

# CARNEGIE COUNCIL *for Ethics in International Affairs*

## The Oil Curse: How Petroleum Wealth Shapes the Development of Nations

Public Affairs

**Michael L. Ross, Joanne J. Myers**

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### Introduction

**JOANNE MYERS:** Good morning. I'm Joanne Myers, director of Public Affairs Programs, and on behalf of the Carnegie Council I'd like to thank you all for joining us this morning.

Our speaker is Michael Ross, and he will be discussing his book, entitled *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*.

The scenario for exploration for oil is fairly well known: foreign oil company shows up in very poor country, said company discovers a gusher, country becomes the beneficiary of untold wealth, dictator and family steals wealth, country's economic development suffers from retarded growth.

Oil is not unique. Diamonds and other minerals produce similar problems. But, as the world's most-sought-after commodity, and with more countries dependent on it than on gold, copper, or any other resource, oil has an impact more pronounced and more widespread.

The economic state of affairs that ensues when tribal kingdoms, authoritarian regimes, autocracies, and left-wing dictatorships get their hands on national oil revenues has been repeated time and time again. Easy oil cash entrenches corrupt practices, discourages sound long-term economic planning, and is almost never channeled in ways that promote development or more democratic governments.

What explains this oil curse? Did the curse arrive with the resource or were the conditions already ripe for economic misery, and can it be fixed?

In *The Oil Curse*, our speaker explains why petroleum resources have such strange effects on a country's political and economic health and addresses such questions as why oil wealth typically creates less economic growth than it should; why it produces jobs for men but not for women; and why oil riches create more problems in poor states than in rich ones.

Professor Ross has been fascinated by this topic of resource wealth for some time now. Since the early 1990s, when he first began his research, his analysis has undergone some revision. He writes that many of the earlier theories about petroleum wealth no longer ring true today.

Although oil-rich countries have long been politically distinctive, he now believes that, with better understanding about why some countries have escaped this resource curse, we are in a better position to help these nations turn their wealth into a blessing.

Please join me in welcoming our speaker, a person who has been studying this illness for some time now and has suggestions for the cure, Michael Ross.

## Remarks

**MICHAEL ROSS:** Thank you very much.

The developing world is a much, much, much better place today than it was 30 years ago. Thirty years ago, about two-thirds of all countries in the world were under authoritarian rule. Today, about 60 percent are democracies.

Thirty years ago, there was a very large number of civil wars around the world, 30 or 40 countries each year. Since then, the number of civil wars has dropped by almost 50 percent. The intensity of the civil wars, the number of people killed, has also dropped.

The income of the average developing country since 1980 has more than doubled.

So the context in which this problem arises is one in which things are actually getting much, much better.

But there is one critical exception to these patterns, and that is the three dozen or so countries that are major oil producers or are dependent on oil production—about a third of them in the Middle East, the rest scattered around Latin America, Central Asia, South East Asia, Russia, and sub-Saharan Africa.

While we see almost everywhere else, this wave of democratization, great success in peace-building efforts, significant economic growth, rising living standards, in the oil-producing countries there has been almost no move towards democracy. Mexico and Nigeria are exceptions, but elsewhere very, very little movement.

We have seen no decrease in civil wars, so that today about half of all civil wars in the world are taking place in oil-producing countries—[Nigeria](#), [Chad](#), [Colombia](#), and so forth.

And the incomes of the oil-producing countries are no greater today. In many cases they are actually lower than they were in 1980. These countries reached their peak of per-capita income 30-35 years ago and have only recently approached that level once again.

So this problem—this curse of oil, how oil became a curse, why it's a curse, and what can be done about it—is the topic of my book.

I do spend a lot of time trying to explain how this came about, trying to document these patterns in, hopefully, not too much detail that it will hurt your brain and make you want to put the book down, but enough to convince you that there is really something there.

What happened? Why did these problems arise?

Interestingly enough, we didn't observe these problems before about 1980. Up until the 1970s the oil-producing countries were no less democratic, no more conflict-ridden, than the rest of the world,

and their incomes were rising more quickly. What was it in the 1970s that led to this reversal, and is there something that can be done?

One way to try to explain how this came about is to imagine two countries—let's call one of them Industria, which has only manufacturing; and the other called Petrolia, which is based only on oil—and let's imagine that the incomes and populations are about the same and the rest of their geography is about the same.

What do we know just from those bare facts about what might be different about Petrolia, one of the petroleum-rich countries?

First of all, we know that the revenues that the government gets that fuel politics are much larger. The average oil-rich government is maybe two or three times larger than the average non-oil government, even at the same income level. As a fraction of the economy, the governments tower over the private sector and all other actors. Oil revenues are very, very large. They may or may not generate wealth for the people, but they generate a lot of income for governments. So we have very large governments. The simple scale of these revenues is one critical difference between Petrolia and Industria.

A second difference, which matters a lot for the course of democracy, is that the revenues that Petrolia gets don't come from taxing the people. In Industria, the government has to fund itself. It has to go regularly to the people and ask for some sort of tax contribution, and people may object, they may despise it, but when they pay their taxes they demand some accountability. They scrutinize where that money goes. They pay much more attention and demand much more knowledge and many more services in return. Petrolia, which has all of this additional revenue, so it seems like a very wealthy government, is able to avoid this kind of scrutiny.

A third critical difference is the stability of the revenue and the stability of the economy. As we all know from our personal experiences, oil prices are very volatile, they are up and down unpredictably.

I know we have some people in the industry here whose job it is to know where the oil price is going. I'm sorry to say that academic studies show that your record is terrible—not because you're not very, very smart, but because, to our best understanding, the prices of oil are kind of random. They fluctuate—granted, for real-world reasons—but it's extremely hard to predict, as you know, where they are going.

This has an effect on governments. The government that wants to plan a five- or ten-year development plan to build roads and bridges and fund schools and higher education may have a great plan this year and next year see its revenues disappear. Knowing that its revenues are going to disappear might also give people a short-term perspective. They might think: "You know what? This isn't going to be around very long. I'm going to get it while it's there and try to make off with what I can, rather than think about the future." So it can lead to a short-term perspective and great difficulty in this sort of long-range planning.

It also helps explain why you see—and I know many of you have traveled to developing countries that have a lot of oil—why so many of them are littered with ambitious infrastructure projects that have been abandoned or are crumbling. It's easy to build a road; it's much harder to build an institution to maintain that road in perpetuity. It's easy to build physical infrastructure one time; it's very difficult to have a government that maintains it and provides for the long-term well-being of that population and can keep its infrastructure up.

So the volatility is the third critical feature that we see in Petrolia that is a source of great difficulty.

The final problem—and, believe it or not, I think this is a good-news problem, which I'll come back to—is secrecy. The revenues that the Petrolia government accrues are much, much easier to hide than Industria's revenues. All governments have procedures for collecting taxes and producing annual budgets, even in authoritarian states. They typically submit these budgets to their parliaments. There is some sort of nominal review. The central bank publishes some information about what the government is doing.

But in the oil-funded countries it's much, much harder to follow this revenue, even though there's a lot more of it around. One reason is that a lot of functions are done by national oil companies. So, for example, in Iraq under [Saddam](#), about half of the government's projects, half of the government's budget, went through the national oil company.

Not just a quirky feature of our friend Saddam. In Azerbaijan today, about half of the government's budget is run through SOCAR, the national oil company. The government submits its annual national budget to the parliament and people can kind of look at it. Not a very democratic place, but people can look at it and they know something about where it's going and how it's being spent. But half of everything else that is an equal amount is being funneled through SOCAR and nobody knows where that money goes, how it disappears. SOCAR is allegedly building hospitals and roads and funding all kinds of things.

In Venezuela, one of the legacies of [Hugo Chávez](#) is to turn PDVSA, the state-owned oil company, from a rather well-run, professionally managed, hands-off operation, that was admired really throughout the world, into a piggybank for all kinds of projects that are completely unrelated. Now, many of them sound nice. Some of them don't sound so nice—actually, a lot of military funding now is siphoned out of PDVSA. He also stopped publishing information about the budget of PDVSA and where this money was going. Venezuela used to be a relatively transparent place. Not nearly so much anymore.

So the secrecy is part of what gives the oil money, if you will, its evil powers, its anti-democratic powers, its democracy-under-money powers, its corruption-enhancing powers. If people knew how much money the government was collecting, they would demand and make sure that they got their fair share.

So what does this tell us about the real world? Is this just an academic exercise? I hope not. I hope this can give us some insight into problems that we face today in many parts of the world.

But let me start with the obvious case of the Middle East.

First of all, I think it bears mentioning that we as Americans typically imagine that a lot of what's happening in the Middle East, why it is seemingly, even today, immune to the democratic pressures that we see elsewhere, to opportunities for women, to all of the good things happening elsewhere, that this has something to do with, even if we're afraid to say it, the fact that it's an Islamic culture.

Oddly enough, even though Muslim-majority countries constitute only about 23 percent of all countries in the world, those countries control about 51 percent of all oil exports and 62 percent of all oil reserves. And incidentally, the fact that their reserves are larger than their current exports implies that in the future they are going to be even more important than they are today. It's not going away.

So there is this odd and, as far as I can tell, completely coincidental correlation between oil and

Muslim populations. If you ever want a good example of how correlation isn't causation, you can use this one. Does oil make countries Islamic or does Islam lead to oil wealth? It just seems to be a coincidence.

It's not just the Middle East. It is sub-Saharan Africa (Chad, Sudan, Nigeria, which has a plurality Muslims), South East Asia (Indonesia, Malaysia, Brunei), Central Asia (Kazakhstan, Azerbaijan, Turkmenistan). This is not a Middle East phenomenon.

So one of the challenges that we face as social scientists in my profession is trying to untangle what's really causing what. There is no doubt, if we're honest with ourselves, that having an Islamic history, an Islamic culture, does have an effect on a country's politics. But once you look at it really carefully and start to do the statistical analysis, you see that oil wealth also has a very powerful effect.

If you look, for example, just within the Middle East, you see that the countries that are relatively democratic, that have more accountable governments, that have more freedom of the press, where people are able to speak out and form independent organizations—countries like Morocco, even before the [revolution](#); Tunisia; Jordan; of course Lebanon; Turkey, if you want to include it—these are the countries without oil. The countries with lots of oil—Algeria, Libya, of course the Gulf countries—have much more repressive governments.

So I think this gives us some insight into what we have seen over the last year in the Middle East. We saw in pretty much all countries' popular [uprisings](#), demands for greater freedom. This to me suggests that this desire for freedom is universal. It's not that people of Muslim faith or another particular faith, or from one region, or from poor countries or rich countries, want freedom and other people don't. No. I think everybody really cares about this.

The critical difference is that people who lived in oil-rich countries found that their governments were much more effective at repressing dissent, disarming the population, and retaining control than countries that didn't have this kind of wealth in their governments and this kind of coercive apparatus.

Part of this was because the oil-rich governments—Saudi Arabia, Algeria, and so forth—could throw literally tens of hundreds of billions of dollars at the population in new promises, subsidies, free food, all of which came tunneling out, just pouring out of these governments, right about this time last year.

Part of it also is that these governments spend a lot more money on their militaries. Look at side by side, for example, Algeria and Tunisia.

I sit on a task force that's organized by the National Intelligence Council that tries to forecast political instability around the world. There was a debriefing a couple of months ago. I think I can say this. The interesting insight is that absolutely nobody—and we have dozens of intelligence agencies in this country—absolutely nobody anticipated what would happen in [Tunisia](#). It was on nobody's radar. The academic world is just as bad. So what happened in Tunisia was a surprise.

But look next door in Algeria, a country with even less freedom at the time. Incomes are about the same, culture and history very similar. The government spends about three times as much in Algeria on the military per capita as the Tunisian government. The Algerian government was much more successful in keeping the military on their side. You never had a moment, like you had in Tunisia, when military officers turned around and said, "You know what? I think we're going to side with the people. We're not going to back the government anymore."

The oil wealth of many, many of these countries helps keep the military loyal. Having the military remain on the government's side even when the chips are down is a critical reason why some authoritarian governments have made it through the Arab Spring—and elsewhere around the world, similar uprisings—and other governments, like in [Egypt](#) and Tunisia, did not.

So I think that's one helpful insight.

What does it tell us about places like [Iraq](#) and [Libya](#), where, thanks to foreign intervention, oil-rich dictators were overthrown and have been replaced with something? Here we're kind of in murkier territory.

It's helpful to know, though, that no country with as much oil wealth as Libya or Iraq, no country with half as much oil wealth as those, has ever made a successful transition to democracy. The closest example we have is Venezuela in 1958, in a very different world, in which the Venezuelan government didn't have nearly the same control over the oil industry, didn't collect the same fraction of the available revenues that these governments have today.

It doesn't mean that it can't happen, but it does tell us something about the scale of the challenge that these provisional governments face and how difficult it is going to be for people to retain checks and balances on the provisional government in Libya and on the [Maliki](#) government in Iraq.

What we need to be thinking about in these countries is how to take advantage of the moments now when there are democratic openings, to try to put in place difficult-to-reverse reforms that will keep some level of transparency in the oil industry and try to keep some of that oil money out of the hands of the government.

But it's going to be very difficult, because typically what we see is that the first election after some kind of turmoil like this in an oil-rich country is also the last meaningful election, and whoever gains control of the central government is able to establish a kind of monopoly on power that precludes future challenges.

I'm not saying it couldn't happen. Just as the oil curse had a beginning, it could also have an end. I'll come back to this in just a moment.

I think this also gives us some insight into global markets and the world oil trade. We've heard it said many times over the decades, but certainly in the last month, that the United States depends on oil supplies from unfriendly and unstable governments. There is something deeply uncomfortable we have as Americans—many of you are not Americans; I'm just speaking for those of us who are—depending on authoritarian governments for something as critical as our oil supply.

So sometimes people say, "Let's just leave aside the Equatorial Guineas and not take it from Saudi Arabia and instead just get what we can from Canada or Nigeria, which is sort of democratic now, direct it towards the democracy-enhancing governments."

The message of this book, and of this analysis is that it's not so easy. It's not a coincidence that the oil-producing countries have governments that are unfriendly and unstable and repressive. It's not simply an act of god that this is where it's located.

The fact that they have this oil wealth is an important reason—not the only reason but an important reason—why these governments are not working well, why they are repressive, why they are conflict-ridden. Simply switching suppliers is not going to be such an easy answer.

A decade ago, the [Cheney Energy Task Force](#) worked on this premise: that we are overly dependent on oil from the Persian Gulf; these are not countries we want to be dependent on, for obvious reasons; let's diversify our supplies.

How about Africa? Well, I'm afraid we've seen how that has turned out. The new African suppliers, many seem to be on the same road towards repression and instability that we've seen in the old suppliers, partly because of these oil booms.

So the message is, not that we are doomed to instability and dependence on countries that we despise, but that we have to address this problem, we have to do something about it, we can't just run from it and expect that we are going to find an easy way out.

One final point about what we can learn from this.

I think this also gives us some insight into the behavior and the politics of some of the countries that are most troublesome for the United States, like Iran and Venezuela and Russia, countries like Sudan and (perhaps this will change) Burma, countries that have a lot of oil wealth and have leaders who are actively undermining U.S. interests and undermining the freedom of their own peoples.

If you look at Chávez and [Putin](#) for two examples, both of them came into power in 1998-1999, at a point when world oil prices were at the lowest point they had been in since about 1970. Since then, prices in real terms have increased almost tenfold. This is an important reason why these leaders have been able, not just to stay in power, but to dismantle the nascent democratic controls that had been placed on those governments. The checks and balances, the avenues for dissent, the freedom of the press—all have been rolled back as the oil money has poured into these countries.

[Ahmadinejad](#) is a slightly more complicated story. But what's interesting to note there is that, just as in Russia and just as in Venezuela, he has made the government's accounting system, the information provided about where the oil money comes from and goes to, much more opaque. So in 2007, his government stopped publishing information about deposits into and withdrawals from the country's oil stabilization fund and the national development fund.

But we know from our analyses that tens of billions of dollars have gone missing, and almost certainly a lot of what has gone missing and probably what hasn't gone missing, what actually has been accounted for, has gone to the foundations associated with the [Revolutionary Guards](#), who control something like 20 percent of the Iranian economy now and benefit enormously from this oil wealth.

Let me close by suggesting that there is actually a lot that can be done. Let me mention three things that I think are critical to making a difference on this issue.

First of all, we need to think about how to help countries reform their national oil companies. Much of the oil curse began with these waves of nationalization in which the extraordinary power and wealth of the Shells and Exxons and BPs passed directly into the hands of governments and government rulers, and all of the injustice and latent conflict with it.

But not all national oil companies are managed alike, and some of them are actually managed rather well. We need to think harder about how to encourage greater transparency and accountability in these companies, which are often sort of a state within a state.

A great example is Brazil. Petrobras, the state-owned oil company, has developed a stellar

management record, recruits the best and the brightest of the Brazilian population to run things, and, critically, has put up a large part of its value, of its ownership, on the stock market.

If we can encourage more national oil companies to partially privatize—I don't think full privatization is the way to go; I think that's not going to happen and it's not useful in many ways—but partial privatization, particularly when shares are listed on a stock exchange, which mandates certain accounting standards and certain transparency standards, certain disclosure standards, can help force some measure of accountability on these national oil companies and, incidentally, can be helpful to them as it can help them raise capital.

That's one strategy. And there may be other strategies that we can think of that some countries have been adopting.

A second idea, coming from, of all places, the state of Alaska, is to just disperse some of the money right away. Rather than have it transferred into the government's hands and the national oil company's hands and then we're not really sure what happens, what if the government commits to giving every citizen a dividend, so that each year every citizen has a great incentive to monitor and figure out how much money the government is collecting, to make sure they get their fair share, and to place, hence, some kind of constraint on the government? This would encourage greater scrutiny, and, not incidentally, take a large fraction of the money that creates all of these problems out of the hands of governments that are not doing a very good job at deploying it.

Some organizations, like the Center for Global Development in Washington, are really pushing this idea. They think it's a great idea. They're sort of shopping it around to some of the new oil producers in Africa. Some countries are starting to adopt versions of this. So I think it has great promise.

A final point is transparency. The fact that secrecy is so important means that even we as outsiders, even American citizens, can play a role in creating greater transparency and reducing some of the malevolent effects of oil. The oil curse, in effect, starts in the oil-consuming/oil-importing countries. The United States is by far the world's largest importer of oil, more than twice as much as the next country. We have a role, we have a responsibility. But we also have power to help cast more light on this industry.

Oil is by some measures the world's largest industry. About \$2.5 trillion of oil is taken out of the ground each year. It constitutes about 14 percent of all global commodity trade. It's an enormous industry. It is also one of the world's most secretive industries.

Just to give you an example—I live in California so I shop at Target. When I walk into Target, no matter what I buy—from the smallest trinket, a greeting card for a friend, an appliance—everything comes with a tag on it that says where it comes from.

Think about some other valuable globally traded commodities. Think about other commodities that are in liquid form, like coffee. You can find out, not just the country where your coffee beans come from, but probably the plantation where it comes from. Think about wine. You can probably find the name of the person who picked the grapes and the region of the country and what time of year it was.

Yet we go to the gas station—at least I go to the gas station every week, I spend hundreds of dollars a month for the whole family on gas. I have no idea where that comes from. How come one of the largest purchases I make that comes from overseas has no tag that tells me where it comes from? And these companies don't want to disclose this. I guarantee they have this information. We could

begin with a lot of measures at home to encourage transparency.

There is a final point. A fight is going on right now, some of you may be aware of, at the Securities and Exchange Commission [SEC]. In the [Dodd-Frank](#) bill there was a provision, Article 1504, which mandated that companies in the extractive sector that are listed on stock exchanges must disclose the amount of money they are paying to foreign governments. It seems like a rather simple thing, something that shareholders might want to know. This passed through some miracle.

The SEC was supposed to issue rules sometime last year. They have not done so yet. The American Petroleum Institute is now threatening to sue the SEC if it does issue rules. They are fighting it tooth and nail. They don't want to have to make these disclosures. But if we make these disclosures, it could make a huge difference.

The message overall I would say is that oil has become in the last three decades, not just a curse, but the explanation for why there is a hard core of countries that remain immune to pressures for democracy, for better social development, that seem to be immune to the peacekeeping and peacemaking efforts that we have been able to cultivate elsewhere, that are persistently troubled politically.

But much can be done. There is a lot of good thinking about what can be done. We need to think harder about new measures. I try to suggest some in the book. But transparency is a key, and transparency is something we have a lot of influence over.

Why don't I close there and we'll move to questions?

## Questions and Answers

**QUESTION:** Allen Young

If you listen to a lot of the oratory from the various contenders for the Republican nomination for president, they say that the United States has enormous resources and if only we abolished the EPA [Environmental Protection Agency] and open up all of the offshore drilling and frack everything, including the New York City water system, and so on, we'd have much more oil and natural gas than we ever could use. To what extent is that just campaign oratory and to what extent is there some real substance in what they are saying?

**MICHAEL ROSS:** It's a great question, a question that I think there are probably other people in the room who could answer better than I. But I'll tell you my impressions from what I read.

First of all, there is a lot of excitement in the industry about the new methods for extraction of shale oil and gas, important new discoveries in the Gulf of Mexico. Yes, there is significant potential.

There is also a lot of controversy about just how much there is that is commercially available. We should be, I think, a little more skeptical than some of the Republican candidates are. If we think a little bit about the track record of the industry—and I hope I'm not offending anybody here—just as we have a terrible record of predicting how oil prices will change, we also have a terrible record of predicting where the next finds are and how much there is under that particular rock. So there is a lot of enthusiasm right now but there are also a lot of unknowns.

It's not just campaign rhetoric. There has been a 180-degree turn in thinking about this in the last nine months or so. But the very fact that this is a recent round of enthusiasm should make us a little

bit skeptical.

**QUESTION:** Don Simmons.

Two questions. First, would Russia be an exception to your statement about the difficulty that large oil producers have had, not having had democratic revolutions or development?

Second, I think in most of these oil-producing countries, and other developing countries, there is a great difference between per-capita income of a government employee and per-capita income in the private sector, so that the loss of a government job in most cases is a financial disaster. Does that contribute also to the reluctance of these governments to face democratic elections?

**MICHAEL ROSS:** First of all, Russia. About a year ago, during the beginning of the Arab Spring, my wife said to me—I had just sent the proofs of the book off to Princeton University Press, and we were reading about all of these uprisings and all this turmoil in the Middle East—and she said, "Okay, come on, level with me. Just how bad is it?"

I said, "You know, I think there's a real chance of democratic reform and that people are going to lead better lives."

She said, "No, I don't mean about the people in the Middle East. I mean how bad is this for your book?" [Laughter]

For a while it looked like Russia might be an important exception. I don't think these patterns are immutable. Just as nobody predicted what would happen in the Middle East, even if it's less than we might hope, patterns can change over time, and maybe transparency can play a role.

Russia, as I said, did for a while look like an exception. It's interesting to note that its most democratic period in the 1990s was the period when it spun off control of these mineral sectors, so it no longer had government control, and mineral prices were rather low and it wasn't such a profitable thing to have this kind of wealth.

Since 1999, everything has been reversed. As we know, Putin has brought a lot of these resources under the state's control directly or indirectly, and he has also rolled back many of the democratic reforms, such that I think most people are expecting in the election in a few days that, whatever the actual vote counts say, Putin will return to office.

So right now I would say there has been no successful transition to democracy. But I don't want to predict that it can never happen, and I'm hopeful.

One other thing in Russia's favor is that it is such a large economy that, even though it has enormous oil and other mineral wealth, it is also a kind of diversified economy. There are a lot of people who have jobs in the private sector that are out of the government's control.

That gets to your second question. I think you are absolutely right. State employment is a big factor in why and how oil-rich governments can maintain their control over the population. Often in the extreme cases—for example in the Middle East, in Central Asia and some sub-Saharan African countries—a huge fraction of the population is employed by the government directly or indirectly. Indeed, this certainly makes people a lot more reluctant to vote for an opposition candidate.

**QUESTION:** Ron Berenbeim.

Two questions/comments on related issues that are somewhat related to one another.

The first is that some time ago there was a global NGO [non-governmental organization] initiative on "publish what you pay," which urged oil companies to just publish what it is you're paying and to whom, and active local citizenry groups, including many chapters of [Transparency International](#), will follow up on this and follow the trail of the money. It didn't go very far. So I'm not surprised to hear what's happening at the SEC. But I wonder if you could comment on whether there might be some method of moral suasion to use there, aside from the legal lever.

The second thing is one of the reasons why I'm skeptical about the fanaticism, if you want to call it that, or the certitude—and this goes for liberals as well as conservatives—that we must become energy-independent is because I do believe, and I think it has been shown, that energy prices are fueled by aggregate world demand. So no matter how much oil we pump out of North Dakota or wherever—and we're pumping a lot these days—if the Chinese want it, they'll just buy it from the people we're not buying it from. So then it becomes a serious problem if it doesn't matter who you buy it from.

**MICHAEL ROSS:** Okay, thanks. Both helpful points.

Since I started working on this issue, specifically on oil, about 10 years ago, there has been a remarkable transparency movement. It was championed by [Tony Blair](#) after [Publish What You Pay](#) started its campaign in about 2001, I think.

An organization, called the [Extractive Industries Transparency Initiative](#), started by Blair, has now been spun off into an independent organization that's actually based in Oslo. It does encourage countries to publish what they receive and companies to publish what they pay. A significant number of oil, gas, and mining companies have signed on and are nominally supportive of it.

And yet, some of those same companies are—I think under the umbrella of the American Petroleum Institute, and supporting their threatened lawsuit—trying to block mandatory standards. Which is ironic, because if I were an oil company—granted, nobody is about to hire me, I suppose—I would want a level playing field. I would want everybody to have to make the same disclosures. Rather than make it a voluntary kind of good government/social responsibility effort, I'd like to see all companies on the same ground have to make these publications.

Just as there is this law in the Dodd-Frank act, there is a similar initiative in Europe right now that's actually under discussion in the European Commission and the European Parliament, which would adopt the same disclosure standards in the stock exchanges in Europe as well, which would, I think, go a long way towards making sure that all companies are on a level playing field.

You're absolutely right that ultimately you really want to have all players on board. But I think we have to start somewhere.

The Western companies still are by far the dominant forces in the industry, and we would make a huge difference, both by example and through legal efforts, if these two measures could be adopted.

**QUESTION:** Lansing Lamont.

Let me pose this question 50 years out. Suppose the United States, which as you say is responsible for 14 percent of the overall imports of oil and gas, were to become a renewable energy state; and let's suppose maybe 50 years from now—I don't think wind turbines or solar are going to do it—but

we get over this mindset we're in right now and go nuclear. What would that impact be in your equation around the 36 oil-rich countries? And I cite France as an example of 80 percent nuclear and a thriving democracy.

**MICHAEL ROSS:** Well, unfortunately, it wouldn't make that much difference. The overwhelming increase in global demand in the next 25 years is going to come from China, India, and other developing countries. Even if we become energy-independent it's not going to make that much difference probably.

Even under optimistic projections, between now and 2035, global demand is expected to rise by about 25 percent for oil, about 40 percent for natural gas. Because this growth is in other countries, in developing countries, there's not so much we can do about that.

But what that tells me is, not that we should throw up our hands and say, "We really can't make a difference"—just the opposite, because we are at the final moment when we, the United States and other Western countries, have exceptional influence in the global market and we have an opportunity to make a difference today that we're not going to have in 10 or 20 or 30 years, when we are only a small fraction of the global market.

We have the opportunity today to encourage greater transparency, better management of national oil companies, much clearer lines of authority in how this money is going to governments and spent by governments, and we should take advantage of that while we can.

**QUESTION:** Zackery Sadow.

Michael, first of all, thank you so much for coming to speak with us, and congratulations on writing a timely and important book.

You undertake a study in the book that correlates onshore production with conflict higher than that of offshore production. In light of all the offshore discoveries that are taking place today in deep water—whether it's Angola or Mozambique; we were just talking about discoveries offshore Israel—how can countries look to models like Brazil, like Norway, and impose good governance—and if [Ambassador Wetland](#) [of Norway] wants to jump in with his thoughts too—and work together?

**MICHAEL ROSS:** You're right. The fact is that probably offshore oil is less of a curse than onshore oil. It's better. In the countries that have civil wars that are sparked by oil wealth—Nigeria, Colombia, Chad, Sudan—the problem is really the onshore oil because you have local conflicts around oil extraction. People in the region want to get a fair share, or criminal gangs in the region want to get wealthy by blowing up pipelines and kidnapping oil workers and extorting money.

If you have offshore oil, at least right now, you don't have those problems. So things are a little bit easier for the offshore producers. That bodes well for countries like Mozambique and Brazil.

I think there are new and encouraging opportunities for countries to follow better models and learn from each other.

East Timor became independent about 10 years ago, I suppose, and it's a country that has great natural gas wealth offshore. When the government was preparing to assume sovereignty and take over, they looked around the world for a model of management of oil and gas wealth that they could follow. Being a Portuguese-speaking country, a former Portuguese colony, they looked around the world and saw another former Portuguese colony with a lot of oil wealth, Angola.

They sent a delegation there and said, "How can we do what you do? How can we follow your model?" Angola, I'm afraid, is about the worst model in the world to follow, a country that has been continuously under authoritarian rule, had a civil war for most of its independent life, and billions of dollars disappear every year, probably into the accounts of the president and his family.

Today, however, East Timor is seeking technical assistance from the World Bank, from the International Monetary Fund. There's a wonderful organization based in New York, called [Revenue Watch Institute](#), that offers considerable technical assistance and advice to developing-country governments that want to figure out better ways to manage their resources.

I think, even though it's sort of still early days, they have a great model in place. They have done a great thing. They have hired an outside firm to manage their funds. They have tried to set down strict guidelines on how much should be set aside each year and what it can be spent for. That money is audited each year. So maybe countries like East Timor will be the new model.

Just to make one follow-on point, in the coming five to ten years as many as one or two dozen other countries may become oil producers. There is a move for even more developing countries, to ever poorer countries, to begin producing oil. Demand is growing. OPEC [Organization of Petroleum Exporting Countries] production has been flat for decades. It has to come from somewhere.

So some of the countries you mentioned, many others in sub-Saharan Africa, some in Latin America, some in South East Asia, are all on the brink of becoming oil-dependent. So now is the time to think about the reforms that can help set them off on a better trajectory.

**AMBASSADOR WETLAND:** I am Norway's Ambassador to the United Nations. Speaking about East Timor, Norway has also been there for a little longer than their independence. We work with the government of East Timor based on our model in the North Sea and the taxation system and so on, which is aiming at leaving as much of the ground rent in the country as possible and preventing weak states from being exploited by clever businesses around the world—and there are certainly many of them.

You mentioned the Extractive Industries Transparency Initiative, which is now located in Oslo and which is a code, in a sense, which governments may sign onto and which obliges them to disclose all financial transactions between companies and governments. East Timor is so far the only Asian country that has signed onto that. That was at least the information as of last week when President [Ramos-Horta](#) was speaking to us in the UN.

You were speaking about encouraging countries to adopt different systems of management. We can encourage that but we can't force it.

There are a couple of countries that are easier to work with. You mentioned Mozambique, and that is also a country where we have been active for a while, not least in setting up a sort of oil directorate, which should help them to extract a higher percentage of the finds in the ground as possible, like we do in Norway. We were just discussing how not to leave a lot of oil in the ground, which is happening in a number of countries, including the United States, unfortunately.

We are also working with them to have a taxation system, which is in a sense almost foolproof so that mispricing and all that is going on in the business is made more difficult—I cannot say impossible, but more difficult.

For example, in Norway we tax 78 percent of revenues according to a price that we set based on

market analysis, regardless of what was actually achieved in the market. So if you have a bad trader who sells under value, you are still taxed for what the trader should have got for that oil. This means that you cannot manipulate the finance ministries and so on.

So there are a number of measures that can be adopted, but it requires that the government in question is of a mindset that is welcoming toward such ideas.

**MICHAEL ROSS:** Thank you. Let me make two quick comments on that.

Norway has been a force for good but, ironically, also a force for evil. By that I mean that many countries that are very poor and have very weak governments look around the world, want a model for how to manage their oil wealth, and they say, "Well, let's just become like Norway."

That's a little bit like my son asking how to dribble a basketball and I say, "Well, just be like [Michael Jordan](#)."

The Norwegian model is so sophisticated and well developed, but also in a country that is so sophisticated and well governed, that many of the direct lessons are not necessarily applicable.

But having said that, I have to be fair and say that Norway has also been a tremendous force for good and for development.

As the ambassador mentioned, they have a wonderful program called [Oil for Development](#), where they assist countries around the world, figuring out what's best for them and how they can best manage their wealth. That has been a tremendous development. And they are funding many good initiatives around the world.

**JOANNE MYERS:** Michael, unfortunately our time is up. I thank you for introducing us to all these issues.

### Audio

Is oil a curse? According to Michael Ross, it's not a coincidence that major oil-producing countries have less democracy, fewer opportunities for women, more frequent civil wars, and more volatile economic growth than the rest of the world.

Michael L. Ross is professor of political science at UCLA and director of the Center for Southeast Asian Studies.

### Video Clip

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