



**Testimony before the
Subcommittee on International Economic Policy,
Export and Trade Promotion
Committee on Foreign Relations
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**“THE GULF OF GUINEA AND
U.S. STRATEGIC ENERGY POLICY”**

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A Statement by

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Introduction

Senator Hagel, Chairman of the Subcommittee, Senator Sarbanes, Ranking Member of the Subcommittee, other Members: I am grateful and honored to have the opportunity to speak here today on a subject that in recent years has swiftly risen to the top of U.S. foreign policy challenges in Africa, namely, how to conceptualize and execute a dynamic, U.S. energy strategy for the Gulf of Guinea.

The preceding speaker, David Goldwyn, is a close friend and professional colleague with whom I have collaborated in two projects in the past year that are directly relevant to the subject before us today.

Beginning in mid-2003, we co-chaired the CSIS Task Force on Rising U.S. Energy Stakes in Africa, which concluded in its March final report that a major, heightened U.S. diplomatic effort was warranted to promote greater transparency in the use of Africa’s burgeoning oil wealth, especially governance in Nigeria and Angola, but also in three small states experiencing substantial growth of oil production, Chad, Equatorial Guinea and Sao Tome and Principe. As these states add 2-3 million barrels per day to world markets in the next five years, their oil earnings will skyrocket. Nigeria is estimated to earn over \$110 billion between now and 2010, Angola over \$43 billion. These are staggering figures by any measure. When set against the legacy of corruption and mismanagement of these and other African producing states, these figures are potentially destabilizing.

David also authored an excellent chapter, “Crafting a US Energy Policy for Africa,” as part of the Africa Policy Advisory Panel, an exercise authorized and funded by Congress, overseen by Secretary Powell, and for which I served as the executive secretary. Former Assistant Secretary Walter Kansteiner chaired the Panel.

Just one week ago today, we released the full Panel report here on Capitol Hill. Secretary Powell spoke at length on U.S. Africa policy. Two panel members, Senator Feingold and Representative Royce, also spoke at length of the need to think in new and innovative ways about better advancing rising U.S. national interests in Africa. Congressman Wolf, the impetus in Congress

for the creation of the Panel, also spoke eloquently in the same vein. All shared an enthusiasm for the focus placed in the Panel's report on building transparency, accountability and stability in Africa's expansive oil sector.

In his testimony here today, David has laid out in considerable detail how the Gulf of Guinea figures in global security terms, why this small pool of important African producing states in the Gulf of Guinea are of rising vital significance to U.S. energy security, why their supply to U.S. markets remains at risk of disruption, for both internal governance reasons and, externally, from regional instability and emergent terrorist threats, and what the policy options are to enhance U.S. energy security. I wholeheartedly support David's analysis, and will not retrace the ground he has covered. I will instead concentrate upon providing complementary details to back two core assertions.

The first, core assertion, consistent with what we have heard thus far, is that there is indeed an urgent need for a coherent U.S. strategic energy policy to fill the gap that exists today. Only then will rising U.S. interests in the Gulf of Guinea be addressed effectively.

Such a strategy needs several key elements. It must be long-term, it must be built upon sustained partnerships with African counterparts, and must feature a two-pronged, regionally coordinated approach. It needs simultaneously to address both serious deficiencies in the *internal governance* of key African oil-producing states at the same time that it systematically addresses the shared, *external security threats* these states face.

Improved internal governance fundamentally calls for enhanced diplomatic engagement to promote transparency and accountability in the use of a producing country's wealth, including respect for human rights and democratic process, and ensuring that oil revenues are tied to sustained and equitable economic growth. Regional security fundamentally calls for heightened engagement by U.S. intelligence and military institutions, under the guidance of overall U.S. foreign policy, to strengthen maritime security and meet other threats, especially in northern Nigeria. Reconciling these two imperatives is not always easy, and requires high-level oversight and a durable compact with Congress. As a matter of U.S. policy, we are not yet at that point, though if there were sufficient will in the administration and Congress, significant early progress could be realized, I believe, in relatively short order.

Second, a special bilateral priority needs to be assigned, in any U.S. strategy, to Nigeria's central importance to the Gulf of Guinea. What transpires there in the near and medium term, with respect to both governance and security, will be decisive to the future of the Gulf. For that reason alone, I would like spend a few minutes at the conclusion of my presentation to discuss recent developments in Nigeria and specific measures that need to be taken to make the U.S. approach to Nigeria more comprehensive, dynamic, and effective.

Elements of a governance strategy for the Gulf of Guinea

What I summarize briefly in this section are the major elements laid out in the CSIS report, “Promoting Transparency in the African Oil Sector: A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa,” issued in March 2004.

First, the United States should pursue sustained, high-level engagement, bilaterally and multilaterally, to promote transparency and reform in the Gulf of Guinea's oil producing nations. It should explicitly enshrine this goal as a top priority of U.S. Africa policy.

This will entail devising clear and transparent benchmarks for regional behavior, complementary to the standards of the Millennium Challenge Account. The touchstone should be a public commitment to transparency in public finance, with benefits contingent on verifiable, sustained, and public disclosure of government revenues and expenditures and adoption of open public finance practices. Examples of transparency practices could include disclosure of aggregate revenues (royalties, taxes, and other fees) from extractive industries, disclosure of oil-backed loans, publication of IMF Article IV reports (which report annually a country's macroeconomic management and compliance with IMF programs), open procurement practices, transparent processes for bidding oil concessions, public disclosure of signature and other bonuses, auditing of national accounts and national oil companies, expenditure transparency in public budgeting, legislative access, and review of public finances.

Second, to pursue this goal, a Special Adviser to the President and Secretary of State for African Energy Diplomacy (S/AED), with ambassadorial rank, should be designated to lead interagency policy.

A special adviser with ambassadorial rank would be housed at the State Department, but endowed with authority by the president and the National Security Council to lead interagency policy. The appointment, an unprecedented act of commitment in this area, would powerfully signal U.S. leadership on this issue.

The special adviser would be mandated to develop relationships with senior African leaders, coordinate political, economic, military, and governance policy for the U.S. government, interact with the G-8 process and other multilateral fora, liaise with like-minded nations, and brief the Congress on U.S. policy. The Special Adviser should chair a U.S.-Africa Energy Policy Business Advisory Council to work with U.S. agencies and industry on a coordinated and consistent basis to address transparency, governance, human rights, and democracy issues.

Third, the United States should introduce a set of reinforcing bilateral policies with special application to the Gulf of Guinea.

The United States should declare publicly its benchmarks for regional behavior, in close parallel with those benchmarks set out for the Millennium Challenge Account. Any leader who makes such a commitment would meet with the secretary of state and be eligible for regional support programs. The level of support for a nation would be calibrated to concrete irreversible actions and

the level of development. The United States should continue to utilize Africa Growth and Opportunity Act (AGOA) eligibility as a means of leverage for good governance.

Regional programs that committed nations would be eligible for include:

African Energy Producer Summit. A summit would provide a platform for governance issues, and could be appended to the G-8 meeting or the annual AGOA summit. Meetings with the president of the United States in conjunction with these biannual summits should be restricted to those countries practicing transparency and good governance, and would serve to single out countries that manage their oil wealth well.

Peacekeeping and IMET Training. The United States should dramatically increase peacekeeping training and International Military Education and Training (IMET) support for nations that commit to respect human rights norms and adhere to transparency criteria. .

Maritime Security Program. The United States should help to establish and train an African regionally-coordinated maritime force to protect offshore oilrigs, contingent on mandatory human rights training. This force would police borders, strengthen customs enforcement, counter-narcotics efforts, and counter-terrorism. Maritime security programs would also protect offshore infrastructure from piracy or attack.

Support for Civil Society. Indigenous nongovernmental organizations in energy-rich countries should be encouraged, trained, and empowered to monitor and report on their governments' progress in implementing reform and fulfilling their public commitments to transparency in revenues and expenditures, especially within the oil sector.

Fourth, the U.S. should integrate the World Bank and IMF into its Gulf strategy and devise new innovative collaborations.

The World Bank and IMF will play a lead role in fostering transparency in many countries by upholding standards for staff monitored programs or conditions of revenue and expenditure disclosure contained in Poverty Reduction Strategy Papers. The United States should support a common and consistent agenda of promoting oil revenue and expenditure transparency, especially where the World Bank provides financing for the oil sector. The United States and G-8 allies should also focus diplomatic support on the implementation of World Bank standards for the Chad-Cameroon pipeline¹. There is great hope that Chad-Cameroon can be a model for public-private partnerships that can foster investment and transparency. Public confidence in such efforts will hinge on how the Chad-Cameroon project proceeds, and how the international community deals with inevitable problems that arise.

The United States. should press for new multilateral programs for which committed nations would be eligible:

¹ Chad is now emerging as the critical test case of whether African oil-producing nations can use their oil windfalls for development purposes and not sink into the typical pattern of corruption and autocracy. The Chad-Cameroon pipeline project is the largest development project in Africa today. It has spawned a unique multi-stakeholder experiment in transparency that involves civil society, governments, the World Bank and oil firms.

Debt for Transparency. The burden of debt puts pressure on public budgets, stunting development and giving politicians little space for satisfying public demands.

While the Paris Club debt rescheduling process and the IMF staff monitoring programs that precede Paris Club reschedulings are critically important, more generous U.S. appropriations and greater flexibility for debt rescheduling, reinforced by heightened U.S. leadership in multilateral reschedulings, can provide a powerful tool for promoting reform in countries such as Nigeria and Angola. Non-HIPC eligible countries, such as Nigeria, should be eligible for debt relief if they make appropriate commitments and demonstrable progress.

Electric Power for Good Governance. The United States should lead a G-8 effort to fund a fresh, conditional commitment to financing national electrification, with appropriate focus on restructuring and regulatory capacity-building, including revenue management to help recoup investments and operating costs, as well as rural electrification and distributed generation, based on new contributions by World Bank shareholders, in exchange for transparency and development commitments by the recipient nation.

Capacity-Building Trust Fund. Most African nations lack the human capital to prepare, audit, and monitor public finance, and to manage their petroleum reserves. The United States and other nations must support a long-term capacity-building program to train national officials in these essential skills, and link U.S. and African academic institutions to provide education on an ongoing basis. The program must be based in Africa and tailored to African needs.

Conditional Trade Finance. Energy development is capital intensive, and trade financing through the Export-Import Bank, the Trade and Development Agency, and international equivalents plays a critical role.. To obtain financing, countries would need to demonstrate a commitment to using the proceeds of the resources for national development and to agree to transparent monitoring and auditing of project revenues to obtain finance.

Capital Market Access. G-8 nations can ensure that all national or correspondent banks that have relationships with G-8 banks disclose the beneficial owners of those accounts to prevent government officials from using western banks to hide misappropriated funds.

A Gulf of Guinea maritime security strategy

A glaring vulnerability in the Gulf of Guinea is the lack of effective control over its maritime and coastal environment. This has encouraged levels of piracy unrivalled in Africa (and in global terms, second only to the Malacca Straits in Southeast Asia.) It invites illicit trafficking in weapons and drugs, illegal immigration, and terror attacks against an energy infrastructure that was constructed with no serious sabotage threat in mind.

It is very much in U.S. interests to become more directly engaged in strengthening the Gulf's maritime security, given the projected growth of U.S. oil operations there. Short-term benefits can

be quickly realized, in curbing piracy and the bunkering of oil, improving the oil production environment, encouraging greater regional integration, deterring terror and sabotage, and protecting American citizens and property. The cost of such programs is not prohibitive, particularly if the effort is effectively multilateralized and costs shared with host governments, European allies, and oil corporations. Major gains can be achieved with an annual U.S. government investment of \$10-20 million. A number of Gulf coastal countries have signaled their strong interest in building their maritime security capacities in collaboration with the United States, most notably Sao Tomé and Príncipe, Nigeria, and Equatorial Guinea.

What are the other requisites for success?

First is the imperative to act with speed, realism, and a long-term commitment. Speed is essential to take advantage of the current receptive environment and to avoid attempting to engage host governments *after* the steep upsurge of oil earnings in a few years time. Speed is also essential to demonstrate rapid benefits and to minimize the distractions that may grow as China, India, and other energy-hungry powers enlarge their presence in the region. Realism will require the United States to recognize that it will be starting its programs from scratch, in an environment that has very weak infrastructure and technical expertise. Success will only come if the U.S. strategy calls for an investment of five years, at a minimum.

Second is the imperative to work hard to encourage the formation of a coherent African regional body, comprising Sao Tomé and Príncipe, Nigeria, Cameroon, Gabon, Congo-Brazzaville and Angola, with which the United States and others can partner. Early discussions are now under way around the formation of a Gulf of Guinea Commission. These should be intensified.

Third is the imperative, internal within the U.S. government, that an interagency consensus and operational plan be devised for funding and implementing a Gulf maritime initiative. It will be essential to call upon high-level diplomatic support across a range of states, to bring in both military and civilian agencies, and to monitor progress closely and have a process in place that can make adjustments swiftly and effectively.

Putting a special focus on Nigeria

Despite major U.S. oil investments in Nigeria and enduring U.S. interests in counterterrorism, democracy, transparency in the use of oil wealth, and regional stability, the United States at present is ill-equipped to shape events in Nigeria. Quick action is needed to correct that reality.

Nigeria is a challenging mix. It remains dangerously on the edge of disorder, emerging from years of misrule. At the same time, Nigeria's leadership is advancing experimental, bold reforms in the management of Nigeria's oil wealth, and seeking to reconcile high expectations with weak, decayed institutions and grave reputational problems globally. Given Nigeria's sway in the region, and the stark risks and alluring opportunities it presents, Nigeria should be the top country focus of any U.S. strategy that aims to advance U.S. national interests in the Gulf of Guinea.

Yet to achieve that will require overcoming constraints in our own approach to Nigeria.

The high-level U.S.-Nigeria consultative mechanism created late in the Clinton Administration has lapsed. U.S.-Nigeria military-military relations have been frozen by Congress since the Benue massacre of 2002. The U.S. has no diplomatic presence in the north; the U.S. embassy in Nigeria has been under-staffed and in disarray for several years, though it has begun to improve somewhat with the arrival of Ambassador John Campbell in May. Special focused measures will be needed to attract talent to bring the embassy up to grade. The U.S. Pan Sahel Initiative (focused on Mali, Mauritania, Niger, Chad; now also to encompass Morocco and Tunisia) does not include northern Nigeria, even though that is arguably the zone of greatest potential terrorist threat in West Africa.

To pursue U.S. interests in Nigeria, U.S. policymakers will need to get far more serious about (i) rebuilding the staff strength and morale of the U.S. embassy; (ii) devising a serious counter-terrorism approach with a strong public diplomacy component to northern Nigeria; (iii) improving our grasp of Nigerian President Obasanjo's calculations, as well as those of the military, and political forces in northern Nigeria; and (iv) bringing forward debt relief and other forms of assistance to reward concrete action by Nigeria's impressive early economic reform campaign.

We propose that the State Department should re-establish a high-level bilateral consultative mechanism to work in conjunction with the previously-mentioned special adviser for African energy diplomacy to encourage and assist the Nigerian government in its reform efforts. The United States should send the Secretary of the Treasury to Nigeria to develop a bilateral debt relief program with Nigeria's new finance minister to bolster her leadership. Finally, the United States should develop and offer G-8 adoption of an oil tagging system, analogous to the Kimberley Process for identifying conflict diamonds, to curb the growing problem of oil theft and reduce corruption of government officials involved in oil sales, shipping, and customs.

U.S. policy has up to now been predominantly oriented around the consolidation of democratic governance, HIV/AIDS, and collaboration with Nigeria and other West African states in regional peacekeeping, most recently in Liberia. I am not arguing that these priorities should be downgraded. Rather, I am arguing that the U.S. should elevate the seriousness and level of effort it commits to Nigeria overall, and put a special new focus on strengthening diplomatic, intelligence, and counter-terrorism capacities and supporting economic reforms through creative multilateral debt relief measures.

Dramatic recent promise

In the past year, President Obasanjo's economic reform team, led by Finance Minister Ngozi Okonjo-Iweala, has advanced an ambitious homegrown transparency initiative in the management of Nigeria's oil wealth, involving a February workshop with civil society and business, the publication for the first time of allocations from the central government to the states, and close cooperation with the World Bank and IMF in auditing the oil sector and organizing internal agency-by-agency data on income and expenditures. For the first time, the government has issued a realistic federal budget, fiscally linked to a projected oil price of \$25 per barrel, and adhered to the discipline of applying surpluses to a special account. International reserves have risen to \$10 billion, and inflation has dropped. A key outstanding question is whether the Nigerian National Petroleum Corporation (NNPC) will divulge its data and whether ingrained resistance to transparency within major agencies can be overcome. For U.S. policy makers, a key question is

whether and how to provide significant debt relief, to reward progress in a timely way, when the sustainability of these reforms remains uncertain and when Nigeria does not yet have a formal agreement with the IMF.

Continued instability

On May 18, Nigerian President Obasanjo declared a state of emergency in the central state of Plateau, suspended its elected officials, and put a retired general in charge as sole administrator. This followed months of Muslim-Christian violence there, and also in the northern Muslim state of Kano. Human rights activists have renewed calls for a sovereign national conference to create a new national consensus and constitutional basis for governing Nigeria, a proposal that has been raised repeatedly over the last decade.

What is happening in Plateau States is not a new development, but rather a continuation of past patterns. Indeed, since Nigeria returned to democratic rule in 1999, upwards of 10,000 have died in sectarian violence. While these conflicts have taken on religious overtones, the original cause in many instances is not religious, but economic and political, aggravated by social dislocation, poverty and marginalization, and high unemployment, particularly among the region's large youth population. For example, in Plateau State, there have been longstanding clashes over land and resources between established Christian residents and Muslim migrants. Recent violence was instigated by Christian youths against Muslims and touched off religious reprisals in neighboring Kano.

The state of emergency and return of military rule in Plateau raises the specter of renewed violent abuses of civilians at the hands of the military and the possibility that Nigeria's democratic governance has entered a phase of heightened strain and uncertainty. In April, there were reports of coup plots within the military, which may suggest mounting dissatisfaction within Nigeria's military over Obasanjo's handling of internal unrest, along with corruption.

The terror threat

There are strong suspicions that northern Nigeria may become an attractive base for Nigerian and outside radical Islamists, potentially serving as a base for anti-American terrorist activities. The U.S. government unfortunately remains woefully ignorant of what is actually happening in northern Nigeria, and debate persists among experts as to how much of a threat exists there and whether Islamist radicalism will translate into anti-American violence. Armed Islamist militias have been on the rise in the north, just as armed non-religious militias have been on the rise in the central and southern states. Instability in the central Plateau state could strengthen the hand of radical Islamist interests in the north, and might invite renewed violence in the chronically unstable Niger Delta in the south.

Nigeria's regional peace-keeping role

Despite internal uncertainties, Nigeria has also proven to be an important partner in restoring stability to the West African region and has won praise from Pentagon officials as "a force for stability that has earned a reputation as one of the most capable armed forces in Africa." The country is also beginning now to more systematically tackle HIV/AIDS within its armed forces.

The Nigerian military's performance in Liberia in 2003, as the lead element of the intervention force there, was much improved over earlier interventions in Sierra Leone and Liberia, attributed in no small part to U.S. military training. The United States is constrained from providing support to militaries with questionable human rights records, but Nigeria is a case in point that U.S. training and support can improve discipline and respect for human rights.

Any analysis of U.S. stakes in the Gulf of Guinea must address the realities and vulnerabilities of Nigeria, the region's—and indeed the continent's—largest state. And in turn, an effective strategy toward Nigeria cannot focus solely on the security of the oil fields in the south. Rather, the United States will need to craft a security strategy for the entire country that deals with multiple threats—in the north, specifically with opportunistic extremist Islamic politics, and across the country where the movement of men, money, arms, and drugs through illicit networks facilitate terrorism and instability.