



REVENUE WATCH

OP-ED: ANTHONY RICHTER & SVETLANA TSALIK

Making Sure the Money Goes Where It's Supposed To

The following opinion piece appeared in the December 4, 2003 issue of the New York Times. Anthony Richter is the director of OSI's Central Eurasia Project (CEP) and Middle East and North Africa Initiatives. Svetlana Tsalik is director of CEP's Revenue Watch program.

America has always lusted after a secure energy supply. Against a background of deteriorating relations with the Arab world, which holds the largest oil reserves, the United States is casting about for new sources of oil in countries like Venezuela, Nigeria, São Tomé and Azerbaijan. With Saddam Hussein gone, Iraq could also become a major supplier.

So intense is the need for oil that the United States often turns a blind eye to problems of governance in those countries—whether the leaders are corrupt, abuse human rights or block any moves toward democracy. This inaction amounts to complicity. It undermines, rather than enhances, American energy security, since repressive regimes are prone to being violently overthrown by people who resent the United States for supporting their oppressors.

It is one of the great paradoxes that countries rich in natural resources tend to have lower growth rates, more debt, worse governance and greater political unrest than their energy-poor neighbors. Vast petroleum profits without oversight allow corruption to flourish. Nigeria, for instance, has earned more than \$250 billion for its oil in the last 25 years, yet remains mired in poverty. In Turkmenistan, gas revenues are deposited into a foreign account controlled by the president for life, Saparmurat Niyazov, international financial officials say. These kinds of governments do not make for stable energy suppliers.

As the United States seeks security by diversifying energy suppliers, it risks new vulnerability. Recent events in Azerbaijan and Kazakhstan, identified as important new suppliers by Vice President Dick Cheney's energy task force, highlight some of these risks. In October, President Heydar Aliyev of Azerbaijan handed over power to his son, Ilham, after the son prevailed in elections widely seen as rigged and marred by widespread beatings and arrests of opposition figures. As for Kazakhstan, American prosecutors say they are investigating the role of ExxonMobil in a scheme in which an American oil consultant is accused of paying \$78 million in bribes to senior Kazakh officials. There is a similar investigation involving Azerbaijan.

It's easy to see how the Caspian Basin could follow the path of so many oil-producing countries in the Middle East and Africa, where a corrupt elite, not the population, benefits from oil resources. But Azerbaijan and Kazakhstan, where the oil wealth is just beginning to flow, and Iraq, where an oil regime is not yet established, could still get it right.

Azerbaijan and Kazakhstan have taken a positive first step by establishing oil funds, in which a portion of oil revenues are set aside for national development projects. Oil funds, however, succeed only with a system of checks and balances, coupled with transparency of information about oil revenues. Oil funds in Venezuela and in the Middle East are controlled by presidents or monarchs and have dwindled because of corruption and mismanagement.

Iraq's oil fund—called the Development Fund for Iraq—also has room for improvement. Established by the Americans and their allies, and endorsed by the United Nations in May, the fund has disbursed \$1.5 billion. There is little information on where this money went, and American management of the fund has bred mistrust among Iraqis as well as America's allies.

In Iraq, as elsewhere, it is now up to the people to ensure that such oil funds are run transparently. Citizens' advisory councils modeled on those in Alaska's Prince William Sound might be a good forum to address the economic and environmental impact of petroleum development. Freedom of information laws should be passed and people trained how to use them. Any contracts about producing oil and gas should be disclosed. To demonstrate their commitment to fiscal transparency, oil funds should report information as recommended by the Extractive Industries Transparency Initiative, a British proposal whose tenets were endorsed by the Group of 8 countries earlier this year. The initiative aims to increase the transparency of payments made by energy companies to host governments by standardizing the templates used to report such payments.

The private sector must also do its part. The Publish What You Pay Campaign, which is sponsored in part by the Open Society Institute, has called on oil, gas and mining companies to reveal the extent of their payments to resource-rich countries. If this initiative is adopted widely, civic groups can track the allocation of their national income.

Adding more unstable regimes to the pool of oil suppliers will not give the United States energy security. It cannot be guaranteed by regimes that are on the verge of being toppled or that rely on repression to stay in power. American energy security can come only through partnerships with legitimate, elected governments that are able to translate oil wealth into better lives for their citizens.

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Iraq Revenue Watch monitors Iraq's oil industry to ensure that it is managed with the highest standards of transparency and that the benefits of national oil wealth flow to the people of Iraq. Iraq Revenue Watch complements existing Open Society Institute initiatives that monitor revenues produced by the extractive industries.

In many parts of the world, the lack of proper stewardship over oil resources has resulted in corruption, the continued impoverishment of populations, and abuses of political power. By prompting governments to tackle these problems early, the Open Society Institute hopes to help Iraq avoid this plight.

The Open Society Institute currently supports a recently launched initiative, Caspian Revenue Watch, which monitors the development of oil production in the Caspian basin. The goal is to promote transparency, accountability, and public oversight in the management of oil and natural gas revenues.

Iraq faces even greater challenges than the Caspian region. If Iraq is to become an open, democratic society it will need to develop transparent accountable institutions for ensuring honest management of oil revenues.

There is an urgent need for Iraq Revenue Watch given the current occupied status of the country. The Coalition Provisional Authority and the Iraqi Governing Council should establish rules that ensure complete transparency regarding Iraqi oil revenues. So doing will foster a stable, democratic Iraq, and will protect the Coalition Provisional Authority from charges of misappropriation during this period of trusteeship over Iraq's reconstruction.

The **Open Society Institute**, a private operating and grantmaking foundation based in New York City, implements a range of initiatives throughout the world to promote open society by shaping government policy and supporting education, media, public health, and human and women's rights, as well as social, legal, and economic reform.

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