

George Soros

Caspian Oil Windfalls: Who will Benefit?

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Dr. Schlesinger: Thank you Bob Ebel. Let me join others in welcoming you to this session of CSIS.

Our speaker at luncheon George Soros, has had an astonishing career. Born in Budapest, that breeding ground of scintillating intellects, he left Budapest after the German occupation and came to London. He was a student at the London School of Economics, then a hotbed of socialist thought. Unlike such luminaries as [Nehru] and [Krishna Menin] however, he did not follow in the usual mold. He did not follow Harold Laskey. He was instead profoundly influenced by Carl Poppa whose seminal work was called the Open Society of which more later on.

In 1956 Mr. Soros came to the United States, starting a fabled career as a financier and the Quantum Fund is the embodiment of that career.

All of you will recall that in 1926 Winston Churchill returned the British pound to its pre-war parity. Pre-war parity in gold. The first of a series of blunders in over-valuing the pound.

More recently Mr. Soros is given public credit by some with bringing the devaluation of the British pound in 1992 and Britain's departure from the European payment mechanism, for which he was roundly denounced at the time, and for which Brits should be eternally grateful for it has allowed Britain to escape the economic malaise that afflicts the European Union.

In 1998 during the Asian financial crisis, the Malaysian Prime Minister Mohamad Mahathir found it convenient to blame Mr. Soros for the decline of the Malaysian ringgit, rather than the reckless policies that had been previously pursued throughout Southeast Asia.

Mr. Soros is the founder of the Open Society Institute, which of course is a co-sponsor of today's discussion. The Open Society Institute has concentrated in Central and Eastern Europe, including notably for today's purposes the Caspian, which from the standpoint of bringing about an open society may turn out to be more of a challenge than was the Balkans.

He is the author of numerous books. Ladies and gentlemen, the storied George Soros.

[Applause]

Mr. Soros: I very much appreciated your introduction. Thank you very much.

I am very happy to be here. I am sorry that I missed this morning's discussions. I made a very special effort to be here. I had a flight at 7:15 which was from Westchester Airport which was canceled. When they called me at 5:30 cancel it I was quite glad, but now I regret it because I understand that you had a very interesting morning and I would have liked to be present.

I think that the workshop is dealing with a very important problem, and in some ways it is pointing towards alleviating that problem. The problem of course is what the report calls the resource curse. The fact that countries with oil revenues very often the people don't get the benefit of it, and in fact you have more repressive and more corrupt regimes as a result of this resource wealth.

I once made a study of Africa, an in-depth study which took me almost 48 hours of actual visiting Senegal. The question I asked myself was what was the difference between resource-rich and resource-poor countries in Africa. I found they are equally poor, but the resource-rich countries have a lot more civil strife and much worse governments. Actually the most honest and democratic governments you find, generally, in the poorest countries like Mali and Senegal.

So there is a real problem. These problems, I would say it's a very complex problem which has some economic dimensions and some political dimensions.

One of the biggest problems, of course, in having large revenues from oil is the effect on the exchange rate and the impact it has on other industries. This is, as you know, is referred to as the Dutch Disease. I think it is a very tricky problem. I think oil funds are a way of dealing with it, of sterilizing the effect of the oil revenues.

But I think by far the most important are the political implications. If you have resources then there is a much greater inducement for controlling those resources by controlling there government and you are much less dependent on the people living in the country for that control than you would be if you didn't have the resource revenues.

So this sets up this vicious circle that really needs to be broken. In my opinion it can be broken if the problem is addressed by all the parties concerned. I'm really very thrilled to see that there is much grater awareness of this problem. I see a kind of movement with lots of participants. With civil society, international civil society and the people in the countries concerned.

The resource companies have become sensitive to this issue and their attitude has really changed. Very unevenly, I might say. Some companies have responded in a very constructive and far-reaching way and others less so. I might be quite specific about it, if you look at the oil companies, British Petroleum and maybe not quite to the same extent Shell are out in front and they've really recognized that it is in the interest of their shareholders that they should ensure that the countries where they invest actually get benefits from that investment.

I talked to Lord Brown who said I'm telling our shareholders this is in our interest to make sure. You see the effect of it in the countries where they are engaged.

I'm much less impressed by the reaction of the leading, I shouldn't really say any more

American than British because British Petroleum is also by now an American company, having acquired Amoco. But Chevron and Mobil are far less forthcoming. I think this is a very unfortunate, and I hope that they will also come to recognize that it is in their interest to be more concerned about this issue.

Then there is also the governments and here I have to give great credit to Tony Blair's government and Britain who are really out in front with the, I can never remember, it's Extractive Industries Transparency Initiative. I wish they would find a better name for it. Global Witness did much better when they launched their program on publish what you pay. That has really penetrated into public consciousness. The EITI, I have some trouble with that.

But the actual process is currently gathering momentum. There is I think a meeting going on either concurrently with this event or very closely associated with it, and I understand that you didn't have a presenter from Azerbaijan because he is attending that meeting. I think that is a very hopeful sign because I think Azerbaijan is in fact responding also. I think the fact that they are not here but there is I think already an indication how serious this development is, how serious this movement is.

So it's in that context that I think this workshop is very important because in the countries where my foundation has been engaged we have made a special point of supporting civil society to become more engaged. The Caspian Revenue Watch is the result of that effort. The fact that it is the people in the region that are engaged and sort of asking questions and trying to move things forward is an essential element for bringing about change.

I don't think that there is a magic formula for ensuring that the revenues are well used. I think transparency is tremendously important. Publish what you pay is an essential first step. Publish what you receive. Then be accountable for what you receive.

But then there is still the problem of how you use the receipts and that is a problem for economists and I think you have already started debating it. There is a lot more work to be done.

I personally am very keen on seeing actual distributions of money rather than putting all the money into oil funds. Particularly in countries which are very poor and could actually benefit from greater domestic consumption. I don't say that all the money should be distributed, but an element of distribution would be very very healthy.

I was talking to Paul Collier who was the head of the World Bank Institute and he's done a lot of work on this. He was going to argue the case and then we didn't have a chance to finish that discussion so I'll look forward to continuing and learning more about it.

So I see really, I'm very optimistic that already progress is being made and a lot more progress is going to be made just by the sheer fact that the issue is attracting so much attention. It is of course a global problem. This particular meeting is devoted to one particular area, the Caspian region, but I think it's extremely relevant to what's happening in Iraq.

It is now going to be a big test for the United States, how it is going to account for the oil revenues of Iraq. I think negotiations are going on right now at the United Nations to set up some

oversight mechanism. I think that civil society ought to play an important part in that oversight.

Many of the countries which are oil-rich are not democratic, but we are democratic. Our government responds to civil society. That is one of the most hopeful aspects I think that the British government has already responded, and I think the American government will equally respond if civil society is engaged in this issue.

So I hope that there will be an Iraqi Revenue Watch similar to the Caspian Revenue Watch and I will use this occasion to pledge my support for such an entity. And I mention it here because I think there are a lot of qualified people sitting in this room who may actually have something to contribute to it.

It's not something that we will do from one day to the other. The situation is far too complex and unclear. I think first we need to know what the mechanism is going to be, but I think I should also already say as the mechanism is being established I very much hope that there will be a niche or an opening for civil society built into it.

In most of the recent initiatives there is such a civil society element and I very much hope that there will be this element in the Iraqi arrangement.

But irrespective of whether there is such an element, I pledge myself that there will be some Iraqi Revenue Watch that is going to be watching it.

Coming back to the region, I'm, as I say, very hopeful that Azerbaijan which has not presented its case here, will in fact move forward and be one of the first in line to publish what you receive and be accountable for what you receive, and I understand that there was an interesting discussion here this morning where Kazakhstan, somebody from I think the head of the Central Bank, took issue with some factual statements in the report which I think is very welcome. If there are mistakes, that's not welcome. But in the spirit of fallibility and open society, I hope that whatever mistakes have been pointed out will be corrected, and I think that this will be the beginning of a dialogue.

If there were mistakes that may have been due to the fact that not enough information was officially available, so I hope that there will be an improvement in the availability of information. And in any case, that there will be a process.

Let's be quite frank, there is a lot of issues about the oil contracts in the past, and there are judicial processes underway and so on. I very much hope that Kazakhstan will be forward-looking and establish transparency and the mechanisms that will benefit the people of Kazakhstan so that one doesn't need to move backwards.

There was a period of turmoil and chaos. A lot of things happened. I personally don't think that it's terribly productive to be digging too deeply into the past as long as there is a better future ahead. But if there is no progress, then of course that is the point of let's say sensitivity where the issue can be tackled. So I think it's in everybody's interest to see progress and a better future.

That's really all I had to say on this occasion. I think it's an important occasion and particularly I think it's an important movement that is developing about revenue, resource revenue transparency.

So with that, I'm very open to any questions that you may have.

Question: Terry Karl from Stanford University.

I wanted to ask you a question about the use of oil revenues and the relationship between public and private use of oil revenues.

There's a debate, and I'm directing this to you. There may be others who wish to comment on this. There's a debate about how much should stay in the private sector, be use for consumption, etc., particularly in very poor countries, as opposed to public goods, particularly primary education and the education of women which are two of the indicators that in all of human development indicators show that you will really have success in a more positive development cycle.

In thinking about allocations in general, not necessarily of these two particular countries but in oil exporters in general. How do you think about that question yourself, about what should be private, what should be distributed to families say a la Alaska, what should stay in general funds and be directed towards public goods, particularly in the health and education or human resource area?

Mr. Soros: Let me first say that I'm not an expert on the subject so I certainly hold myself open to correction. And I am of course a great advocate of public goods. One of my criticisms of the global capital system as it's currently constituted is that it favors production of private goods to the detriment of public goods. Those markets are designed for people exchanging or filling their private needs, but the market has no mechanism for providing public goods so you need something more than the market. That is a general point.

At the same time I think in countries like Kazakhstan and Azerbaijan, not to mention Turkmenistan for instance, I don't even want to talk about it. [Laughter] I think a distribution to the citizens of some of the oil revenues would be a very good move because the mechanisms for the creation of public goods are not terribly good. The capacity for providing public goods is rather limited and the absence of democracy also interferes in how it is divided.

So a distribution to the citizens which is then something that's very transparent has this great merit of transparency. And I had a scheme for the Soviet Union and then for Russia for distributing the IMF grant of \$15 billion in paying out, earmarking it for the payment of social security and old age pensions and unemployment benefits. It would have been enough for \$8 a month which was at the time a tremendous amount of money in Russia. I think history would have taken a different course. It was not accepted. And I wanted to demonstrate that it could work and that's why I set up the International Science Foundation where I distributed \$500 a head for scientists who met a grade of three publications in a citation, very simple, transparent citation criteria, and 30,000 to 40,000 scientists got that grant. I think it is recognized to this day that one of the few assistance that actually reached the people.

That's why I would be very much in favor of some cash distribution of the oil revenues. Not all. Obviously you need to spend money certainly on education and so on, but I would not -- and it's very good to have an oil fund although the report is quite critical on the oversight procedures and the transparency of it. So this is why I'm saying that I see a room, a place for actual cash distributions.

Question: Richard Feinburg from Fairbanks.

I would like to follow that question to ask if you are concerned that a distribution would not be needs-based and therefore might have I would say regressive social consequences?

Mr. Soros: Because of what?

Question: Because it would not be a needs-based distribution. Or can you conceive of a needs-based distribution scheme.

Mr. Soros: I would not be worried about that because the transparency that everybody gets it is very attractive in a country that doesn't have good democratic institutions for distribution. And where the large majority of people are really very poor.

Having some money to spend would actually stimulate the domestic economy. The one negative as opposed to setting up an oil fund is that it may, by influencing the exchange rate, would discourage domestic industry. But I think that the needs are such that most of the money would be spent locally. So I'm not too concerned about this sterilization which looms very large in the thinking on the subject.

Question: Jayhun Mollazade, Caspian Crossroads Magazine.

Mr. Soros, you mentioned about the cash distribution to the population which means that money will be spent. One day the oil will be gone and these people again will be without the cash that will come from the oil.

Don't you think that the model of reimbursement of some of the revenues into other sectors of the economy like agriculture or manufacturing may create more jobs and revenues and economy development rather than just distributing cash to people? And of course along with the upbringing, the education and the health care system.

Mr. Soros: I think that the oil revenues are just beginning to flow, and I think that in the early stages if you were to distribute the money it would stimulate the economy. It would stimulate agriculture because people would eat more. So it would be market-driven, demand-driven domestic development. Domestic services would improve.

As you come closer to the exhaustion of the resource you then have to worry about making sure that you don't have a sudden fall-off.

What I'm saying in no way diminishes the need for public goods like education and health

care, but those systems also need to be built up.

So I think it's not an either/or situation. But this concern about what happens when you run out of the money is not one that should weigh very heavily in the front end.

Dr. Schlesinger: I have a question if no one else does.

You mentioned Shell as perhaps almost as enlightened as British Petroleum. Could you comment upon the performance in Nigeria on the part of Shell which has at least aroused some local problem?

Also you commented on American oil companies and the ones you referred to are all former ARAMCO partners. One wonders whether they did not learn in Saudi Arabia that to accommodate the government was a necessity to preserving their access to the oil.

Mr. Soros: I think excellent questions. I think that what happened in the Delta in Nigeria has had a big impact on changing Shell's attitude. It was a very painful lesson for Shell, what happened there. They are having difficulties now also. But I think the attitude has changed on the part of Shell. I think your point about ARAMCO actually reminds me of a point that I should have made in my remarks. That really, it is in the interests of the United States, and this government really ought to pay a lot more attention to this issue than it is, and it ought to exert some pressure on the oil companies to be equally sensitive. Because we have had a terrible experience with doing business the way we were doing when having control of the oil was the major consideration of our policy in those countries. We were very happy to have repressive governments that kept the lid on so they could fulfill their obligations.

We had one painful lesson in Iran and to some extent that made us then complicit in Saudi Arabia spreading the Wahabi creed to counteract the militancy of the Shia. Then we had the 16 out of the 20 or how many of the terrorists coming from Saudi Arabia.

So we should really learn from that, and we are now becoming, we are diversifying our oil supplies and it becomes very important that countries like Angola and should actually have better governments. The same applies to the central Asian governments. So it is really in our national interest, and I think that some elements in the government are aware of it but it's not getting enough attention.

Question: Campion Walsh, Dow Jones.

Regarding your comments on the importance of U.S. handling of oil revenue management in Iraq, I wonder if you have a preference for multilateral oversight through the UN, and also whether there needs to be a balancing with the hopes that there will be rapid self-government in Iraq? How would you balance that with international oversight of their most important industry?

Mr. Soros: There's no doubt that I'm in favor, and I think everybody has to be in favor of international, multinational supervision. I think that if the same entity that is in charge of distributing is also in charge of exercising oversight, then I think there is something wrong in the institutional

setup. So clearly.

And the other issue as to the formation of an intermediate government is a little, it's too tricky an issue to be able to answer it in a few words. I'd have to give a different speech which I have done in other places to address that issue.

Question: Kate Watters with Crude Accountability.

You've talked about the role that you see for governments, for companies, and even for international governments in the role of oil funds and overall the exploitation of natural resources in the Caspian. I wonder if you could comment a little bit on the role that you see for international finance institutions which are providing substantial loans to Western corporations that are then working in the region with these governments.

Mr. Soros: I think it's a very good point and I should have really included them because they also have a great responsibility and a great interest. And in that context it's very interesting now to see what's going to happen in Iraq. I personally would be very happy to see the old creditors of Iraq not getting paid. That would send a signal to the financial markets that it's dangerous to deal with oppressive regimes because the regime may be overturned and then you don't get paid. So I think this would be a very healthy sort of financial innovation. [Laughter]

And maybe on that note... [Laughter]

Thank you very much.

[Applause]