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THE OIL CURSE: A REMEDIAL ROLE FOR THE OIL INDUSTRY

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The political and economic dysfunction known as the "oil curse" is a complex, structural phenomenon, caused largely by poor management or investment of oil revenues by the governments of oil-producing countries. Because this syndrome is taking an increasing toll on oil operations, the oil industry has a strong economic incentive to take affirmative steps, collectively, to mitigate it. And the industry is uniquely positioned to do so.

Instability Hurts the Oil Industry, Its Shareholders, and Other Stakeholders

- The capital cost of developing petroleum projects has increased 300 percent since 2003, according to industry analysts. Waste, inefficiency, and delays associated with operations in unstable environments are major drivers of these increasing costs.
- These higher costs are, in the end, largely passed on to the host country governments, but they also result in lower profits accruing to the project or oil company shareholders.
- The oil industry's business plans tend not to accurately reflect these aggregated costs, nor to recognize the upsides possible if oil curse symptoms—Dutch Disease, acute corruption, and insecurity—were better mitigated.
- The largest private oil companies, which are increasingly competing with national oil companies and non-oil companies, face the most restrictions on their operations. As a result, the "majors" have an added incentive to persuade the industry to adopt practices that promote stability, in order to level the playing field and prevent a race to the bottom that could further fuel conflict.

How the Oil Industry Might Reduce Costs and Help Mitigate the Oil Curse

Establish a voluntary group of companies to draft recommendations aimed at addressing oil curse syndromes. This joint effort could include improvements to the industry's approach to risk analysis to better assess oil curse problems and a standardized methodology to account for costs resulting from instability.

Maximize corporate social responsibility outlays. Companies can share the most effective methods, promote diversified economic development and good resource governance, and spend funds collectively to increase their impact.

Work more intensively with host governments to improve the management of oil proceeds. The industry can offer collective advice on opportunities for enhanced socioeconomic development and optimized use of oil revenues.

Expand anticorruption measures. Companies could, for example, consider minimum standards expected of a host government before they will bid on new concessions. They could also advocate with Western governments to develop tougher corruption and environmental standards that all oil companies must meet to compete for contracts in producing countries.

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