

# ***Petroleum, Governance, and Development Beyond the Caspian***

*Caspian Oil Windfalls: Who will Benefit?*

Conference Hosted by  
The Open Society Institute and  
The Center for Strategic and International Studies

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**Chair:**

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**Panel:**

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**SIMON TAYLOR** - Global Witness

**TERRY KARL** - Stanford University

**Mr. Thomas Palley:** Good afternoon, everyone. My name is Tom Palley. I'm the Director of the Globalization Reform Project with the Open Society Institute. We have a fine panel here with four speakers. I appreciate all of you staying here until the end of the afternoon, and now I think sort of the purpose of this panel is to wrap up and close some of the bigger questions that we've been talking about and I think extend the argument beyond the Caspian.

I do want to just make a few comments about the Publish What You Pay Campaign which George Soros alluded to at lunch. I do want people to realize that this is a campaign that has over 100 groups signing up to it. It includes groups concerned with democracy, political rights, and economic development. It includes faith-based groups, and it includes groups from both the north and the south and in a sense is an enormous range of civil society that has spoken in favor of Publish What You Pay.

For those who don't know, the goal is to legally require companies in extractive industries to publish what they pay governments. It's our belief at Open Society that it is one of those few instances, one of those rare instances in which there is a win/win outcome for everyone. We know that countries will benefit because publication will increase transparency, it will help reduce corruption, and will promote growth and political stability. Companies will benefit because growth and political stability is good for business. And investors will benefit because what's good for business is good for investors.

The Publish What You Pay campaign has been working closely and participating in the UK government's Extractive Industry Transparency Initiative. That's a voluntary compact between companies and countries that pushes both Publish What You Pay and Publish What You Earn. And I do want to say that the UK government has done us all a tremendous service in pulling together this multilateral forum because it's that sort of forum that can solve the collective action problems that sometimes underlie these issues and I think it behooves all the oil companies, the U.S. oil companies particularly, to show their bonafides on this issue by signing up for the principles of the Extractive Industry Initiative and engaging creatively and cooperatively with it.

With that I'm going to turn us over to our first speaker. I'm not going to do any introductions here. You have bios in the packet. They run to a couple of pages so that would take up most of the session going through it.

Terry Karl will be the first speaker. She's a William Gretchen Campbell University Fellow and Professor of Political Science at Stanford University. Followed thereafter by Arvind Ganesan who is the Business and Human Rights Director at Human Rights Watch. Thereafter Robert Ebel, Director of the Energy Program at CSIS. And finally, wrap up with Simon Taylor.

I have here we have approximately an hour and ten minutes, so if people could restrict themselves to somewhere between 10 and 15 minutes and then leaving about 20 minutes for questioning.

Terry, over to you.

**Dr. Terry Karl:** Thank you.

This week has been a very moving one to me in a certain way because I've been to three conferences this week on the extractive industries.

I want to go back to the year 1975 when as a student I went to interview the founder of OPEC, a man named Juan Pablo Peres Alfonso in Caracas, Venezuela. Don Juan Pablo said to me, "Why are you studying OPEC? It's so boring." I said, "Don Pablo, what would you have me study?" He said, "Study what oil is doing to us in Venezuela." I said, "What do you mean?" This was during the boom of 1974, right? Money was pouring into Venezuela. In fact the phrase was "Venezuela Salita" was what they called themselves, the Venezuelan Saudis.

I said, "What do you mean?" He said, "Oil," in his words, "es el excremento el diablo." "It's the excrement of the devil." That, by the way, is the most quoted line I've written in my life. It's gone everywhere since then because I came back and quoted him. That was the origin of something that I have called the Paradox of Plenty in my book.

The reason I'm saying that this has been a moving moment is that when we first started talking about this in the 1980s, nobody believed or would even hear that there could in fact be perverse impacts from petroleum dependence. It just wasn't in the cards.

The argument that I make is not that oil is the excrement of the devil, it is not that oil is a curse, it is not that oil is anything except a viscous black material. It is the political and institutional structures in which oil is inserted that makes the difference of how oil revenues are allocated, how they are raised, how they are utilized, and whether or not they will do good or have unfortunate consequences.

This is an extremely important for me point because I can't seem to get this through clearly enough. The resource curse doesn't exist in its own. The Dutch Disease doesn't exist in its own. None of these things exist unless people make decisions to set them off which is why the political and institutional structure matters so much. None of these things are economic determinist mechanisms that are going to happen. They happen because certain political institutional structures tell you that it is much better to spend and spend fast, or to rob and rob fast, or to allocate well and allocate fast. What really matters is the institutional structures through which oil rents flow.

What I have found is that when political and institutional structures are very weak and undemocratic, when they lack certain kinds of capabilities, then you will find perverse outcomes and those perverse outcomes are the following. You will get economic deterioration. What I mean by that is that all of the evidence we have, and I'm summarizing all oil exporters, all countries that are dependent on petroleum, with the exception of one or two very tiny little Arab emirates, what you see is you get very perverse poverty outcomes. In other words, poverty gets worse. That most oil exporters -- the problem is very dramatic. That most oil exporters see dramatic declines over time in their per capita income, some of them back 40 years. So if you look at Venezuela today its per capita income is the per capita income of what it was in the 1960s. These are dramatic backward movements in a development process. Again, something that has nothing to do with oil, which is just a viscous liquid, right? Or not liquid as the case may be. But has to do with the political and institutional structures. That's the entire point of all of this.

So whether you are an [ooandigenous] person who believes that oil is the blood of the earth or you're the founder of OPEC who says that it's the excrement of the devil, the real issue is the structures through which oil revenues move that set off the Dutch Disease, etc. So I want to just say that over and over again. There is no Dutch Disease. There is no resource curse unless people make the decisions to make those things happen through political and institutional structures. So that's really the first thing I wanted to say.

The other thing, just to sum up my own research in this, having looked at it over and over again in country after country and realizing, and I want to pick up on something that Willy Olsen

said in the last panel, how overwhelming the [Rantillet] mentality is to spend, spend quickly; to capture oil rents; and to make the correct political connections so that you can in fact capture the oil rents for yourself as quickly as possible. More dramatic in the countries, well, dramatic in all of the countries we're looking at.

That is such an overriding, overwhelming phenomena -- the rent-seeking phenomena -- that the only countries that have been able to use oil rents well are those that have strong meritorious civil services which is something we never talk about. Those that have very different tax structures than the countries we're looking at as oil exporters in general including, by the way, in the Caspian Basin, and finally those that are democratic and have what I would call informed citizen participation in the allocation of their resource revenues.

Let me say just one or two other things very quickly. When I look at all the work that I have done on oil exporting countries I think that I under-estimated the negative impact that would happen if the incentive structures around these countries are not changed. In that sense what I didn't take fully into account because I did say these countries were going to fall apart politically, I said there was going to be political decay, all that kind of stuff, I did not understand how much oil is a magnet for war and how much the kind of political decay that would go about was not going to be a kind of deterioration in the quality of democracy in Venezuela or a slow deterioration of certain authoritarian regimes, but was in fact going to be the coming apart in many places of the very fabric of society and the rise of violence associated in part with the exploitation of the resource and the misallocation of revenue. So the big thing I would want to say here is that this project is tremendously important because if oil isn't handled well you will have a rise in violence, you will have a rise in war and there will be an absolute deterioration in the general standard of living of people in the Caspian and that is what we know already.

The last thing I would like to say is so what do you do? I think the other issue, and again this is summing up a lot of work in lots of different regions of the world now, is that you must change the incentive structure. That's the only way to make sure that resources are allocated differently. We've had certain discussions on Publish What You Pay, I don't want to repeat those.

I want to just signal out two things that haven't been mentioned and I just want to bring them to your attention in terms of changing the incentive structure. This conference is focused very much on how governments can allocate revenues better to avoid these very negative outcomes, and we've also had some discussion, as I said, about companies and transparency, etc.

What I would like to stress are two points. First of all, the role of international financial institutions and development agencies is absolutely critical in this because the reason oil exporters get in such a terrible bind and collapse in the way that they eventually do is not just the problem of the oil rents, but the fact that international banks actually create incentives to keep these countries from correcting themselves early on in the game. That banks lend to oil-exporting countries because they have oil as collateral. They mortgage the future of oil exporting countries

by using that oil as collateral and governments spend to keep a rent-seeking cycle going.

So banks become part of the perverse international incentives that keep the oil problem going.

Just a fast explanation of this, which is that I sat once in an IMF negotiation with one oil-exporting country and the IMF officials were berating the government for borrowing too much and too fast and too irresponsibly. They said, you were like drunken sailors in a bar. The Finance Minister of this country turned around and said, well if we were drunken sailors, you banks were drunken bartenders.

That's part of the perverse cycle which means that governments never face the need to correct themselves early enough in the game, and it then exacerbates the problems down the road.

Just the last thing I want to say which is about civil society. The one group that has the absolute interest in making sure that you don't get war, economic deterioration, perverse poverty outcomes, environmental destruction, yada, yada, yada, is organized groups in civil society. What we know about civil society organizations is they can only function, number one, if they're organized; and number two, if they're informed.

And the thing that I have been most impressed with, and I just got back from Chad, Cameroon, and I was looking at some work in that area, and I want to just show something that is actually, I believe, supported by Catholic Relief Services. This is called the Pipeline Journal.

This is a newspaper that is put out by civil society organizations in Africa in areas where a lot of people can't even access information or even some people cannot read. That doesn't mean they can read the paper, but the information flows because of the way it's presented and it means that people who don't have high literacy rates or who don't have the same kind of education of people in this room but have a greater stake in what happens, are able then to access information.

They're also, and I want to just give another example that might be useful in the Caspian is that what they have done is they have trained villagers in Chad and in Cameroon to actually fill out extensive questionnaires -- whether they can write or not because people go around and fill them out -- about what is happening in their environment, what is happening to their drinking water, what is happening, where are their spills? Where are their expectations raised which were not fulfilled? Who told you there was going to be a school built here? Where did this information come from? Because that means that getting this information out is the beginning of a creation of a different type of trust that hopefully will avoid the kind of situation that we see in the Delta.

Thank you.

[Applause]

**Mr. Arvind Ganesan:** Thank you.

First I'd like to thank the CSIS and Caspian Revenue Watch for giving us all the opportunity to speak about this important issue today. I'm going to move further afield and try to elaborate on some of the comments made earlier by Mr. Soros about Iraq and focus on some of the issues and lessons learned from both the Caspian and elsewhere that could be applied to current-day Iraq.

Iraq in many ways has been like many oil producers around the world but it also presents some challenges that are very different than other oil-producing countries.

First and foremost, the oil industry has been largely managed by the UN since about 1995 to '96, and the use of revenue was largely prescribed. Prior to the outbreak of the most recent war, Iraq's licit oil revenue was allocated in the following way: 72 percent of Iraqi oil export proceeds funded the humanitarian Oil For Food program. Of this amount, 59 percent was designated for the contracting of supplies and equipment by the government for 15 central and southern governments. The remaining 13 percent was designated for three northern governments and that was almost exclusively managed by the UN. Now the outstanding 28 percent of the funds were designated as follows: 25 percent for the compensation fund used to compensate the claimants from the 1991 Gulf War; 2.2 percent for administrative costs of the UN for administering the Oil For Food program; and .8 percent for weapons inspections. That's a pretty complicated and thorough system. But even with these controls the previous government still held tight control on power, committed widespread abuses, and still managed to manipulate a relatively rigid system to find ways to profit personally.

For example, from 1997 to 2001 the General Accounting Office estimated that the Hussein regime earned \$4.3 billion from oil smuggling through Jordan, Syria, Turkey and the Persian Gulf. They earned another \$2.3 billion from illegal surcharges on oil. In total the government took about \$6.6 billion in illicit earnings from 1997 to 2001 or about \$1.3 billion a year.

In 2002 the estimate was that Iraq was smuggling about 458,000 barrels per day or about 23 percent of its total production.

The second issue is the widespread need for humanitarian assistance, particularly in a post-conflict phase. There's clearly a need for major reconstruction, rehabilitation and even investment in the country, and prior to the war some 60 percent of Iraqi families relied on the Oil For Food program as their means of sole subsistence.

The oil sector already is severely degraded and functioning far below its potential. It's

only producing a few hundred thousand barrels of oil per day right now which is nowhere near its potential since it has about \$112 billion barrels of oil in the ground.

Prior to the outbreak of war the UN reported that Iraq was producing about 1.8 million barrels of oil a day which was still below its peak of 2.7 million barrels in 2000. In 2002, the most recent fully calendar year for which we can assess the figures, Iraq produced about two billion barrels a day worth about \$13.3 billion. By comparison, Saudi Arabia and Iran, countries with the first and third largest proven reserves exported about \$48 to \$50 billion, and about \$19 to \$20 billion respectively in 2002.

If the total costs of Iraqi reconstruction are estimated in the tens to hundreds of billions of dollars as some estimates point out, and if 2002 oil revenue is seen as an achievable goal in the near term, there's still not enough oil money to finance humanitarian assistance, reconstruction, and nationbuilding. And given these numerous and competing claims in Iraq's oil, Human Rights Watch believes that acute humanitarian needs must be fully funded before oil revenue is spent on other goods or services.

Finally, and most importantly perhaps, is that Iraq is in a position unlike any other oil producer. It is under the control of occupying powers. Typically we think of an opaque and unaccountable dictator or elite as controlling the resources of a resource-rich state. Regardless of their composition or character, they are sovereign authorities. However in Iraq it's a third party in charge. While the U.S., UK and other coalition members are vastly different from and cannot be compared to the previous Iraqi regime, they still are not the elected leaders of the Iraqi people. Because of this, the management of the oil industry is going to be extremely tricky and it's imperative that it's done transparently and allows the Iraqi public in particular to exercise oversight over the use of its revenue.

As an occupying power Human Right Watch believes that the coalition forces have the duties and responsibilities enumerated in the 1910 Hague Convention respecting the laws and customs of war on land. The fourth Geneva Convention of 1949 and the 1954 Hague Convention for the protection of cultural property in the event of armed conflict as well as other customary international law.

What this means in practice is that immovable government properties such as public buildings, real estates and assets, cannot be appropriated but they can be used and administered by the occupying powers so long as the assets are maintained. Any loss of value for their use must be compensated.

We think that oil is an immovable object and cannot be removed for the benefit of the occupying power. Instead the occupying power has an obligation to properly maintain oil wells and infrastructure and use those resources on behalf of the country itself. It means that the sale of oil has to be used to benefit Iraqis. Since the history of oil is intertwined with nationalism, it is

important that transparency be a cornerstone of oil revenue management. Otherwise it could also generate a considerable amount of hostility towards the coalition in general and the U.S. in particular.

But like we've heard numerous times today, it's also imperative to have mechanisms and institutions that manage the country's oil resources transparently and responsibly on behalf of the Iraq public. Instead of using resources for the benefit of an opaque and unaccountable elite that could emerge once coalition forces leave. This would also help to prevent human rights violations that could occur if public dissatisfaction over the unaccountable use of resources leads to civil unrest or by an unaccountable elite's efforts to suppress public criticism. Such a scenario would clearly undermine the stability that's essential for a post-war Iraq.

For these and other reasons we think the following guidelines should apply to Iraq's oil management.

All sources of revenue and the structure of those contracts should be made public.

The current amount of revenue and its expenditures should be audited and made public.

Ideally, Iraqi institutions should be able to manage the oil industry such as the Iraq National Oil Company. But in the event that an independent INOC is unable to manage the industry, an agreed-upon third party should have the authority to tender bids to international companies for the rehabilitation or reconstruction of Iraqi oil infrastructure -- with full consultation of Iraqis until a government can assume those responsibilities. But regardless of who manages the tendering and bidding process the bids should be evaluated to ensure that they're comparable to similar contracts in other countries. The bidding and tendering process should also be open and the results publicly available.

One of the most contentious issues we think is going to be the tendering and bidding of new contracts because there are going to lock in a government for 10, 15, 20, 30 years. And what we think should happen is that until there's a sovereign authority in place, those agreements should be suspended, ideally. But if that can't be done and if that would impose an unacceptable delay on revenue flows to Iraq, then whichever entity is temporarily responsible for the decisions should endeavor to choose the type of contract which INOC would have been expected to choose based on historical experience in Iraq and comparable countries. In other words, the equity towards the country should outweigh any other interests.

To ensure that it's comparable to other similar agreements throughout the world it should be made public. All current and future revenues in an Iraqi system should be audited and made public as well, and there should be at least an annual review of the government's performance under the IMF Code of Good Practices for Fiscal Transparency.

Additionally, particularly in Iraq, we think that adopting the principles in the Ethical Extractive Industries Transparency Initiative should be imperative. Companies should publish what they pay in a country where potentially their home governments are actually awarding the contracting.

Looking further down the road it may be useful to set up an oil fund along the lines of Norway, but clearly not with the pitfalls of the Azerian/Kazakh funds. But that goal is really contingent on the vast resources that will be needed for reconstruction and development and whether it's possible to divert resources for a fund at any particular point in time.

All of this is speculative and preliminary, but there is actually evidence right now that we can assess whether or not the principles of transparency are being met. Even though it's still early in the post-conflict process and the Oil For Food program is still in force.

One example, for example, which is troubling, is the U.S. Army Corps of Engineers award to Kellogg, Brown & Root, the subsidiary of Haliburton, ostensibly to extinguish oil well fires. But apparently the contract which was awarded without competitive bidding authorizes KBR to operate oil facilities and distribute oil and is worth at least \$76.7 million. It is only supposed to last until about August, but then an open tendering process is supposed to take place. Except the details of this contract aren't public. In fact the only information that's come out has come out because Representative Henry Waxman has had a series of letters exchanged with the Army Corps of Engineers that the media has picked up on.

Initially the operation and the distribution provisions were not made public and it was only billed as a firefighting contract. At a minimum, the contract should be public since it's unacceptable that a contract to manage and distribute another country's oil is not in the public domain, especially when it's paid for with public funds -- U.S. public funds in this case.

A private company is managing the public resources of a third country when its former CEO is Vice President of the home country who is the occupying power in the third country, while paying for all of this with public funds. It's difficult to argue for transparency when such opaque agreements are in place.

An upcoming issue is the draft UN Security Council Resolution to lift sanctions, define the roles of the occupying powers, appoint a UN Special Representative, and to manage oil. From the standpoint of transparent and accountable oil revenue management, the draft has some promising elements but is too ambiguous in other places. The draft resolution calls for the establishment of an Iraqi assistance fund that will be housed in Iraq's central bank and will be overseen by the UN, World Bank, and IMF. All of the proceeds in the existing UN escrow account are supposed to be transferred to this fund as well. The fund is supposed to be administered by the U.S. and UK in consultation with an Iraqi Interim Authority until a permanent government can assume these responsibilities. The fund is supposed to be used for

humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the cost of indigenous civilian administration as well as for any other purposes benefiting the people of Iraq.

In addition, an unspecified percentage of revenue will be deposited and used for compensation claims arising out of the '91 Gulf War.

Now the positive provision in the draft resolution is that the UN, World Bank and IMF will have the authority to conduct independent audits of all export sales of petroleum, petroleum products and natural gas and the assistance fund itself. However, auditing the fund could just mean that the fund's management could be subject to an audit and doesn't specify whether expenditures are going to be part of that audit. Expenditures should be audited.

Another ambiguity is that the resolution doesn't specify the timing and rate of audits. A single audit at the outset would not be very helpful and a single audit at the end would just be a meaningless formality. The only way to ensure transparency is to audit incoming revenues, the assistance fund itself, and outgoing expenditures at least on a quarterly basis, and that those audits be public, especially in Iraq.

The other issue is that the draft resolution doesn't cover the allocation of contracts using these funds or the role of companies since this authority apparently belongs to the U.S., UK, and an interim Iraqi authority. It is also not clear whether the open tendering process that the Army Corps of Engineers has planned to replace the KBR contract will be paid for out of these funds since they would seem to have overlapping purposes. If the resolution as drafted goes through, it will begin about four months from the time it's adopted. That would put it, say it went through this week, that would put it around September. The Kellogg, Brown & Root contract expires in August and the Army Corps of Engineers expects to open the tendering process at that time. So it's entirely conceivable what the Army Corps of Engineers opening a bid for is a contract that will ultimately be paid for out of this Iraqi assistance fund since they'll have overlapping purposes. That seems to be quite problematic in the current environment.

Overall it's still too early to tell what the post-conflict environment is going to look like, or what revenue management's going to look like, but if the UN Resolution and the occupying powers hope to promote the maximum amount of transparency possible, then it's imperative for authorities managing a post-conflict Iraq to focus on transparent and accountable management of revenues. The measures adopted will likely have a decisive impact on governance as a whole, public control over the use of public resources, and ultimately human rights practices. And on the other hand, if measures to achieve transparency fail, then it's very difficult to see how democracy, human rights and the rules of law could be respected in a post-conflict Iraq which would be particularly troubling since these were some of the objectives that were used for the war itself.

Thank you.

[Applause]

**Mr. Robert Ebel:** Let me just add a few comments to what the previous speaker had to say about Iraq.

Before the Malaysia intervention in Iraq came about the question most often directed my way was, particularly from Europe, is it's really about oil, isn't it? I would say no, it's not really about oil, it's about replacing the regime of Saddam Hussein. The morning after, it's really about oil.

We're now at the morning after and the question of the day is, reconstruction contracts, to be followed by how is Iraq going to manage its oil income?

Are we getting ahead of ourselves? Let me give you a little timeline about Iraq as I see it.

Iraq oil production hit its peak in 1979 at 3.5 million barrels of oil a day, then came the war with Iran. It fell sharply. Then it began to grow again, only to be interrupted by the invasion of Kuwait and it fell very dramatically down to half a million barrels a day and stayed there until the Oil For Food program came about in 1996. So at the time of the military intervention I would guess the producing capacity in Iraq was about 2.6 million barrels of oil a day.

We need to get experts into Iraq to assess the sectors of the oil economy -- the pipelines, the refineries, the oil fields, the oil wells themselves, the storage tanks, and the distribution system -- before we have a good feeling of what it's going to take in terms of time and money to get that industry back up on its feet.

So let's presume then that we take the steps, we get it back to 2.6 million barrels of oil a day. The next step is, what will it take to get it to the 3.2 to 3.5 million barrels per day, the last "normal" year for Iraq?

Five billion dollars, \$6 billion, one and a half to two years if not more, depending upon what this assessment by experts finds out.

Then the Iraqis think now we need from that point to get to six million barrels of oil a day as quickly as possible because we need the revenue. Does that mean they're rushing headlong into the Dutch Disease that we've been warning them about. How can they avoid it?

I don't see much emphasis on developing an infrastructure that will allow that country to have this diversification sufficient to protect itself when the oil price falls, and the oil price will fall. We all know that. It will fall. It's falling right now. How far will it fall? We don't know. How successful will OPEC be in keeping the price within the band of \$22 to \$28? We don't know.

Over the lunch break I was asked what I thought about the UN Resolution put forward by the U.S., the UK and Spain? I said well my initial impression after my first reading of it was that the Administration understands what it can and cannot do under the Geneva Convention. That it can produce the oil, it can sell the oil, it can use the income inside Iraq for the benefit of the Iraqi people, it can use the income to pay for the cost of occupation but not the cost of the war. It can expand production from individual wells, but it can't drill any new wells. And when you have an authority ready to take over in Iraq, it has to be able to turn the oil sector over to it in good operating condition.

The question is will this resolution go forward at the Security Council? I would hope so, if we can work out deals with France and with Russia who's interests are commercially driven.

We really haven't given any attention to the second largest producer and exporter in the world, have we? That's Russia. Russia is rushing headlong into the danger of becoming overly dependent on oil income. There are senior officials within the government that fully recognize that, but how to stop it? One has said he understands that in the short term high prices are good for the Russian economy, but bad for the Russian economy in the long term. But once you get hooked on the oil income, how do you get off? You have a country here where in the first quarter of this year production rose by almost 800,000 barrels of oil a day compared to the first quarter of 2002, and given the constant or relatively unchanging domestic demand that means most of the incremental barrel is going to end up in the marketplace.

Russia or the Soviet Union in the past sold every barrel of oil they could get their hands on regardless of the price and I would think that Russia can be expected to do the same thing as long as those exports are not limited by a shortage of pipeline capacity.

So we should really start worrying about Russia and its dependence on oil exports and natural gas exports as well, but that seems to be down the list on the people's things to worry about.

The list is rather long these days, but we need to find room to worry about Russia. Thank you very much.

**Mr. Simon Taylor:** Hi. I'd also like to say thanks to the organizers and I think because I'm not an expert on oil fund at all but have followed the last few years a discussion about their benefit and so on, but I'd like to go back a little bit to the kind of more general issue of accountability of governments and for that matter, and this doesn't apply to all companies but it does to some, the issue of the accountability of companies themselves and really perhaps expand a little bit on Publish What You Pay, and for that matter the EITI process and where it's got to. There was a meeting people referred to earlier on today at the same time in London and various developments have come out of that which I'd like to raise quickly.

For those of you who don't know Global Witness, we're a London based NGO and we look at the role of resources in conflict, in corruption, and we're sort of constantly redefining exactly what we are but basically the role of resources in driving countries into instability, either directly in conflict or the affect that these resources have in countries coming out of conflict.

We have an interest in issues related to illegal logging. We launched the Conflict Diamond issue which has led to the Kimberly Process which hopefully will be coming to some kind of fruition in the not too distant future regarding excluding diamonds from funding combatants.

The area I've spent a lot of time in the last three years working has, however, been revenue transparency and the origins of that come from the work we conducted in Angola looking at the way in which the revenue from oil was used in the privatization of the government side of the recently-ended conflict in Angola.

On one side, I mentioned diamonds before, you had Unita, the guerrilla organization that was seeking to take control in Angola being funded by diamonds; and on the other side you had oil funding, the government. I'm not going to go into much detail, but suffice it to say the process on the government side, particularly in the early to mid, and into the later '90s until in fact pretty much the current day, we moved through a process whereby initial efforts of shall we say self defense by the legitimate government moved into a process of frankly state looting, and the scale became so enormous whereby through overpriced invoicing and various other mechanisms revenue was removed in a completely opaque process.

In the Angolan context we're talking in excess of a billion dollars a year disappearing every year for the last six years. The IMF I think put an estimate at something like \$1.8 billion in the year 2000 that they couldn't account for. So you can imagine the impact of such revenue simply disappearing.

The reason I wanted to raise that point, at least to that level of information was to say that when you have issues to do with accountability to do with revenue coming in from natural resources, you have some governments where there are efforts to move things forward, where there is an issue of lack of capacity, there's a learning curve in different fields, different departments, lack of capacity basically is a problem.

There are also other governments where there may be lack of capacity in certain institutions to manage things but there are also elites who frankly run the countries and their resources as their personal fiefdom. We've see that discussion alluded to by various speakers today. But essentially mechanisms of quite some sophisticated which often involve extraterritorial actors, people in various Mafia organizations and so on, create international structures to loot the proceeds. That's what happened in Angola and we don't think Angola is

unique. It seems to happen a lot in resource-rich countries where elites who wish to maintain power go down quite extraordinary processes to continue to maintain power and basically to hang onto those assets. And the assets and the potential product is lost to the country. I think this is a serious component of why you have a resource curse, coming back to what Terry was talking about, in some countries where you have these elites that simply look out for themselves and treat those assets as their own product.

That's really the main reason why we launched the so-called Publish What You Pay campaign last year with George Soros and a number of other NGOs. Tom referred to the fact that that grouping is now significantly expanded. We're now a group of over 100 NGOs in the north and the south.

Basically the approach we took when we launched the campaign was to call for a regulated framework to require companies to declare their payments in each of the countries of operation. What we were basically trying to do was to de-Angolanize the issue because focusing on one country is very difficult, something we recognized for quite some time. Also, frankly, why go to this effort in one country and then resume the process in half a dozen other ones and that's just the beginning and that's just oil.

So what we were looking to do with Publish What You Pay was to basically get the key listing authorities, the authorities that determine how stock markets function to require companies listed on the stock markets to declare all the legitimate payments that they make in every country of operation.

I mentioned before that for us this is an issue of government and company accountability. I won't dwell so much on the company accountability, but the reason it's an issue of company accountability as well relates, I think some of you can see recent issues raised through the Giffin Trial, for example. A lot of the blame seems to be put down on one individual in Mobile, but frankly was the compliance department in Mobile actually functioning at all or were they part of the problem? I ask that because frankly it's hard to believe they were in the office at all while all that stuff was going on.

There are issues, it seems to me, about the governance of companies and that's an issue of straightforward corruption, it seems. If you go to Angola, we know of subsidiaries of companies operating in Angola that didn't exist on the books and that were shipping arms out of Israel. So what the hell is an oil company shipping arms to Angola for?

That, by the way I should stress, is not a blanket condemnation. We know lots of other companies have not been doing this kind of stuff at all.

What we're trying to look at is trying to create a system, if you like, where those companies that are not doing that kind of thing really shouldn't have a problem with being able to

declare the payments they make but they need a system behind them to require them to do it because it gives them the protection. To have a legal requirement giving them the protection would also be beneficial because it would require the companies that have been part of the problem, and for which from my point of view at least in certain circumstances the jury is still out as to how much they really have changed, but it would require them to do the same thing. And in one fell swoop you would level the playing field.

Now one of the objections that's been raised, particularly on this side of the Atlantic about the approach of Publish What You Pay is that we talked about listing as a route, that it only dealt with listed companies. The point was raised, what about the non-listed companies? What about the state actors? And I have to say that was the intention under the Publish What You Pay umbrella was always to include mechanisms to address those problems. The reason we didn't is because shortly after we launched the Publish What You Pay campaign Prime Minister Blair made a statement at the WSSD meeting launching the so-called EITI process, the Extractive Industry Transparency Initiative. Because that's a process involving governments and companies, NGOs are also at the table, the Publish What You Pay coalition is represented and others not directly associated with the Publish What You Pay coalition, we felt that that was the appropriate fora to I suppose bring in the expertise of this multitude of different actors to work out how we could get a situation in place where we could create creative additional mandatory mechanisms to address this problem of what to do about the state actors and what to do about the non-listed companies.

I should say from our point of view straight out, if you look at a place like Angola there's absolutely no point in addressing the listed companies if you don't address the state oil company. We've always felt that because it's a significant component of the income. The state oil company was also known as part of the Bermuda Triangle for good reason, because the money just simply disappeared and it was the conduit. Frankly, I don't believe it has particularly changed yet, but it was the conduit whereby money simply disappeared in and went off in the direction of the presidency and nobody had a clue where it's going. The state oil company is also the vehicle used to raise billions of dollars in oil-backed loans which again brings us back to the issue of the private banks that have been involved in this process as well. Totally unaccountable, massive sums of money where nobody has any information about what's coming in. So banks are another key component.

So what we want the EITI process to do is to create mandatory mechanisms that would enable, for want of a better way of putting it, the listed companies to have to declare the payments in a way whereby all of them had to do it so nobody's left out, the playing field is leveled, nobody faces repercussions because they have to do it. But also other mechanisms that would bring in, for example, export credit agencies, the IFI's, private banks both in terms of oil-backed loans and also in terms of how they operate in terms of moving funds out of countries. These monies go somewhere. We've found monies disappearing into the British Virgin Islands. How did they get there? They went through London, they went through Switzerland, they went

through other places.

So what we're basically looking for out of EITI is a cocktail of mechanisms that would basically level the playing field and require everyone to do it.

I think where we've got to, though, isn't quite that far and my concern about EITI, even though I do think it's fantastic that we have it. We have now serious political buy-in which I have to applaud the UK government for. There is a problem there. On the one hand I don't think everyone's singing from the same hymn sheet, and some of that came out of the meeting today.

I just spoke to my colleague who was at the meeting and it seems the U.S. far from doing what was being advocated a few weeks ago at a meeting here in Washington, namely to sort of get off the fence and really engage and start throwing its weight around really in a constructive way to make this process work, seems to have chucked a wrecking ball in the middle and that seems to take the form of the fact that the U.S. seems unwilling, for whatever reason I can't understand, to sign up to the principles described in the EITI process. Frankly, if the U.S. can sign up to the voluntary principles on human rights, what problem do they have with signing up to principles on transparency? I think that doesn't auger well for what comes out of Iraq. We've just been talking about Iraq and how that should be transparent and so on.

So I'm not trying to make this too negative, but what we've seen in the sort of behind-the-scenes meetings is a number of players who have spent an awful lot of time raising objections, describing problems, and not really coming very much to the table with solutions. I have to say I'm pretty disappointed. I think what is it that the U.S. is concerned about?

One of the points that was raised to me was oh well, we don't like mandatory mechanisms because it would require companies to do this. If you have a smaller company that say operates in one state and the state doesn't like it and the company gets kicked out, then that's a real problem. Obviously it's a real problem, but that's not what we're about. In this process or the Publish What You Pay process either.

We don't want to create conditions where companies face retribution. That argument is precisely why we need mandatory mechanisms to make the companies do it. As long as it applies to everybody, who is going to get thrown out in such a circumstance? As soon as you go down a voluntary mechanism, that's precisely why everyone is going to volunteer not to do it. That's precisely why it won't work in the difficult countries. By those I include most of the Gulf of Guinea and certainly some of the areas we've been talking about today.

On a positive note, I have been told that Azerbaijan looks like it's going to be one of the first sign-up countries, and I suppose a challenge and it's unfortunate our friend from the Central Bank is gone, would be why doesn't Kazakhstan join them. But he's not here to hear that. Ghana appears to be in the first wave as well. There seems to be some doubt about others that we

thought were going to come who no longer appear to be coming and I wonder to what extent the UK could pull out the stops vis-à-vis its diplomatic process and try and bring some more to the table. That brings us really back to the U.S. as well. If it really did decide to go for this as it says it likes transparency, then I think we could see some more countries joining which would be frankly a better situation than we've got now.

Just a couple of last points. Another wrecking ball I understand was chucked in the ring by Exxon who said they also can't sign up because they fear retribution from alien torts claims. Frankly I think they shot themselves in the backside over that. That's again, precisely why, if we had a mandatory mechanism that required them to do it there wouldn't be any such position to suffer from. So again, I really don't understand where they're coming from in that regard. I had, because they have been at all the meetings, hoped for something more constructive than taking a position like that. So perhaps Exxon, if there's anyone here who can relay that to them, perhaps they'd like to rethink because I think that was not particularly productive.

As a last point, incentives have been raised, and this is an issue that's somewhat abstract from this. But when we're talking about state looting and elites taking the assets of a country, they do go and they end up in private accounts all over the world. One of the things I've been struck by was when Mobutu fell from fame it took about a week I think before we discovered in the public domain that he had very large properties on Lake Geneva and various other things. That says one thing to me that basically the powers that be in a number of countries knew basically where his assets were. I think we saw that repeated again with instructions to freeze Iraqi assets just before the recent conflict.

It does make me think that certain people in certain places know where a lot of these assets were and one thing I would like to see, I think, is a concerted effort. Maybe the Financial Action Task Force is not the right place to do it. Again, it's not an area of any expertise at all, but it seems to address or at least be trying to address some of these issues to do with money laundering and so on. But maybe a body could make it its task to go looking for the assets of elites from different countries on the presumption that if you can't justify why you have a multi-million dollar, in some cases several billion dollar account, then you lose it. It gets frozen. And it gets ultimately repatriated into a system within the country. Frankly, any elected or non-elected official who has a multiple six-figure sum, if they can't justify it I think something has to change in that regard.

I think I'll stop there. If anyone has questions about the process we've been involved in, then fire away.

**Mr. Palley:** Thanks very much, all four speakers, for being absolutely timely.

One correction. There is after this session at 4:00 o'clock a wrap-up session where there will be some stock-taking on the panels that have happened all afternoon.

I invite you all now to put forward questions for this panel.

**Question:** My name is Elaine Morton. I worked on the CSIS Strategic Energy Initiative. Your book was very helpful to us. But I'm a little bit puzzled.

You just made a very emphatic argument that it's not the oil, it's the institutions. And yet what I took away from your book was that it was the sequencing. That if the oil bonanza occurred before modern state institutions had been formed or I suppose it would also apply to cases in the Caspian before a transition had independently been made from an authoritarian system to a democratic system with genuine citizen participation, that that was the issue. So in a sense it was the oil if the oil was there before the institutions were created because the decisions that would result in the institutions would be shaped by the oil bonanza. So I just want to make sure I didn't misunderstand what you meant in your book.

**Dr. Karl:** Let me take that very quickly. Thank you for your question.

There is a phrase by Edmond Burke, somebody I don't usually cite very much, but that says the revenue of the state is the state. And that was really the orienting principle of what I was thinking about which is that -- and you're absolutely right. It is the sequence. It is the growth of reliance on the dependence of oil revenues becoming the central revenue basis of the state. In the countries that I was looking at in that book which doesn't include the Caspian, the sequence was that the oil came on-stream before you actually had anything that really looked like a modern state.

The problem is that it turns out that you can de-capacitize the state because you can actually replace the revenues of a previous revenue structure with oil revenues. What I'm seeing is that when you do that you actually get into a very dangerous scenario which is that once oil revenues become "the" state revenue and the main revenue, you actually break the modern link between taxation and representation. That is part of a perverse oil cycle. It's the fact that the tax -- When money is extracted from us we want to know what our government is doing with it. If we don't like what they're doing we have tax rebellions and tax revolts and all kinds of other things.

When the revenues of the states seem to drop from the sky, that relationship is broken. What that means is that it's not only very difficult to have better economic outcomes but it's extremely difficult to build accountable democracies, to build regimes that are accountable when you break that link.

So both interpretations I think are probably correct in a certain sense. I think this is in part what Robert Ebel was getting to when he was warning about the Soviet Union. To the extent that you replace the revenues basis of a state with petro-dollars, you actually begin to take apart some of the mechanisms that you actually need for the relationship between state capacity, democratic

representation, and accountability. So they're both right.

**Question:** Mark Schlighenhof, USAID. This is for Mr. Taylor.

You addressed the banking issue a little bit in your talk but since you're a UK-based NGO and the UK in the Giffin case, they specifically mention the transfer to off-shore accounts in the UK. I wonder, do you guys have any initiatives specifically looking at the off-shore banking sector?

**Mr. Taylor:** Unfortunately not yet. It's something I've been thinking about a lot since we started our work on the government side of the Angolan conflict, and the reason for that is a lot of the money that disappeared in Angola went through a very complex system of international companies that were located all over the place. For example, one of the protagonists who's basically a Russian Mafia character has somewhat in excess of 120, 130 companies located in the UK. The UK is but one operational center of these individuals. So we've been very much looking at the mechanism of a certain set of individuals.

The problem you have, as you probably know, it's very hard to find out who the beneficial owners are of companies or accounts in these off-shore places. So you can look in Company X and then you find it's owned by trust fund something or other and it's in Jersey, and if you're lucky you find something there and then it disappears into the British Virgin Islands and then you have a brick wall.

So first of all, evidentially it's extremely difficult to find stuff. I've tended to find stuff -- there is evidence you can get so far, stuff that relates more to what's going on behind the scenes I've tended to get from some quite interesting characters involved in the banking profession, of which there are quite a number who I think are quite concerned about how their systems are being used.

I really don't have much knowledge of how this relates to the other countries because I suspect that the mechanisms are similar, that there will be different individuals, different banks, and different routes, but it's a real problem. It seems to me if we don't address that problem then we haven't a hope in hell of stopping capital flights on these kind of scales.

I'm not sure what else I can add to that. Suffice it to say, we would be interested in looking at that for sure. But I think part of the problem we have is we don't have any subpoena power so we rely on things turning up or people leaking things and stuff like that. Certainly in places like Angola in contrast to places like Cambodia, documentation is extremely hard to get hold of. Cambodia, by the way, the government signs a dodgy deal and the copies are sent to all the ministries, and a week later we get a copy of it. Stuff leaks. But I don't think that's the case with some of these higher magnitude volumes of cash movements involving some of these more dodgy characters.

Does that answer your question?

**Mr. Palley:** I'm going to bring this panel to a close and then Svetlana is going to join me up here with Terry and we're going to try to wrap things up. If you have any unanswered questions looking back over the day's proceeding, that's the time to put them forward. So would you join me in thanking this panel?

[Applause]

**Mr. Palley:** Terry told me that she has to leave at 4:15 at the latest, so I'm going to invite her to take a few minutes and see if she can from her point of view wrap up what she heard today and where we might go from here.

**Dr. Karl:** I'll try to be very brief not only because I need to catch an airplane, but also because you have been heroic all day without breaks.

I think that when I think about this issue oil is a very unusual commodity in the sense that it is fixed and not mobile, and that it also has a sense of common heritage to it. It was not created by any of our efforts. Therefore what happens to it is really in a sense the common heritage of all of us. That means that we're looking at an issue in which all of us, I think, have an enormous responsibility. The problem we've seen, and I've tried to emphasize, is even more dramatic than I've put out this morning. It's the fact that oil in most of the countries where it is located at least in late-developing countries, is causing deeply perverse outcomes. That should concern us all.

I think what I've heard today are a number of things that I would like to just highlight.

First of all, Willy Olsen brought up the issue of expectations. I think that one of the thing we see over and over again is that everybody expects to get rich from oil. Everybody.

Part of that means that the management of expectations is part of the management of revenues. I was very struck, as I am repeatedly, by the fact that it is in the interest of companies and governments to talk about how rich everybody's going to get so that they can get in to begin to exploit the oil in the first place and then there's a great disparity between the expectations that are created and the actual revenues that are available. That has happened over and over and over again.

What it means on the ground in terms of popular perceptions is that people think they're going to get something -- a school, a health clinic, a little money, some money for the tree that gets cut down, a little something for the community. Something they think they're going to get. And those expectations often are not fulfilled which gets me to the kind of second issue that I've heard about which is really one of worrying about not just managing well but doing no harm, or

at least mitigating the amount of harm that comes from the oil process itself. When I say that, what I mean is the absolute overwhelming danger of conflict and war in the midst of plenty.

One of the things I want to put back on my colleagues from the Caspian but also everyone in this room is that I as a person who is not an expert on the Caspian at all, am extremely worried by some of the things I saw today. The short term time horizon in Azerbaijan. The fact that there's already a pre-existing conflict between Armenia and Azerbaijan. The presence of over a million refugees I believe was the figure, etc. The fact that there are expectations and not a lot of money over a long stream period of time. All of those are extremely worrisome from the point of view of conflict and future conflict, so I want to really underline that that's something I heard.

Another issue I'd like to underline is the one that you raised which is the sequencing problem. This is something that really needs to be on the table. You cannot build civil services, tax systems and democracies as fast as you can build a pipeline. Oil revenues come on-stream far more quickly than the kinds of political and social institutions that need to manage them. That is what I refer to as the sequence problem. This is exactly what we're going to see in Chad, Cameroon, by the way, for those of you who are following these. The fact is that the revenues come on-stream next year and the institutions that can actually bring about poverty reduction and the kinds of outcomes I think most of us would like to see are not really in place to allocate those.

Another set of issues that I just want to lay on the table to think about is the issue of shared responsibility.

The key problem for all of us who would like to see better outcomes is to change the incentive structures that are created by enormous wealth and that means the action of governments, home governments, companies, international financial institutions and banks, civil society organizations. That's a shared responsibility. What we often see in the oil story is not a sense of shared responsibility but it's the company's fault, it's the bank's fault, it's the government's fault, it's this group's fault, it's that group's fault. It seems to me that we've heard a number of discussions about where to focus this and I would like to just suggest a few.

We're asking companies to publish what they pay. We're asking governments to tell us what they spend. That's the other piece of the -- Governments to tell us what they spend. I would like to ask banks and international financial institutions to justify why they lend -- particularly those that are involved in poverty alleviation under certain circumstances.

We are also asking civil society organizations to become better and better informed so that the information that they operate on is accurate and allows for the creation of greater trust which was a concept that came up over and over and over again, the concept of trust.

Let me just mention a few other things. The opportunities that we have now I believe are only in three places right now -- the Caspian, Iraq, and Chad, Cameroon. The reason for that is

that's where the most conscious efforts to change the incentive structures around oil are in fact occurring. If you look at something like Equatorial Guinea, there are no conscious efforts to change anything. That means if that continues we can guarantee the outcomes will be similar.

So when you look at the conscious efforts to change, let me just highlight some problems for the future and I hope also for the future of the Open Society Institute.

The appropriate relationship between what is public and what is private. The issue of public goods and private consumption. What is appropriate in an allocation process? When I say appropriate I mean in terms of longer-term development outcomes as well as the short-term alleviation of misery which is in the story of all of these.

A second issue is how to deal with what I call the sequence problem and the fact that you can build a pipeline faster than you can build a democracy. What do we do about that problem?

A third issue is the appropriate balance between savings, investment, and consumption in these kinds of stories and when I say appropriate, this is a decision for all kinds of organizations, not just one particular group.

Another one is the problem of funds, and this is a key issue in the book that Open Society Institute has done, and I just want to point out one problem that is extremely important in funds. Oil funds become parallel budgets. That's what happens to them. They become budgets that are outside the accountability process in general of a parliament and they usually become a parallel budget associated with the Office of the Executive. That is part of the economic determination process because it causes enormous fiscal confusion inside a country. Regardless of the intentions, by the way.

So I think we need to do another look at the utility of funds in most cases. IN that sense I think the Norway example is a wonderful example, but it's also in some ways an unfortunate example because the fiscal controls already existed in that country and they don't exist elsewhere.

Finally, let me just put out one other problem which is the one that constantly strikes me when I'm in oil exporting countries and could not have been brought home more dramatically when I was in Chad. That is the disparity of power in this story.

If you are asking an NGO to monitor Exxon/Mobile, and an NGO to monitor Exxon/Mobile in which the amount of resources are so tiny, the educational level and human resources and ability to really pull out the facts of a story, to be able to answer inaccuracies, etc. When you're looking at that enormous power disparity, we are always going to have a problem here. I don't mean to just single out Exxon/Mobile or even companies in this, but the oil story is not a story of political will as much as it is a story of enormous disparity of power. That's going to characterize all of these efforts to create better outcomes, poverty reduction, no war, and

successful development.

[Applause]

**Mr. Palley:** Svetlana, I guess it's down to you and me, and it's now your turn.

**Dr. Tsalik:** Let me sort of in conclusion talk a little bit more about some of the recommendations of our report.

The reason we structured this conference this way with civil societies perspectives represented, industry perspectives represented, government perspectives represented is because addressing these issues really requires a partnership from all sides. I don't think any one of these sides pushing alone can address the large scope of issues that has been covered today and discussed so well by Terry just now. So the nature of our report was to direct recommendations to each of those particular sides.

Very briefly speaking, for companies we recommend a greater disclosure. There's already leadership that's been taken by some companies. It should be followed by others. Also even with the information provided I think we can go further.

Second of all, recommendations towards foreign governments and donors, encourage them first of all to use whatever diplomatic pressure and levers they have to make the important link between good governance, democracy and good revenue management. And also to increase their funding for building the capacity of local groups to address these issues.

I think Terry made an excellent point in talking about the huge power disparities between civil society and the industries and the revenues involved. And one of the key ways of redressing those disparities is through education and training and transferring some of the skills that have accumulated among civil society in the West to civil society in these countries that are becoming petroleum exporters.

There's also a series of recommendations for the governments of Azerbaijan and Kazakhstan themselves and which I think are also more widely applicable to other governments in similar situations.

First of all regarding adoption of long term spending strategies for their oil funds. I think it's correct to say that while the oil funds themselves are not development funds, the money in them will be used for development in addition to a small part of it being used for stabilization. So I think it's quite correct to say that long term spending strategies need to be adopted for these countries and their oil funds and that those strategies should take into consideration input from both parliament and civil society.

There are also recommendations regarding greater, more embeddedness of the oil funds

in the budget. Azerbaijan is beginning to make progress in this direction. Kazakhstan should too, in terms of recording all transfers from the oil fund in the budget. And related to that, parliament should be given a greater role in the budget process including line item vetoes, research capacity, time to comment on the budget, and more information about the budget should be made public.

Regarding transparency of the oil funds. I think that they've made a lot of information available, but there's more that could be done. Most importantly, I think it is important to be able for an outside observer to evaluate whether the amounts that have gone into the oil fund were the correct amounts based on what the production was in a given year and what the government take was in a given year.

Finally, I think a lot of progress could be made in civil society's ability to become more active in this process by a general improvement of the environment for civil society in these countries either by making it easier for them to register and also easier to publish their opinions in the press and so on so there could be a real exchange of opinions.

So I think that making progress in defeating the resource curse in these countries is going to take initiative from all sides, but I think there is a real interest on the part of the governments there and a real interest on the part of governments here and also the energy companies in seeing these countries avoid the resource curse. I feel quite optimistic about where things will go.

**Mr. Palley:** Thank you very much, Svetlana.

What else is there for me to say that hasn't been said today other than to note that I found the point made by Willy Olsen to be extremely important, that Azerbaijan has a short term future, Kazakhstan has a longer term future.

If you look at Azerbaijan, have they found any oil since they became an independent nation? The oil fields that are being developed now for the BTC pipeline were found by Soviet geologists but were not developed because the Soviet Union at that time lacked both the investment capital and the technology. Tangese was found by Soviet geologists in Kazakhstan. Karachaganak was found by Soviet geologists. Only one big discovery has been made by the West and that has been Kashagan and that is going to be a very difficult field to develop, to bring on-stream.

AIOC will, if they're lucky, hit a peak of 900,000 barrels a day. How long will that peak last? Where do you go from there?

Kazakhstan plans to hit maybe three million barrels of oil a day by 2015. How does that compare to the world oil consumption by that time? World oil today, we consume 77 million barrels of oil every day. What will be consuming by the year 2015?

Iraq, tremendous reserves, but it's a country that's always had a great reserve potential but has never, for whatever the reason, been able to develop that potential. How do we go about making sure that the income from the oil production is spent properly? I think our Department of State looks very kindly toward the Alaskan example. I do not know what example the Department of State has in mind at the present time -- Department of Defense has in mind today, but they're looking at Alaska.

But I don't have that optimistic a view for the Iraqi future. I would guess that if they're lucky they might be producing four to four and a half million barrels of oil a day by the end of this decade. We don't know what shape their oil fields are in other than two reports prepared by a Dutch engineering company, Seboldt International. Both reports -- one issued in 1998, the other issued in early 2000, stress the lamentable state of the oil industry. That was three years ago.

So I don't hold out that much promise for Iraq being a major player in the world oil market any time soon.

Why don't I close at that point. You've all been very patient for us today. It's been a long day with registration starting at 8:30 and it's now almost ten minutes past 4:00. I hope you've come away with a better insight into the issues related to Caspian revenue and revenue handling around the world. We thank you very much for your attention. Class dismissed. Thank you.

[Applause]

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