

GEDS 6300:
Foundations: Understanding the Natural
Resource Curse (Theory and Practice)
Spring 2016 (Session 5 mini-semester)
3 credit hours
Fri and Sat, April 1 and 2, and April 8 and 9 8 AM to 5 PM
plus 10 hours of on-line learning

Instructors:¹

Dr. Kairn Klieman, Dept. of History (kklieman@uh.edu)

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Part 1: Introduction

A. Goals and Objectives of the GEDS Certificate Program

1. Statement of the problem:

In many oil-producing developing nations, the advent of oil production has not brought positive benefits to the society at large. Despite large amounts of foreign investment and a massive influx of oil revenues, economies stagnate, governments fail, corruption increases, standards of living decrease for the majority of the population, and violence often erupts. This phenomenon is referred to as the “Natural Resource Curse” or “Oil Curse” and has been the object of academic study for over fifty years.

¹ The GEDS Certificate, and this course, were developed by Dr. Kairn Klieman and Mr. Tom Mitro, who have collaborated in teaching a course entitled “Africa and the Oil Industry” (History 4318) for seven years; the course has also been offered to graduate students (Business, Law, History) as INTB 7397 “Confronting the Resource Curse: Oil in Africa” (Fall 2012). Brief biographies of the faculty are provided below:

Kairn A. Klieman (Ph.D. History): Associate Professor Department of History; Co-Director GEDS Certificate Program. Specialization: African Energy History, Global Energy History, African Cultures and Languages

Tom Mitro (M.A. Economics): Former Regional CFO Gulf/Chevron (Africa); Independent Consultant to African government agencies, and Visiting Lecturer, Center for Public History, UH. Specialization: International Upstream and LNG Petroleum financial and commercial management (finance and accounting, economics, financing, fiscal terms and taxation, contracts and agreements, government affairs and strategic planning); Corporate Social Responsibility in Africa (Forty years experience, upstream and LNG; 17 years abroad (Angola, Nigeria, Papua New Guinea, London)

Ryan Kennedy (Ph.D., Political Science): Associate Professor, Department of Political Science
Specialization: Oil and Political Regimes in Eastern Europe, Deliberative Democracy, Computational Social Science.

2. Brief Intro to Resource Curse/Rentier Theory

Further Definition of the Problem, done through Lecture/Discussion - highlighting manifestations, stages; drawing students out based on pre-readings (see list below).

Phenomena currently recognized by Resource Curse/(Rentier) Theory:

- The onset of the “Dutch Disease” (broader economic inflation, shift of resources to oil sector, stagnation and decline in agricultural and manufacturing sectors)
- Development of rent-seeking behavior by politicians
- Increased authoritarianism; larger military and arms purchases
- Politics of allocation instead of taxation (“buying consent”), less democracy
- Bloated gov’t bureaucracies (gov’t jobs = access to oil revenues)
- Boom/Bust cycles (re: employment, national economy, development plans)
- Increased unemployment (capital intensive industry, enclave production)
- Environmental degradation (insufficient regulation by state/non-compliance OICs)
- Volatility of oil prices > failure of eco and human development plans
- Standards of living decline for the majority; creation of a hyper-wealthy elite
- Popular expectations not met; outbreak of violence, rebellion, or war

3. Readings for Class Discussions:

- Gary and Karl, *Bottom of the Barrel: Africa’s Oil Boom and the Poor*. (Report by Catholic Relief Services), June 2003 (ch. 2, pgs. 18-24)
- Ross, M. “Blood Barrels: Why Oil Wealth Fuels Conflict.” *Foreign Affairs*, 87:3 (May/June 2008), pgs. 2-9.
- Ross, M. “Will Oil Drown the Arab Spring? Democracy and the Resource Curse.” *Foreign Affairs*, 90:5 (September 2011), pgs. 2-7
- Birdsall and Subramanian, “Saving Iraq from its Oil.” *Foreign Affairs*, July/Aug. 2014, pg. 77-89.

B. Course Objectives and Approaches

These are skills students will be assessed on during course. They are also the skills they will be able to draw on once they enter the workforce.

- Students will be able to recall and explain basic tenets of Resource Curse Theory (RCT), focusing on key manifestations and the stages by which they develop.
- Students will be able to recall and explain the basic operations of overseas oil and gas projects (basic geology; upstream/midstream/downstream distinctions; cycles of production and decline; natural gas and associated gas).
- Students will be able to identify and explain roles, rights, and responsibilities of all stakeholders involved in oil and gas project (IOCs, NOCs, service companies, nat’l governments, IFIs, NGOs, banks, employees, local communities)

- Students will be able to diagram and explain the full life-cycle of an international energy project (from initial prospecting to later status of “mature producer”), identifying key junctures where decisions that can enhance economic, political, and environmental sustainability might be made.
- Moving beyond the current RCT literature, students will be able to identify and differentiate between the full array of historical, cultural, fiscal, and geopolitical origins of problems associated with the Resource Curse.
- Students will be able to identify faulty assumptions of the model, and/or judge the applicability of the model, for differing cultural, geographical, or national contexts.
- Drawing on historical analyses presented in class, students will be able to identify, cite origins of, and compare American business cultures to those of societies in which they will operate.
- Drawing on methodological approaches taught in class, students will be able to develop pertinent questions about, and locate relevant data and information about – the cultural, historical, political, and business contexts in which a company intends to operate.

C. Setting the Groundwork

1. Overview of the Current Int’l Oil and Gas Industry

- Basic terms and acronyms
- Key participants and stakeholders (IOCs, NOCs, service companies, nat’l govts, IFIs, NGOs, local communities)
- Roles and responsibilities of government, state oil companies, petroleum companies, and their contractors
- Overview of basic agreements (commercial relationships)
- Overview of legal structures (upstream sector -how a gov’t derives revenues, maintains control)
- Current transformations in the upstream market (natural gas, LNG)

2. Introductory Case Study - Project Economics and Economic Projections – Inadvertent Contributors to Aspects of the “Oil Curse”?

This case study will present a sample upstream project, demonstrating the typical project activities over its life and associated project revenues and costs, illustrating the concept of discounting, and highlighting examples of problems for countries and companies that can arise by the singular focus on this methodology. This focus can end up in misstated reserves, underestimated costs, pressure to obtain favorable fiscal relief from government, and unrealistic expectations about resource benefits and the problems associated with the boom/bust cycle. The analysis will be illustrated by discussion of several real life projects where these issues have arisen.

D. Bringing it all Together: The Film *Big Men*, by Rachel Boynton (2013)

We will watch and discuss a documentary film in which many of the above concepts, issues, and dynamics are illustrated. The film explores the

dynamics of early exploration and production in Ghana, West Africa (2007-2011), as carried out by the Dallas-based company Kosmos Energy. It also documents how the 'Oil Curse' has manifested in nearby Nigeria, which has produced oil since the 1960s.

Part 2: History and Politics

Deeper Origins of the "Resource Curse" - Energy Histories, Business Cultures, and the Global Geopolitics of Oil

This section of the course utilizes Political Science and Historical analyses to help explain the present day. One goal is to introduce them to global energy history, presenting it from the perspective of Western "Majors" and developing oil producers alike, thereby preparing them for the attitudes, practices, and conflicts they will likely encounter abroad. Another goal is to delve deeper into existing literature and explanations for the "Oil Curse," encouraging critical analyses and evaluation along the way. A final goal is to begin training the students to think beyond their own specializations and /or professional niches, and to comprehend the dynamics of the global economy over the long term, so that expansive, long-term thinking might also be applied on the job, in order to develop energy projects that are sustainable/beneficial to all stakeholders over the long-term.

A. Why History? What Politics? Key Questions to Ask Before Embarking on Operations in a Developing Nation

B. Case Study: Extractive Industries in Pre-Colonial and Colonial Sub-Saharan Africa

Key concepts and historical experiences that continue to impact business operations/business cultures today: wealth in people vs. wealth in land, patron-client relations, middlemen entrepreneurs of the Slave Trade era, colonial extractive industries/governance and origins of corruption)

C. Comparing Histories, Technologies, and Laws: The Early Oil Age in the U.S. and Abroad (U.S., Europe, and Africa)

Film to view before class:

-Yergin *The Prize* (film version) "Our Plan" (on Rockefeller era)

D. WWII and its Aftermath; Restructuring the Global Oil Industry (1940s-1960s)

1. Fundamental Shifts in the Middle East 1940s and 1950s
2. The Origins of OPEC 50s and 60s
3. Majors vs. Independents around the Globe (60s)
 - Mattei in Africa/Nigerian Civil War
 - Bargaining models (how independents undermined Majors)

Materials and Readings to be pre-assigned

- Yergin's *The Prize* (film): "Power to the Producers" (on Opec/Mattei)
- Klieman, "U.S. Oil Companies, The Nigerian Civil War, and the Origins of Opacity in the Nigerian Oil Industry. *Journal of American History*, July 2013

E. Lectures and Discussions: The 1970s and 1980s: Economic Crises, Petrodollars, and Extreme Debt

1. Diverse Origins of the Crises
2. Case Study of the Boom/Bust Cycle: Nigeria in the 1980s
3. The Turn to Markets as a Solution: Debt, SAPS, and Oil Production in Developing Nations, 1970s-1980s
4. Anti-corruption Measures: Origins and Impacts
 - The Origins of the FCPA and "Watchdog" NGOs
 - Case Study: The FCPA in the 90s: The Khazagate Scandal
 - Case Study: The FCPA in the 2000s – Complexities and Conflicts Regarding Transparency and Disclosures in Angola

F. 1990s-Present Day

1. The African Bonanza /"Third Scramble for Africa"
 - Case Study - Producer Bargaining Powers and their Transformations Over Time
2. Environment and Uprisings in the Niger Delta (Shell, Saro-Wiwa)
3. NGOS Play a New Role: Global Witness, PWYP, Dodd-Frank Act
4. Shifts in Approaches to Corporate Social Responsibility, 1960s-2000s
5. Entrance of Caspian Producers: Impact on Global Supply
6. Natural Gas in Europe: Russia's Leverage over its neighbors
7. Russia, new producers, and the declining leverage of OPEC
8. Impacts of 9/11:
 - a. Middle East: Shia/Sunni Conflicts, impacts on supply
 - b. New Producers in Africa: the Strange Case of Equatorial Guinea
9. Questions about Environmental Impacts: Global Warming and Offshore Drilling

Part 3: Critiques of "The Oil Curse" and Proposed Solutions

Here we introduce students to three substantive critiques RCT, providing examples of how universalist theories, cultural biases, and varied societal attitudes toward the energy industry can challenge RCT's validity while obfuscating important realities that must be acknowledged if sustainable energy projects are to be developed. The goal here is not to deny that negative impacts do occur, but to illustrate just how complex the problem really is. From this point we will move on to present and assess some of the solutions currently proposed for mitigating the Oil Curse, along with the ideas of number of faculty and/or invited industry experts. Upon completing this last section of

the course, students will be primed, open, and ready to move into the more complex and focused types of analyses and problem-solving that will be presented in specialized classes that follow.

A. Critiques

1. The Oil/Violence Link:

-Di John, J. "Oil Abundance and Violent Political Conflict: A Critical Assessment." *Journal of Development Studies*, 43:6, p. 961-986 (August 2007)

2. Whose Notions of Development?/The Role of Consumers?

-Donner, N. "The Myth of the Oil Curse: Exploitation and Diversion in Equatorial Guinea." *Afro-Hispanic Review*, 28:2 (Fall 2009), pgs. 21-42.

3. The "Oil Curse" in the U.S.? A Case Study from North Dakota

B. Discussions/Overviews of Proposed Solutions

1. Lecture and Discussion based on the following articles (with more to be added later):

-Diamond, Larry and Jack Mosbacher. "Petroleum to the People: Africa's Coming Resource Curse and How to Avoid It." *Foreign Affairs*, Sept./Oct. 2013,

-Ross, Michael. Chapter 5 in *"The Oil Curse: How Petroleum Wealth Shapes the Development of Nations"*. Princeton: Princeton University Press, 2012.

-Scherer, A.G. and G. Palazzo, "The New Political Role of Business in a Globalized World: A Review of a New Perspective on CSR and Its Implications for the Firm, Governance, and Democracy." *Journal of Management Studies*, 48:4 June 2011.

-Shaxson, N. Chapter 11 (conclusion) in *Poisoned Wells: The Dirty Politics of African Oil*. Palgrave, 2007. (re: Tax Shelter and Finance Reforms)

-Slack, K. "Mission Impossible? Adopting a CSR based business model for extractive industries in developing countries. *Resources Policy*, 37: 2012, pgs. 179-184.

2. Review of Proposed Actions/Possible Solutions

In final hours together, faculty and students will "recap" ideas that were provided for improving sustainability and benefits to the full array of stakeholders. Here proposed actions and solutions will be discussed in greater detail and depth.

To promote more widespread benefits and sustainability in energy projects undertaken in the developing world, we will review and discuss actions that can be taken in the domains of:

- Agreements
- Legislation
- Fiscal policy
- Local Content Laws
- Civil Society organizations
- Companies and CSR