ENERGY

A crude awakening

John Vidal is gripped by a book that reveals how natural riches can impoverish nations.

When oil was first extracted and sent from Lago Agrio, Ecuador, in July 1972, the military dictatorship held a ceremony signalling a new era. People dipped hands in the yellow-brown crude, children were baptized with it, and the first barrel was placed in a museum in Quito.

Forty years later, Ecuador has extracted nearly half of its known reserves, earning it US$130 billion. That has paid for needed infrastructure, but has also led to widespread corruption, impoverishment, inequality, insurgency and environmental devastation. Crude oil has transformed Ecuador — just not in the way Ecuadoreans expected. The situation could be shifting there, but is a familiar one in the developing world. Political scientist Michael Ross devotes *The Oil Curse* to unpicking it.

This 'paradox of plenty' afflicts as many as 40 other developing countries, among them Nigeria, Cameroon and Equatorial Guinea. So far, only a handful of countries have avoided it, including Norway, Britain and a few smaller Arab states. Analysts have struggled to explain the paradox ever since British economist Richard Auty recognized it in 1993, invoking reasons ranging from foreign oil companies creaming off big profits to a simple lack of readiness for sudden riches.

Ross largely dismisses such triggers, suggesting that the fault lies mostly in the nature of oil wealth itself. Modern oil revenues, he proposes, have a more powerful and harmful effect on poor countries than money from other minerals because the sums involved are huge (now consistently more than $100 a barrel), do not come from taxing citizens and are easy to conceal from public scrutiny.

Poor governance, Ross says, does play a part: oil-funded rulers can use 'petro-dollars' to block democratic reforms, an argument backed by stories from the pro-democracy uprisings of the Arab Spring. Protesters in oil-poorer countries such as Tunisia and Egypt found it easier to overthrow their rulers than did those in oil-rich states like Saudi Arabia, Libya and Algeria, he notes.

Ross is less convincing in tracing the start of the 'oil curse' back to the early 1970s, when prices quadrupled in a few months and many governments seized control of their countries' oil industries. Before nationalization, he argues, oil-rich developing countries were not that different from others. His research shows how such countries are today more likely to be ruled by autocrats and to descend into civil war than countries with no oil reserves. Oil wealth also creates less economic growth than it should, and produces more work for men than women.

The Oil Curse: How Petroleum Wealth Shapes the Development of Nations
MICHAEL L. ROSS
Princeton University Press: 2012. 296 pp. $29.95, £19.95

These are all good points, but Ross's exoneration of corporate and colonial powers before the 1970s weakens his argument. To many developing countries, an oil curse is just an escalation of colonial pillage. Oil, along with land acquisitions, is simply the latest resource to be taken by rapacious companies and national elites, leaving the majority of citizens as bystanders in the development process.

Ross bravely suggests remedies, but I fear that most will be dismissed as impractical or naively neo-liberal. Because he attributes the malaise partly to state ownership of oil assets, he advocates some level of privatization of oil industries. He skips over President Hugo Chavez's 2007 nationalization of Venezuela's oil reserves to pay for social reforms, and fails to ask why any poor country would be allowed by its people to sell off its major asset.

In searching for solutions, Ross looks at reducing the size of petroleum revenues and imposing sanctions against "undemocratic" governments — but without taking into account the anger and global price rise this could provoke. He also urges governments and corporations worldwide to be more transparent, although critics might doubt that all would take him up on it.

Ross wisely advises countries to distribute oil wealth directly to citizens. And he is useful on 'barter' contracts between nations, which avoid corruption by exchanging oil for goods or resources rather than money. But, sadly, he touches only briefly on the idea of leaving the oil in the ground, and doesn't mention Ecuador's radical experiment along those lines, initiated by President Rafael Correa in 2007.

Correa has asked the world to pay Ecuador not to extract oil reserves worth around $7.2 billion from a 1,200-square-kilometre block of the Yasuni national park. Some 20% of Ecuador's remaining reserves are to be left untapped in return for around half of the revenue they would have been worth if exploited. In late 2011, with the full backing of the United Nations Development Programme and the polled approval of the Ecuadorean people, Correa pledged to "leave the oil in the soil". The first $100-million tranche, to be used for conservation and renewable-energy projects, has been lodged with the UN.

Economists have mostly shied away from full costings of the ecological and social devastation of oil use. Were they to do so with the thoroughness and authority displayed by Ross in *The Oil Curse*, they might start to develop the new economic model for oil and other extractive industries that is so desperately needed. ■

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Revenues from oil fields in developing nations such as Nigeria are rarely passed directly on to citizens.