

Testimony of David L. Goldwyn before the Subcommittee on International Economic Policy, Export and Trade Promotion

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The Gulf of Guinea and US Strategic Energy Policy

Mr. Chairman and Members of the Committee, it is an honor to speak with you today about the importance the Gulf of Guinea to US energy security.

We do not have a strategic energy policy in force in the United States today, but we need one. Today I will address briefly what energy security means in a globalized market, why the Gulf of Guinea is critical to US energy security, why the stability of supply in the Gulf is at risk, and what we should do about it.

I have had the opportunity to study these issues closely, in concert with Dr. Stephen Morrison, my colleague and fellow witness today. I co-authored two studies on this subject this year. The first was “Promoting Transparency in the African Oil Sector: A Report of the CSIS Task Force on Rising US Energy Stakes in Africa” (CSIS: March 2004) with Dr. Stephen Morrison. The second was “Crafting a US Energy Policy for Africa:” in Rising US Stakes in Africa: a Report of the Africa Policy Advisory Panel (CSIS: May 2004).

These studies show that the nations of the Gulf of Guinea will enjoy an enormous increase in government earnings from oil revenue between now and 2010. Nigerian oil earnings will exceed \$110 billion. Angola’s could reach \$40 billion. Equatorial Guinea could earn \$10 billion. These revenues give these countries a chance to achieve significant economic growth in the years to come, but they also demonstrate the importance of their energy resources for global oil market. This wealth can provide a platform for expanding prosperity in the region or it may encourage more rent seeking and destructive competition for a share of the new wealth. These studies provide detailed recommendations for enhancing US energy security in the Gulf of Guinea. The recommendations focus on the need for much higher level US diplomacy in the region, using our limited leverage to promote transparency and better governance by the producing nations, and building the administrative capacity of the region’s governments to promote internal development as well as the development of their natural resources. I will draw on these reports for much of what I have to say today.

Energy Security in a Globalized Market

Let me take a moment first to talk about what I mean by energy security. US energy security depends on access to diverse, reliable, abundant and affordable supplies of oil and gas. But energy security today means more than access to supplies of oil. In a global market, the United States can buy the supply it needs by outbidding other consuming nations. The greatest risk to our energy security today is the volatility of the price of oil.

When prices rise rapidly, as they have this past year, American consumers and industry cannot adjust quickly. We cannot easily change our cars, stop commuting, switch to other fuels, or move to warmer climates. We can reduce our vacations, reduce discretionary spending or cut back our production of products when fuel costs make them uncompetitive. It is no wonder that despite our significant increases in energy efficiency, nearly all of the recessions we have suffered over the past half century have been preceded by oil shocks.

We have seen unprecedented price volatility in the past six years. Prices have swung from \$10 to \$40 between 1998 and 2004. Prices are volatile because too many producers are unstable. Look back thirty years and ask what caused the greatest price spikes, spikes that sent the US economy into recession or hurt our consumers. The answers are war, civil unrest, or revolution, not embargoes. The major disruptions were the Iranian revolution, the Iran-Iraq war, the two Persian Gulf wars, the Petróleos de Venezuela (PDVSA) strike of late 2002, which removed 3.1 million daily barrels from the global market over 2 months and, to a lesser degree, the 2003 strikes in Nigeria which removed 800,000 barrels of oil from the market. The newest threat of course is terrorism against oil installations. The very fear of a terrorist attack on Saudi Arabia, no longer a hypothetical potentiality, adds several dollars to today's oil prices.

Our old system of energy security does not address today's threats. The old system was a system of deterrence – if we built our reserves large enough, we could deter an embargo. After September 11, the concept of security has dramatically changed, and this affects the oil industry. Threats are no longer localized, intermittent and manageable. Our paradigm for oil security has to be modified. Today, the US invests approximately \$50 billion per year in the security of the Middle East and only very modest amounts to directly secure energy infrastructure in other critical regions. Neither the US nor the producers we rely on in many parts of the world are deployed to protect this strategic commodity. We need to rethink our policy.

These problems which give rise to oil supply disruptions are chronic in the Gulf of Guinea. Unrest in the Nigerian delta, piracy in its waters, coups in Equatorial Guinea and Sao Tome and Principe, strikes protesting rationalization of fuel costs are all derived from decades of corruption, poor governance, under development and neglect. We must use diplomacy, training, trade and the creative intervention of the international financial institutions to help these nations build stability by better governance. We need to empower our military to help build up local forces that can combat terror and crime while respecting the rights of their citizens. A strategic energy policy would marshal these foreign policy tools to enhance our energy security, while also addressing our demand for hydrocarbons. While we have such tools, we so far lack the vision to use them effectively. We have not empowered or directed our senior foreign policy or security officials to make this a priority. In the Gulf of Guinea, where governments are weak and deeply in need of reform, we must develop new mechanisms to address their unique needs and limited capacity.

The Gulf of Guinea is Critical to US Energy Security

The nations of the Gulf of Guinea are and will remain critical to US energy security. They are a key contributor to the diversity of global oil supply. In this case I refer to Nigeria, Angola, Chad, Equatorial Guinea, Gabon, and Sao Tome and Principe. Today, oil exports from the countries in the Gulf of Guinea provide us with 13-14% of the oil we import. While OPEC countries cut production, countries from the Gulf of Guinea provided one out of every four barrels of new oil that came on the market last year. This Gulf is much closer to US refineries than the Middle East, and we have good relations with all of the exporting countries. In the future, if the investment and security climate remains stable, the US could draw 20% of its imports from this region. Their share of global oil supply will rise from 4% this year to nearly 6% by 2007. Increased exports from the Gulf of Guinea allow the US to reduce our dependence on Middle East crude. Furthermore, the non-OPEC nations in this area – all of them except Nigeria -- provide a counterweight to OPEC's monopoly power.

The region is a rising gas power as well. If current projects under development are brought to fruition, Nigeria, Angola and Equatorial Guinea will increase their liquefaction capacity from 9 million tons (M/T) per year to nearly 40 MT per year. These nations are growing as suppliers because they have opened their economies to Western investment. While most of the world's oil reserves are closed to international oil companies, the Gulf of Guinea has offered nearly 15% returns on investment. These terms (and high prices) will attract \$30- \$40 billion in investment this decade. The very openness of these nations to Western investment can make them a potential target for terrorism.

Nigeria and Angola are the region's most important suppliers. Nigeria produces 2.12 million b/d and exports 1.85 million b/d. It provides 8.25% of US imports and it is planning to expand to 4 million barrels per day by 2009. Angola produces 900,000 b/d and exports 866,000 b/d, providing 4.6% of US imports, and is planning to reach 2 million barrels per day by 2009. Angola is our ninth largest supplier and our third largest non-OPEC supplier outside of the Western Hemisphere and is expanding in oil and gas as well. The other countries in the Gulf are significant as well. According to EIA estimates, in 2003 Cameroon, Chad, Equatorial Guinea and Gabon exported approximately 500,000 b/d in aggregate, with 221,000 b/d going to the US. Chad is beginning oil production this year. Equatorial Guinea will grow as a supplier of gas and light sweet crude for US markets. Gabon and Cameroon are on the decline.

From a geological and investment perspective, the regions' prospects are quite bright. New technologies, competitive investment frameworks and the availability of reserves for exploration by international oil companies have produced outstanding results. According to a study by PFC Energy, the estimated reserves of the region doubled in the last decade. Production rose from 2 million barrels per day to 3.5 m/bpd. Companies will invest between \$30 and \$40 billion in these nations in this decade. Much of this oil is the kind of low sulphur crude oil that US refiners need to produce gasoline that meets

our environmental requirements. By 2010, these nations could add 2-3 million barrels of oil per day to global oil supply, an increase from 3.4 million barrels to 7.4 million.

Security of Supply from the Gulf of Guinea is at Risk

While the region's geological prospects are good, the risk of an oil supply disruption from the region is rising from internal and external sources. We are in no position to endure a serious oil supply disruption from the Gulf of Guinea today. The global oil market is stretched to capacity. Prices hover at nearly \$40 West Texas Intermediate. Due to deliberate OPEC policy, there is barely 600,000 to 800,000 barrels per day of excess capacity available to redress a supply disruption. Nearly all of that spare capacity is in Saudi Arabia, and it is not enough to substitute for Nigeria's exports, much less a disruption from Venezuela or Iraq. Commercial inventories are at historic lows as well.

We are not ready for trouble, but trouble is on the horizon.

Nigeria faces the greatest challenge, from rising violence, strikes, piracy and potentially terror. The unrest in the Niger Delta region remains unresolved. Political conflict is often directed at foreign oil workers and facilities. Foreign workers have been held hostage for weeks at a time. Sabotage of oil pipelines has killed hundreds of Nigerians. Two ChevronTexaco oil workers were killed in the town of Ogheye last April. The risk of on-shore violence is reportedly leading some international companies to consider selling off their Nigerian operations. Shut-ins due to security risks will persist absent relief from the unrest in the Delta.

Strikes are another major threat to security of supply. In the prelude of the national elections of 2003, there was a sharp escalation of inter-ethnic violence that took 800,000 barrels per day off the market, adding pressure to already high oil prices. Production was shut down for months for security reasons. In early July of 2004, Elf Nigeria faced a shutdown over fears that a threatened oil union strike could become violent. Elf suspended pumping 235,000 barrels of oil – 10% of Nigeria's production -- and 187 million cubic feet of natural gas daily. More strikes loom on the horizon. Workers unions for Shell operations started a two-day warning-strike that opposed a restructuring plan for the company which would cut jobs by 30%. Shell is the biggest foreign investor in the country with 950,000 barrels daily. Similarly, Exxon Mobil received a 21-day ultimatum to reverse the company's "predilection for hiring foreign employees". The company produces 500,000 barrels daily. Additionally, Labor unions, demanding a setback on the recent rise in gasoline price, are threatening to start a nation-wide strike in the coming days.

Piracy and theft are another rising concern. As documented by CSIS, the organized theft of 100,000 to 200,000 barrels per day in the Niger Delta, reportedly involving armed militias and criminal groups that use some of the proceeds to acquire weapons, is an indication that oil mismanagement can threaten regional stability. The coastal piracy in this country is second globally only to the piracy in the Moluccas. The Nigerian government is working hard to combat piracy but with modest success. The Government

has no credible plan at this time to foster development and reconciliation in the region, and rebel groups have taken advantage of this situation. Oil interruptions from Nigeria are likely to continue or worsen unless these issues are promptly addressed.

Sao Tome, while not yet a producer, can begin getting oil revenues in 2007. The country saw a coup attempt against its President in July 2003. The coup created severe doubts about the stability of the country's regime and enhanced the risk associated with investing there. The situation can threaten the exploitation of this nation's oil wealth, which is currently estimated at 4 billion barrels, but might prove up to 10 billion barrels. In a country with a population of 140,000, and virtually no administrative capacity, the early appearance and growth of criminal networks make the security a top priority.

Equatorial Guinea has faced at least two coup attempts against President Obiang in the past eight months. Last December a clan member was caught escaping the country with \$400,000 and a brother of the President mysteriously drove off a bridge. In March a well-financed mercenary group (with an estimated \$10-50 million at its disposal) was arrested while their plane was refueling at the airport in Zimbabwe.

The threat of terrorism also looms over this region. The 2003 Al Qaeda attack on a French oil tanker in Yemen and Osama Bin Laden's pronouncement referring to Nigeria as a target in February 2003 have raised serious concerns about security in the Gulf of Guinea. We do not know how serious this threat is. But the naval forces of the West African states do not have the capacity to protect oil rigs and facilities. The area is a soft target for any terrorist group willing to attack. Hardening these targets is a prudent deterrent.

Policy Options to Enhance US Energy Security

Most of the region's problems are chronic. My colleague Dr. Morrison will address how these chronic problems of poor governance threaten political stability of the states of this region and how a clear US policy can use pressures and incentives to address these root causes and help nascent reform movements in Nigeria and Angola to succeed. There will be no sustainable solutions to instability in the Gulf of Guinea without fiscal transparency and better governance.

Yet some of the Gulf's problems are acute. The rise of criminal syndicates and the threat of terrorism in Nigeria, as well as the vulnerability of offshore oil facilities in Angola, Nigeria, Equatorial Guinea are urgent concerns. The US and host country personnel who operate these facilities are at risk as well as the oil and gas supply they deliver.

The most urgent task for the United States is to fashion a strategic policy that draws on our diplomacy, our influence in international financial institutions, our aid and our military relationships to enhance the stability of these nations. We have had no serious engagement with the region on energy security issues. We have had one US-Africa Energy Ministerial in four years. The US Energy Secretary has not yet visited the Gulf of Guinea. We have no regular bilateral talks with these countries. We have no real funding

or program behind our promises to support capacity building. We no longer have an energy attaché in Nigeria. We have no funding for debt relief for Nigeria.

The CSIS Task Force and the Africa Policy Advisory Panel both recommended appointing a Special Adviser to the President and Secretary of State for African Energy Diplomacy to forge and lead this policy. Dr. Morrison will address this and other recommendations in more detail.

With billions of US investment, thousands of US workers on the ground, and strategic supplies of energy at stake, the US should also lead an urgent effort to help the countries of the Gulf of Guinea protect their maritime territories and enhance on-shore policing and security. In the long term the US can help train local personnel on how to secure oil installations themselves in a manner that respects human rights. In the short term the US should enhance its own presence in the Gulf of Guinea and begin direct consultations with the regions' governments and an equip and train effort to establish a regional maritime security force.

The US European Command has begun this process with periodic visits by a carrier group and senior personnel through the Gulf of Guinea and its proposal for Coastal Security program. It is unclear if they have been given the resources to carry this out, or been given support by the Departments of State or Defense. They are clearly the source of leadership on this issue. I would urge the US government to create a decidedly regionally focused and regionally managed program. President Obasanjo has proposed a regional security commission to neighbors in Equatorial Guinea and Sao Tome and Principe. The government of South Africa is supportive of a regional approach as well. The US should use its resources to work with these local governments, help them pool physical assets, and conduct a regional equip and train effort. An effective regional program will reduce tensions among the Gulf States -- which are ample -- by focusing on sharing threat intelligence, promoting common strategies, conducting confidence building measures, professionalizing the training of security forces and ensuring that their conduct respects human rights norms. The US does not need to do this alone; we can and should engage other nations in our efforts to improve security in this part of the world. The African Union, the European Union, ECOWAS and the UK can all be important allies in this effort.

The US can contribute leadership and training through the International Military Education and Training (IMET) program. The focus of US training should be counterterrorism, counter-narcotics and customs enforcement efforts. The US has rightly been cautious about providing security assistance to countries which have committed human rights violations and countries that misuse their national wealth. We have been loathe to issue licenses for US trainers. In this case I would argue that benefits of professionalizing these nascent forces, and offering exposure to human rights training, outweigh the risks. These countries may procure the help they need from sources unconcerned with human rights training. The US should ease its licensing policy to permit the nations of the Gulf of Guinea to purchase US training where needed. Wealthy nations should procure their assistance on a reimbursable basis.

Conclusion

The nations of the Gulf of Guinea hold the potential to enhance US and global energy security by delivering significant new supplies of oil and gas to world markets. These supplies can help moderate oil prices and help insure the US against political instability in the Middle East. But the nations of the Gulf of Guinea can just as easily make oil prices more volatile if internal instability leads to further oil supply interruptions. US policy can promote stability by addressing both the chronic problems of poor governance and misuse of oil wealth and the acute threat posed by weak security forces. To succeed, such a policy must be strategic, well resourced, and backed by high level diplomacy. I hope this Committee's sustained interest in these issues will help produce such a policy.