in so far as it ensured that its activities were not affecting the conflict negatively.

United Nations relief organizations (the humanitarian community)

UN organizations were present in Sudan mainly to deliver humanitarian assistance under the umbrella organization Operation Lifeline Sudan (OLS).[21] Set up both in Khartoum to service government-controlled areas and in Lokichoggio, Kenya, to service parts of the country under SPLA control, the OLS had witnessed the unbearable toll of the war on civilians. Its main concern was to have full access to all areas of the country in order to be able to provide humanitarian relief in the case of crises. As the company had itself offered assistance to internally displaced people fleeing from areas of natural or man-made catastrophe, it shared the view of the OLS that unrestricted humanitarian access was required and raised this issue in its meetings with government and Nuer representatives.

The United Nations Commission on Human Rights

The UN Commission on Human Rights had two representatives for Sudan: an in-country representative, whose role was to promote respect for human rights by the Sudanese Government and in government-controlled areas; and a Special Rapporteur on the Situation of Human Rights in Sudan, whose role was to assess and report on the human rights situation throughout the country. In 1999 the Special Rapporteur claimed that oil activities had exacerbated the conflict, although he had not visited the oilfields or even consulted with the oil companies. Lundin therefore contacted him to inform him of its first-hand experience and knowledge of the situation in the area and invited him to visit the oilfields instead of relying on secondary, sometimes biased, sources. The eventual visit of the Special Rapporteur to the area took place at such a time and was of such short duration (a mere three hours) that he could not conduct an in-depth inspection. In the course of discussions with company representatives, however, he admitted that the civil war was the cause of the human rights problems and that oil, if properly channelled, could contribute to a sustainable peace.

Non-governmental organizations

The NGOs with a focus on Sudan may be categorized in two broad groups: (*a*) those which have a permanent presence in Sudan, and assist the population through local humanitarian or development projects; and (*b*) those which are based outside Sudan, and promote special interests such as human rights, religious rights, development rights, and so on. Lundin was in contact with both groups to exchange views about the situation in Sudan and means to improve it. Not surprisingly, it found that organizations with a humanitarian focus were generally supportive of the company's efforts to contribute to the local communities in its area of operations. They were prepared to talk to company representatives and even work with them on certain projects. When the stigma surrounding oil activities became significant, most chose not to be publicly associated with the company and therefore only a few cooperative ventures continued, on a confidential basis.

Lundin's experience with special-interest NGOs was more difficult. In many cases, views about the situation in Sudan were so very different that discussions rarely went beyond each side trying to convince the other of the correctness of its views. This was particularly true with respect to religious-based organizations, which characterized the conflict as an attempt by Muslims to eradicate the Christian population in the south of Sudan in order to gain access to the oil there. Although the company responded to their claims, in discussions and in writing, it felt that not much would be gained from this effort. These NGOs believed that the cessation of oil activities was a means to achieve peace, while the company believed that oil activities would be the basis for peace.[22]

There were two notable exceptions in Lundin's relations with special-interest groups: Amnesty International, particularly the Swedish branch; and the Church of Sweden. Both organizations believed in the benefits of constructive engagement with companies operating in Sudan and met with Lundin on a number of occasions. Lundin invited their representatives to visit its concession area, but because of its suspension of oil activities and later sale of the asset the visits never materialized. Nonetheless, some of these groups' views and recommendations were taken into consideration and, where appropriate, were integrated into Lundin's business conduct.[23]

Think tanks

The think tanks which had been following and reporting on Sudan for a number of years also considered how oil could act as an incentive for peace in Sudan.[24] Above and beyond the obvious positive benefits of oil for the overall economic performance of the country, they were interested in ascertaining whether oil could be used as a peace incentive. Discussions with representatives of think tanks were dedicated to a review of oil exploration, production and revenue distribution schemes. It was generally accepted that a fair distribution of oil resources was a necessary condition for peace, and in this regard the company drew their attention to the equitable sharing scheme laid out in the Khartoum Peace Agreement.

The media (representing public interest)

When allegations of a possible connection between the war and Lundin's operations surfaced in the press, the company decided that the best way to respond was to invite both Swedish and international journalists to visit its concession area. Until that time, journalists who had reported from the field had been able to do so only with the support of rebel forces; their reports therefore presented only one side of the story. The company believed that if they had the opportunity to visit the area without support or interference from either rebel or government forces, they would have a more balanced and realistic view of the situation. A number of journalists took up the company's suggestion and visited the area in 2001 and 2002. They produced articles for the press as well as video recordings that were aired on both Swedish and Swiss television.

Peace negotiators

As a principle, Lundin refrains from getting involved in the political affairs of a country; it believes that it cannot make a meaningful contribution in this sphere and prefers to restrict itself to its commercial mission. The situation it encountered in Sudan, however, was exceptional, and the company needed to make clear to the protagonists in the conflict that it saw peace as the best means to ensure sustainable oil operations. In this endeavour it relied on the skills and competence of Carl Bildt, a member of Lundin Petroleum's Board of Directors, whose experience as the UN Secretary-General's Special Envoy for the Balkans in 1999–2001 was particularly relevant. In a series of trips to Brussels, Cairo, Khartoum, Nairobi and Washington, Bildt met with high-level representatives of the Sudanese Government, including the President, his peace adviser, the Minister of Energy and Mining, the Minister of Foreign Affairs, and the main representative of the Nuer community (later deputy chairman of the SPLA), as well as with representatives of the key nations acting as peace mediators, such as Kenya, Norway, the UK and the USA. Bildt delivered the same message to all: oil represented an incentive for peace in so far as oil activities could not be pursued in a war context. He also underlined how oil provided the material basis for a sustainable peace. The company's repeated suspensions of activities were a proof that oil activities could not flourish in a conflict situation, and experience in various other countries demonstrated that a conflict of this nature could not be resolved militarily. In Bildt's view, the parties had to determine for themselves their minimum, not maximum, requirements for the achievement of peace. The mediators' role was to help the parties achieve this compromise by offering them support, in the form of international monitoring and monetary assistance for purposes of reconstruction.

Lessons learned

During the seven years in which it acted as operator of Block 5A in southern Sudan, Lundin was faced with a constantly changing environment. The company learned that, despite its desire to restrict itself to a commercial role, it could not ignore either the socio-political developments in its area of operations or the claims—even if unfounded—of a possible connection between its activities and the conflict.

A reaffirmation of its values in a Code of Conduct, a greater involvement in community life, stakeholder engagement and the suspension of activities were the tools adopted by the company in response to the challenges it faced.

In the spring of 2003, the company sold its interest in Block 5A at a profit. The transaction was satisfying not only from a commercial perspective but also from the perspective of corporate responsibility. At the time the company left, active peace negotiations were under way and its community development programme was maintained by its successor. This reinforced Lundin's belief that it is possible for business to pursue commercial objectives while meeting ethical concerns, even in areas of conflict.

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Notes

[1] On the independent Swedish oil and gas exploration and production company Lundin Petroleum AB — hereafter referred to as Lundin, or the company — see URL http://www.lundin-petroleum.com/. Lundin was the operator of Block 5A on behalf of the consortium which included OMV (Sudan) Exploration GmbH, Petronas Carigali Overseas Sdn Bhd and Sudapet. For a map showing the location of Block 5A, see URL http://www.lundin-petroleum.com/eng/sudan3.shtml.
[2] For an account of recent developments in this conflict see Wiharta, S. and Anthony, I., 'Major armed conflicts', *SIPRI Yearbook 2003: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2003), pp. 101–104. At the time of writing, peace negotiations held under the auspices of the Intergovernmental Authority on Development (IGAD) were in their final phase and a comprehensive agreement was expected to be signed by the end of the year. On the peace process see 'Sudan: peace talks, humanitarian action', URL http://www.irinnews.org/webspecials/sudan/default.asp; and Powell, C. L., 'An opportunity for peace in Sudan', 28 Oct. 2003, URL http://www.sudan.net/news/posted/7274.html.
[3] For a discussion of Sudan's economy and the positive impact of oil in the past few years see the US Department of Energy Internet site at URL http://www.eia.doe.gov/emeu/cabs/sudan.html.
[4] The current phase of peace negotiations originated with the activities of Senator John Danforth, who was appointed by President George W. Bush as Special Envoy for Peace in Sudan on 6 Sep. 2001. See Danforth, J. C., 'Report to the President of the United States on the outlook for peace in Sudan, April 26, 2002', at URL http://www.sudan.net (under 'Latest news', 'Press releases and commentary', posted on 14 May 2002). The oil issue and the means for resolving the conflict are also discussed there.
[5] Because of Sudan's perceived connection with international terrorism, the UN and the USA imposed sanctions against Sudan, the former through a travel ban on Sudanese officials and the latter in the form of a ban on the conduct of business in the country by US companies.

[6] The company met with Dr Riek Machar, who, pursuant to the 1997 Khartoum Peace Agreement, was Vice-President of Sudan and President of the South Sudan Co-ordinating Council (the government representative for the south); with Taban Deng Gai, the Governor of Unity State; and with representatives of the local factions.

[7] The text of the Khartoum Peace Agreement, signed in Apr. 1997, is available at URL http://www.sudani.co.za/Documents%20and%20Issues/Khartoum%20Peace%20Agreement.htm. It was signed between the Government of the Sudan, the South Sudan United Democratic Salvation Front (UDSF)—comprising the South Sudan Independence Movement (SSIM) and the Union of Sudan African Parties (USAP)—the SPLM, the Equatoria Defence Force (EDF), and the South Sudan Independents Group (SSIG).

[8] The main tribe in the area is the Nuer tribe, which has 5 sub-groups: the Bul, Lek, Jikany, Jagei and Dok Nuer. In turn, these groups are affiliated with local militia.

[9] Oil exploration and production are by nature a long-term activity: it takes a number of years before oil is found, and several more before it is brought into production and sold. It therefore takes years for revenue from oil to accrue to an area, which, in the meantime, has observed construction activity, equipment being brought in, and teams of people going back and forth. In many areas of the world, this poses no particular problem, but in an area like southern Sudan, where the majority of the population live in very precarious conditions, this issue requires special attention.

[10] The uniqueness of Lundin's approach did not go unnoticed. Indeed, in a meeting with representative of an international NGO, Dr Riek Machar, who had then defected from the Government of Sudan, stated that Lundin was different in that it had consulted with the local people and tried to involve them in its activities.

[11] For a review of CDHAP activities in 2001–2002 see URL http://www.lundin-petroleum.com/eng/comdev.shtml.

[12] This commitment has been passed on to Petronas Carigali Overseas Sdn Bhd, Lundin's successor in the area, which has decided not only to pursue projects initiated by Lundin but also to expand the activities under CDHAP.

[13] The GNPOC was at the time a consortium of Chinese, Malaysian, Canadian and Sudanese companies.

[14] The consortium contested these allegations. It provided evidence of population growth in the area and divulged the nature of its discussions with the government regarding the use of its facilities for military purposes.

[15] The Canadian company in the consortium hired Kalagate Imagery Bureau, a British company specialized in the analysis of satellite images, to ascertain population patterns in its concession area in the 1980s and 1990s. The conclusions were that there was no evidence of appreciable population migration from the area.

[16] It had felt this way about Sudan, and in many ways it turned out to be right. Over a period of 5 years Sudan shed its pariah nation status and became an attractive place for the international business community (sanctioned by the International Monetary Fund).

[17] Code of Conduct, 'Message from the Chairman'. The text of the Lundin Code of Conduct and related documents are available at URL http://www.lundin-petroleum.com/Documents/ot_lupe-code_e.pdf.

[18] These include the Caux Principles, the Global Sullivan Principles, the UN Declaration of Human Rights, the International Labour Organization's Tripartite Declaration of Principle concerning Multinational Enterprises and Social Policy, the Organisation for Economic Co-operation and Development's Guidelines for Multinational Enterprises, Amnesty International's Human Rights Code for Companies, the Prince of Wales Business Forum on Operating in Conflict Zones, and so on.

[19] Code of Conduct (note 17).

[20] The relevant personnel received information about the Voluntary Principles on Security and Human Rights for the Extractive Sector, available at URL http://www.amnesty.org.uk/business/newslet/spring01/principles.shtml; Amnesty International's 10 Basic Human Rights Standards for Law Enforcement Officials, URL http://web.amnesty.org/aidoc/aidoc_pdf.nsf/Index/POL300041998ENGLISH/$File/POL3000498.pdf; the 1990 UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials, URL http://www.unhchr.ch/html/menu3/b/h_comp43.htm; and the 1979 UN Code of Conduct for Law Enforcement Officials, URL http://www.unhchr.ch/html/menu3/b/h_comp42.htm.

[21] At that time, the OLS was comprised of 42 intergovernmental and nongovernmental development and humanitarian organizations, among which were the UN Children's Fund (UNICEF), the UN Office for the Coordination of Humanitarian Affairs (OCHA) and the UN Development Programme (UNDP).

[22] In Mar. 2001 Lundin posted a report on its Internet site 'Lundin in Sudan' which described company activities to date and responded to allegations regarding the nature of the conflict in its area of operations.

[23] Amnesty International (AI) had issued recommendations for oil companies operating in Sudan; these were circulated among relevant company staff, as were copies of the 10 Basic Human Rights Standards for Law Enforcement Officials (note 20).

[24] Two US-based think tanks devoted particular attention to this issue: the Center for Strategic International Studies (CSIS), Washington, DC; and the Carter Center Peace Program, Atlanta, Georgia.

5 Petroleum Development in Chad: Potential for Conflict

Gilbert Maoundonodji

There is an obvious correlation between oil and violent conflicts. Yet one may well wonder whether this causal link is a verified and verifiable one, yesterday as today, here as elsewhere, and regardless of the analytical or research approach taken. In other words, does this causal relationship exist, and does it apply to the case of the oil project in Chad? If so, why do the project sponsors, the World Bank in particular, believe they can make it a development project, given the inherent and perhaps unavoidable conflict potential? Before developing my argument on this crucial question, I should like to put forward two research perspectives that could help shed more light on the connection between oil and violent conflicts. I will base my discussion of the petroleum development project in Chad on these perspectives. They are the geopolitical perspective and that of the political economy of conflicts in Africa.

Geopolitical perspective

A review of the literature from a geopolitical perspective shows that there is a clear link between oil and conflict: "La Guerre secrète pour le pétrole. La guerre froide du pétrole. Le monde secret du pétrole. L'épopée du pétrole. L'empire du pétrole. Le pétrole roi du monde. Le pétrole et le pouvoir mondial. Oil the biggest business. Les Emirats mirages. Les émirs de la République, Tintin au pays de l'or noir, and the like. These highly emotive titles best reflect the fantasies and dreams stirred by oil in people's imaginations. These include the spectacular enrichment of oil industry magnates (Rockefeller or Deterding, to mention some of the most influential pioneers); that of enormous power, able to make and break the governments of Mexico, Venezuela or elsewhere (some countries in Africa and the Elf Aquitaine plots[1]), to bend the will of political leaders in Washington, London or Paris.[2] Thanks to their secret ties, Les hommes du pétrole[3] [The Oil Men] can dominate the world, impose on it the prices agreed between them, divide amongst themselves oilfields as large as some States, easily circumvent national regulations, secure the most favourable tax treatment, and goad States into military action against recalcitrant parties. They are held responsible for the shady assassinations of their adversaries, for silences bought at exorbitant prices and for starting wars and imposing their peace terms.[4] Hence the correlation between oil and violent conflicts, seen from the geopolitical perspective.

Perspective of the political economy

From the angle of the political economy of conflicts in Africa, Mamadou Koulibaly writes[5] that this region of the world is a matter of constant concern to the international community, whether for the way it handles its economic policy or because of its wars and their implications in terms of refugees. According to this author, Africa is very often seen as the continent where the people are not only ignorant of how to implement the structural adjustment programmes imposed on them, but also – and even more so – of how to feed themselves or take responsibility for the consequences of their mistakes and their political and economic incompetence. Hence the argument that conflicts in Africa are born of the poor management of the economies. Contrary to this argument, good governance can reduce the probability of violent conflict. Many working hypotheses have been formulated to support this argument and to draw attention to the economic stakes in Africa's conflicts. I will focus mainly on three hypotheses put forward by Mamadou Koulibaly:[6]

First hypothesis

The strategic considerations of the rich industrialised countries with their commercial and humanitarian corollaries are a source of conflict in Africa. Several examples are evidence for this hypothesis, which is true of the Chadian oil project as well.

Indeed, on 3 August 1959, the Government of the French Republic and the Government of the Republic of Chad signed a protocol that included a provision about exploiting "sensitive resources", especially oil. Under one of its clauses, Chad could not use these resources without France's agreement.

France's secret agenda was therefore to exploit Chad's oil in the year 2000. Yet officially, at the time, the French authorities declared that Chad's subsoil was poor. The first President of the Republic of Chad, François Tombalbaye, had to "stumble" upon a geological map made by the French engineers of the Directorate for Geological and Mining Exploration (*Direction des Recherches Géologiques et Minières*, DRGM) of the French National Center for Scientific Research (CNRS) before realising that Chadian oil was part of France's power politics.

On the basis of this famous map, the Government of Chad turned to the United States. A permit was thus granted to Continental Oil Company (CONOCO) in 1969. The company made its first oil find in the mid-1970s. The first well was inaugurated in December 1974. At the time of inauguration of this well, then-President François Tombalbaye said (in private), "I've just signed my death warrant." Less than six months later, on 13 April 1975, he was assassinated in a military coup. Was this at the instigation of the French secret services? And yet, President F. Tombalbaye had taken all the precautions by advising the French authorities, as shown by the communication in the text box below.

The political instability following the various armed uprisings and the 1979 civil war prevented the resumption of the project. It was only in 1988 that former President Hisseine Habre was able to revive it. An agreement was signed on 19 December that same year with EXXON, CHEVRON and SHELL, an 80% US-British consortium. Two years later, on 1 December 1990, Hisseine Habré was driven from power by Idriss Deby his former Chief of the Defence Staff, who is now President of the Republic of Chad.

Idriss Deby put the project back on track. In February 1992, immediately after he returned from a visit to Paris, he signed a decree allowing the French company ELF to join the consortium. Now, eleven years later, Idriss Deby is still in power, this time with the blessings of Paris and Washington. He will be staying there, even after his current (and officially last) term of office, provided that he guarantees the interests of France and the United States.

Second hypothesis

Conflicts are engendered by disastrous economic situations and by poverty. In poor African economies, conflicts will stem from the poor distribution of income and the fruits of economic activity, social injustice in the distribution of aid and hence from the chaotic relations between Africa and the rest of the world.

One of the major arguments of this hypothesis is that the inequalities in the distribution of income, rights of ownership and hence of power are sources of conflict in the same way as public development aid. The exacerbation of inequalities is increasing the

The President of the Republic of Chad
Fort-Lamy 5 September 1969
N°90/PR/CAB.

His Excellency President Georges Pompidou
President of the French Republic
Elysée Palace

Mr. President,

True to the traditional friendship that binds our two countries, I have the honour to inform you of the project that is now receiving the attention of the Government of Chad as well as my own: exploring for liquid or gaseous hydrocarbons in Chad.

We have just received an application from a US company (Continental Overseas Oil Company) for a permit to conduct explorations for hydrocarbons in the Lake Chad Basin and in the Doba basin (Chari).

Mr. President, apart from the Doba basin where ORSTOM (Institute of Scientific Research for Development in Cooperation) has undertaken very superficial preliminary studies, no French company has done any exploration in these two regions.

As I have stated, I am particularly keen to inform you of this, for strategic reasons and out of respect for the Franco-Chadian agreements in these specific fields.

The Government of Chad and I would sincerely have preferred this to be undertaken by French entities. Unfortunately, the example of Pétropas in Tibesti, where that company found nothing after such costly explorations, would not encourage other French companies to become involved in Chad. It is against this backdrop that the Government of Chad and I have considered it appropriate to approve this request, which to our mind will encourage other companies to do likewise.

Please accept, Sir, the assurances of my highest consideration.

F. TOMBALBAYE

number of conflicts. Besides, the more intolerable the inequalities, the greater the risk of conflict.

The recurring conflicts in Chad are no doubt the outcome of the low level of economic development and the situation of poverty and destitution prevalent since independence. Yet as I showed earlier, these socio-economic variables do not explain everything. Economic and political reforms can only reduce, but not solve the conflicts in Africa.

Third hypothesis

The problem of conflicts in Africa can be solved through economic and political reforms. However, their hypothesis cannot be verified *mutatis mutandis*. The structural adjustment programmes (SAPs) advocated by the Bretton Woods Institutions (BWIs) – the International Monetary Fund and the World Bank – are cases in point.

Several evaluations show that the SAPs being implemented since the late 1970s have not solved the problem for which they were initiated. The SAPs were originally instituted to enable Africa's economies to meet their international commitments and repay their debt, not to reduce poverty and generate development. Unfortunately, the SAPs have compounded social conflicts and the African states which are subject to these programmes have now become beggar states living from handouts and official loans.

Through a succession of semantic shifts (Enhanced Structural Adjustment Facility, Poverty Reduction and Growth Facility and so on) the Bretton Woods Institutions are attempting to substantiate the argument that economic and political reforms can settle the matter of conflicts in Africa. Indeed, through the Poverty Reduction and Growth Facility, the BWIs propose several measures, the main ones being the Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction Strategy Papers (PRSPs).

Not only is Chad eligible under the HIPC Initiative, but it is also mining its oil thanks to the financial backing and political support of the World Bank. While minimising the political risk, i.e. the probability of violent conflicts associated with the realisation of this project, the World Bank seems to expect that exploiting Chad's oil resources is the only chance to lift the country out of under-development, which will in turn solve the problems of social inequalities and thereby reduce the potential for conflict.

To that end, a range of legislative, regulatory and institutional precautions were taken. These include the infamous Law No. 001/PR/ 99 as amended by Law No. 0016/PR/ of 10 August 2000 and its implementing decrees, and the creation of a body to oversee and monitor oil revenues, the *Collège de Contrôle et de Surveillance des Revenus Pétroliers (CCSRP)*. Although these measures are needed, they are neither enough to promote the rational use of oil resources for poverty reduction, nor can they purport to be the solution to potential conflicts. The geostrategic and geopolitical stakes of oil mining in Chad are large enough to represent permanent sources of potential conflict.

I have already mentioned the rivalries between France and the United States through their multinational companies, as well as the practise of keeping leaders in office depending on the extent to which they satisfy the interests of one or the other power. These geostrategic rivalries could well intensify when we consider that due to this oil project, Chad is becoming a part of the geostrategic system of the United States, which intends to draw 25% of its oil supply from Africa by 2015.

Moreover, the Chad-Cameroon pipeline is being built not merely for Chadian oil, but above all to serve as a safe corridor given the upheavals associated with oil deposits in countries bordering on Chad, such as the northern Central African Republic, Sudan, Niger, etc. An arrangement of this kind also represents a source of friction amongst these countries. Moreover, in Chad's internal geopolitics, the oil development project is a source of friction both nationally and regionally.

Argued historically and empirically, Africa's violent conflicts – past or present – have been and continue to be over control of natural wealth or budgets, the latter consisting mainly of aid. Thus, African Heads of State are often warlords and African economies the spoils of war. In such circumstances, good governance boils down to managing the activities of predators, at any price. The cleptocrat thus becomes the embodiment of the social ideal in African societies.

Is the situation in Chad any different from that? Yesterday, as today, both the quality of governance and the political behaviour of leaders do not prove the contrary. Oil revenues will be the principal stake in the political rivalries between national and local elites. Keeping the present leaders in power, gaining power, governing and wielding power will be the hallmarks of the confrontations between these two elite groups.

Conclusion

The absence of democracy and rule of law in a country such as Chad are constraints on the Bank's poverty-reduction policies and strategies. How do we break this vicious circle?

Notes

[1] The French oil multinational Elf-Aquitaine is accused, amongst other things, of having provoked the civil war in Congo-Brazzaville (5 June-25 October 1997) because then-President Pascal Lissouba had refused to offer an oil concession in favour of the US multinational Oxy. This explains Elf-Aquitaine's support for the former President Denis Sassou Nguesso, who regained power by force after a fratricidal and deadly civil war (4,000-10,000 killed, Source: annuaire économique et géopolitique mondial, 1999, p. 159). The mafia-like dealings of Elf-Aquitaine led to the creation of a movement in France called "Elf must not lay down the law in Africa" [Elf ne doit pas faire la loi en Afrique].
[2] André Noushi, *Pétrole et relations internationales depuis 1945*, Paris, Armand Colin, 1999, p. 7.
[3] Daniel Yergin, *Les hommes du pétrole. Les fondateurs 1859-1945*, Paris, Stock, 1991.
[4] André Noushi, op. cit., p. 7.
[5] Mamadou Koulibaly, *Enjeux économiques, conflits africains et relations internationales, Africa Development*, *Vol. XXIV, Nos 3 & 4, 1999.*
[6] Idem, Op. cit.

6 Petroleum and Violent Conflicts: Strategies for Industrialized Countries

Rudolf Rechsteiner[1]

In a little over a century petroleum has grown into the most widely traded commodity in the world, into the source of unparalleled wealth for many, into a must-have necessity – some say, a narcotic - for others, and into one of the premier drivers of violent international conflicts around the world. The latter role is becoming the overarching one in this still new century because the Earth has already given up much of its oil riches, and narcotic users tend to become panicky when supplies run low.

Many theories have been spawned regarding petroleum in the ground and its practical availability above ground. The most successful one came from the US oil geologist Marion King Hubbert, who in 1956 predicted that US oil production would peak in 1970 and decline thereafter.

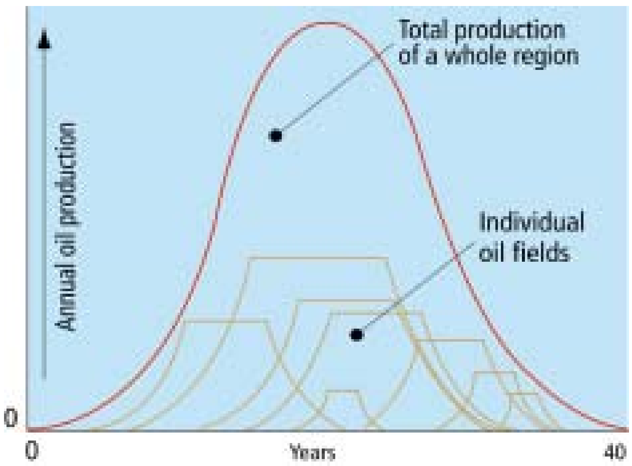


Diagram 1: Hubbert Curve[2]

The "Hubbert Curve" illustrated above demonstrates empirical experience based on geology and statistics: The practical availability of a region's oil reserves over time describes a Gaussian (Normal) Curve. Large fields are discovered first, small ones later. After exploration and initial growth in output, production plateaus and eventually declines to zero. Until 1970 Hubbert was ridiculed and denounced by the US Administration and the oil industry. However, his theories proved exactly correct; beginning in 1971 US oil production declined and has maintained this downward trend steadily.

In the 1950's Hubbert predicted that global oil production would peak around the turn of the century. OPEC's capping of output for some two decades delayed the peak somewhat compared with Hubbert's original prediction. Nevertheless, Hubbert's empirically derived forecasting methods have stood the test of time. Even today new exploration and production technologies can alter, but not undo, the limits dictated by geology. The bell-shaped output curves can be discerned both for major fields and entire regions.

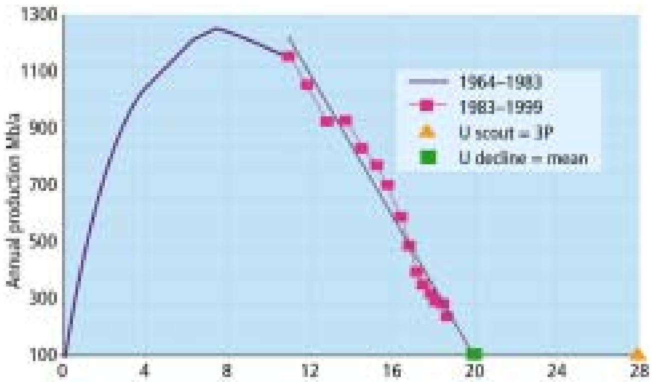


Diagram 2: Samotlor[3]

Samotlor is Russia's largest oilfield. Oil production is declining steadily despite the deployment of modern secondary and tertiary production technology.

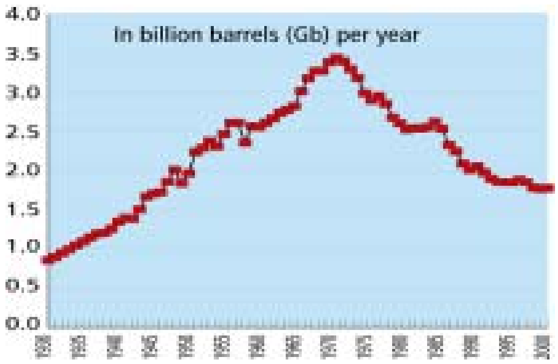
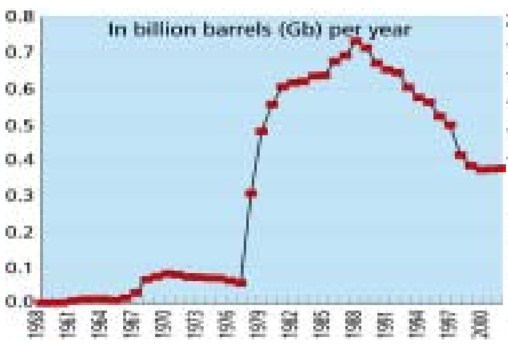


Diagram 3: US oil production (without Alaska)[4]

The same holds true for US oil output in the lower 48 States. (US-production without Alaska). The decline in output was only slowed somewhat by tapping off shore and deep-sea oil deposits in the Gulf of Mexico. A steep decline in output is also to be expected there, roughly after 2010.



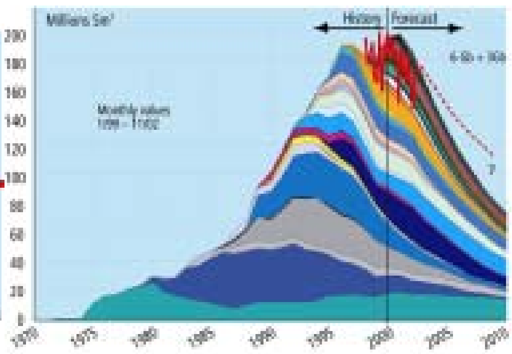


Diagram 4. Diagram 5: Oil production in Alaska[5] and Norway[6]

Alaska and Norway present a similar picture. Production patterns for individual oilfields are particularly well portrayed in the chart for Norway. Each of these oilfields describes its own Hubbert Curve, in which the pace of new development and the timing of the peak follow different patterns, but always end up in a steady contraction of production.

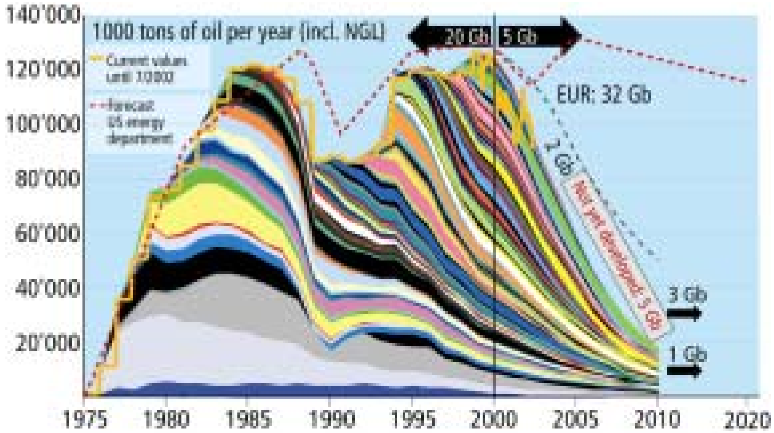


Diagram 6: United Kingdom[7]

In the case of the United Kingdom, precise data for the output of individual oil fields are well known: the dip in the middle of the picture is due to the Piper Alpha oil platform fire. The all-time peak was reached in 1999 with an average of 2.68 million barrels a day. Since then, production has diminished by 23%, or 6.0 % per annum to 2.073 mbd.[8] This figure conveys some idea of the changes to be expected when world oil production peaks. Shown by the punctured line in this picture are the optimistic production forecasts of the US Energy Information Agency (EIA). They are also frequently disseminated as such by the Paris-based International Energy Agency (IEA).

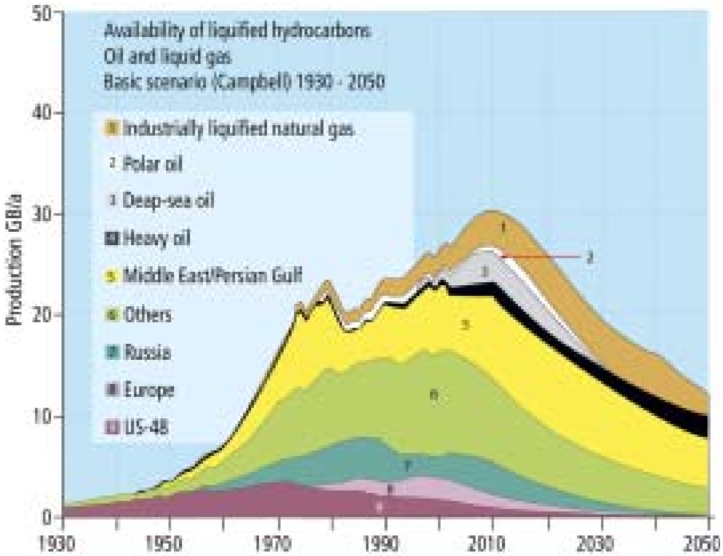


Diagram7: ASPO forecast, all liquids[9]

In the view of the "Association for the Study of the Peak of Oil and Gas" (ASPO)[10] - an association of critical oil geologists - it will be possible to increase global oil production only until roughly 2010. Thereafter, production increases from new oilfields will no longer offset production declines in old fields, let alone contribute to further growth. Given the growth in demand of 1-2% per year hitherto, stagnating oil production already poses a serious challenge.

Some increases in output will come from deep-sea oil (Gulf of Mexico, West Africa, South China), from the polar regions (Alaska, Alberta, Siberia, Sakhalin) and from the Caspian

Sea. In the "old" production zones outside the Persian Gulf region, output is declining. Globally, 27 billion barrels of oil are currently being extracted annually, whereas new finds amount to a mere 3-6 billion barrels per annum.[11] Present oil production will hardly be able to remain at this high level beyond the year 2010. Oil will indeed continue to flow for another 75 to 100 years, but in steadily declining quantities.

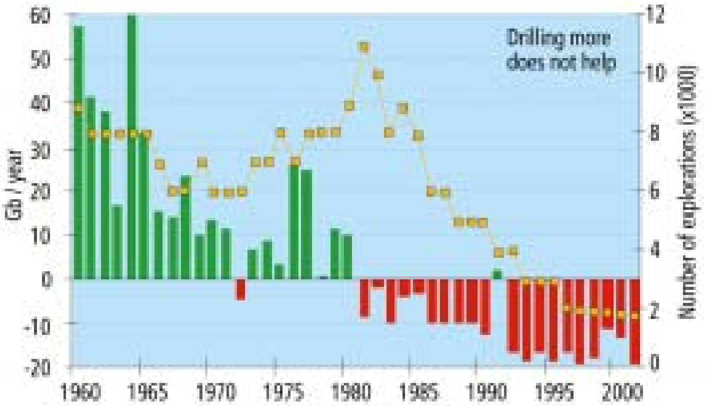


Diagram 8: Explorations (yellow line) and net increase in oil reserves[12]

It is inevitable that oil prices will start to rise significantly, but this will not lead to significant increases in production. As early as the 1970s it had already been realized that despite high real prices of over $100/b (in 2003 dollars), additional drilling could not increase the number of actual finds. Instead, for years now there has been a deficit between new oil discovery and oil consumption, which is drastically depleting real reserves.

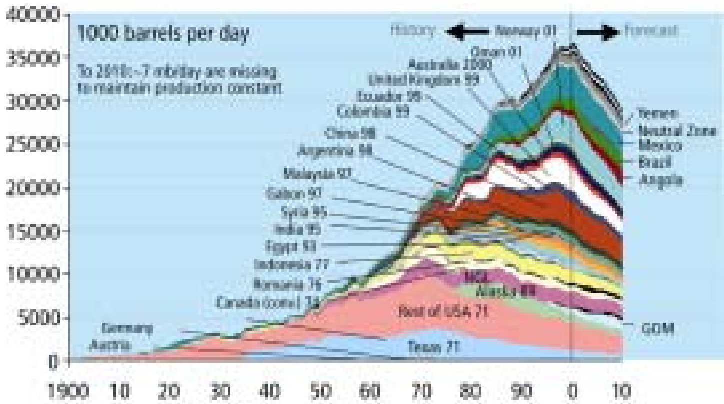


Diagram 9: Post-peak countries[13]

All the increases in production in Russia, West Africa or Alaska are not enough to compensate for the contraction in oil output in the numerous countries (mostly non-Opec) that have already passed their peak (Diagram 9). By 2010 these countries outside the Middle East OPEC countries will suffer a shortfall of some 10 million b/d, or about one-eighth of current world oil output. To maintain present world production rates this shortfall would need to be made up by additional production in the Middle East.

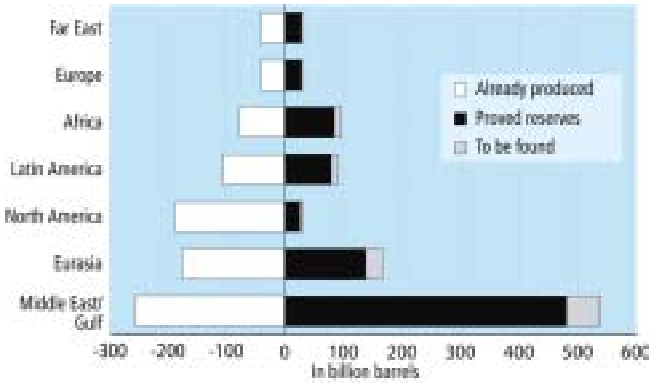


Diagram 10: Overall availability of oil by origin: already being worked, still existing reserves and expected increase in reserves by 2050[14]

The remaining reserves are distributed geographically in a highly unbalanced manner. North America, originally almost as oil-rich as Saudi Arabia, by now has nearly exhausted its oil riches. The additional reserves often alleged to be enormous in the form of shale and tar or oil sands are not equivalent to reserves of liquid oil. The extraction of oil from sands or shale consumes huge amounts of energy and causes serious environmental damage and pollution. Therefore these supposedly gigantic reserves can contribute only modestly to the overall supply --- at most 20% of North American consumption.

For the industrial countries to maintain oil consumption at the customary levels requires massive increases in Middle Eastern oil output. An important non-technical factor comes into play here: Islam. Of the roughly 1,000 billion barrels of conventional oil reserves remaining, two-thirds are located in Muslim countries, 260 billion barrels in Saudi Arabia alone, compared with 22 billion barrels in the USA. The continuation of its extravagant energy consumption makes the US dependent on the economic and political dynamics of the Islamic world. The actual on-going supply of oil is not just a matter of the size of reserves but is driven by the price levels and by policy decisions regarding what is a desirable output today versus tomorrow. Add to this the difficulty of accurately determining the scale of oil reserves there. In the OPEC countries the methodology for estimating oil reserves is a well-guarded government secret. When expectation for prices are turning higher, some countries tend to restrict output in order to ensure bigger oil revenues in the future.

Given the still low real prices of oil and the existing upside potential, many countries have an interest in restricting output and assuring the local population a bigger share in oil income. This is a prime motive of recent riots in Nigeria and Bolivia, of the policies of the Venezuelan President Hugo Chavez, and of shut-off of oil exports by guerrillas in Iraq.

The inability of the USA, to change their wasteful *American Way of Life* in favor of a sustainable lifestyle is the chief reason for US aggression and occupation in the Middle East and Central Asia. Naturally, it is also about oil company profits, the interests of the US automotive industry and the imperialist aims of the Israeli Government (annexation of West Bank, Gaza Strip and Golan Heights). But the inner circle within the US government that sets the agenda mainly is composed of former oil industry executives and this is what is sparking the conflict between the West and the Islamic countries.

Under George W. Bush the word "terrorist" has become the code for Islam, for a religion with over one billion believers. Since its very beginnings, Islam has pursued strong social objectives and has developed its own moral code aimed at preventing extreme poverty among its own people. It is therefore no chance matter that Osama bin Laden's declared demands include higher oil prices ("144 dollar a barrel") and the withdrawal of the US army from Islamic countries.

Conflict between East and West will in future revolve increasingly around oil prices. For many years following the collapse of the OPEC cartel in 1985, prices fluctuated between $15 and $20, corresponding to 10-15 US cents/liter, a very low level in real terms. For decades oil was two to four times cheaper than Coca Cola!

A new situation has been developing since the year 2000, however. As a direct outcome of declining production in the North Sea and Alaska and due to rising demand from Asia, OPEC has regained price leadership and - as in the 1973-85 period - is now using its quota decisions to set the band for oil prices.

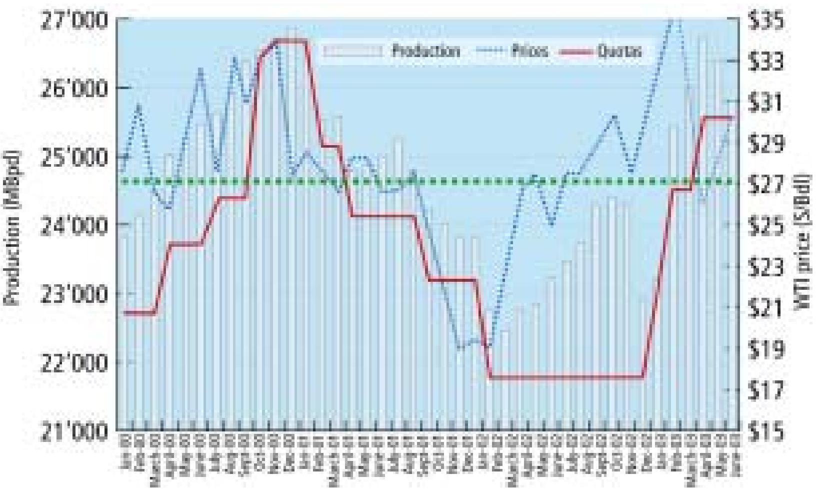


Diagram 11: OPEC production quotas and oil price trends[15]

Thanks to the new quota discipline, the price range has been gradually raised from a 1999 low of $10 to more than $30. This means that the oil bill has more than doubled for the wasteful US and other importing countries. The price decline that many oil analysts had expected in the aftermath of the Iraq war has not materialized. Instead, the official Opec price range was quietly raised from $22-28 to $28-35/b during the 2003/2004 winter, partly to offset the lower value of the US-dollar.

Terrorist attacks on export pipelines and local resistance against occupying forces in Iraq have been highly successful in at least two ways, 1) by directly interrupting the flow of oil, and 2) by deterring fresh investments in the oil infrastructure. And, most likely, the US has lost appetite for new armed incursions into oil-lands, for example Iran or Saudi Arabia, because such ventures would certainly reduce, rather than increase the flow of oil to the industrialized world. It would be no surprise if oil prices surpassed $50/b by early 2005. As a consequence, efforts to improve energy efficiency and to tap renewable sources of energy are taking on greater importance in oil importing countries.

These higher oil prices mean new and enormous money transfers from the first world to the Middle East and to Russia, improving the economic base in many medium-size oil-producing countries, which in turn tends to increase the demand for oil and natural gas of the local populations in those countries. The new oil market conditions also are enabling many countries better to protect themselves from US imperialist influences. It is no chance matter that in awarding its latest natural gas concessions, Saudi Arabia considered oil companies from China, Italy and Russia, but not from the USA. This greater self-confidence is reflected in some OPEC member's demands for payment of its oil invoices in Euros or in other currencies more solid than US dollars.

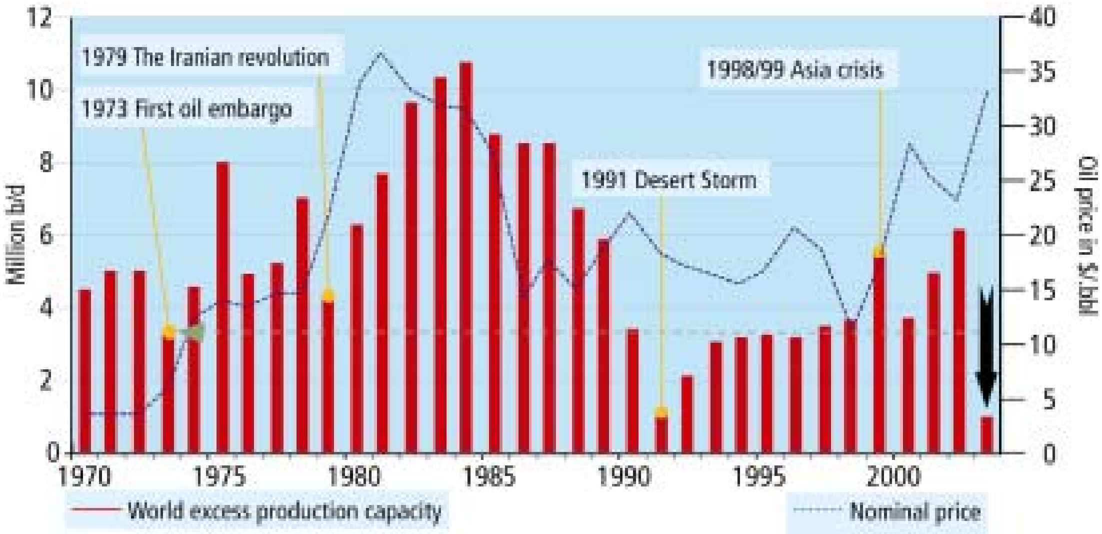


Diagram 12: Oil price and excess production capacity[16]

The pincer movement of rising demand and dwindling reserves means that even relatively minor events such as strikes, a fire in a large refinery, or political unrest even in second-tier exporting countries can trigger major price upturns. The cushion of huge, readily accessible, reserves has shrunk to an all-time low during the Iraq war, some 1 million barrel/day or barely more than 1% of overall world consumption, and less than 2 million barrels in early 2004.[17]

On March 7, 2003 ARAMCO, the Saudi national oil company announced that with an output of 9.2 million barrels per day the Company was at near-full capacity.[18] Since then the Saudis' output has dropped by 0.7 million b/d. Accordingly the country has only limited mobilizable reserves, and many of the older super-giant oil fields such as Ghawar are in natural decline so that maintaining (not to mention lifting) their output entails ever greater costs.

This is the more remarkable as Saudi Arabia and some smaller Gulf States are the focus of the West's supply expectations for the coming decades.

International Energy Agency forecasts, regularly published in "World Energy Outlook", do merit closer scrutiny in this respect. After all, the IEA is the authoritative OECD-branch that advises OECD governments and makes long-term recommendations to political players. Statements by this government-funded institution in Paris are taken as the "truth" in the energy ministries of many industrialized nations. IEA-"Reference Scenarios" in fact assume that oil production will increase steadily by 1.6% per annum until 2030, without massive increase in prices: *"Resources of conventional crude oil and NGLs are adequate to meet the projected increase in demand to 2030, although new discoveries will be needed to renew reserves. The importance of non-conventional sources of oil, such as oil sands and gas-to-liquids, is nonetheless expected to grow, especially after 2020"*[19]

For many years now IEA puts forward the assumption that oil prices will stay low: *"Crude oil prices are assumed to remain flat until 2010 at around $21 per barrel (in year 2000 dollars) – their average level for the past 15 years. They will then rise steadily to $29 in 2030."*[20]

This forecast is extremely unrealistic, for the current oil price is already above $30/b.

Simple oil industry statistics (e.g. from the BP Statistical Review of World Energy) readily reveal that a large number of oil-producing countries have suffered declining outputs for years, even decades. These dismal results occurred even though new oil discoveries came along from time to time.

According to the IEA forecast to 2020, production will rise from 76 million b/d in 2000 to 100 million b/d in 2020 (and to even higher levels thereafter).

However, take into account the trends in the countries with already declining output (black) or with outputs starting to decline by 2005 (white) and you will get a measure of what the Persian Gulf producers (grey) have to accomplish to meet the IEA forecast for 2020:

1. They must produce at least at the yearly rate attained in 2000, that is, at roughly 23 million b/d.
2. They must compensate for the production shortfalls of post-peak countries, for example the UK, USA, Mexico, China or Norway. This calls for an output of an additional 19 million b/d.
3. Lastly, they must produce the oil needed to satisfy the predicted growth in consumption --- a staggering 30 million b/d by 2020.[21]

Summarizing then, daily output by Persian Gulf producers must roughly triple from 23 million to 73 million b/d in order to maintain consumption patterns and price levels predicted by the IEA.

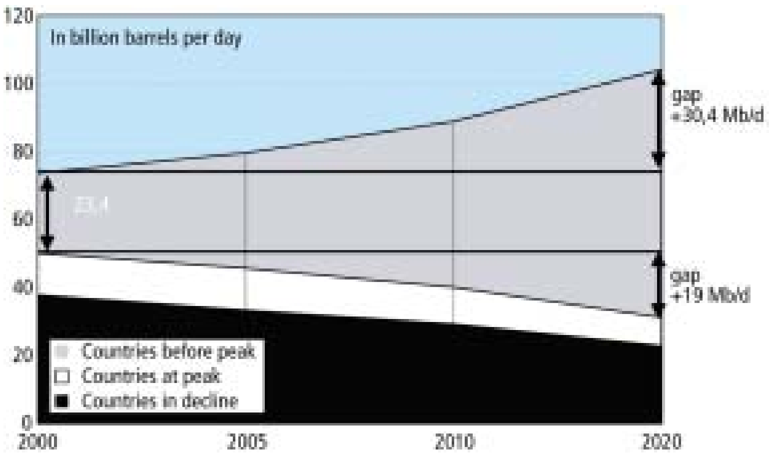


Diagram 13: International Energy Agency oil consumption prospects and the origin of supposed supplies[22]

According to the IEA's forecast of 2020 oil consumption oil production would have to rise by 50 million b/d. This represents a six-fold increase in Saudi Arabia's present-day production, and this offers a sort of yardstick for asking: Is this at all reasonable? Even comparing this increase with the present-day production levels of the entire Middle East we wind up with the question: Can this geographic area really triple its output within the span of 15 years especially when considering the unavoidable delays encountered in adding new oil production facilities? From this follows naturally the question: Are the IEA's prospects grounded in reality or do they reflect an agenda for influencing the future? Indeed, the IEA is government-financed, suggesting impartiality, but this organization seems to be strongly influenced by the oil and gas industries and, in earlier days, by the nuclear industry. This can be recognized easily by anyone who comes into direct contact with IEA representatives or with their many publications.

For decades now the IEA's coded message has been: "*continue as usual, nothing can happen, build your airports and highways, ignore renewables and the Kyoto Agreement, for there will be enough oil, gas, coal, nuclear.*" The IEA's real mandate however is precisely to protect consumer countries from over-dependence on petroleum and to guarantee secure energy supplies at modest prices. The IEA has always interpreted this mandate as though it were only about tapping new countries with oil deposits and mobilizing the required capital. Yet even if the world still were blessed with bountiful oil reserves, the IEA's tone and statements deserve to be questioned on three critical levels:

- The IEA avoids identifying the origin of the future oil supplies. Enormous estimates are based on "unidentified reserves" – reserves that it is hoped will still be found as prices rise modestly, but whose existence can be identified neither technically nor geographically.
- The IEA advocates the exploitation of so called unconventional oil reserves (tar sand oil, shale oil), yet overlooks considerations regarding the ratio of energy investment to energy return from these new sources. In the case of oil sands and oil shale deposits in Canada and Venezuela, the energy in/ energy out is rather poor and cost overruns are common.[23] Large quantities of natural gas are needed to extract unsatisfactory quantities of oil. Moreover, this extraction process destroys landscapes and leads to enormous emissions of CO_2, and this is similarly unattractive as burning more coal.
- The IEA seems to ignore the influence of suppliers on the price of oil. Better quota control and the inevitable exhaustion of their finite reserves will encourage exporting countries to drag out production over time in the hope of getting better prices and of prolonging the flow of revenue from their diminishing resource.[24]

The unrealistically low price estimations by the IEA ($15-$25/b even when actual prices have fluctuated between $10 and $70/b) distort policy-making around the world. Scenarios based on a variety of price levels would inevitably foster efforts toward improving energy efficiency and utilizing renewable energy sources, These would be the logical next step in contrast to considering imperialistic and even military means for gaining control of the last oil-rich areas.

In addition to its hopes for continued plentiful supplies of petroleum the IEA is banking on the expansion in the use of liquefied natural gas (LNG). Gas production in the major consuming countries such as the USA, Canada, and the UK is in steep decline, making these countries increasingly dependent on supplies from politically unstable regions abroad. Reserves of gas are believed to exceed those of oil. However, because of the need for liquefaction (by freezing it to -161° Celsius) for ocean surface transport and the need for far more costly tankers and pipelines, gas is a less convenient commodity than oil. Moreover, ship-borne LNG is viewed as particularly vulnerable to terrorist attacks.

The price of much gas purchased under time-defined contracts is linked to the price of oil. As a consequence gas offers only limited economic insulation from the vagaries of oil prices, and this linkage also extends to some extent to the price of electricity because gas turbines by now are a significant factor in the generation of electricity. In the OECD countries domestic supplies of natural gas are expected to decline sharply after 2010, thus contributing to the likelihood of energy-related conflicts.

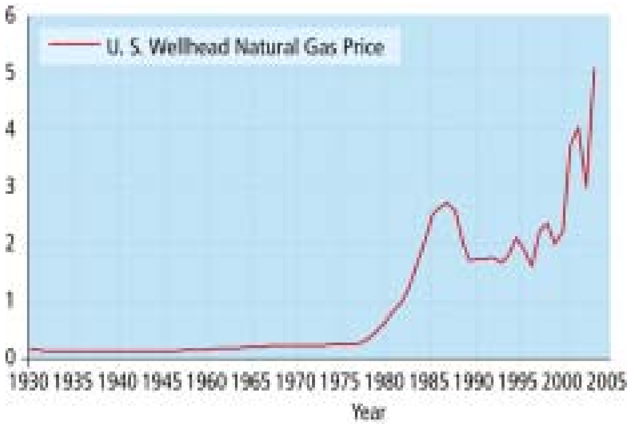


Diagram 14: Natural Gas prices in the US 1930-2000[25]

OECD countries currently import roughly 70% of their oil needs and this proportion will increase further. A growing number of erstwhile oil exporters are becoming oil importers. Such will be the case of Indonesia, the United Kingdom, Denmark, Argentina, Colombia and Mexico in the coming years.

The share of oil in overall energy consumption is between 40 and 45 per cent and that of natural gas some 25%. Gas is believed to be "abundant" for another 60 years from now. A doubling of yearly natural gas consumption over the next 10 to 15 years will cut the ratio of resource-to-production to less than half of its present level, a mere 30 years. This will dramatically affect the perceived supply security and will sharpen and broaden the conflict over energy supply. And it will involve not only numerous smaller supplier countries but also "the big players": Russia, Mid East OPEC, China, and the western industrial countries.

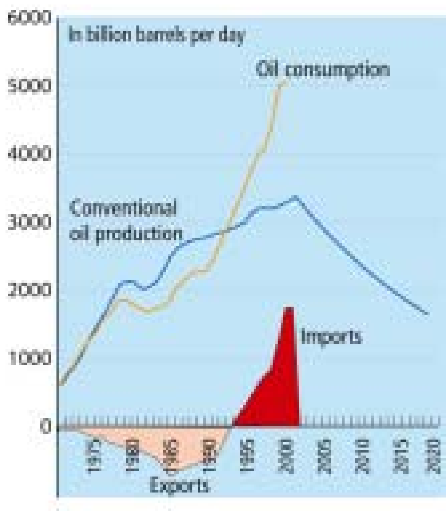


Diagram 15: China: From oil exporter to one of the biggest importers[26]

China dramatically influences the tensions surrounding the international supply of petroleum. Until 1993 China exported oil, but by 1994 its rapidly growing requirements forced it to import in sharply increasing quantities. By the end of 2003 domestic production began its inexorable decline. This, in tandem with burgeoning growth in consumption, is driving up China's imports with no letup in sight.

The situation is similar in India.

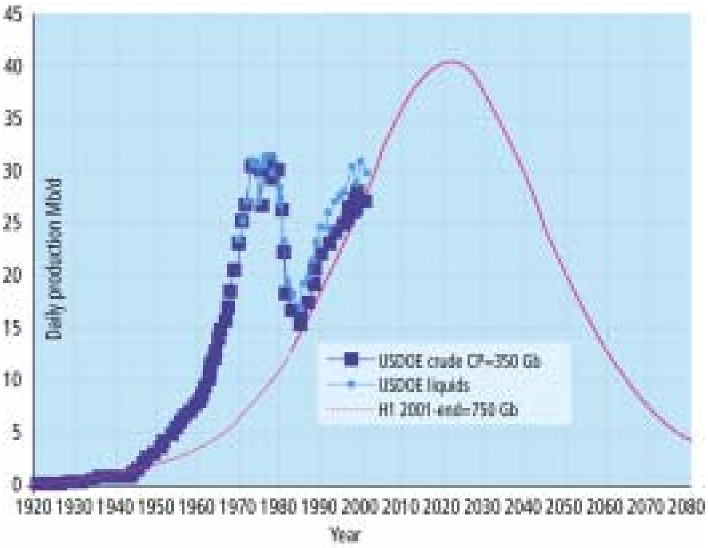


Diagram 16: Estimated possible production increases in the Persian Gulf [27]

Many major oil deposits in the Persian Gulf area remain untapped. Jean Laherrère, a leading ASPO oil geologist, estimates that their exploitation could add 10 million b/d, corresponding to roughly 2% in increased *worldwide* consumption for about another 6 years. Others are more cautious.[28]

Yet even if these estimates are in the ballpark the first signs of shortages will appear as early as 2010, and neither the other OPEC countries nor Russia will be in a position to offset the growing shortfalls.

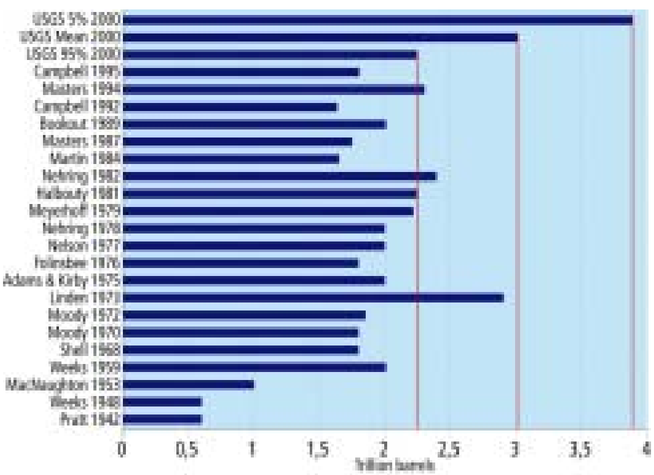


Diagram 17: Estimates of overall conventional oil resources[29]

All the previously cited production trends conform to the Hubbert Curve and to the opinions of many oil geologists: The 900 billion barrels of oil produced so far slightly exceed one-half of the output expected from conventional oil deposits over their lifetime. Hubbert's empirical observations virtually dictate that stagnation and declines in output will follow. It may well be possible to partially offset this decline by using other liquid hydrocarbons from unconventional sources, but these sources are not comparable to the low hanging fruit of conventional petrol.

The coming crisis is being kept in the closet by oil exporters and importers so as not to upset and alert consumers unduly. The oil industry has little interest in spurring consumers to turn to alternative fuels and to more energy-efficient technologies. "Let's not upset the apple cart just now, we can keep this banquet going for many more years", seems to be the leitmotif. There is no credible public organization providing consumers with analytical data regarding the real situation of oil and gas reserves.

The downplaying of the slowly gathering crisis reflects the desire for keeping financial institutions less than fully informed. The oil business is a highly capital-intensive industry. Billions are needed annually for new exploration, for bringing new fields online, and for laying the pipelines and improving harbor installations to bring this liquid to market. Keeping the bankers and the bourses happy is a sensible objective.

Published data on reserves are the means for doing that. Large reserves assure stability of supply; so lets make the estimates generous. Who can claim the figures are inflated? When that becomes evident years later the bankers who fell for them are probably retired and the estimators as well. This doesn't always work as Shell Oil experienced in early 2004. Shell caused a furore in investment circles by downgrading its reported Reserves by 20%, namely 2.7 Gb for oil and 7.2 Tcf for gas, causing the shares to fall in value by about 10% in three days. In the wake of this disclosure the CEO and other top executives were forced out.[30]

In some regard, oil companies and OPEC countries have shared interests, akin to drug farmers and drug dealers. A switch to other energy sources would harm OPEC, as it would endanger demand as well as profits for oil companies. Generous estimates of reserves by members of OPEC for long have served another underlying purpose. OPEC's production quotas are parceled out among its members partly on the basis of a member's "proven" reserves. Large reserves entitle a large production quota. When all members resort to this padding the positive effect on an individual member's quota shrinks and the total reserves of the cartel --- on paper --- balloon. This can make the coming crisis worse when everyone discovers that "there is less oil in the ground then we thought" (or reported).

Are oil-importing countries powerless in the face of the impending crisis? Not entirely. Reducing the consumption of fossil energy not only wards off shortages and reduces the oil bill but lessens problems of air pollution and global warming and of dependence on uncertain supplies from distant countries.

We should therefore reduce dependence on oil and natural gas in good time and change over to sustainable energy systems. With a good energy policy, OECD countries can contribute substantially to defusing national problems and international conflicts. The most immediate and the cheapest way is to increase the productivity of energy within the importing countries themselves, in other words, improving the so-called energy efficiency.

Buildings, households, and vehicles waste, collectively, enormous quantities of energy. That's where a few percentage points reduction in waste goes a long way. The *Minergy* *standard* in Switzerland enables cutting power consumption for new buildings in half while at the same time ensuring better building quality and reduced air pollution.

Energy taxes are a major tool for reducing imports of fossil fuels. Relatively high energy taxes reduce OPEC's leeway for slapping on arbitrary price increases. Environmental tax policies can be similarly helpful. The added labor and capital used for improving energy efficiency is kept within the domestic economy rather than shipped abroad to pay for foreign oil and gas.

Major reductions in energy usage are subject to substantial time lags. Despite attractive incentives the changeover can take decades. Taking positive steps early is one way of limiting or avoiding the "stranding" of investments in older plants, infrastructure and equipment as rising energy costs render them unprofitable. The US is peculiarly vulnerable to major increases in energy costs because of the general energy inefficiency of its buildings, the automobile-centered personal transportation system, the wide distribution of settlements with its resulting long commuting travels. A major oil crisis may well cause the stranding of enormous investments in US physical plants, industrial equipment, and commercial buildings and may put downward pressure on the price of residences located far from work places.

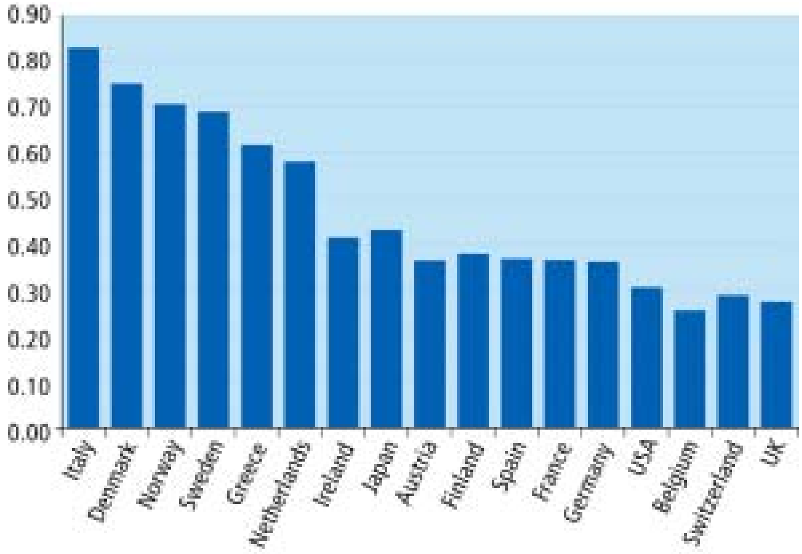


Diagram 18: International comparison of fuel oil prices[31]

Switzerland is by no means one of the environmentally leading countries in Europe. Quite the contrary. Our country is thwarting climate policy with its extremely low taxes on fossil energy such as fuel oil and petrol and is inflicting billions worth of fiscal damage to neighboring countries through fuel tourism. Switzerland is the country with the highest income and the lowest petrol and fuel oil prices in Western Europe.

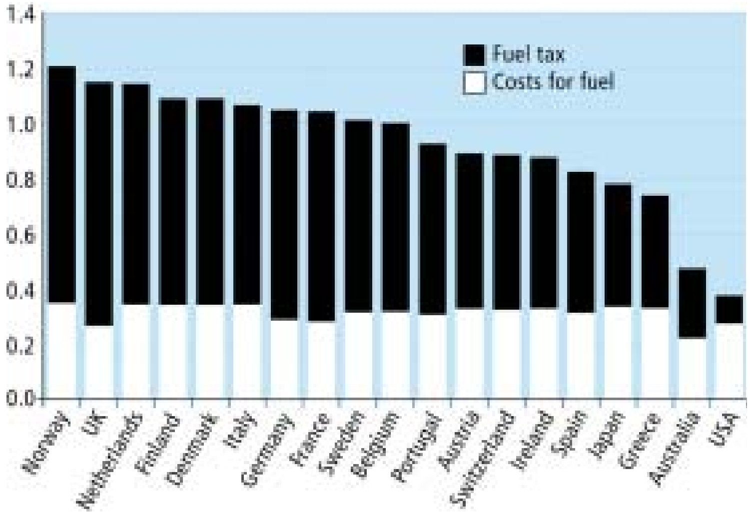


Diagram 19: International comparison of petrol prices[32]

Higher prices of fossil fuels improve the competitive standing of public transport and could boost energy efficient motor vehicles.

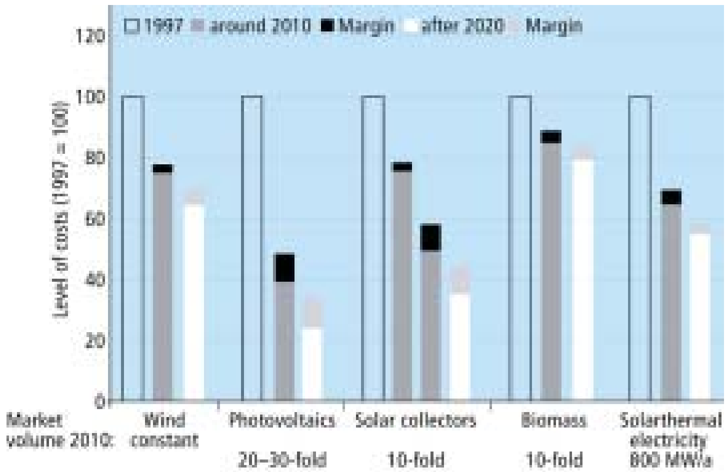


Diagram 20: Price reduction potential of renewable energy[33]

Renewable energies hold enormous potential and are showing a distinct trend toward diminishing costs. Reducing the use of conventional energy in favor of alternative renewables does not lead to a worsening of the quality of life, but rather to an improvement. Energy prices in Europe and Japan are higher than in the US and per capita energy consumption is only one-half the level of the US. However, Europeans and Japanese do not suffer a quality of life inferior to Americans'. On the contrary, life expectancy - perhaps the most reliable yardstick for the quality of life - is higher than for Americans. Moreover, the damaging aspects of motorized vehicle traffic - congestion, noise, air pollution and crime - are lower than in the US.

If we press ahead with the serious development of renewables we can in time cover Switzerland's needs, as well as those of any other industrialized nation, and given a longer time horizon, the needs of all energy consumers worldwide. The first step involves freeing ourselves from the analyses and recommendations of the International Energy Agency (IEA). This organization and its related international and national organizations (e.g. IAEA, the US DOE EIA) are the unquestioned record holders in peddling defective forecasts and recommendations.

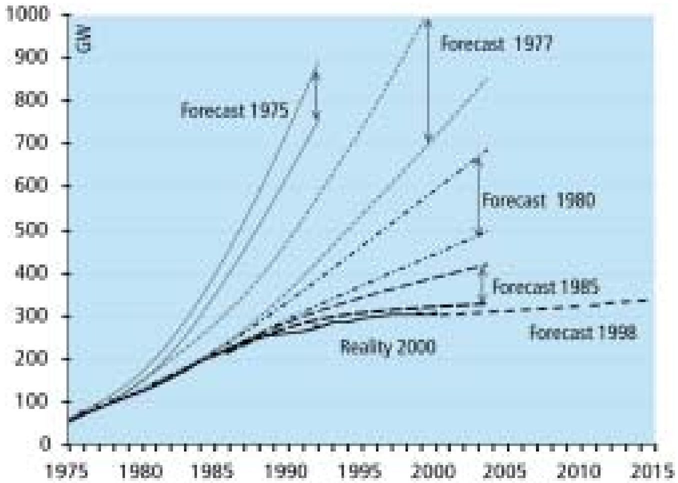


Diagram 21: Nuclear power industry forecasts and real trends (nuclear energy production capacity in gigawatts)[34]

In the 1970s and 80s they were champions of nuclear power propaganda. And their perspective turned out to be entirely wrong. Today they ignore all signs of resource exhaustion, climate change and of the substantial progress toward use of renewable energy. They repeat the same errors they made for decades:

- Misestimating reserves.
- Misestimating the production costs of conventional techniques.
- Ignoring cost reductions for renewable forms of energy.
- Benign neglect of environmental impacts.

In the eyes of the IEA the share of renewable energy will barely increase over the next 30 years. The quality of the IEA's forecast is downright disastrous with respect to the role of wind energy. The steadily dropping costs of wind power installations and the resulting rise in the return on investment in them is consistently ignored. In its World Energy Outlook 1998 the IEA predicted that by 2020 a total of 45 GW of wind power capacity would be installed. The reality is that by 2003 the installed capacity already reached 39 GW, and the 2020 goal of 45 GW will be attained in 2004.[35]

Since 1993, the wind power market has expanded tenfold to over $7 billion. At good locations, new wind power plants now are cheaper than new oil, coal or nuclear-based power, and (in Europe) it costs the same as power from gas, in the US even less. The economic and ecological profile of wind power is remarkable: investment costs of less than 1$/watt, short building times (2-20 weeks), winter and summer production peaks (depending on location), global availability, no emissions, no fuels and disposal costs and steadily falling generation costs thanks to increasingly efficient installations. Wind power is fully immune to oil and gas price fluctuations. Wind hedging is gaining in importance on the US power market where US gas supply system is collapsing.

The potential of wind power indeed is enormous: On an offshore area of 200 km x 200 km equipped with two 5-MW turbines per km^2 it would be possible to produce the amount of electricity consumed by the European Union (EU-15). The Danes, Germans and British are feverishly developing offshore wind farms, which promise a clean, inexhaustible and over the long run very cheap power supply from the North and Baltic Sea and similar locations. In the long run, a full replacement of conventional energy by renewables is possible and will not bear greater costs than today's energy system.[36]

Wind power, solar power, geothermal energy and steady improvements in energy efficiency can do much to defuse conflicts over oil. But still, additional non-technical measures must come from the industrialized countries:

- Review of NATO Statutes: discontinuing the out-of-area strategy for securing energy resources such as oil, natural gas, raw materials, etc.
- Reform the IEA to make it into more of a self-help organization for energy security and conflict resolution.
- Re-establish an IRENA, an International Renewable Energy Agency.
- Generate independent oil production and reserves statistics.
- Develop a Marshall Plan for renewable energy with low-interest loans and a high degree of investor security for renewable energy projects.

Defusing resource-based conflicts will call for greater cooperation with OPEC instead of imperialist wars. Supplier-consumer relations must be strengthened by:

- Steering export quantities - fair trade agreements.
- Clarifying the rights of producing countries.
- Sharing the financial benefits with areas where production is located.
- Agreeing on an environmentally and socially sustainable rate of extraction.

Lastly, resource policies and climate policies must be linked:

- Creating an international court of arbitration to deal with legal issues surrounding oil extraction and rights, with local population enjoying their own inalienable rights.
- Instituting an internationally binding "minimal fossil resources tax", to be raised over time, coordinated by WTO-institutions.
- Linking the Kyoto Agreements to the WTO framework (sanctions/import duties for countries with inadequate consumption or production standards).

Notes

[1] Revised paper presented at the swisspeace annual conference on the theme "Adding Fuel to the Fire? The Role of Petroleum in Violent Conflicts", on October 30, 2003. The author is a lecturer in practical environmental policy at Basel university and member of the Parliamentary Committee on Environment and Energy (UREK).
[2] The diagram is from: Rudolf Rechsteiner: Grün gewinnt – Die letzte Ölkrise und danach (Orell Füssli Verlag AG, Zurich 2003).
[3] Jean Laherrere: Forecasting future production from past discovery, OPEC and the global energy balance: towards a sustainable energy future, Vienna Sept. 28–29, 2001.
[4] Data: US-Energy Information Agency.
[5] Data: US-Energy Information Agency.
[6] Werner Zittel, LB-Systemtechnik GmbH: Analysis Of the UK Oil Production, A contribution to ASPO (Association for the Study of Peak Oil), Extended version, Ottobrunn, 22nd February 2001, p.7; Production numbers since 1/99 (red line): International Petroleum monthly, January 2003 www.eia.doe.gov/emeu/ipsr/t11b.xls.
[7] Werner Zittel, LB-Systemtechnik GmbH: Analysis Of the UK Oil Production, A contribution to ASPO (Association for the Study of Peak Oil), Extended version, Ottobrunn, 22nd February 2001 p.9, Yearly data (yellow line): International Petroleum monthly, January 2003 http://www.eia.doe.gov/emeu/ipsr/t11b.xls.

[8] US-Energy Information Agency: International Petroleum Monthly, Oil Production, February 2004.
[9] K. Aleklett and C.J.Campbell The Peak And Decline Of World Oil And Gas Production, Uppsala 2003, www.peakoil.net.
[10] http://www.peakoil.net.
[11] ASPO-Newsletter Nr. 39, March 2004, chapter 331.
[12] Colin J. Campbell: The assessment and importance of oil depletion, Powerpoint Presentation, Aspo-Workshop 2002, Uppsala; http://www.isv.uu.se/iwood2002.
[13] Werner Zittel, Jörg Schindler: The imminent peak of Oil Production, Graphs, Berlin 2003.
[14] Graph by Colin Campbell cf. ASPO homepage.
[15] Raymond James' Energy "Stat of the week", July 21, 2003.
[16] A. F. Alhajji and James L. Williams¨ Measures of Petroleum Dependence and Vulnerability in OECD Countries, originally published in the Middle East Economic Survey (MEES 46:16, April 21, 2003).
[17] International Energy Agency: Oil Market Report February 2004, p. 15.
[18] In a similarly unspectacular manner, the Texas Railroad Commission had announced in 1972 that US oil production had peaked. Thereafter it declined steadily.
[19] IEA: World Energy Outlook 2002 p. 97.
[20] International Energy Agency: World Energy Outlook 2002, Paris 2002.
[21] The distinction of after peak/ at peak follows Colin J. Campbell: Ölwechsel (with Frauke Liesenborghs, Jörg Schindler, Helga Roth und Werner Zittel), Deutscher Taschenbuch Verlag, München 2002.
[22] Diagram from Rudolf Rechsteiner: Grün gewinnt – Die letzte Ölkrise und danach, Zürich 2003.
[23] See Patrick Brethourand and Brent Jang: Record cost overrun hits Syncrude, Globe and Mail, Mar. 4, 2004: "Syncrude Canada Ltd. has unveiled the biggest cost overrun in the history of the oil sands, with its owners saying Thursday that its latest expansion will cost $7.8-billion — nearly double the original estimate."
[24] "The payoffs to OPEC are relatively insensitive to faster output growth; aggressive output expansion yields slightly lower payoffs than just maintaining current market share. Analysis of intra-OPEC decisions between the core countries and the others suggests a similar conclusion: these two groups are engaged in a constant-sum game. Thus, the significant increases in OPEC output projected by IEA and DOE are implausible." Dermot Gately: OPEC's Incentives for Faster Output Growth, The Energy Journal 2004, Vol. 25, Number 2.
[25] http://www.oilnergy.com/1gnymex.htm#6mo.
[26] Data from BP Statistical Review of World Energy, June 2003.
[27] Jean Laherrère: Modelling future liquids production from extrapolation of the past and from ultimates, Uppsala Aspo workshop May 23, 2002 S.12.
[28] See ASPO Newsletter No. 39, p. 2, new base-case scenario 2004 by Colin Campbell.
[29] Graph: Colin J. Campbell.
[30] Aspo Newsletter Nr.38, Chapter 316, Feb. 2004.
[31] IEA: Energy Prices and taxes, Paris 4/2002.
[32] IEA: Energy Prices and taxes, Paris 4/2002.
[33] Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit: Klimaschutz durch Nutzung erneuerbarer Energien, Berlin 1999. S.220.
[34] Campbell: Ölwechsel, München 2002, S.216.
[35] Werner Zittel from Ludwig Bölkow Systemtechnik first discovered this flawed perspective of IEA. I owe him much gratitude for help and inspiration in many aspects.
[36] Cf. Gregor Czisch, Least-Cost European/Transeuropean Electricity Supply Entirely with Renewable Energies, ISET 2004, http://www.iset.uni-kassel.de/abt/w3-w/projekte/Eur-TranseurElSup.pdf.

7 Petroleum and Violent Conflicts: What is the Role of Switzerland?

Panel discussion edited by Matthias Dettling

This chapter is an edited transcript of the panel discussion featuring

- *Christine Batruch, Vice-President of the "Corporate Responsibility" division of the Swedish oil company Lundin Petroleum AB, which has its main branch in Geneva,*
- *Dr. Rolf Hartl, Director of the "Swiss Petroleum Union", the association of the Swiss mineral oil industry,*
- *Dr. Ivo Kaufmann, head of "Foreign Investments and Multinational Enterprises" of the State Secretariat of Economic Affairs (seco),*
- *Dr. Rudolf Rechsteiner, member of the Swiss Parliament, economist and university lecturer in environmental policy at the University of Basel,*
- *and as facilitator Dr. Barbara Haering, Director of econcept AG, member of the Swiss Parliament and of the Board of swisspeace.*

The panelists, who are all based in Switzerland and together represent almost the whole supply chain of petroleum, discussed possibilities of and limits to conflict prevention and peace promotion in oil-producing countries.

Barbara Haering: *Ms. Batruch, your company came under some serious scrutiny and pressure from a number of NGOs accusing Lundin Petroleum for having aggravated the civil war in Sudan. Could you please tell us more in detail about your business experience in countries where the conditions of good governance are more or less lacking?*

Christine Batruch: As an upstream oil company we explore and produce oil, but we neither refine nor distribute it. Our main priority is to look for oil reserves. Therefore, our first concern is not at all about politics. We look at a country in terms of its geology. That is our starting point.

After it has been determined that there may be a possibility of oil, our second concern is whether or not it is economical to actually go to that country and look for oil. Only then do we assess the potential risks associated with operating in a particular country. The first risk is financial: do the potential returns justify making an investment in a certain area? Apart from financial risks we also consider other dimensions. Security would obviously be an important issue in a conflict situation. We have to determine whether or not our presence would put our employees or anybody in the surrounding area at risk.

Corporate responsibility has widened the scope of what risk analysis means. We not only consider financial aspects. We do look at other aspects such as the social environment, the political environment and the ecological sustainability of our business activities. The experiences we had in Sudan highlight the fact that not only economic aspects play an important role. If there is one lesson we learned, it's that we now make the risk analysis ahead of time. Although it may not change our decision to go to a country, it may change the way we go there and the requirements we have to meet. If we go to a country like Sudan, we have to know who we are and we have to define our role. As an economic actor we are there to make money for ourselves and for our partners. Partners include the host country government and the local communities. Our role is to improve our own and our partners' situation over time. Corporate responsibility has made us realize that there are actors other than the ones who are actively involved in a contract with us. There has been a shift of paradigm from shareholders to stakeholders.

In the case of Sudan, we had to deal with a conflict situation which had not previously existed in our area of operations. When we began with our exploration activities, there was a peace agreement covering this area. When the conflict eventually spread into our area of operations, we first of all tried to find out what the issues were. The issues were far more complex than "oil comes and there's a problem". Oil has had an important role in the peace process, both on the negative side by exacerbating some of the demands that were made on either side, and on the positive side by calling international attention. Oil has brought about international demands to the conflict situation and has thereby stimulated the peace process in a significant way. For the first time, there is now some hope that the peace process will materialize because there is a material basis for peace, which was obviously lacking in Sudan before the oil came.

If we talk about the stakeholders, it's important to examine each party that could potentially be affected, either directly or indirectly, by our operations. Both our own requirements and the requirements of all the stakeholders have to be integrated into our way of operating. As a Swedish oil company, we are listed on the Swedish stock market exchange. Therefore, we are accountable to our Swedish shareholders who of course are important and have their own concerns. In spite of being a small company, we are the largest Swedish oil company with a high visibility in our home country. We are very much engaged in a dialogue with our home government, with members of parliament, and with various NGOs active both in Sweden and in host countries. Another stakeholder is the host government, because oil contracts are usually made with them. Among the stakeholders are also the local communities. Oil companies don't operate in a social vacuum. Oil companies work through people and our employees in the field interact with the local communities on a daily basis. They have to feel comfortable about our work and about the people they see every day. In the case of Sudan, it was the Nuer community. We had contacts with them throughout, both at the outset when there was an agreement with the leaders of that community that oil activities were a useful start-up for the area. Even during the period when some of them defected and decided that oil operations were not positive, we still continued our discussions with them. And lastly, stakeholders are also the members of civil society, both local and international organizations. At different times, they all had some role to play in the way we were running our operations in Sudan.

Barbara Haering: *You mentioned that your risk analysis has to be much more comprehensive than it used to be, taking into account not only short-term shareholder values, but also stakeholder values and the long-term perspectives of the country. How do you make sure that your code of conduct will influence your work down to the shovel?*

Christine Batruch: Being a small company, Lundin Petroleum has a great advantage. There are not so many hierarchical levels between our CEO and the shovel. In the case of Sudan, our CEO traveled to the field at least every couple of months and maintained personal contacts with everybody working for our company. I traveled to Sudan on a regular basis and had discussions with all our employees, both Sudanese and foreign employees, as well as with the host government. We discussed, for example, what the code of conduct means to us and how we intend to implement it in the field. We conducted targeted actions like human rights training for some of our staff in Sudan as well as our corporate staff in Sweden and Switzerland. It may sound strange to some of you that one would need something like that, but also remember that before Sudan we were never faced with any human rights issues. These issues have to first be translated to people who don't have regular contacts with the local communities. To sum it up, we have an internal reporting system, we have compliance, and we have regular field visits. Our code of conduct is an active document and not a paper tiger.

Barbara Haering: *How do you report to the government of the host country and to your home country?*

Christine Batruch: Although we're a Swedish company we have our offices in Switzerland, which is one of the reasons why I'm on this panel. In fact, we consider that we have two home governments: the Swedish government and to a certain extent the Swiss government. Yet, there is no legal tie with the Swiss government, because our Sudan operations are not directly linked to Switzerland. Nonetheless, given our presence, we considered that it would be useful to be in contact with the Swiss government and report about our operations in Sudan. We were in contact with the Swiss government through the Swiss chargé d'affaires in Sudan Ms. Marianne Engeler. She used to raise issues with us and we used to discuss our actions with her. She visited our operations as part of a delegation of ambassadors to assess the impact of the oil on the conflict. In addition, Switzerland played a very important role in the peace deal in the Nuba mountain area between the SDLA and the Sudanese government. Thanks to the offices of special ambassador Mr. Josef Bucher, it was possible to negotiate a comprehensive peace deal in Sudan. For the first time, the Sudanese government and the SDLA managed to agree on a cessation of hostility and stick to it for an extended period of time. We had the opportunity to meet with him and discuss these issues. As for our other home government Sweden, we have weekly discussions with representatives of the ministry of foreign affairs. We also have meetings with Sweden's members of parliament as well as EU members of parliament who also sent a delegation to our concession area.

Barbara Haering: *Thank you, Ms. Batruch. Mr. Kaufmann, as the representative of one of Lundin's two home countries, you would be the potential receiver of a report of Lundin to Switzerland. There are a few oil-producing companies based in Switzerland. Above all, there are companies in Geneva and Zug that trade in refined and crude oil. Last but not least, Switzerland is also a financial center where many transactions of the oil industry are carried out. Considering all this, Mr. Kaufmann, how do you ensure that our foreign economic policy does not contradict our foreign policy? What are the efforts of Switzerland in the field of corporate social responsibility?*

Ivo Kaufmann: As the head of a government unit dealing with international investments, with corporate responsibility on an international level, and in particular with the fight against corruption, I would first of all like to give a brief overview of the legal instruments and possibilities that a government has in the field of corporate responsibility. The main problem is the lack of governance in many oil-producing countries. This not only affects the local populations, but also the corporations operating in these countries.

Being a small country, Switzerland's possibilities are limited to diplomacy and to the multilateral level like the World Bank, the IMF, or the UN. A government can also influence these governance problems within the scope of development cooperation, especially by directly working together with civil society and NGOs in the corresponding countries. Furthermore, being a major international player in the finance sector, Switzerland has made significant efforts in the past years and even became a role model in the field of restitution of asset values of politically exposed persons. It is not uncommon that such asset values are linked to the oil industry and are stored on Swiss bank accounts.

The main issue I would like to raise is the relationship between the governments and the multinational corporations. Until recently, there have only been certain soft law instruments available. But among the member states of the OECD, we now have a severe criminal liability for bribing corrupt public officers abroad. This is a change of paradigm. Until the late 1990s, it was possible to deduct bribes paid abroad from your taxes. Today however, you risk a jail sentence and massive fines.

Unfortunately, the field of soft law is not given the credit it deserves. The OECD Guidelines for Multinational Corporations, for example, act as a remarkably substantial instrument. They are not just recommendations. They make it possible to submit cases of wrong conduct of multinational corporations that is not in line with the guidelines to a national contact point. If the case is substantiated, the national contact point will initiate an informal conciliation process and is obliged to release a statement in case the corporation is not willing to discuss the problems in question. As modest as this sanction may be, it's definitely not without any impact. Currently, it's predominantly trade unions that keep us and other national contact points busy with cases.

The UN Global Compact complements the OECD guidelines, however the sanctions are missing. The UN Global Compact is supported by the UN as a universal organization and demands a commitment from the companies to the nine principles. We have noticed that especially big multinational companies integrate both instruments into their code of conduct.

Barbara Haering: *If we talk about soft laws like the OECD Guidelines for Multinational Enterprises or the nine principles of the UN Global Compact, do you see the possibility or the need for transforming parts of these soft laws into hard law? If yes, which are the most important points in these guidelines that would be more effective if they weren't only soft law? My second question is: All these guidelines target first and foremost producing companies and they are less applicable to trading companies. What are the possibilities to hold the latter more accountable?*

Ivo Kaufmann: We have a globalized economy, yet we don't have globalized governance. From my perspective, I can't tell you which principles and in which priority they should become hard law. First of all, a critical mass of international support is necessary to bring about international regulations that are credible and effective. We have no interest in any ius cogens if it can't be implemented. We believe that it is better to go step-by-step and to really consolidate existing rules before we develop new ones.

Barbara Haring: *Does this imply that in the foreseeable future we will still have to rely on the pressure of NGOs, the public, and politicians to ensure that companies comply with the soft laws on a voluntary basis?*

Ivo Kaufmann: I claim that pressure comes from different stakeholders and that governments also have an interest in solving these problems. For example, in the fight against corruption the main actors have been governments: the OECD convention in 1997, the convention of the European Council in 1999, and most recently the convention against corruption of the UN. These are all instruments that were spurred by the internal priorities of governments.

Barbara Haering: *Thank you, Mr. Kaufmann. Mr. Hartl, as the director of the Swiss Petroleum Union you are a potential business partner of Ms. Batruch. You import oil to Switzerland and all the companies associated with your union are responsible for seeing* *that the oil gets to Switzerland. What efforts are you making to improve the standards of transparency and product declaration as a condition for legitimate action and accountability?*

Rolf Hartl: The Swiss Petroleum Union is a branch association. Our members are the Swiss subsidiaries of the multinational corporations, the subsidiaries of the Swiss cooperatives Migros and Coop as well as a few small- and medium-sized oil importers.

Indeed, corporate social responsibility does not only happen upstream but also downstream. If you take a look at the brochures of multinational corporations, you realize that the standards are the same both upstream and in Switzerland. There are, however, reasons why the discussion about corporate social responsibility only takes place upstream. It's because the oil companies in Switzerland operate in a democratic state with the rule of law. Switzerland sets an explicit legal framework for our business. The regulations in the field of health, security and the environment are not only specified, they are also enforced. We live in an environment free of corruption. Neither politicians nor state officials can be bribed, with very few exceptions. Our economic order is competitive and those who offend against competition law are punished. We have watchdogs, NGOs, and a sensitized public. From this point of view, I can sit back and relax, because the discussion about corporate social responsibility is not very relevant to us.

However, it's a fact that whatever happens in Chad or in the North Sea has an immediate impact on our business and especially on the business of the multinational corporations. From this point of view, it's in our interest that everybody in the whole chain of the oil business meets their claims of responsible action.

As for the question of transparency: In Switzerland, transparency is a given. The oil companies abide by the state regulations. Whoever is listed on the stock market exchange is obligated to disclose in line with the stock corporation law.

As for the question of product declaration: The idea that oil could be labelled has been raised before. Consumers would then be sure that the oil is politically, environmentally, and socially clean. Yet, this is a very difficult task. If it were easy, an entrepreneur from my branch would have raised this idea long ago. I would like to give you the reasons why this is so difficult. The oil business sector is the globalized sector par excellence, even before anybody started to talk about globalization. Oil is a commodity uniformly traded all over the world. One consequence is that it's extremely difficult, I would even say it's virtually impossible to label petrol and to declare its source. Two thirds of our oil requirements come from refineries in the European Union. Once refined, it can't statistically be determined where the crude oil came from initially. In addition to this, oil companies use common storage for crude oil and for end products. Many companies use a joint storage hall so that oil from different sources is poured into the same barrel. The practical problems should not be underestimated. They are due to the structure of our branch, not only in Switzerland, but also everywhere else.

Barbara Haering: *I understand your answer on a technical level. Yet there were also problems for labeling electricity and a model has been found. Last week my company decided to sign up for a hydroelectric power supply. Although we didn't have the option for solar or wind energy, at least we could decide to use hydroelectric power. By the way, the electrons are exactly the same. It seems to me that labeling the oil should definitely be a possible strategy.*

Rolf Hartl: It may be possible in a very virtual operation. Those who invented electricity labels already came to our industry and proposed the same idea for oil. But there are also political considerations: what are the criteria that should make up a politically correct label for oil? What would such a rating system look like? Looking at the oil-producing countries I get pretty nervous, because there is hardly any oil left that deserves being labeled: Let's start with the North Sea. I suppose that we can all agree that Norway and the UK are democratic countries. But then we go to Russia or to the states of the Middle East with together 40% of the world oil production. Then we go to Africa with 10% of the world oil production or to South America. At least, the number three of the world oil production is still the USA and Canada together. What are valid criteria? Criteria relating to the social order of the producer countries, to the environment, and to security standards would all have to be defined. This would be a very difficult task.

And the practical problems that I mentioned should not be underestimated. It's easier to certify electricity from a hydroelectric power station in Canton Grisons and to sell it to consumers in Zurich. The production of oil is much more complex. And just think about the problem of transport: which ships should be admitted and which ones not.

Barbara Haering: *Ms. Batruch, have you ever discussed the question of labeling your oil?*

Christine Batruch: No, not at all. As I mentioned before, we only sell crude oil. When we sell our oil, it's obvious where it comes from. In Tunisia, we sell our oil in Tunisia. In France, we sell it in France. Labeling the oil is more a downstream responsibility.

Barbara Haering: *Therefore, Mr. Hartl, it's the responsibility of the intermediaries and the traders. Ms. Batruch knows where her oil comes from. It's you who has to pass it on and tell the consumers that it comes from Sudan.*

Rolf Hartl: This will be rather difficult. When Ms. Batruch ships a load of crude oil to Rotterdam, it is processed by a corporation or an independent refinery. The refined oil is then usually stored in large storehouses. A couple of days later, a certain quantity will be taken out, loaded onto a ship on the Rhine, and transported to Switzerland. These storehouses contain oil from different sources, from the North Sea to Chad. If you want to label the oil, this is the main problem.

Another issue is the consumer. In the case of petrol, it becomes obvious that people only care about prices. Ideas have already been proposed about having a pump A with normal petrol and a pump B with Max-Havelaar-petrol that is sold at an additional charge of, for example, 2 cents per liter. I assure you that nobody will buy this petrol. I give you a reason in a different context. Imagine two petrol stations on the same street, one with petrol for 1.31, the other one for 1.32. You can bet your life that people will refuel their car for 1.31, no matter if it's a dirty, ugly petrol station, one with or without a shop. These are the facts and we are the victims of our own transparency. We are the only industry in Switzerland that declares its prices in such a transparent manner. Due to the price declaration the consumer is practically educated to go by the price. There are insane examples of people making a two-kilometer detour only to get a bargain on petrol. This is the reality.

Barbara Haering: *Thank you, Mr. Hartl. Mr. Rechsteiner, you have been listening as a politician this hour. What can a politician from Switzerland do in such a field in the next parliamentary session, apart from the fact that you already try to raise awareness of these problems in your books? Considering our discussion, what will be your focus in the next year?*

Rudolf Rechsteiner: Yes, there are many levels. Over the next four years, we will have to decide on the CO2-tax, a decision only taken by the government and the parliament. There will be no referendum on this issue. And my task at the moment is, for example, to show farmers that a high CO2-price is also a chance. They can, for example, sell wood at reasonable prices. I want to inform the public that a reorientation away from oil is a big economic opportunity and not a matter of abandonment. It's also a great opportunity ecologically, an opportunity for a better quality of life, for a child-friendly environment in the cities, etc. There are many aspects, but I think that first of all we have to take away the fears that it will lead to economic disaster. Bush is an oil-junkie and an oil-dealer in one and he has understood how to instill fear in the American people. They now believe that the US economy will perish, if oil becomes more expensive. Yet we notice that the US economy perishes, even when the oil remains cheap. In this sense, he was not very convincing with objective data.

I would like to mention another aspect. I find that in the electricity sector we have talked a lot about labelling and a lot has been achieved. We have succeeded in creating a little pioneer market for green energy. Even though I'm a shareholder of such green electricity companies, I do not advocate for a retreat of the state in this sector. It cannot all be left to a few consumers to buy Havelaar-coffee and green electricity. I believe that consumers are important, as they can give impulses, but the state cannot just withdraw from this responsibility and has put a framework in place for a growing share of green energy.

There is also a connection with the discussion about climate. We have to bring OPEC and consumer countries to one table and countries have to be rewarded for stretching their oil production, which means that they produce less. A coordinated decrease in oil production would mean that prices rise strongly.

The perception in the industrialized countries is that the OPEC wants to kill them, that OPEC is a bunch of monopolists, of thieves. In the eyes of the OPEC the whole climate discussion is a strategy to take away profits from them. The higher the taxes here, the lower the price margin for the Saudis. The logical conclusion would be that we do have a resource problem and that the shortage is becoming more acute. We have to get away from trying to sell as much as possible in the shortest possible time. But we should sit down and say that we want to reduce the total discharge of CO2. We should reduce the total consumption and divide the producers' profit between both parties. The OPEC would receive a little bit higher prices and the oil-importing countries would introduce a tax that remains inside the country. I believe that such a strategy is negotiable, cheaper and more peaceful than the imperial strategy of the US, which doesn't lead to success in the end. I am convinced that this strategy won't spare us a crisis and will cause the contrary of what Bush wants. The oil taps will be closed – not only in Iraq, but also in Venezuela. I am certain that the reduction in production is related to the threat of the US. Venezuela doesn't want to open up to American firms, because of the fear that they would lose out. I therefore believe that it would be more reasonable to make contracts with individual countries and to follow a different oil policy than the one we have had so far.

8 Conflict-Sensitive Resources Policy: Vision or Illusion?

Panel discussion edited by Andreas Zumach

This chapter is an edited transcript of the panel discussion featuring

- *Prof. Paul Collier, Director of the Centre for the Study of African Economies (CSAE) at the University of Oxford,*
- *Prof. Riccardo Petrella, Professor of Economics at the Catholic University of Louvain in Belgium, founder and President of the Lisbon Group, and author of the book "The Water Manifesto: Arguments for a World Water Contract",*
- *Dr. Wolfgang Sachs, Project Manager of "New Models of Wealth" at the Wuppertal Institute for Climate, Environment, Energy, and author of "Planet Dialectics: Explorations in Environment and Development",*
- *and as facilitator Andreas Zumach, journalist at the UN headquarters in Geneva and a correspondent for the Swiss public TV news program.*

The panel discussion placed the issue of oil and violent conflicts in the broader framework of resource use and distribution and looked at ways to design a resources policy more sensitive to conflict.

Andreas Zumach: *We have so far only focused on the (oil) resource curse in African countries, but we have not yet considered that there may not be enough (oil) resources available within our lifetime. If we take the data seriously that Mr. Rechsteiner has put forward about the development of energy consumption in the 30-50 year period ahead and about the availability of oil and gas in the world, then we have to look at "The Role of Petroleum in Violent Conflicts" from a different angle.*

Mr. Sachs, is there any vision left for a conflict-sensitive resources policy, if we accept as a fact that most western governments will most probably continue their energy consumption patterns of the last 50 years and that the consumption of oil and gas will increase by roughly 50 percent by the year 2050, while developing foreign policies and military strategies to secure "our" energy resources?

Wolfgang Sachs: It is not possible to talk about a conflict-sensitive resources policy without a notion of the finiteness of the biosphere, and of oil in particular. There is a limit to the availability of resources which we are moving closer to. In order to maintain the conditions necessary for a flourishing citizenship in the world, we need to stop the exploration of oil right now – not only because of authoritarian regimes and violent conflicts, but also because we already have four times more oil reserves than we can afford to use because of the greenhouse effect. Moreover, let me remind you that apart from corrupt regimes and violent conflicts, drilling oil is in many instances also a livelihood question. Indigenous areas are being more and more affected by pushing the frontier towards more remote and ecologically fragile areas. In Ecuador, oil development means cutting forests, building roads, setting up derricks, contaminating water, in other words destroying parts of the biosphere, which is the indispensable source of livelihood for the people living there. About one third of people in the world, usually the most powerless and marginalized, are critically dependent on their ecosystems. Their life is based on direct access to nature. Resource extraction such as drilling oil, mining, etc. is often a real threat to their sources of livelihood. This is another issue of resource justice which you could call an issue of environmental human rights: Do we have a resource system allowing the most marginalized peoples in the world to survive in dignity?

Andreas Zumach: *Mr. Petrella, you claim in your book that there are resources which are more important than others, resources which a person needs for his or her livelihood. You demand that water, which you call a "common good" belonging to all human beings, should neither be privatized nor commercialized. Even if this principle was globally accepted, the problem would still remain that water is a scarce resource whose use and consumption has to be regulated. What would be the criteria for such a regulation? How much water should every human being be allowed to use per day, week, month, or year? And who should define these criteria? What should we do with countries or communities that spoil water?*

Riccardo Petrella: The problem is that we have made water a scarce resource. In principle, there is enough water for everybody. Originally, water was a renewable resource. But we are turning water into a non-renewable resource. Through over-pumping, water reservoirs are declining all over the world and we don't allow these resources to naturally renew themselves. We are not a very intelligent society. We have introduced the concept that water is an economic good. Another aspect is that we have accepted that nothing can be done about it and that there is no alternative. We predict that within the next 30 years 60% of the global population will live in regions characterized by water shortage, and that by the year 2080 over 80% won't have access to drinking water. While we are telling the people of our generation that water security is becoming an important strategic issue, we have come to accept that there will be between four and five million people with no access to drinking water by the year 2030. I'd like to ask all those experts on which basis they have the right to anticipate these problems and at the same time tell the public that nothing can be done about it? Why are we trying to convince everybody that the right to life will be limited to only certain segments of the world's population? How can we accept that by 2015 three billion people will live in poverty and won't have access to drinking water in the quality and quantity necessary for life? We cannot accept that the right to life is excluded by definition. Ensuring the right to life for all people on this planet means that we cannot continue with our current pattern of water use and consumption. We cannot continue to have 70% of the world's water resources tapped for the purpose of intensive agriculture which destroys soils and water resources and impoverishes peoples in Africa, Asia, and Latin America. We cannot continue to use water for the production of electricity, if this means, like for instance in China, displacing millions of people from their homes. We cannot accept that people in California use 4'100 litres of fresh water per capita per day for domestic purposes, while people in Germany use 158 litres and people in Switzerland 160 litres. How can we then talk about the Global Compact or about codes of conduct for companies and households? Accepting that such soft regulations should govern the way we are using resources is the legalization of a criminal behavior.

Andreas Zumach: *Mr. Collier, your use of the term "corporate social responsibility" this morning was challenged by Mr. Wesselink who said that what is really needed is not responsibility, but accountability. I'd like you to react to this. You also used the term "good governance" referring to the countries in the South. But given the whole dimension of resource use in the Northern countries, would it not be fair to also raise the question of whether or not we have good governance and to seriously challenge ourselves with this concept?*

Paul Collier: To your question about accountability versus responsibility: We are in a process of quite a rapid evolution of international practice across a range of commodities. It is because of what happened in fur that we got movement in diamonds: no fur, no Kimberley. It is because of the Kimberley process in diamonds that we got movement in timber. I think we will see movement in oil and it will be thanks to this general climate. Progress in each commodity helps the more general progress of improving the governance of natural resources.

A very good example of the difficulties in the transition from voluntarism to compulsion are the OECD's anti-bribery laws. Until recently, the legal position on the bribery of public officials was quite extraordinary. In fact, it was a tax-deductible expense in a lot of European countries. And now this has changed. It was very difficult to achieve this change because no country wanted to disadvantage its own companies. That was the essence of the problem. Everybody recognized it was wrong, but nobody wanted to put its companies into disadvantage. So it required collective action. And that is what the OECD is for: collective action by a bunch of rich country governments that could finally agree on passing this anti-bribery legislation. I think this is what we will see across the board on commodities. I think we will probably see it in diamonds. The great thing about the Kimberley process is that it is the industry itself which says it is necessary. Then the question is comes up: is the voluntary system working? If it works, that is great. If it doesn't work, then what? Well, the industry can not oppose the move from voluntarism to compulsion, if it is demonstrated that voluntarism does not work.

One remark on oil labeling: From an economic point of view, oil labeling is easy. When we try to track oil as it moves from Angola to the petrol pump in Berne, we don't actually try to track a set of molecules. It doesn't matter where the molecules come from. We, in fact, try to track an economic and legal concept which is the purchase of a number of barrels of oil. If a million barrels of oil from Angola go into a refinery, a million barrels of oil from Angola have got to come out of the refinery – and this is documented. Then, if consumers say they don't want Angolan oil, they can go back and ask for oil from a different source. Good governance requires tracking, transparency and scrutiny. There's obviously an element of governance in the countries that are producing the oil and there are also elements of governance in the countries consuming the oil. The physical tracking of commodities requires cooperation between the producer and the consumer countries. You track the commodity and you track the financial flows of the money that is paid for the commodity. Only then can you really ensure scrutiny and, in most cases, you will find the money somewhere in the banks of the consumer countries. The governance of tracking in the case of oil is more the responsibility of the Swiss government than it is of the government of Chad.

Wolfgang Sachs: I'd like to take your basic argument, Mr. Collier, and push it much further, because what I have so impressively learned from you is that oil, in many instances, lubricates dictatorships and authoritarian regimes. These dictatorships and authoritarian regimes performed a very good service for the oil consumers and for the corporations in terms of keeping the upstream part of the oil resource chain protected from social unrest. It is not an accident that the Saudis have their function in securing oil, as had Abacha in Nigeria, as has Putin in Russia today. It is beneficial for Western interests to have the upstream part of the resource chain taken care of and protected by these kinds of authoritarian regimes. There is a collusion which should not be lost in our discussion. The collusion is even deeper when we look at the institutional values governing our interstate system. We are still ready to accept on the international level values which we would never accept domestically. We accept that any kind of cruel group capturing power in a particular state is entitled to have full sovereignty over the country and to own and sell its resources as they please. That is a resource privilege which we are ready to concede to any kind of government, regardless of its character. We would never allow this domestically, it would be considered illegitimate. Procedures should possibly be designed to link the right of sovereignty over resources to certain criteria of democracy and accountability on the part of a government.

Andreas Zumach: *Mr. Petrella, I want to repeat my earlier question to you. Given the problem as you have described it in your first statement, what is the answer? Is it simply enough to have campaigns against the further privatization and commercialization of water? Despite your statement that originally water was not a limited resource, the fact remains that there are already wars being fought about water. Are there criteria by which we can decide both in the rich and in the poor countries about the amount of water a person should be allowed to consume? And what are the necessary means of enforcement to ensure that such regulations are being implemented?*

Riccardo Petrella: You are raising a political question. My answer will also be a political one. You are asking whether we are willing to live together. Are we, the six billion inhabitants of this planet, ready to live together and use the resources in a fair manner? And who has the right to determine the criteria for life? We must fight against the privatization and the commercialization of access to life and of life in general. In terms of oil, we have to move away from the perception that oil is a private resource and a private national resource. The same applies to water. They should be considered a common good and they should be publicly managed, as well as the sun, the forest, etc.

Andreas Zumach: *Your list is probably not finished. I could think of a few more commodities. Mr. Sachs, you would like to make a comment.*

Wolfgang Sachs: I wanted to avoid getting the moderator frustrated because his question about the criteria has not yet been answered. Let me give it a try: We are operating under two basic conditions. One is limits to resources, the other is inequality. The outcome of this situation is the overall criteria that nobody should damage the biosphere beyond its regenerative capacity. Because inequality is the cause of conflict, I would like to focus on it and establish two rules. The first rule is that the distribution of resources has to be such that human rights, and more precisely subsistence rights, are guaranteed everywhere in the world. That is the minimal concept of justice. Considering all the environmental problems the poorest and most vulnerable people in the world are facing today, it is highly questionable that they have the livelihood means they require. The second rule applies to the distribution among nations. For such global resources like the atmosphere, I argue that each citizen of the world is entitled to an equal share of the atmospheric commons. In other areas it is not as easy. This formula doesn't make sense for water, forest, or fish, because not everybody needs the same amount. However, the distribution has to be such that every society is able to advance with its own project of society and of well-being. So I hesitate to say "an equal share", but at least a fair share. The consequences are: the transnational consumer class has got to retreat from the environmental space for making room for everybody. The majority of societies today do not get their fair share of world resources. Therefore, the over-consumers have got to retreat. This leads me to the conclusion that resource productivity or the art of creating wealth with ever less resources is not only an ecological issue, but it is a cornerstone for a peaceful world. The kind of wealth invented and shaped by what I referred to as the transnational consumer class, of which corporations are a part, is impressive. But it is also clear that this kind of wealth is incapable of justice. It is a form of wealth that cannot be democratized across the world. And what is not capable of justice is also not capable of peace.

Ricardo Petrella: And also not capable of efficiency, because you can not be efficient if you are not democratic and fair.

Wolfgang Sachs: From that point of view, the best contribution that people like us, our cultures, our societies, our economies can offer over the next decades is to reinvent the forms of wealth. To reinvent them in a way that they become capable of justice so they can be democratized across the world without ruining the biosphere. That is where agendas of peace, justice, ecology, and of conflict avoidance converge.

Paul Collier: I do not like any of that and I fundamentally disagree. You are conflating two absolutely distinct problems. On the one hand, there is the problem of conflict in the group of economically absolutely marginal countries. They represent a very tiny, almost negligible share of the world economy. In economic terms, these countries do not matter. They matter because about one billion people live in these countries and if they fall apart, there will be global ramifications. In this sense, the countries of the bottom billion do matter. However, the overall economic situation for mankind is not as gloomy as it has been described. One billion of the world's population has already made it. Four billion are about to make it. Economic development for the bulk of mankind is not the catastrophe that has been sketched. Catastrophe, in my view, is just a fantasy. And rolling that fantasy in with the serious business of addressing the conflicts in the bottom billion gets us into a confusing nightmare. There will never be consensus on these romantic illusions – not visions, but illusions. But we can build a practical consensus to deal with the ways in which the global economy is currently destroying the bottom billion. That is a fixable problem. And it is a fixable problem at a minimal expense precisely because these countries are so peripheral to the global economy. When this really serious and urgent problem, which I think is fixable within the next decade, if the pace of change over the last three or four years is anything to go by, becomes wrapped up in these romantic fantasies of world environmental orders, then I get very uncomfortable. Because I know these fantasies are going nowhere.

***Andreas Zumach:** Does that mean, Mr. Collier, that you deny that keeping the upper billion at their current level and bringing the other four billion closer to the upper billion would mean ecological catastrophe?*

Paul Collier: Yes, I totally deny that this would mean an ecological catastrophe. The message "the four billion cannot develop, because it would be uncomfortable for the upper billion" is not only false, but it is disgraceful. The four billion can develop and they will. And, of course, systems will adjust. Society will adjust. I will bet you anything that within the next two decades American energy prices will go up by a lot. America is going to start taxing energy. Why? First: because the geopolitics of low energy prices in America is crazy. Second: because of President Bush's "brilliant" economic management. He has managed to turn the largest fiscal surplus in America's history into the largest fiscal deficit. They need money and the most obvious thing to tax is energy. Over the next couple of decades, American energy prices are going to rise for political reasons within America. And that in itself will produce an enormous saving in energy. Over the last two decades, energy use per dollar of GDP has halved. That is the sort of adjustment which will keep on happening.

Let me make a few remarks about water. I live in Brittany/France which is about the wettest place in the world. If I am confined to drink only one glass of water per day, do you really think this helps people in China? No, because water is not an internationally tradable good. It is regionally tradable, regionally scarce. That is why you get water conflicts within those regions of the world where water is scarce. How much water the Swiss drink has no implications to whether or not there is a conflict in the Nile region.

Riccardo Petrella: I am glad that the genuine ideas and perceptions are finally being revealed. The hidden agenda of the debate so far has been to maintain the idea that everybody loves everybody. And only now have I come to realize that this is obviously not the case here. In fact, I am very happy to be among the fantasists and illusionists, because I think that progress is due to those people of the 19th century who believed in creating a welfare society and in everybody's right to life. Maybe Mr. Collier would not exist, had they not fought for their fantasies and illusions, sometimes ending up in prison or being killed. I claim my right to be a fantasist and illusionist and I like it very much. If 800 million Africans had disappeared from this planet thirty years ago, everybody would have considered this a disaster for the world economy, as Mr. Collier defined it. But if 800 million Africans disappeared today, the world economy wouldn't suffer. Because 800 million Africans make up less of the world's GDP than the people in Belgium. While Belgium represents 1.1% of the world's GDP, Africa only represents 0.9%. I don't like this kind of economy. I don't like this world. I don't like this distribution of resources. It must be fought against with great illusion and fantasy.

Wolfgang Sachs: I'd like to highlight the three disagreements we have. First: I believe that you, Mr. Collier, cannot make your analysis without considering resource demand. The demand for resources emanating from certain economies and countries is not represented in your analysis. However, it seems to be obvious that the 'clepto-cratic' condition thrives on such resource demand. Second: Oil is not only a valuable resource that lubricates authoritarian regimes. There is also the oil-climate problem, the oil-availability problem, the oil-livelihood problem – you name it. Oil involves many more issues than only 'clepto-cracies'. Third: Your notion that the four billion have a good chance of advancing in the next ten to twenty years is fresh news to me. Considering the multifaceted environmental limits, I don't see how the four billion could possibly advance in any conventional manner. And even though I agree with your prediction that the USA will probably move towards higher energy efficiency, I believe that as long as the overall volume continues to grow, in the end we will reach the absolute limit.

Paul Collier: I disagree. The book "Limits to Growth", which became famous when I was a student, made the same catastrophe forecast that never came true. What you miss and what "Limits to Growth" missed is the tenet that progress is a continuous process. It happens all the time and doesn't switch off. As for the tenet that progress always economizes on natural resources, we do debate in economics about what happens to natural resource scarcity. The conclusion is, if anything, the opposite of what is being claimed here.

Riccardo Petrella: Since 1972, when "Limits to Growth" was published, inequalities have increased. How can you talk about progress?

Paul Collier: What development economists worry about the most is that over the long sweep of the last century, the prices of scarce commodities have tended to fall and the countries exporting these natural resources are facing a historical trend of declining prices. The reason is that the rate of technical progress economizing on natural resources is faster than the rate at which they are being used up. If scarcity reached a peak, prices would rise considerably and this would accelerate innovation and economizing on resources. So even if we did hit a peak scarcity of something, we would adjust to it. But we haven't reached such a peak over the last century and we had a century with an awful lot of economic development. Trying to sweep these fantasy problems in with the real and urgent problems of conflict in poor countries is a real mistake.

Questions and statements from the audience:

Pia Weber, UNIDIR: I'd like to answer the question Mr. Petrella raised as to whether or not we are ready to live together. My rather philosophical answer would be: I don't think so, because this question infringes on the very sovereignty of states which also includes sovereignty over natural resources. My question to Mr. Collier is about accountability: As I understood, accountability would not only be required from the corporations, but also from the states. How, in very practical ways, can the international community enforce accountability and scrutiny without infringing on the sovereignty of states?

Olivier Brenninkmeijer, UNIDIR: I agree with Mr. Collier that there are no limits to growth, but it is not growth that maintains the status quo. I think this is perhaps where we have a misunderstanding. Need creates innovation when it is combined with incentives for gain, and this is where growth is always possible. However, gain relates to property. People innovate when they know they can achieve something, whether it is satisfaction or property. In other words: we can adapt and grow, but there needs to be a play between receiving and sharing.

Paul Collier: I will comment on the question about how sovereignty will have to change. The idea that a state can do anything to its population and that there is no right of interference cannot be allowed to stand. It has to be gradually eroded. I see several processes of erosion. Imagine we could get a strong, clear template of good governance of natural resource revenues and a lot of developing countries would sign up to it. It would become clear to consumers in the developed countries that you can buy resources from these good governance environments. If we got to that stage, there would be a lot of pressure. First of all, price differentials would open up between good governance supplied commodities and illicit commodities, just like in the Kimberley process. That would put a lot of pressure on the bad governance countries to reform themselves.

The other process of erosion would be the recognition by regional bodies. For example, the Organisation of African Unity (OAU) is trying to set standards of how governments have to come to power. What we want is an environment where a government that comes to power illegitimately is just not recognized and barred from a whole range of activities. To give you two examples from the last twelve months, one which worked and one which didn't work: In Africa, there were two illegitimate regime changes where a democratically elected government was overthrown. One was the Central African Republic, the other was Sao Tome and Principe. In the case of the Central African Republic, the OAU couldn't quite cope with the problem. It was too big a problem because neighboring countries were implicated. With Sao Tome and Principe, it is such a small country that the system worked. The coup leaders were forced to step down. So we got the making of two quite different processes to put some limit on sovereignty. It would be very important to accelerate this.

Wolfgang Sachs: I'd like to comment on the question about the relationship between growth and innovation. If somebody says that growth is always possible, then I find that very astonishing. Infinite growth exists nowhere in the world, nowhere in the biosphere, and nowhere in the organic world, unless it turns into a pathology. The only thing that can really grow without limits is money.

This is the crucial question: Until now – apart from the post-industrial economies – monetary growth has always been linked to physical growth – defined as growth in terms of resource throughput. Leave aside the post-industrial economies which have de-linked this connection on a very high level of material input. Only if you can show that monetary growth is now possible in our economies by drastically bringing down resource throughput – then I would be with you. But so far, nobody has shown that.

Economic science has got to accept that the economy operates within a larger system – the biosphere. If economic science is not able to accept this reality, it will, of course, not take into consideration that there are flexible and in the end absolute limits. As the economy exists and is part of the biosphere, it is senseless to speak about the absence of limits. The moment you accept that the economy cannot be separated from the biosphere, you have to be aware of the fact that even high efficiency does not solve the problem of volume, because you can be ever more efficient until nothing is left. If you have a forest of a certain size, you can use the wood in a very efficient manner. But if you follow the principle of economic growth, you will arrive at efficiently destructing the entire forest. This is simple logic. The fact that economic science doesn't accept this only reveals that conventional economics is a major obstacle to the necessary transition.

Riccardo Petrella: I'd like to respond to two questions. First: Why do we not want to live together? 12% of the world's population own 86% of the world's wealth and represent 88% of the world's consumption. These 12% have no interest to live together. That's why we have invented the concept of security in the last fifteen years. Security is the key word of Western civilization today. Above all, security suggests that the 12% want to keep the 88% ability to consume. This is why President George Bush Senior said in 1992, "I don't want to go to Rio, because the American way of life is not negotiable". And because the American way of life is not negotiable, his son has rejected the Kyoto-Protocol.

My thesis is that if we don't change this "illusion", as we have heard today from Professor Collier, growth will continue. This is the greatest fantasy.

Which direction should we follow? I agree with Mr. Sachs who said that we need to reinvent welfare. Welfare was an attempt to maintain an equilibrium between the right to equality of life for everybody and the limitations of whatever kind of resources. Yes, we need to follow this direction. It will take time, maybe 60 or 80 years from now. As far as water is concerned, I propose the establishment of a new fiscal system at the global level which will enable us to optimize the allocation of resources according to the principle of the right to life for everybody. The current fiscal system tries to optimize the allocation of financial resources for the purpose of increasing the value for the shareholders. That is not a good allocation of resources, because it only serves the interests of very few. The invention of a new financial system is absolutely necessary. Under the current financial system a good management of global resources is simply not possible. My proposal is: Let us be innovative. Don't believe those who have the power and who only claim responsibility when it is in their own interest.

9 Conclusions: Implications for Peace Policy

Anita Müller

A number of significant peace-building initiatives are being undertaken by members of the international community, including Switzerland, on behalf of countries affected by violent conflict. Among these initiatives are efforts involving reconstruction, humanitarian aid, development cooperation, and the support of conflict parties in peace negotiations. Oil, however, has rarely been taken as a factor for strategic consideration by external actors even when it represents a clear risk potential for further escalation or when its negative effects on the conflict in the past are known. Peace researchers and policy makers will have to pay more attention to this issue, if the endeavor to stave off crisis and to promote peace in oil-producing countries is to achieve any measure of success. This was the tenor expressed in all the presentations and discussions at the swisspeace annual conference.

Peace-building initiatives which focus on the prevention of further violent conflict and which address its structural causes within society require a united effort by all relevant social forces in order to achieve success. The suggestions and propositions made at this conference confirm that a similar approach is needed to develop a conflict-sensitive oil and resource policy. The international community, the private sector, national governments, and civil society, both here and abroad, face this common challenge.

Need for research

Why and how does fossil wealth contribute to the emergence or escalation of intrastate conflicts? In Sudan, for instance, it changed the nature of the civil war in two important respects, according to Egbert Wesselink and backed by numerous official and non-governmental human rights reports. On the one hand, the struggle for control over oil reserves caused an expansion of the war zone with disastrous consequences for civilians. On the other hand, a significant part of the oil revenues was used for military expenditure, leading to a further escalation of violence. The use of oil revenues by governments and rebel organizations to finance the war, competition for control over resources, and the resulting accentuation of local ethnic identities and proliferation of secessionist movements can also be observed in other conflict regions characterized by resource wealth.

Less obvious, but not less important, are the potential effects of oil and natural resource wealth on the political and economic systems of oil-producing countries. Paul Collier refers to possible relationships between oil and poor governance. Governments that are not dependent on taxation for their revenues are less likely to be held accountable by the public for their actions. Corruption and lack of transparency are facilitated by the practices of oil companies and financial institutions which do not disclose the amount of payments made in oil-producing countries. This suggests that the existence of oil reserves, in fact, weakens the tie between the state and civil society, favors autocratic governance, and aggravates deficiencies in democracy. Some scholars argue that oil wealth fosters centralization tendencies and accelerates the privatization of the state by an elite based on a system of clientelism.

Are there specific conditions, economic or political, that have to be met, so that oil wealth can also be conducive to the development of a society? Although the significance of the role of oil and other natural resources in violent conflicts has been recognized, some of the most crucial questions are in need of further research.

The issue is not likely to become less relevant in the decades ahead. Although the focus of the conference was on the correlation between oil and intrastate conflicts, the urgency of a conflict-sensitive oil and resource policy goes beyond national borders. This was made clear by the presentation of Rudolf Rechsteiner and the panel discussion with Paul Collier, Riccardo Petrella, and Wolfgang Sachs.

Declining resources coupled with increasing demand and an extremely unequal distribution, as well as the dependence of western consumer states on predominantly Muslim oil-producing countries have a potential for conflict of considerable complexity on a regional and global level. Rudolf Rechsteiner argues for political measures to reduce dependence on fossil energy, to enhance energy efficiency, and to develop a "Marshall plan" for renewable energies. "To reinvent the forms of wealth in a way that they could be democratized across the world without ruining the biosphere" is the radical call by Wolfgang Sachs for a fundamentally new management of resources. In conjunction with other disciplines of the social, environmental, and economic sciences, peace research is challenged to offer creative and promising alternatives to military strategies in order to deal with this conflict potential.

"Do no Harm" and risk assessment

For actors in the field of development cooperation and humanitarian aid working in conflict regions, it is essential to analyze in a systematic way and on a continual basis not only the benefits of their actions, but also their potential unintended negative impact on the conflict situation. "Do no harm" is the name of one of the best known methods and most important principles in this regard. The minimal standard not to "harm" through one's actions should also apply to political and economic actors working in areas of violent conflict. Christine Batruch shows that a corporation like Lundin Petroleum has a long-term interest in thoroughly analyzing the situation in the field, including its own role. Existing risk assessments of companies whose first priorities are on geological and financial issues should be improved and extended to include conflict risk assessments. By doing so, the effects of corporate activities on the local situation with respect to human rights and conflict potential can be measured and appraised before and during their operations. Conversely, the integration of conflict-sensitivity into planning and monitoring allows companies to assess the potential impact of political developments on their own projects. Egbert Wesselink calls upon the EU to pass regulations for companies in areas of conflict, making risk assessments and their impartial appraisal a legally binding obligation. They should be complemented by 'dos and don'ts' for (oil) corporations that become binding standards for operations in conflict regions.

Transparency and accountability

The most pressing and, at the same time, the most promising initiative in the view of most experts is the call for increased transparency about financial flows and the use of oil revenues. More transparency would make corrupt practices and the misappropriation of revenues by a small elite difficult and would enable local communities to demand accountability from their governments. The urgency of such measures becomes all the more evident when one considers the fact that a large number of the countries most heavily dependent on oil exports have been identified by the World Bank as highly indebted poor countries with disastrous human development indicators.

The conference discussed various initiatives aiming at more transparency in the business of natural resources. The most prominent among them is "Publish What You Pay", a campaign supported by a broad coalition of non-governmental organizations. The campaign calls for full transparency within oil corporations regarding taxes and other payments made to the countries in which they operate. Correspondingly, governments are asked to set standards as a condition for oil companies to be listed on the stock exchange and to be granted export credit. The Extractive Industries Transparency Initiative (EITI), launched by the British government, is an effort inspired by similar objectives, but based on voluntarism. Finally, the European parliament called on its member states at the end of March 2004 to promote public disclosure of payments to governments by extractive companies listed on European stock exchanges.

More transparency is not only required from corporations extracting oil, but also from companies that trade in oil and from financial institutions cooperating with oil companies and oil-producing countries. A first step in this direction are the "Equator Principles", in which a group of major banks has pledged to abide by the environmental and social standards of the World Bank. Whether these mechanisms might work when based on voluntarism or self-regulation was a focal point of controversy during the discussion at the swisspeace conference. This is especially questionable in countries with very corrupt governments and a high level of conflict. In most cases where progress in the development of social and environmental standards can be observed, a combination of public pressure, the sensitization of entrepreneurs, and the development of norms and regulations has been crucially important.

The role of civil society

An active, informed, and organized civil society can make a significant contribution in ensuring that oil will do less harm to the environment and human populations in the future. International non-governmental organizations can support local civil society in its demands for more democracy and participation, as well as in holding governments and oil corporations accountable. In particular, advocacy and sensitization efforts by civil society organizations will still be needed in the future. It is through these efforts that the problems in question have appeared on the agendas of international organizations and companies. An interesting example is the case of Lundin Petroleum, described by Christine Batruch, which was sensitized about its role in Sudan through public campaigns and consultations with human rights organizations. It subsequently developed a code of conduct and finally terminated its activities there.

In Chad, a broad international coalition of NGOs could not prevent the realization of an oil project. However, their efforts were indispensable in making sure that grants from the World Bank were contingent upon certain conditions which led to the establishment of an independent controlling body including representatives of civil society. Recently, pressure from civil society organizations resulted in a decision by the World Bank to have its policy on natural resources examined. In the final report of the "Extractive Industries Review" submitted to the World Bank and published in January 2004, it is recommended that good governance in the concerned countries should be a criterion for any decision regarding the support of projects involving the extraction of natural resources. Furthermore, conflict zones are declared as strict "no go zones" for projects dealing with natural resources.

A coherent peace policy

Switzerland supports humanitarian development and peace efforts with public funds in Sudan, in Angola, and in other resource-rich countries. For the sake of a coherent policy development, it would be important to know how much money from oil production and other sources disappears into whose pockets. The fact that companies trading in natural resources and financial institutions are well represented in Switzerland makes the claims for more transparency in the oil business especially relevant. The sensitization of the private sector concerning its role in conflict regions through regular dialogue, the support of ongoing international efforts for transparency on the political level, and the obligation of resident trade companies and banks to adhere to environmental and social standards even when engaging in foreign business ventures are important steps towards a coherent peace policy. The swisspeace annual conference has highlighted the important contribution which Switzerland could make in these efforts.

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It is the lifeblood of the countries of the North and has contributed significantly to their prosperity. And yet, in the countries of the South it has brought about environmental degradation and civil wars. Petroleum decisively influences not only the world economic climate, but also war and peace. What is the relationship between fossil wealth and violent conflicts? What can oil-importing countries like Switzerland do to prevent such conflicts or at least to mitigate their consequences? This Conference Paper of the swisspeace annual conference 2003 "Adding Fuel to the Fire: The Role of Petroleum in Violent Conflicts" will try to provide answers to these questions.

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Sonnenbergstrasse 17
P.O. Box, CH-3000 Berne 7
Tel +41 (0)31 330 12 12
Fax +41 (0)31 330 12 13
info@swisspeace.ch
www.swisspeace.org