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ENVIRONMENTAL PEACEBUILDING PERSPECTIVES

Natural Resources and Conflict: A Glimpse into the Future?

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What do we know about the environment and conflict? One common narrative is about natural resource scarcity and conflict, typically involving renewable resources such as water. There is a different narrative involving natural resource abundance and conflict. In this case we are concerned with nonrenewable resources, most importantly mineral wealth. There are clearly instances where water scarcity or land scarcity have led to conflict, but resource wealth is now the main driver. The primary examples involve oil and gas, and certain kinds of gemstones that can lead to so-called diamond wars.

By far, these conflicts occur in low-income countries. Once countries cross an income threshold — somewhere between \$5,000 and \$10,000 in per capita income — they seem to be immune to conflict. The greatest danger is in low-income countries when oil or mineral wealth is found in minority-held regions, in regions populated by people who feel disenfranchised, who believe they are not getting their share of the wealth that is found beneath their feet.

These disputes over mineral wealth are mostly a post-Cold War phenomenon: until the fall of the Iron Curtain, many civil conflicts were fueled by funds from one of the superpowers. It's only when that money disappeared that oil and mineral wealth became an important precipitant of conflict.

Over the last 50 years, the oil producers have had about a 30 percent higher risk of civil war than countries without oil. If we restrict ourselves to the post-Cold War period, the oil producers have about a 50 percent higher risk of civil war. If we look at countries that fall below about \$5,000 per capita, we see that oil producing countries have about an 80 percent higher risk of civil war. The effect is substantial, not only in the Middle East but also Chad, Sudan, the Congo Republic, Angola, Nigeria, in Latin America, South East Asia, even regions of the former Soviet Union, we see a higher rate of conflicts in those countries that have substantial oil wealth.

It's easy to look at a correlation, much harder to understand why. While there isn't a consensus, there are two or three central dynamics that seem to fit the facts. First are the cases of oil-based secession movements: when oil is found in a minority-dominated region where people feel disenfranchised, a secessionist movement



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The Al-Moumin lecture series is part of a broader effort by ELI, UNEP, AU, and other institutions to foster analysis and dialogue regarding the connections between conflict, peace, and the environment, including a book series examining the role of natural resources in post-conflict peacebuilding.

becomes more likely. Before South Sudan became independent, the exploitation of oil wealth was associated with increased repression in those regions because the government was anticipating unrest and didn't want any disturbances to its drilling.

The fact is that oil extraction involves a dramatic tradeoff. The benefits go to governments and corporations. Governments can redistribute that money to the population, and corporations may be taxed. But all too often the benefits flow to other regions, while the costs are concentrated in the region of the extraction.

There are typically few benefits for local populations in oil-producing regions. Other kinds of mining involve more labor, which means more people will benefit. When it comes to oil, most of the investment comes when the well is drilled.

Let's pause here and note there are other precipitants of conflict. No conflict is driven by one factor. But oil is enough of an accelerant that it can push problems that are potentially resolvable into a violent conflagration.

The second dynamic, somewhat uglier, is resource looting. We see conflicts in a handful of places — Colombia, Nigeria, and the Niger Delta — where rebel groups fund themselves by blowing up or threatening to blow up oil facilities. It's relatively easy for groups to extort money from governments, or from companies, by making these kinds of threats.

Finally, there is a third dynamic, one that applies to a handful of cases — Syria for example — where a dictator is sustained in part by oil wealth. Money can be used to keep the military loyal, to buy support among elites. One often overlooked factor in the fall of President Suharto in Indonesia in 1998–99 is the fact his regime was in part based on distributing money from the sale of natural gas, timber, copper, and other minerals, all of which began to run out. Syria was never one of the big oil producers in Middle East of course, but it did have some substantial amount of oil wealth that has been depleted over the last decade or so. When the Arab Spring came along, in the countries where the government had access to

abundant oil wealth, these rebellions were successfully put down. It's the states that did not have access to this kind of oil wealth — like Tunisia, Egypt, Bahrain, or Syria where it is running out — where there was either a change in regime or ongoing conflict.

There are two trends that suggest the problem of oil-fueled conflicts will become more prominent.

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The first is the reduced number of civil wars in the rest of the world. Since 1992, the number of civil wars in all countries collectively has fallen; but if we separate the oil-producing countries from the non-oil producing countries, we see that all of the improvement in global security has come in the non-oil countries, which have grown a lot more peaceful since the end of the Cold War. In oil-producing countries, we see about the same level of conflict as we have seen for the last few decades. So even though oil-based conflicts are not becoming more common, they are becoming a larger share of the world's remaining conflicts. If we want to do something about reducing conflicts globally, we have to find a way to address them.

Our technologies for intervening in conflicts around the world have improved a lot since the end of the Cold War. The UN Security Council has become much more aggressive, there is a whole new set of peacebuilding tools, but they seem to be more effective in countries without resource wealth than in countries with resource wealth. That means we have to find new tools, new ways to address the countries locked in petroleum-based conflict.

The second trend involves our technologies for finding oil and gas. Even in the most optimistic scenarios, the world is expected to use more petroleum in the decades ahead.

Companies are going to look for oil and gas in new places, many of them previously off limits to businesses that didn't want to bother with unstable or undemocratic regimes. The trend is sharpest in Sub-Saharan Africa. In 1975, there were four countries in sub-Saharan Africa that produced significant amounts of oil. By 2005, there were seven countries. Yet by 2020, this number could easily double or triple. As production spreads to vulnerable countries, and we haven't found ways to mitigate those conflicts, we are likely to see more of them.

We are increasingly aware of the environmental consequences of our dependence on petroleum. But we don't often understand what the political repercussions are. There are sometimes very large costs, but they can be isolated in places we can't see.

What kinds of solutions are possible? At one extreme, the problem wouldn't exist at all if countries left their oil in the ground, or conversely, if they exploited and invested it so effectively that they became rich enough to render themselves immune to conflict. Neither scenario is practical: few countries are willing to leave commercially valuable petroleum in the ground; and everybody that produces oil would like to become rich quickly, yet not that many succeed. The challenge is to use oil and resource wealth to help lift a country out of the danger zone. We are bound to keep running into these problems unless there are bigger solutions, typically at a national level, that can relieve some of the pressure that can arise when we have mineral-based development.

One solution is what might be called phased extraction — don't pump your mineral wealth from the ground more quickly than you can manage the consequences. It is within the capacity of governments to phase their resource extraction and not dive into the kind of the full fledged oil-based development that typically will overwhelm their institutions. Another solution is something called oil-to-cash. It is based on the model that was pioneered in Alaska: the money that's generated by oil extraction is paid to citizens as a dividend. It shows people that they will get a tangible result. It also

keeps some of the money out the hands of the government, which can be especially important where regimes are corrupt. But it will only work in a well-developed financial system, where people can take the money to the bank, and where the government is willing to give up its control of the oil revenue.

A third strategy is barter. The problem of resource-based development can be thought of in the following way. You want to take all of the value from beneath your soil and turn that into public goods. The standard way to do this is to give the revenues to the government and then eventually through some complicated process the government will try to provide these services to the people. But we know that a huge amount of money is lost in the way.

One answer is for governments to trade extraction rights to companies directly for infrastructure. Instead of giving an oil concession to a company and then requiring it to pay royalties, you require the company to build bridges, roads, and schools. Chinese consortia are pioneering this strategy, and it has great potential to reduce corruption and waste.

The only strategy that is sustainable in the long run is to empower people in resource-rich countries to demand that the resources that belong to them by law be used on their behalf. Why is that not already working? One problem is that people don't realize how much money is involved. The oil industry is one of the world's biggest businesses. About 16 percent of all internationally traded commodities are made up of petroleum products. Except for Apple, the biggest companies in the world are oil companies. It is an extremely large industry and yet it is one of the most opaque. The amount of revenue, how much money goes to governments, and where that money winds up — there is much we just don't know.

Here's a simple illustration: in a retail store, every item has a country-of-origin label. But when you go to fill up your car, you have no idea where the petroleum came from. If this transparency problem exists in the United States, imagine the problem confronting citizens of Angola or Algeria

or Malaysia. If they don't know how much money is flowing from one set of hands to the next, they cannot demand that it be used on their behalf.

Recently, a lot has been done to improve this situation. The Dodd-Frank financial reform bill contains a clause that says that oil companies and other mineral companies that are listed on the stock exchange have to disclose how much money they are paying to foreign governments. The Securities and Exchange Commission has issued implementing rules, but the American Petroleum Institute is suing the SEC to try to block this new rule. The European Union has just adopted similar regulations.

Additionally, the Extractive Industries Transparency Initiative requires signatory companies and governments to disclose how much money changes hands. More transparency is needed. Many oil-exporting governments have huge off-budget funds that they use for all sorts of purposes, out of the view of their legislatures and media. The Natural Resource Charter is an effort to establish standards that allow people in resource-rich countries to gauge whether their governments are doing the right things.

The strongest evidence in the academic literature about this resource-and-conflict issue is the link between oil and mineral wealth and the outbreak of violent conflict. There are several pathways that lead from oil to the onset of conflict.

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Because companies are operating in low-income, often poorly governed states, the problem is going to get worse before it gets better.

But some of the responses I have outlined should give us hope. Armed with greater transparency, citizens, companies, and governments can avoid resource-based conflicts and turn their natural resource wealth into a better future for their country.

About Environmental Peacebuilding

Environmental peacebuilding integrates natural resource management in conflict prevention, mitigation, resolution, and recovery to build resilience in communities affected by conflict. Environmental Peacebuilding Perspectives is a series of notable lectures on environmental peacebuilding. This series is one of several related efforts catalyzing the emerging field of environmental peacebuilding, including the Environmental Peacebuilding Community of Practice and the Environmental Peacebuilding Knowledge Platform.

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