

**THE GRADUATE INSTITUTE** | GENEVA  
CENTRE ON CONFLICT,  
DEVELOPMENT AND PEACEBUILDING

# Report of the International Expert Workshop

## “Global and Local Governance in the Energy Sector: The Case of Oil and Mining”

February 4-5, 2010  
Geneva, Switzerland

**The Graduate Institute of International and Development Studies**  
20, Rue Rothschild, CH - 1201  
Geneva, Switzerland

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This workshop was organized in collaboration with the **Guilé Foundation**  
Supported by **Lundin Petroleum**

## 1. Introduction

On 4-5 February 2010, the Graduate Institute of International and Development Studies in Geneva (IHEID) hosted an international expert workshop on the *“Global and Local Governance in the Energy Sector: The Case of Oil and Mining.”* The Centre on Conflict, Development and Peacebuilding (CCDP) at IHEID organized the event in collaboration with the Guilé Foundation and with the financial support of Lundin Petroleum.

In his opening address, Gilles Carbonnier (GC) recalled that the objective of this expert workshop was to provide an intimate, informal forum in which to share cutting-edge research and policy work among experts from a variety of fields, including academics from diverse disciplines and selected individuals from industry and the public sector.

The workshop consisted of presentations of draft papers by participants, followed by discussions. These presentations were divided into five thematic sessions, with a debate following each set of presentations (see attached agenda and list of participants). The revised papers will be grouped into a special issue of *Global Governance*.

Sections 2-6 below summarize the draft paper presentations and the key points raised in the discussions that followed each of them. Section 7 concludes and highlights opportunities for further research and collaboration.

## 2. Resource extraction and development

### 2.1. *Paper presentations*

**Jonathan Di John** of the School of Oriental and African Studies, University of London, presented his survey of theoretical and empirical models related to the “resource curse” thesis. He outlined in particular the implications and shortcomings of the rentier-state and rent-seeking arguments, including their relative lack of public policy prescriptions. Di John proposed bolstering these fields with the study of strategies such as two-track industrialisation (e.g. special export zones) and a larger policy making role for non-state sectors.

**Fritz Brugger** and **Gilles Carbonnier** of IHEID presented a political economy approach to interpreting the development outcomes of extractive activities. It employs a capital approach looking at how natural capital depletion is transformed into human, physical and social capital and on the allocation decision mechanisms and actual use of extractive revenues at both national and sub-national levels. They argued that decentralization processes tend to push resource-curse symptoms down to the municipal or provincial levels, where they are exacerbated since local governments have less capacity to address them efficiently. Brugger and Carbonnier also proposed to evaluate ongoing international initiatives aimed at managing resource-curse risks through regime theory, focusing on the behavioural pathways and underlying hypotheses by which they elicit action and reaction from different actors.

**Peter Schaber** of University of Zurich presented a moral philosophy perspective on the question of natural resource ownership. He examined examples of political regimes and leaders violating property rights. He distinguished outcome responsibility from remedial responsibility and the allocation of these responsibilities among the actors in question. He assessed how current initiatives such as the Extractive Industries Transparency Initiative (EITI) address property rights violations. Schaber also raised the option of expanding the International Criminal Court’s (ICC) mandate to include egregious natural resources property rights violations because they affect people’s human rights.

On behalf of **Jorge Vinuales** of IHEID, **Anida Yupari** (also of IHEID) presented an international law perspective on natural resources ownership and the “resource curse.” Prof. Vinuales’s paper outlines the respective jurisdictions of international and domestic law with regard to ownership of natural resources, as well as the few avenues of recourse the two legal architectures offer in the event of misuse or theft of resource wealth by a government. Yupari added her view that recent developments in international human rights and environmental law could offer alternative remedies for strengthening peoples’ rights over natural resources and accountability of the state. She also pointed out that international soft law and some domestic regimes, in particular regarding indigenous peoples, have already incorporated the right to free, prior and informed consent by indigenous peoples in granting rights to natural resources located in their lands.

## 2.2. *Discussion*

Participants discussion turned to the features of a **rentier state**: what are the origins of growth-restricting policies, negative development outcomes and corruption? Some participants highlighted the importance of analysing the relationship between mineral abundance, political violence and institutional weakness in rentier state models. They stressed the importance of examining these interactions to understand why some states address them while others don’t.

Econometric evidence suggests that growth is unrelated to taxation levels and that capital mobilisation in developing countries is often unrelated to taxation. Experts stressed that with the advance of **globalisation**, diversification into non-resource sectors has become more complicated because of intense competition and diminished opportunities to protect infant industries. The case of Botswana was mentioned as a country with high economic growth but low diversification.

Participants underlined that economic factors aside, the adverse effects of resource wealth results largely from public policy choices and the quality of advice provided. This invites a deeper analysis of how policy guidance affects development outcomes.

From another perspective, experts noted that **military expenditures** in developing countries often receive heavy scrutiny from the international community. But part of the discussion considered whether higher military expenditures in resource-rich states help ensure political restraint from the military leadership, and how the quality of those expenditures affects development outcomes.

Participants stressed the valuable perspectives that **moral philosophy** debates provide to approach the issue of property rights and the responsibility of states. Regional and bilateral trade and investment agreements increasingly address social and human rights hand in hand with trade cooperation (e.g. South Africa and its black empowerment program). Potential further topics for analysis include: the development of international binding and soft law as well as existing measures in domestic regimes that enhance host communities rights over natural resources located in their territories.

### 3. Resource rent and revenue management

#### 3.1. *Paper presentations*

**Giacomo Luciani** of the Gulf Research Center Foundation presented his paper on the effects of commodity price volatility on development in resource-dependent states. He reviewed selected examples of policy responses, such as stabilisation funds, the pegging of domestic currency exchange rate to the price of the major export commodity, the direct distribution of dividends to citizens or investment in productive and human capital. He concluded by highlighting endowments of autonomous public institutions as a promising option.

**Paul J. Stevens** of the Royal Institute of International Affairs (Chatham House) compared the North Sea oil boom experiences in Norway and the United Kingdom, including effects on England-Scotland relations. He contrasted the goals, pace of development and long-term legacies of the two countries' plans. Stevens presented a brief summary of the oil regulatory system and contractual arrangement in the United Kingdom, and highlighted the strengths of the geological service of Norway.

#### 3.2. *Discussion*

In response to the first presentation, some participants questioned the general applicability of **endowments of autonomous public institutions**, as they require a significant revenue windfall and tight oversight of the autonomous endowed agency. The applicability of this solution demands further research. Questions were raised on: how to provide the right incentives to managers, how to determine success, and what recourse would be available if the agency fails to deliver on its mandate? In addition, participants acknowledged the potential for autonomous endowed agencies to groom skilled technocrats insulated from political pressures, such as those who have played a large role in East Asian development stories.

Part of the discussion addressed the issue of stabilisation and future generation funds. Participants stressed the need to set and enforce

clear rules for resources management, accountability and transparency mechanisms.

Responding to the second presentation on the contrasting North Sea oil development experiences in Norway and the UK, participants raised Albert Hirschman's concept of "**technological strangeness**" as a barrier to industrial development. For example, developing African states may not have the heritage of maritime technology the Norwegians did prior to their North Sea development.

The group also addressed the implications of **technological maturity**, as it affects a state's industrial development prospects in a particular sector. For example the petroleum service industry Norway built during its North Sea oil boom may no longer be a realistic model for developing nations due to technological maturity, competition and scale barriers in the modern oil services marketplace.

Participants stressed "time is of the essence" as the main policy lesson from comparing the British and Norwegian experiences: Norway fared better by **slowing the pace of extraction** to match its capacity to develop a domestic oil industry and increase its absorption capacity. Nonetheless, some participants argued that choices regarding the pace of extraction, including the decision to postpone resource extraction, must balance with efforts to reduce poverty and social exclusion problems in resource-rich developing countries.

## 4. The role of extractive industries

### 4.1. *Expert presentations*

**Filippo Veglio** of the World Business Council for Sustainable Development (WBCSD) made a presentation regarding the linkages between extractive industries and development, focusing on enterprise development and local content. He shared that the WBCSD is developing a tool and methodology for measuring stakeholder engagement based on data provided by its member companies. Veglio also underlined the progress of the WBCSD's local content project, which aims to increase social performance in the industry as well as forward and backward linkages.

**Christine Batruch** of Lundin Petroleum introduced her company's Corporate Social Responsibility (CSR) strategy and explained its recent evolution. She assessed the lessons learned over more than a decade of operations in sensitive contexts, particularly in Africa. And she illustrated the advantages of a proactive CSR strategy by contrasting Lundin's CSR-related outcomes in two of its recent projects in Sudan and the Ogaden region of Ethiopia. She highlighted how CSR policies and strategies have become a distinctive competitive edge in many countries, and how lessons learnt in a fragile state can be highly relevant in an industrial country and vice-versa.

### 4.2. *Discussion*

Participants raised several issues regarding property rights, technology transfer, social license to operate, the relationship between trade rules and local content. They identified a need to clarify data coming from industry, in particular with regard to local content matters.

The **limited negotiations capabilities and geological data information** of most African governments often affects the host state's bargaining power. Participants wondered whether these countries could benefit from a third party agency providing them with a database of their natural assets, as well as capacity building for contracts negotiation.



The group discussed the different **CSR** approaches of international companies operating in Africa, making a distinction between Chinese and western companies and asked what are the competitive and development implications for differing CSR standards. Representatives of the private sector stressed the cultural dimension and complexities underlying CSR, in particular in politically fragile environments.

## 5. Resource extraction, peacebuilding and development

### 5.1. *Paper presentations*

**Achim Wennmann** of IHEID, presented an approach challenging the prevailing understanding of natural resources as an enabler for armed conflict and an obstacle to peace. Drawing from examples in Sudan and Aceh, Indonesia, he explored an alternate hypothesis in which addressing natural resource issues in peace negotiations creates opportunities to break the “conflict trap” and contribute to positive economic, social and institutional transformation.

**Olle Östensson** of Caromb Consulting introduced a broad summary of the considerable problems facing the Democratic Republic of the Congo (DRC), with particular focus on its unrealized mining potential. He outlined the prospects for the country’s general development, as well that of its extractive industries. He then contrasted the situation in Africa (using the DRC as reference) with selected examples from Latin America.

**Jana Krause** of IHEID presented the role of civil society in confronting the “resource curse” in developing countries. She outlined the challenges facing international and domestic civil society initiatives, illustrated by recent EITI experiences in Nigeria. She challenged the assumption that civil society can have the clout to act as the sole watchdog on which the success of the initiative relies, and contended that expectations regarding the capacity of civil society organizations to fulfil this function are too high.

#### Discussion

The participants questioned whether or not is it possible to isolate and **evaluate the impact of revenue-sharing agreement in a peace process**, which may be problematic due to the variety and intricacies of conflict and peace drivers. **Insufficient or absent monitoring mechanisms** were identified as a common downfall of peace process implementation. Ironically, interviews with peace negotiators suggest they find the most convincing arguments for robust monitoring mechanisms among these past failed peace processes.

Several participants noted how the **lack of resource management expertise** can complicate a variety of development processes, from peace negotiations to the formation of a robust civil society. To narrow this knowledge gap participants underlined the need for a **collaborative training effort** for – and among – different stakeholders including governments, civil society and companies.

Participants underlined the positive relationship between economic diversification and a state's commitment to, and enforce of, international standards and rules. Development in any one sector eventually leads to increased reliance on international markets and an increasing number of trading partners. A multi-sector economy reduces the likelihood that a state will act counter to the international community's generally accepted norms, or shirk commitments to its trading partners.

In the absence of a strong central authority, the presence of resource rents encourages competition among other actors (e.g. local governments, companies, armed factions) and therefore externalities. Some participants highlighted that dealing with weak or splintered states, regardless of democratic and development considerations, is often counterproductive as it exacerbates divisions among competing actors.

## 6. Emerging issues – China and climate change

### 6.1. *Paper presentations*

**Xiaojie Xu** of the China Academy of Social Sciences and adviser to CNPC dwelled on resource governance challenges facing Chinese companies operating abroad in developing countries. Prof. Xu focused on the experience of China's national oil companies (NOCs) in Africa since the mid-1990s. He acknowledged that CSR policies and practices have become an important competitive issue and are ever more closely related to the licence to operate. He identified the shortage of international managerial knowledge among Chinese managers as a major challenge in catching up with CSR best practices. On the other hand, he described how Chinese NOCs are often freer than publicly-traded western firms to structure resource extraction deals, such as in resource-for-infrastructure swaps in Africa.

**Anida Yupari** of IHEID presented her paper on the potential physical, policy and legal implication of climate change on extractive industries. She examined the vulnerabilities of the extractive sector with regard to climate change effects, and presented examples of regulatory initiatives to mitigate climate change and its impacts. She also noted industry competitiveness concerns and the business opportunities that climate change may offers to extractive firms.

### 6.2. *Discussion*

Participants recognized that the **domestic context for Chinese companies** differs considerably from the one they encounter in the largely westernized international marketplace. Chinese companies generally do not have the same responsibility to shareholders as their international competitors. The implications of this dualism on Chinese companies and their different markets await further study.

Some participants argued that **Chinese companies are rapidly adjusting to international best practices**, adding an intriguing new perspective to competition in the international extractive industries. Chinese companies have experienced a steep learning curve in **managing continually increasing stakeholder expectations**, notably

with regard to the benefits of extraction and the fair distribution of resource revenues.

There was a broad consensus that the recent Copenhagen summit on climate change evidenced the complexities of facing climate change issues and of balancing the interests of developed and developing countries. Participants discussed weaknesses in the cap-and-trade system and carbon tax regimes. They suggested that both systems should target all emissions, not just those from oil. Some participants argued that cap-and-trade systems are insufficient but receive government favour as an alternative to the political burden of imposing taxes.

## 7. Conclusions and follow-up

During the concluding session of the workshop, participants concurred on the value of such a multidisciplinary, informal forum in broadening their perspectives and getting feedbacks on their draft paper. Participants highlighted in particular the value of two “innovative” perspectives: that of a moral philosopher and of a Chinese insider.

The participants pointed to specific issues that were raised during the workshop and deserve further research:

- The importance of the pace of extraction on mitigating symptoms of the “resource curse” and achieving better development outcomes
- The centrality of fiscal and budgetary policies in resource-rich countries at both the central and sub-national levels
- Alternative diversification strategies for resource-dependent states and their feasibility in different settings
- Prospects for and implications of the adoption of international “soft” law rules in the absence of binding law to deal with natural resources property rights and extractive revenues
- Domestic law remedies to ensure proper management of natural resources and enforcement of host communities rights over natural resources
- Incorporation of accountability mechanisms throughout the value chain and better understanding of the role and potential of (financial) market incentives and regulation
- Understanding better civil society dynamics for the effective implementation of accountability initiatives

### FOLLOW-UP

GC will revise the structure and content of the special issue to be published in *Global Governance*. After discussing with the journal editors, he will provide a detailed feedback to each author with editorial guidance and deadlines.

He thanked again the participants for making this workshop a valuable, engaging exercise for all involved, as well as Lundin Petroleum for its support and the Guilé Foundation for its collaboration in organizing the event.

## 8. Appendices: Agenda and List of Participants

### 8.1. Agenda

DAY 1 - Thursday 4 February 2010 -- Room Eckenstein	
09:30 – 10:00	Welcome & coffee
10:00 – 10:15	Introduction: aims, context and organization  <i>Gilles Carbonnier</i> , CCDP, the Graduate Institute of International and Development Studies (IHEID), Geneva
Session 1: Resource Extraction & Development	
Facilitator: <i>Achim Wennmann</i> ,	
10:15 – 10:40	Conceptual and theoretical foundations: current debates <i>Jonathan Di John</i> , Lecturer in Political Economy, School of Oriental and African Studies, University of London
10:40 – 11:00	Comments and Discussion
11:00 - 11:20	Critical analysis of policy response and tools <i>Fritz Brugger</i> , PhD Student, IHEID <i>Gilles Carbonnier</i> , CCDP
11:20 – 11:40	Comments and discussion
☞ Coffee Break ☞	
12:00 – 12:40	Resource ownership and licence to operate <i>Peter Schaber</i> , Director of the Centre for Ethics, University of Zurich <i>Jorge Vinuales</i> , IHEID (paper presented <i>in absentia</i> by Dr. Anida Yupari)
12:40 – 13:00	Comments and discussion
☞ Lunch ☞	



**Session 2: Resource Rent & Revenue Management**
**Facilitator: Fritz Brugger**
**14:30 – 14:50 Price and revenue volatility: what policy options and role for the State?**

**Giacomo Luciani**, Director of the Gulf Research Center Foundation & Professorial Lecturer at Johns Hopkins University

**14:50 – 15:10** Comments and discussion

**15:10 - 15:30 Contractual arrangements and revenue management: the UK/Scotland experience**

**Paul J. Stevens**, CEPMLP, University of Dundee and Senior Researcher, Chatham House

**15:30 - 16:00** Comments and Discussion

☞ **Coffee Break** ☞

**Session 3: The Role of Extractive Industries**
**Facilitator: Gilles Carbonnier**

**16:30 - 16:50 The role of business sector and corporate social responsibility**  
**Filippo Veglio**, World Business Council for Sustainable Development (WBCSD)

**16:50 – 17:10 Does CSR make any difference?**  
**Christine Batruch**, Vice-President, Corporate Responsibility, Lundin Petroleum

**17:10 – 17:30** Comments and Discussion

**19:00**

☞ **Cocktail & dinner** ☞

**Restaurant Portobello & Co**

*18, rue de Richemont*

*1201 Geneva*



Day 2 - Friday 5 February 2010 – Preiswerk Room	
Session 4: Resource Extraction, Peacebuilding and Development	
Facilitator: Fritz Brugger	
09:00 – 09:20	<b>Natural resource management in war-to-peace transitions</b> <i>Achim Wennmann</i> , Researcher, CCDP
09:20 – 9:50	<b>The case of the Democratic Republic of the Congo &amp; Lessons from Latin America</b> <i>Olle Östensson</i> (Caromb Consulting)
9:50 – 10:10	Comments and discussion
10:10 – 10:30	<b>The role of civil society : underlying contradictions and limitations</b> <i>Jana Krause</i> , Researcher Assistant, CCDP
10:30 – 10:50	Comments and discussion
☞ Coffee Break ☞	
Session 5: Emerging Issues – China & Climate Change	
Facilitator: Gilles Carbonnier	
11:15 – 11:40	<b>A Chinese perspective on the governance of extractive resources in fragile states</b> <i>Xiaojie Xu</i> , Head of the International Energy Program, Institute of World Economics and Politics, China Academy of Social Sciences, Beijing
11:40 – 12:00	Comments and discussion
12:00 – 12:20	<b>Climate change and the extractive sector</b> <i>Anida Yupari</i> , Researcher, CCDP
12:20 – 12:40	Comments and discussion
☞ Lunch ☞	

Session 6: Follow-up and Conclusions	
14:15 – 14:45	Direction for future research, publications, case studies, and options for collaboration  <i>Discussion facilitated by Gilles Carbonnier</i> , CCDP, The Graduate Institute, Geneva
14:45 – 15:00	Wrap up and conclusions

## 8.2. *List of Participants*

Name	Affiliation	Email
<b>Christine Batruch</b>	Vice-President, Corporate Responsibility, Lundin Petroleum, Geneva	<a href="mailto:cbatruch@lundin.ch">cbatruch@lundin.ch</a>
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<b>Prof. Peter Schaber</b>	Director of the Centre for Ethics, University of	<a href="mailto:schaber@philos.uzh.ch">schaber@philos.uzh.ch</a>

	Zurich	
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<b>Dr. Anida Yupari</b>	Researcher at the Centre on Conflict Development and Peacebuilding (CCDP), the Graduate Institute of International and Development Studies, Geneva	<a href="mailto:anida.yupari@graduateinstitute.ch">anida.yupari@graduateinstitute.ch</a>