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West Africas Energy Promise

By Michael S. Steele

In the summer of 2004, I had the privilege of leading a delegation of Maryland academic and business leaders on a trade mission to Ghana and South Africa. The first stop was a visit to St. George Castle and Elmina Castle, where hundreds of years before the journey for many Africans had ended in slavery. Standing there, I was struck by the realization that it would be the current generation that would lead Africa to emerge in this century as a global economic and strategic force.

During the course of my visit, I witnessed firsthand how the seeds of self- empowerment were being planted through market reforms across the continent. I gained a new appreciation for the kind of business climate that continuing market liberalization and privatization can create, and also for the positive support that US-sponsored trade legislation can offer to such reforms. Measures such as the Millennium Challenge Corporation, the Africa Growth and Opportunity Act (AGOA) and the Southern Africa Customs Union Free Trade Agreement (SACU-FTA) are helping to make Africa more attractive to US companies. These reforms and the partnerships which they foster will shape the economy of both continents for generations to come.

And then there is energy. Today, many factors have combined to make Africa strategically significant for American policymakers, but none more so than the geopolitical dynamics of oil. Not only is its crude of a higher quality than that of other oil-producing regions, such as the Middle East and the Caspian Basin, but its geographic proximity to US ports makes Africa an attractive energy alternative. Moreover, African governments on the whole provide greater — and more predictable — opportunities to US and multinational companies than do their Middle Eastern and Central Asian counterparts. Last, but certainly not least, the continent's governments have come to demonstrate an expanding appreciation for the benefits of Western-style democracy.

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Washington has responded to this emerging market with the creation of a new military command structure for the continent. But other countries have also taken note of Africa's natural resource wealth and strategic potential. Leading the way is energy-hungry China, which already has become heavily engaged in a number of regional nations, chief among them oil producers Nigeria and Sudan.

With so much at stake, and with the lessons of America's involvement in the Persian Gulf playing out in the news on a daily basis, Africa — and in particular the energy-rich region of West Africa, which encompasses Benin, Burkina Faso, Côte d'Ivoire, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, and Togo — holds out both promise and peril. If our strategic engagement is predicated upon a new dynamic aimed at securing peace, prosperity and economic growth, America's deepening links to the continent could yield major benefits. If handled improperly, however, the growing US focus could exacerbate the economic inequalities, corruption and radicalism already prevalent on the continent. Consequently, the United States has an enormously important opportunity to see to it that Africa's natural resource wealth is harnessed properly — not for exploitation, but rather empowerment — and used to create economic opportunities, vibrant policies and civil societies that will endure long after the last tanker has set sail.

Africa's appeal

"Over the last forty years, we have seen significant energy production growth in Africa, especially in the Gulf of Guinea," US Energy Secretary Samuel Bodman recently told a gathering of some of the world's top energy experts and traders. "Africa accounts for almost 12 percent of world oil supply and supplies approximately 19 percent of US net oil imports. The Gulf of Guinea and other parts of Africa are projected to play a greater role in international energy markets and imports of African oil to the US are expected to rise in the future as new fields are brought online."[1]

Secretary Bodman's remarks highlight an unmistakable fact: In the era of global terror, security of supply has trumped pricing of supply in the energy calculus. For decades, US energy policy was based on the creation of a military defense umbrella around the Arabian Peninsula in order to guarantee the steady supply of crude oil from exporters like Saudi Arabia, Kuwait, the United Arab Emirates, Iran and Iraq. And while the warning signs of the problems inherent in this arrangement were plentiful — the Arab oil embargo of the 1970s, the Iranian hostage crisis, the

Beirut embassy bombing, the nearly-decade-long Iran-Iraq war, and war between the United States and Iraq — it took an event like September 11th to focus the public's attention on our dysfunctional relationship with the region.

In his 2006 State of the Union address, President Bush declared that America is ''addicted to oil'' and outlined a goal of reducing our dependence on oil imports from the Middle East by 25 percent by 2020 through a combination of conservation and fuel diversification.[2] But the reality is that in order for our economy to continue to grow, America will need to remain reliant on oil imports for decades to come. It is prudent, then, for US policymakers to put greater emphasis on diversifying the country's current set of energy suppliers, while seeking more secure and promising ones.

West Africa represents a bright spot in this policy calculus. Although few would use those words to describe the region, in actuality Africa is one of very few places where conventional crude oil production is increasing. Already, the oil-producing nations of West Africa export roughly 1.8 million barrels per day (mbd) to the United States, accounting for 18 percent of US daily crude oil imports.[3] If Nigeria weren't in the midst of various work stoppages, its full production would bring the percentage of oil supplied to the US by West Africa to roughly 22 percent. By way of comparison, the US currently imports roughly 2.2 mbd (also 22 percent of our daily imports) from Persian Gulf oil exporters — the largest of which, Saudi Arabia, accounts for 1.5 mbd.[4] And with major plans to expand production underway, West African proven reserves could swell to well over 40 billion barrels over the next several years.[5] Many analysts now predict that crude oil production from West Africa could more than triple by the end of the next decade. If these projections prove accurate, West Africa will provide more than 25 percent of America's oil imports within five years.

West Africa's strategic value is also enhanced by its proximity to the US market. Crude oil shipments from Saudi Arabia take five weeks or more to reach the Louisiana Offshore Oil Port (LOOP). Shipments from Nigeria take half that time, or less. Since time truly is money in the global oil business, the geographic proximity of producers to consumers will dictate commercial engagements in coming years.

The quality of African crude is also a factor. Most energy security analysts can't give a speech without talking about the ''fungibility'' of crude oil. They talk about situations in which spare capacity somewhere will offset supply disruptions elsewhere, resulting in a more or less stable commodity pricing environment. In reality, however, not all crude oil is created equal. Only crude of like quality (and geographically proximate to consuming markets) is truly fungible. And much of the crude oil produced in West Africa is "light, sweet," the very high quality preferred by US refiners. All of which means that, as conventional production of light, sweet crude continues to decline, oil from West Africa will become even more valuable to the United States.

Another of West Africa's strategic advantages is that it is mostly open to foreign investment, particularly from the United States. Other high-producing, highly prospective hydrocarbon regions either discourage foreign investment through domestic political machinations (Russia) or eschew foreign investment in favor of nationalization of natural resources for geopolitical purposes (Venezuela). Africa's comparative openness to a variety of strategic relationships has aided its oil-producing nations in creating greater opportunities for a different kind of synergy built around the idea of investment, development and expansion — crucial ingredients for creating a "New Africa."

For those American firms with the patience and foresight, doing business with this "New Africa" can be extremely rewarding. In representing governments, parastatals, multinational corporations and privately-owned companies, banking and financial institutions, companies such as the one this author is affiliated with, LeBoeuf, Lamb, Greene & MacRae, have developed a wealth of real world experience and a genuine understanding of doing business in West Africa. They have done so by embracing the key rules of international business: meet face-to-face, learn about the customs and the culture of the country, experience firsthand the business environment and then establish a relationship. From structuring projects like Ghana's flagship West Africa Gas Pipeline to creating for the government of Mauritania innovative financing of its interest in the Chinguetti field in its offshore waters, to assisting in liquid natural gas (LNG) projects in Equatorial Guinea, the work of LeBoeuf, Lamb and other firms stands out as examples of the magnitude of the opportunities available as many African countries generally, and those in West Africa in particular, expand their energy generation, oil and gas, mining and infrastructure sectors.

The economic ties between the United States and West Africa run deeper than oil, however. The adoption of the AGOA in 2000 has led to increased bilateral trade between the nations of Africa and the United States. As Florie Liser, Assistant US Trade Representative forAfrica, noted recently, "from 2001 to now, we've had an increase in our two-way trade of about 150 percent. AGOA includes oil products. And so if you include all of the oil products, and you look at our imports from AGOA countries in 2006, it was up about 16 percent over 2005. Most of that was because of oil. But what's really important to watch is what happens with non-oil AGOA trade. That trade increased by 7 percent in 2006 over the 2005 period.''[6] The economic relationship, in other words, is expanding every year and providing thousands of jobs annually for African citizens. This expansion reflects the fact that trade, in the words of US Trade Representative Susan Schwab, ''is the best tool we have to alleviate poverty and spur economic development, and AGOA is a key element in America's effort.''[7]

When you contrast this multi sector economic engagement with that of America and many Persian Gulf oil producers, you quickly realize that there simply is no comparison.

Taking notice

While many argue that it took American defense and energy policy planners too long to recognize West Africa's significance, no one can argue with the speed of the US government's response once it finally did. On February 7, 2007, President Bush signaled America's acknowledgement of Africa as an area of vital strategic interest with the creation of a unified military infrastructure responsible for the entire continent (with the exception of Egypt). This new Africa Command (AFRICOM) ''will strengthen our security cooperation with Africa and help to create new opportunities to bolster the capabilities of our partners in Africa,'' the Commander-in-Chief said. ''Africa Command will enhance our efforts to help bring peace and security to the people of Africa and promote our common goals of development, health, education, democracy and economic growth in Africa.''[8]

AFRICOM's first test once it comes online in 2008 will likely come from oil-rich West Africa, where shipping lanes are virtually lawless, unable to be patrolled by oil-producing nations that uniformly lack blue-water naval capabilities. And while it is unlikely that terrorists could interdict an oceangoing oil tanker at sea in a region without the strategic chokepoints present on other major oil transit routes, attacks on offshore oil platforms and FPSOs (floating production storage offshore vessels) are conceivable. Such an attack would be enough to send a collective shudder through the global oil markets that would be felt by every person on the planet.

AFRICOM's establishment thus signals Washington's growing understanding that the need to react to the military challenges of the 21st century requires a better preparedness for action in, and engagement with, African governments and military forces. According to Defense Secretary Robert Gates, the rationale behind AFRICOM is "to oversee security, cooperation, building partnership capability, defense support to nonmilitary missions, and, if directed, military operations on the African continent." "This command," Gates has said, "will enable us to have a more effective and integrated approach than the current arrangement of dividing Africa between Central Command and European Command, an outdated arrangement left over from the Cold War."[9]

Of course, not everyone concerned is excited about this turn of events. Libyan leader Muammar Qadhafi, for one, has been working behind the scenes in recent years to rebuild his relationship with Washington in order to preserve his own succession plan. "We told [the Americans] we do not need military aircraft flying over, nor do we need military bases," the Colonel is reported to have said. "We are in need of economic elements and economic support. If your support to us is military intervention, then we do not need you, or your help."[10]

If our strategic engagement in Africa is predicated upon a new dynamic aimed at securing peace, prosperity and economic growth, America's deepening links to the continent could yield major benefits. If handled improperly, however, the growing US focus could exacerbate the economic inequalities, corruption and radicalism already prevalent there.

That the presence of the US military on the continent in the first measurable numbers since World War II would give pause to African leaders like Qadhafi is no surprise. But US defense officials are quick to say that the creation of AFRICOM is not designed to create a sizeable presence of forces on the continent. Still, there appears to be a policy disconnect within the government about the new command's actual purpose. Ryan Henry, the deputy undersecretary of defense for policy, has made clear that AFRICOM "is being stood up solely for the effort of enhanced counterterrorism," rather than for the purpose of securing "resources such as oil."[11] Yet, according to Vice Admiral John Stufflebeem, the Commander of the US Sixth Fleet, the US is interested in Africa for security and because of commerce, "and quite frankly, oil is one part of it."[12]

Whether these divergent remarks signal a significant disconnect between stated policy objectives and operational tactics or are merely a lapse in continuity of communication remains to be seen. But it underscores that America's emerging focus on Africa is still a work in progress.

Breaking the habit

''In West Africa, the scent of oil alone may be enough to produce corruption,'' says Joseph Bell, a Washington lawyer who serves as an advisor to the government of São Tomé and Príncipe.[13] Bell's assessment rings true; today West African governments — even those ostensibly interested in using their (future) oil riches for the betterment of their people — are confronted with the lure of massive infusions of capital, often with no strings attached.

The examples of Nigeria and São Tomé are instructive. The energy wealth (and great need for power generation) of the former makes it too great a prize for US policymakers and multinationals simply to ignore. But after years of intensive international development, the problems of internal security, an immature regulatory regime and questions about transparency and the independence of its judiciary (not to mention official and private sector corruption) are so great that one almost doesn't know how to begin to address them. The latter, meanwhile, is virtually a clean slate, a fledgling nation whose modest energy potential has not yet begun to be developed. Yet already, prospective investors and speculators have made sure that once development does begin in earnest, the potential for corruption will be present there as well.[14]

If the United States hopes to break this vicious cycle, its political and economic involvement in West Africa will need to be about more than simply providing a security umbrella for corrupt dictators in exchange for oil shipments. Instead, policymakers in Washington should measure their engagement against a series of concrete and attainable goals.

Human rights — As a country founded by rugged individualists seeking freedom from religious persecution and a better way of life for their families, the United States ought to have as one of its guiding foreign policy principles that countries with which it has strategic relationships, and on which it spends its foreign aid, maintain the same respect for human rights that it does. If we are prepared to declare Africa an area of vital strategic interest to the United States, we ought to be able to show its nations the benefits of treating its people justly and with respect. There is nothing to be gained by American policymakers in being meek in such areas. Advances in human rights and standards of living should be monitored, with US aid being tied directly to measurable advances in the quality of life of the people whose resources we are buying to fuel our economic growth.

The rule of law — Creating or supporting a system in which citizens are afraid of their own government just so that we have access to natural resources should not be acceptable. Governments receiving US aid must be held to a high standard of governance, forced to create a system of laws that empowers their citizens to reach their individual and collective potential without fear of retribution from authoritarian regimes.

This is not nation-building. Nor is it forcing democracy down the throats of an unwilling people. Neither of those options has been proven to work, especially where vast natural resource wealth in the hands of a few is the basis for the new society. Rather, American policymakers can and should encourage independent decisions by the populations of the various countries with which the US chooses to do business. The rule should be: "If you want our business, you had better conform to basic standards of respect for human rights and be a nation of laws."

Real property rights — Hand in hand with the two requirements above is the recognition that real property rights are the basis for any developing economy. In other words, who is going to take the personal risk in opening a small business if they can't be certain that their investment won't be taken from them arbitrarily later? Creating a system of property ownership rights would set the stage for the type of multi-sector economic development that could help break the "oil curse" that has plagued so many resource-rich areas, including West Africa, in past years.

Respect for the environment — Bringing the nations of West Africa into the 21st century through economic development and foreign investment shouldn't require the same mistakes made by other industrialized nations in the 20th century. We know much more about what proper environmental standards are required to maintain a sustainable, good quality of life than we did several decades ago. As such, we should require that those companies operating in West Africa operate in an environmentally sound manner, creating the smallest "footprint" possible and leaving the places where they operate better than they found them. Once technological advances supplant the need for fossil fuels, it will be feasible to talk about discontinuing their use. Until then, the United States should make it a priority to pursue their use judiciously and in environmentally responsible ways.

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Transparency and good governance — Just saying that you intend to spend money wisely for the betterment of your people should not be good enough to secure project financing through international financial organizations like the World Bank and the International Monetary Fund. When literally life-changing amounts of money are at stake, a framework should be established for complete transparency in how much oil royalty revenue is taken in and from whom, where it is spent and on what, and how the people have benefited as a result. This seems complicated, but it is really nothing more than what independent auditors do every year for publicly traded companies to prove to shareholders that the executives are discharging their fiduciary obligations properly. The American government, as well as international financial institutions and foreign oil companies, should be held to the highest standards of transparency and fair dealing in their operations in West Africa. Host governments must be held to the same high standard, because at the end of the day they will need the investment dollars of all corners, not merely those who might not care how royalty money is spent.

Achieving Africa's potential

West Africa is indeed a region of vital strategic irnportance to US energy and national security. But it is also a region of the world that has been neglected, marginalized or manipulated for centuries as a result of colonialism and Cold War geopolitics. Today, because of its vast wealth of strategic resources, Africa is finally beginning to come into its own on the world stage. However, if an African "Renaissance" is going to be more than simply a slogan or an aspiration, the US has an obligation to recognize Africa as something more than simply an economic opportunity, the way China and India now do.

Instead of repeating our past mistakes of taking only what we need from resource-rich regions of the world, we need to proceed in our engagement with Africa from a more forward-looking and thoughtful approach. Such an approach needs to recognize that while West Africa is important to the US because of its vast oil and natural gas reserves, the entire continent could easily become fertile ground for global terrorism — a safe haven for radicals who could eventually strike American targets on the continent or closer to home.

Most of all, the United States needs to proceed knowing that the strategic and economic decisions it makes today will affect generations of Africans and Americans alike for generations to come. We might as well try to get it right this time.

Endnotes

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