

Held Hostage: Arms and Infrastructure Oil Development in Sudan and Chad

S. A. Van Vactor

**Economic Insight, Inc.
University of Cambridge
svv@econ.com**

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The Paradigm of Exchange

- **Economic analysis assumes willing participation in exchange**
- **Markets frequently require institutions separate from firms**
- **What creates the “demand” for the market place?**
 - **Decentralized decision makers**
 - **Tradable property rights**
 - **Common acceptance and enforcement of rules**

Oil Development in Sudan

- Heglig field in Southern Sudan discovered by Chevron
- Development rights sold to BP, due to civil war
- BP sold rights to an independent company, Arakis
- Talisman, a Canadian Independent acquired Arakis
- Greater Nile Project formed with 4 partners:
 - Talisman
 - Petronas
 - CNPC
 - Sudanese interests
- Ad Hoc financing of the pipeline project
- Pipeline completed in mid 1999
- Oil revenue provided funds for arms
- Talisman sells interests to ONGC Videsh Limited

Oil Development in Chad

- Oil fields in Southern Chad in Doba, 1070 km from port
- Pipeline transit is primarily through Cameroon
- ExxonMobil operator for the Consortium
- World Bank financed Chad & Cameroon participation
- Complex process of consultation including NGOs
 - 7 years to complete
 - 900 public meetings, 300 villages
 - Explicit review of environmental impact
 - Restrictions on use of oil revenue
- Some revenue has been used for arms purchases
- FY 2001 military spending \$31 m (\$581 m Sudan)
- Archbishop Tutu: “The Chad/Cameroon project is not the help we asked for or needed. In the absence of the rule of law and respect for human rights and the environment, financing of large-scale oil development is destroying the environment and us.”

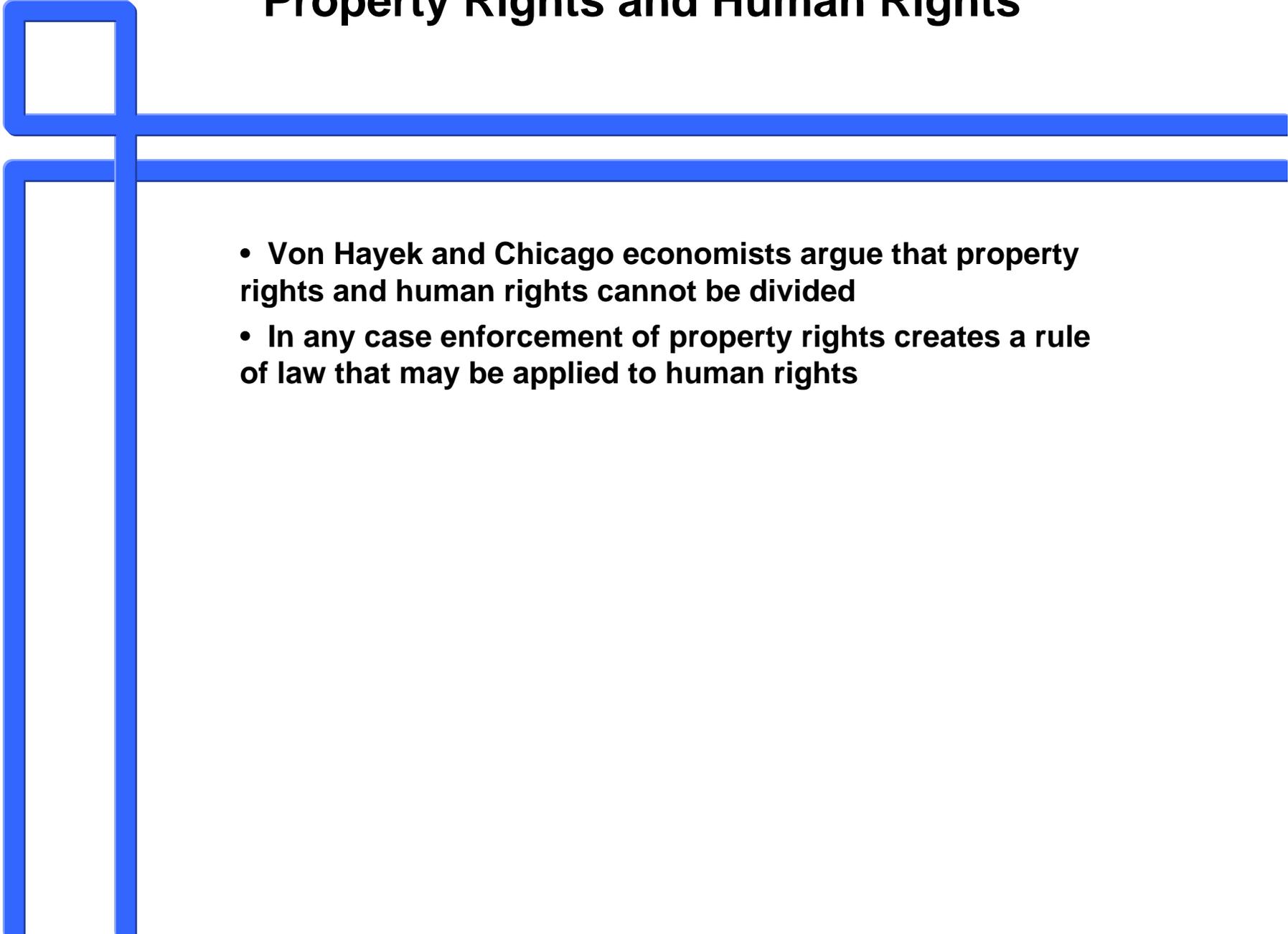
“Top-Down” or “Bottom-Up” Development

- **World Bank Top-Down effort in Chad has mixed results:**
 - **Environmental impact has been lessened**
 - **Emphasis on process mollifies the NGOs**
 - **Control over Chad spending is ineffective**
 - **Exclusive government rights to economic rents are destabilizing to society**
 - **The process has a high transaction cost**
 - **Procedures stray from World Bank’s primary mission**
- **Historic economic development is bottom-up and evolutionary**

The Magna Carta

- **1215 Agreement between King John and his Barons**
- **65 elements, many govern economic relationships**
 - **9 dealt with inheritance**
 - **4 dealt with debt and finance**
 - **6 with taxes**
 - **22 with procedures for settling disputes**
 - **18 miscellaneous**
- **No specifics for enforcing contracts or human rights, these evolved from common law, the Enlightenment, etc.**

Property Rights and Human Rights



- **Von Hayek and Chicago economists argue that property rights and human rights cannot be divided**
- **In any case enforcement of property rights creates a rule of law that may be applied to human rights**

Reform to Avoid the “Curse of Oil” and achieve Economic Development

- **Concentrated ownership of rent-producing assets creates incentives to preserve the status quo**
- **Access to resource rents often achieved through control of the military, police and instruments of enforcement**
- **Ownership of rent-producing assets should be diversified and separated from enforcement mechanisms**
- **Professor Adelman has suggested that Iraq’s oil resources should be fragmented and distributed as tradable properties**
- **Precedents include Alaska’s Permanent Fund**