

CARNEGIE COUNCIL *for Ethics in International Affairs*

Crude World: The Violent Twilight of Oil

Public Affairs

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I'd like to welcome you to our breakfast program.

Our guest today is Peter Maass. He will be discussing his book, *Crude World: The Violent Twilight of Oil*.

Some of you may think that money makes the world go round, but others will argue that the more highly prized commodity is oil, for, after all, it is oil that makes the world work. Whether you are a recipient of its benefits or harmed by reliance on it, oil has become so vital that even a small reduction in output can cause economic chaos. It's no wonder that many refer to it as a "resource curse."

In *Crude World* our speaker articulates what we are willing to do for oil and what oil does to us. He posits that countries that are dependent on resource exports, especially oil, are susceptible to lower growth, higher incidence of corruption, less freedom, and more warfare. Although this may seem counterintuitive, history has shown that oil has had a destructive and indelible impact on the countries that produce it and on the people who possess it.

For example, oil is a primary source of manmade global warming, and spillages and drilling have at times inflicted lethal environmental damage. We also know that oil has been at the heart of bitter civil wars in several parts of the world, notably West Africa, and has the potential to start several more conflicts.

Like all good investigative journalists, our speaker has traveled the world uncovering information for this book. He visited countries that either produce or consume large amounts of oil and interviewed those who are enriched from its discovery.

In Saudi Arabia he spoke to officials in Riyadh, who avoided uncomfortable questions about Saudi reserves, and then to Russia, where he talked to petro-billionaires in Moscow. He interviewed warlords in the oil-rich Niger delta and talked to Americans in Baghdad—all this, and more, in order to illuminate the impact of the global dependency on oil and the power of black gold to corrupt.

For those of you who have read Mr. Maass' articles in *The New York Times Magazine*, *The New*

Yorker, *The Atlantic Monthly*, *The Washington Post*, or *Slate*, you know what an engaging and compelling writer he is. *Crude World* is just one more example of his splendid writing.

In addition to his plethora of fascinating articles, he is also the author of *Love Thy Neighbor: A Story of War*, which chronicled the Bosnian war. This book was awarded prizes from the Overseas Press Club and *The Los Angeles Times*.

Having recently read that between now and 2050 the world population is forecast to grow from 6.6 billion upward towards nine billion, we can only imagine the enormous energy challenges that we will face, including growing global demand, extremely volatile prices, and an urgent need to produce and use energies in ways that reduce greenhouse gas emissions.

China, India, and other emerging economies will continue to search for energy resources across the globe. They will do whatever is necessary, and at all costs, to obtain this resource. Existing problems will worsen and new challenges will arise.

What can be done to end oil's malignant influence? To address this issue, please join me in welcoming our guest today, Peter Maass.

Thank you for joining us.

Remarks

PETER MAASS: Thank you, Joanne, for such a wonderful introduction.

Although my speech is somewhat about what some people call the curse of oil, it's a blessing to be here, because this is a wonderful location, audience, and organization. There are a lot of journalists and writers out there who have written interesting books and don't have this opportunity. So I just want to thank the Council and everybody who has come here. It's just fantastic.

This book began after I finished writing my first book, which was about the war in Bosnia, because I had written a book about war itself—what it looks like, what it feels like, what happens during a war—and I wanted in my next book to try to go a little bit further under the surface. Why is it that wars occur? Why is it that there's global poverty? I had spent so much of my life covering hot spots and other places that were the source of conflict and poverty.

So I realized in the late 1990s that what I needed to do was to write a book about oil, because to me it remained a mystery. I mean we're always talking about it. We know it's incredibly important.

When I was in Sarajevo when it was being bombed, Bosnians would say to me, "If only we had oil, America would intervene." And then, of course, when I was in the Middle East, people would say, "If only we didn't have oil, we wouldn't have been invaded." So there was always a duality that was involved, and I wanted to figure out for myself what it is that we do for oil and what we don't do for oil, because people tend to be very polarized on this.

Initially what happened is I was going to do it from the inside of the industry, try to get jobs in different parts of the industry, and do it from the inside.

So I went initially in 2001 to Lafayette, Louisiana and tried to get a job as a roughneck. As you can see, I don't look like a roughneck. So I failed in getting a job, mainly because I had a college education, which disqualified me. It was to the benefit, because it's incredibly dangerous work. I

actually quite seriously could have injured myself, because I really wasn't qualified for that.

But what I then ended up doing was taking a much more conventional approach of going out into the oil world and trying to understand oil from the point of view of the countries that possess it—what happens to them, how it affects people's lives. This was a really difficult thing because, you know, if I was doing a story about the war in Bosnia, I was in Bosnia, it was about war. But when you're thinking about oil, when you're writing about oil, what is it? It's this inert, energy-packed substance that has no particular location because it's everywhere. It has no voice of its own. It has no army of its own. It has no dogma of its own. And so you need to go out into the world and see it and talk to the people who are affected by it, who control it, who fight over it.

So I went, as Joanne was saying, to Venezuela, Russia, Saudi Arabia, Iraq, Ecuador, Nigeria, Equatorial Guinea, to try to understand how oil shapes our lives and to try to understand the problems behind it and how to solve them.

I want to skip into a couple of countries and throw out a few of the experiences and things that I learned, and then the most exciting part of this day is not hearing myself talk, but hearing your questions and getting into the discussion.

One of the first stops that I made, which revealed to me the deep compromises in a very personal way that oil makes us get involved in, was in Equatorial Guinea. I went there a couple of years ago.

Equatorial Guinea is a country in West Africa, very small, 600,000 people. Nobody ever really cared or paid much attention to it, until in the late 1990s oil was found offshore in commercially viable, quite large amounts. So American companies began exporting oil.

Equatorial Guinea has a leader, [Teodoro Obiang](#), who's the president, who has been in power for 30 years, who came to power in a coup in which he then executed his uncle. In the last election in Equatorial Guinea, the ruling party won, I believe it was, 97 percent of the vote. It's that kind of a government. Human rights groups pretty much agree that, other than Turkmenistan, North Korea, a couple other places, this is one of the most dictatorial countries on Earth.

So I went there. Of course, after nine days I was accused of being a spy and expelled. It was that process which really revealed to me a lot of the problematic nature.

I had been in the country for about eight or nine days, and I had been talking to people about oil and the money, because the first several hundred millions of dollars of royalties that had been paid by the Western oil companies to the government of Equatorial Guinea had disappeared.

It turned out that they disappeared into secret bank accounts at Riggs Bank in Washington, D.C., that had not declared these accounts to the government as they should, that had not declared the fact that some of the deposits from the government of Equatorial Guinea came in the way of suitcases stuffed with cash that were taken by a Riggs Bank official from the embassy of Equatorial Guinea in Washington, D.C., to the Riggs Bank office.

Eventually this was found out. It was revealed that these accounts were under the personal control of the president, which is of course a very extraordinary situation, because these were supposed to be national receipts, national revenue.

When I went to this country and tried to ask people, "How does this work and what kind of transparency, if any, is there here?" a lot of closed doors were not open to me. After about eight

days, the information minister starts calling my cell phone and texting me and saying, "We have to meet right now." When this happens in a country like that, you know what this means.

So we meet at this little hotel. He says, "You're being expelled. The president is very upset with your presence here. You've been talking to the wrong people. You're on the next plane out of here."

One of his aides took me to my hotel. I had fifteen minutes to pack my bags and then went to the airport. The information minister then shows up at the airport and now he is saying, "You are a spy. You have behaved inappropriately. I want to search your bags," which had already been searched.

And so I start opening my bag. It was too slow. He starts slapping my arms. He says, "I'm going to take you down for an interrogation. I know you're a spy."

It was an uneasy situation. And then I said something which stopped him dead in his tracks. This isn't about me, it's about oil, because what I said to him was, "If you touch me again and if you take me downtown for this interrogation, then your president will never go to the United States of America again and you will be in trouble with the United States of America."

Now, I had no idea this was actually the case. My mother would be upset, my wife terribly upset, some friends too. I've never played basketball with [George Bush](#), or even [Barack Obama](#) if it were now. It was a bluff on my part. The information minister did not know that.

But it was as if I had shot him with a stun gun. It was American companies that were invested there with several billion dollars, and that was the relationship that Obiang prized the most. He knew that he could not jeopardize that. He did not want to upset the U.S. government.

So the information minister backed off and I was put on the next plane to Cameroon and that was it. Then, three days later, through the U.S. diplomat in Equatorial Guinea, I was told that the president had convened the diplomat in Equatorial Guinea and had apologized and invited me back to the country. I've had a lot of interesting offers—free concert tickets, et cetera—but that was one that I did not want to take.

But it really showed to me the terrible, terrible compromises that we make on a daily basis with regimes like this, where oil helps us. We get the oil of Equatorial Guinea; it frees people like me when we get in a little bit of a fix. But for the people of Equatorial Guinea, not so much. And it's not just the people of Equatorial Guinea.

Now, when you approach it or push out these moral issues or questions, there's a very pragmatic response that comes back: "We need their oil. We have energy needs, and they have the oil."

And the oil is not located in London or Paris. It's located in countries like this. One of the things that isn't often mentioned is, "If we don't do it, the Chinese will."

This was something that was also really dramatized quite well just in my one stay in Equatorial Guinea. This is just one little story in my book and in the experiences that I had trying to cover oil.

The hotel I was staying in was not a terribly good hotel. It was very expensive because there weren't very many places to stay in Malabo, the capital of Equatorial Guinea. Equatorial Guinea at the time was still even off the credit card grid, so I could not pay my bill with a credit card. I had two choices: I could pay in cash or I could transfer money into a bank account that was located, I found out when I checked into the hotel, in Shanghai.

And then, all of a sudden, because sometimes it takes a while, the bells kind of went off in my head: Yes, that's why the hotel is called the Dynasty Hotel. It's owned by Chinese. That's why the food in the cafeteria or the restaurant in the hotel is Chinese food in West Africa. That's why I realized, sitting in this little dingy room, I felt like I was in Shanghai, because the furniture had been brought straight over from there.

Indeed, when I looked around the country in the time that I had there, the Chinese were building roads and trying to strike contracts with the government of Equatorial Guinea.

What I heard from American government officials, what I heard from oilmen when I talked to them about things like that was: "Look, these regimes are terrible. We know that. But imagine if we're not there. It's going to be the Chinese, it's going to be the Russians. And hey, they're going to get the oil, we're not going to get the oil. They're not going to be pushing democracy and openness in the way that we do. So it's much better for us to do it."

That's something that I'd like to talk about more perhaps in the question-and-answer session, because I find that kind of compromise troubling, because I don't think it has gotten us very far in decades, and I don't see how in the long term it's really going to be part of the answer for what we need, for what these countries need, and for how we're going to ever find a way forward with a world that has scarce resources.

I also went to Iraq. That was a place where I was able to look into the issue of, politically, do we fight wars for oil? That question was to me the most interesting one. I learned to rephrase it in my own mind, that the question really shouldn't be, "Is a war for oil?" but, "How is a war for oil?"

I went to cover the invasion of Iraq in 2003. I was one of these crazy journalists who rented an SUV in Kuwait City from Hertz and drove across the border on the first day of the invasion and then hooked up with a Marine battalion that was going to Baghdad. As it turned out, this was the Marine battalion that ended up taking down the statue of [Saddam Hussein](#) in [Firdos Square](#).

Right after that I go to the oil ministry. I'm sure you all remember this. Baghdad right after the Americans got there was chaotic. There was looting going on all over the place. There was no law and order. Except if you went to the oil ministry, which was surrounded by American troops. Nothing was going on there.

I went there. The first time I went there, which was around the day after the statue came down, there was a group of Iraqis who worked in the ministry, technocrats who wanted to get inside. They couldn't get inside because the Army and the Marines had sealed it off, with 50-caliber machine guns pointing out. These Iraqis were just grabbing my sleeve, saying, "Look, the Americans have taken the oil ministry and the rest of Baghdad is burning. It's all about oil."

What more evidence would you really need than just that? Indeed, Baghdad was burning, and then here there was this one thing, that prize possession, the oil ministry, which was not burning at all.

Actually I don't think it was as straightforward as that, but I understood why everybody thought that, because in 1990 to 1991 when Saddam Hussein's army invaded Kuwait, he was after Kuwait's oil. Once he had Kuwait, from the American perspective, quite clearly, Saddam Hussein, with not just Iraq's oil reserves but Kuwait's and threatening Saudi Arabia's oil reserves, this was just a national security nightmare that could not be tolerated. And so the coalition was made. Five hundred thousand troops went in there to push Saddam Hussein out. That was all about oil—nobody denies it—and there is very good justification for it on that basis.

But in 2003, I think, actually it was much more subtle. And we were deceived by this striking image of the national museum being looted on the one hand and the oil ministry being protected on the other. If you blocked out those two very strong brain-shaping images, there was so much more that was going on in Baghdad and the rest of the country that was quite subtle, because there were so many other oil installations that were not protected at all.

I went across the river to [Daura oil refinery](#). This again was in these early days, when it was very chaotic in Baghdad. The Daura oil refinery, which is one of the crown jewels of the Iraqi oil industry, has been for a long time, because it was built by American and British companies. When you go into the administrative office, there are oil paintings on the walls of the first directors of the refinery, and the oil paintings are of American and British oilmen, because they were the ones who were the first directors. This place was built by Americans and British.

It was a wonderful place. The sign on the men's room of the Daura administrative office was "Gents." The time clock that the workers still punched into was an IBM time clock, which is both a testament to America's involvement and of IBM's great, great work a half-century ago.

And so I went there. This refinery had not been protected when the Marines first arrived and took down the statue of Saddam Hussein. Even finally, a couple of days after the looting began, some soldiers showed up. And I showed up there and I stayed there.

The director of the refinery was this man named Dathar al-Khashab, who was a lovable old [Baathist](#), as lovable as an old Baathist can be. I say lovable because he loved this refinery, much more than he did politics, much more than he did Saddam Hussein. He was dedicated to it. He had to organize his own workers and create a defense force in order to fend off the looters. And it continued that way for months.

Finally, some [American 82nd Airborne](#) soldiers were sent there. They helped protect the refinery. I sat with Dathar, the refinery director, and Captain Tom Huff, an 82nd Airborne soldier, in these meetings that they always had, trying to figure out how to keep the refinery safe, to keep it operating, because these looters kept coming and kept coming.

It was a crazy situation in these early days before there was the problem of American military becoming too aggressive. They were, at least in Dathar al-Khashab's view, not aggressive enough. You had the Iraqi director of the refinery asking this 27-year-old American captain, "Please, please, please shoot the looters," and the American captain saying, "I can't do that."

And you also had the American captain basically running this refinery along with the Iraqis. He was making decisions about how to get supplies, about what to do with workers and disputes and things of that sort. He said to me a number of times, "Look, I'm trained to jump out of planes and kill people," which is what every Airborne Ranger says proudly, which is true. He said, "I'm not trained to run a refinery and I have no idea what the plan is for this."

And there were all these other anecdotes—these are just anecdotes, not a scientific proof—but anecdotes of a range of diversions or other priorities that the American military and the American government seemed to have, because actually securing and running Iraq's oil facilities did not seem to be, on the ground, the number one priority.

Even in the oil ministry itself, the first senior or mid-level American civilian official to arrive was a guy named Gary Vogler, who was a former Exxon executive. He arrived about two weeks after the first Marines did. I saw him a number of times and tried to arrange to have an interview with him. It was

very difficult to arrange because I had my cell phone and my banged-up SUV that I'd rented in Kuwait, and so I was able to drive around and go wherever I wanted, but he and his spokesman didn't have cell phones of their own or computers of their own. I couldn't send him an email. I realized that I was better equipped than these mid-level officials who were supposed to be running the Iraqi oil ministry.

Now again, these are anecdotal signs of disarray. And of course the invasion and occupation of Iraq was, as we well know, incredibly badly planned. For three weeks it worked out very well, in the sense of conquering the country. Afterwards there was no planning. So some of what I saw was certainly due to the bad planning.

But I also think some of it was due to the fact that there were other concerns, that the weapons of mass destruction (WMD) were indeed an issue. This wasn't just about oil, but the weapons of mass destruction. And this we can talk about. I look forward to talking about it. Even though the evidence for them was massaged or concocted, a fear really did exist on the part of American officials that there would be weapons of mass destruction there and something had to be done.

So this particular war, even though all Iraqis thought it was about oil and even though we have the picture of the oil ministry defended, it was much more complicated. Oil interacted with WMD and other concerns, such as democracy and religion, into this very volatile mix. So that's why, again, it's important to stay away from the dogmatic, "It's about oil/it's not about oil," and just ask a more useful question, which is *how* it's about oil.

I also went to Nigeria. The thing about Nigeria is that the country, as we all know, is in terrible condition. It has about 40 billion barrels of oil, the best kind of oil that money can buy, because it's very light and sweet and very easy to refine. Nigeria has been exporting oil since about the late 1960s. It has earned more than \$400 billion from the oil revenues. This is where "oil is a curse" really comes into play.

I need to back up for a second and just say that oil is not always a curse. Oil can be a blessing. Oil has been a blessing for the United States. It hasn't hurt us. The oil reserves we have used have fed our economy quite well and have not distorted our political system or our economic system.

Canada has just done wonderfully with the oil it has, and Norway has been fantastic. But in the case of Norway it found democracy before it found oil, which is key. In the case of Canada, the United States, and countries like that—Australia, another mineral-rich country—there is a diversity of economic activity. There are farming sectors, there are industrial sectors. Oil is not the only prop of the economy and of the political system, so you can end up doing quite well off of it.

But in a country like Nigeria, at the beginning of independence it had a farming sector, the beginnings of a manufacturing sector, and a British-educated elite. Yet now, 40 years later, after all this oil and all this oil money has come in, 80 percent of Nigerians live at or below the poverty line. One out of five Nigerian children die before they hit the age of five. Senegal, next door, which exports fish and nuts and more, has as good or better living standards than this oil-rich neighbor.

And of course, most famously, in Nigeria there is a war going on. It's not a war that we really hear that much about because it's not state against state. It's not even insurgency against government, in the way that we're now seeing in Iraq. It's a low-level intensive war in the actual area that the oil comes from, the Niger Delta.

So I went down there to try to see it for myself and to see what is happening and what is the price of

oil, because it's not just the \$2.50 that we pay here to put it into our tanks.

In order to get access to go into the Delta, which is an expanse like the Everglades, I didn't need the permission of the Nigerian government. That was fine; they didn't care what I did. I had to get permission actually from the main warlord at the time, who was this guy named [Mujahid Asari-Dokubo](#). At the time I went down there, I was very fortunate, because there was a truce that was occurring between the government and the rebels.

This warlord was living in a hotel in Port Harcourt, which is the largest city in the oil-producing region. I go there to meet him.

The first thing that happens is I'm in this hotel room with him and I put my digital tape recorder down to record the interview. He looks at it and he says, "I like that. I want that." I didn't know quite what to say to a warlord. You want to get his help in getting into his territory and he asks you for a favor, to give him the recorder.

I said, "I need it to do my work. You can buy it on the internet."

He said, "Ah yes, of course."

He then gave me permission, let me have my tape recorder.

I went into the Delta on a canoe with one of his aides. With this conflict, similar to Iraq, you have images or ideas of black and white, but it is so not black and white there. We went in, and you don't have one militia force that's united, where everybody together and the militia force has its own government operations, where people get fed. In this case, there were militias fighting against each other, and even within the militias.

I go in this canoe. We stop at a village that had been attacked a few months previously by a rival militia and then, a few weeks previously, had been attacked by the government.

So we get to the village. There are only wounded fighters who are there. The one who is their leader, who has no right hand, just a bandage, because it has been severed in the fighting, doesn't even want to let us get off the canoe, even though I'm accompanied by one of the warlord's top aides, because he was pissed off.

"Why are you coming here? You guys are living in Port Harcourt in nice hotels. We're out here suffering. We're not getting anything."

He eventually lets us into the village, which is a panorama of what search-and-destroy villages have looked like throughout history.

Then we get back into the canoe and we go to this other village where the local tribal chief lives. It's a surreal situation—*Mad Max* meets *Waterworld*—in the sense that on one side of this creek there is a Shell oil facility surrounded by an electrified fence, green lawn, and huge flare. I've been to these facilities before. You go inside and it's just totally first world—computers, air-conditioning, cafeterias, everything you could want.

In the village across the creek, which had no running water, medicine, or schools—the creek was the lavatory, so you were just met with this fecal stench—the local population is living worse than they had been living when oil was found. Now there is pollution, now there's a big flare across the creek.

Flares look nice from 35,000 feet up. When you fly over the Niger Delta, you look down and you see these massive flares, which you don't see in America. There's flaring in America, but very little, because flaring is incredibly dangerous health-wise. In Nigeria and the Niger Delta, flaring happens all over the place.

Going through the Delta, the earth is on fire. You smell pollution, even though there's not a well nearby, because it has seeped out so much. This is the condition that these people lived in.

The local tribal leader took me around and said, "See how we live." We passed soldiers who were guarding facilities, soldiers whose wages are paid by the oil companies. The king says, "Why do you think that we're hostile to the oil companies? The oil is coming out of the ground, it's our ground, and we are living like this." So this is part of the price of oil that we have.

I just want to finish by saying that it sounds dismal, and if you go to these places it is dismal—and I hope we can talk more about these places and others—but there is one big thing that can happen that can make a big difference. That's transparency.

It's transparency, first off, in talking honestly about oil. [Donald Rumsfeld](#) quite famously said before the invasion of Iraq, "This has literally nothing to do about oil."

And of course it did have quite a bit to do about oil—not everything, as some of the biggest critics said—but it did. And you can't know how oil plays into it, you can't decide whether it's justified or not, unless you talk openly and honestly about oil.

It's obviously a third rail of sorts for politicians here. But we need to somehow be able to allow this discussion to happen, because if it doesn't then we end up invading countries for reasons that we're not even aware of.

And there's another kind of transparency that I think needs to happen. That is how much oil there is. In addition to all the other problems of war, corruption, et cetera, there's a big question about whether or not there's enough oil to keep supplying us either at the same level we're at now or increasing.

We have no way of knowing, because most of the countries that have oil do not provide independently audited figures. There are a lot of skeptics out there who say that actually we're at the peak of oil production and that we're going to be bumping up against it, if we're not there already. This can cause all kinds of economic problems, which might have been the reason that oil shot up to \$147 a barrel last year. So we need transparency in terms of knowing how much oil is left, and that transparency is not there.

And then, the final kind of transparency is about money. With the vast majority of these countries, who are friendly to us but unfriendly to their citizens, negotiations, contracts, and money flows are secret. The reason that Teodoro Obiang was able to stash several hundred million dollars in these bank accounts in Equatorial Guinea is because nobody knew how much money was being received and nobody could track where it was going.

There are some great movements afoot: the [Extractive Industries Transparency Initiative](#), which involves a lot of governments; [Publish What You Pay](#), which is a nongovernmental effort to force companies and governments to publish how much is being paid from the companies and how much has been received by the governments.

If you have that kind of transparency, then you can track the money, you can make sure it's not stolen, and you can do your best to ensure that, when it is used, it is used well and it's not wasted.

With that, I now want to throw it open and hear what I know are going to be great questions from this institution.

Questions and Answers

QUESTION: How much do you think speculation affects the price of oil? What are the effects of that in terms of the economics of oil? And what do we do about it, if it is a problem?

PETER MAASS: It definitely plays a role.

I remember I went to the New York Mercantile Exchange five or six years ago as part of the book and I was talking with an energy trader. This was back when oil cost about \$50 a barrel, which to me seemed like a lot of money. He was saying to me, "You should invest in oil futures because really it's going to be a very good investment." Because I'm a journalist and not an investor—and thank God for that, because I would just make terrible decisions—I said, "That's something I really can't get involved in here."

But it pointed me towards what was beginning to happen and what really gained steam, which was indeed oil futures became great investment opportunities. So a huge amount of money flowed into energy futures, et cetera, and that had an effect on the price. If you think the price is going up, or if you can drive the price up, then that's a good way to make money, better than in the stock market or in real estate.

How much of the money went in and what effect did it have on the price? I honestly don't know. I've read all the studies. Oil at \$147 a barrel. It seems like people say at least \$20 to \$25 of that, maybe a little bit more, probably not much less, was due to the speculative flows of money into oil.

But you can't blame the fact that oil hit and exceeded triple digits just on that. I think there also was—and there is—a supply and demand problem.

Oil reservoirs are not like pools that you stick a straw into and you can pull out as much as you want whenever you want it. It's very hard to actually get oil out of the ground. Even though Saudi Arabia still has lots of oil, even though there's still a trillion barrels of oil at least that remains, we can't just take as much out as we want. This is Geology 101, which I'm not confident at explaining here, and there's probably somebody who can do it much better.

But the problem is that there are about 85 million barrels a day of capacity that the global industry has, and they can't just turn it all on and increase it whenever we need it, when for example the global economy gets going again. That's when probably the prices will go back past triple digits and could go even higher than they were before.

QUESTION: You mentioned at the end the fear that we may find someday that the oil is running out. But I want to ask you about the other development which we're seeing right now, which is reports of discoveries of vast new oilfields in places like Brazil and Central Asia. What would the consequences of that be?

Let's assume for a moment that our supply of oil is going to grow substantially. What would happen then?

PETER MAASS: I think there are different types of oil in a way that we're talking about when we're talking about vast new supplies.

Of course, there is a lot of discussion now about the shale oil that is in the Midwest, and there's potentially a heck of a lot of that. It's very difficult to actually get the oil out of it. It takes a lot of water, it takes a lot of technology, it takes a lot of energy itself. So whether or not we can actually use that kind of oil that's trapped there is another question.

I don't think that the reporting on the discoveries in Brazil and other places is terribly good. Oil companies get incredibly excited if they find a billion barrels of oil, an oilfield of that size, because they're going to make a lot of money off of it. Anybody who finds a billion-barrel oilfield is going to be doing very well. That's a terrific find.

But it's not going to change. I don't think that these fields that have been talked about in Brazil—maybe ten billion barrels—are going to change the overall supply situation in the short- or long-term.

The reserves that exist naturally decline over a period of time, so you need to replace the reserves that you're running out of. If you want to increase supplies, you need to find yet more increments.

So when there are stories about ten to 20 billion barrels that were found, and people are very excited about it, well, that is terrific, and financially that's important for the companies involved. But in terms of the overall supply situation, when you've got a trillion barrels in the ground, ten billion isn't going to make a big difference I don't think.

QUESTION: The [Association for the Study of Peak Oil and Gas](#) and many other observers say that world oil production will peak by roughly 2012. Some say it has already peaked. We're looking at substantial decline rates already. So as you mentioned, the fairly small discoveries we're talking about will not really do a lot to alter the overall picture of things.

Why aren't our federal, city, and state governments dealing with what's going to be an inevitable descent in the availability of inexpensive oil, and what that is going to do for us here in New York City?

PETER MAASS: I think they are beginning to wrestle with it. [Schwarzenegger](#) has been doing actually quite a bit, trying to do more than he has been able to do. But there are officials, I think, who are wrestling with this problem and are trying indeed to make cities greener and provide alternatives. The government here is obviously trying to make differences.

At least we have a government now that is trying to set a new energy policy, which is a great step forward. This isn't a Republican-Democratic thing that I'm trying to do here, but the last administration was not terribly interested in promoting renewable alternative energy forms. This one is.

But there are roadblocks, there are political roadblocks, and they have existed—I wanted to say since [Jimmy Carter](#) put the solar panels on the White House, but even before that. [Richard Nixon](#) had [Project Independence](#), which also died pretty soon after it was proposed.

So it's just a question of interests. People in coal states don't want to give up on coal. People in oil states don't want to give up on oil. People for whom it's very hard to pay \$2.50 a gallon understandably have no interest and don't want to support a gas tax that would, let's say, create a

floor of \$4.00 a gallon, which would really be the kind of incentive that people need to change their driving and their living habits.

So I just think that people are becoming more aware. But it has always been a terrible kind of nut to crack. We know what we need to do, but it's going to be painful for us. We just have to be willing to take that pain, share it, and have those who can bear more of it do so, so that others that have a hard time with it, who can't afford more than \$2.50 a gallon, somehow can continue to live decently.

QUESTION: I wanted to ask you about Iraq. Let's assume part of our reason for going there was for oil. When I read about oil companies coming in and negotiating contracts, they don't seem—and I may be wrong—to be mostly U.S. companies.

I'm wondering, is our government trying to shift it to U.S. companies, or how is that all working? We're in power there to some extent. Who's getting the contracts? How is it working?

PETER MAASS: Well, they're really just small-scale contracts at the moment. It's not just American oil companies that are getting them. Some Chinese companies are involved there.

Of course, our government wants American oil companies to get contracts. That has always been the case. There has been close cooperation, for understandable reasons. If oil is being extracted by our companies, our companies get the profits, and it provides a much more secure line of supplies to the United States, because, as the OPEC [Organization of the Petroleum Exporting Countries] oil embargo showed, we could not trust the foreign Western companies, British or French, to provide the oil that we wanted when perhaps some of the Arab countries didn't want to supply it to us. And actually some of the American companies in fact didn't turn out to be terribly loyal to the interests of the American government at that time either.

But it's just basically normal. Every government fiercely tries to defend the interests of its own companies.

This is one of the things that happened in the Iraqi oil ministry. When I finally got in there, a couple days after the first chaotic days, and I talked to one of the senior [technocrats](#)—and this is where things get really wonderfully complex—he was saying to me, "For the last 15 years, because of sanctions against the regime of Saddam Hussein"—and this is a technocrat; he's not a Baathist, he's not a political appointee—"we've had to deal with whoever we could deal with. We could not deal with the American companies. But now, because the sanctions are gone and the Americans are here, we can deal with the Americans, because Exxon knows the difference between good oil and bad oil, and they know how to get it. These other companies, the Chinese and the Russians, don't."

So there is actually a desire on the part of a lot of people in these countries to work with American or British companies, because they do have the best technology.

Politically we can debate Exxon's positions on global warming and other things of that sort, but it is universally regarded as just a terrifically competent oil company. If you have a hard reservoir, you want a company like that. They still have that competitive advantage. I found that when I was in the oil ministry, because the people there were saying, "Thank God, finally we're going to be able to work with American companies."

QUESTION: I know you didn't have time to get into Russia, but could you capsulize the contrast between the setting of oil in Russia and, say, Nigeria—the people behind it and who's profiting?

PETER MAASS: I went to Russia and I spent some time with one of the oil billionaires, a guy named [Vagit Alekperov](#), who's the chairman and largest single shareholder of Lukoil, worth many billions of dollars now. When I went into his office in the Lukoil Tower—beautiful office, Scandinavian wood and perfect leather chairs and all that—I noticed on his desk, in the place where you would expect a picture of the wife and daughter to be, a picture of [Vladimir Putin](#) instead.

This was at the time just after [Mikhail Khodorkovsky](#), who was the largest shareholder and owner of Yukos, which was the main competitor in the private sector to Lukoil, had been arrested. Khodorkovsky was arrested because basically he had decided, instead of supporting Putin and the Russian government as it was, he was going to support the opposition.

Putin made the decision that he could not afford to have a multi-billionaire funding the opposition. Putin also decided that Khodorkovsky—and this was not known so well at the time, but since it has become clear—was in negotiations with Exxon to sell a portion of Yukos to Exxon. So for political reasons, to eliminate an opposition figure, but also to keep Russia's national resources within Russian control, Khodorkovsky was arrested and Yukos was basically appropriated by the state. It no longer exists.

Maybe this isn't quite the question you were getting at, but to me it got to a really interesting question, because on the one hand you say what Putin did was terrible and one of the problems in Russia is that oil—and there's so much oil there—is basically owned and controlled by the government and that the government has become really about managing oil both on an economic level and on a political level internationally.

But what happened in Russia reveals in some ways an unresolvable problem. What do you do when you have oil resources that are so large and so concentrated? This is where oil is different from wheat or automotive factories, because in those other sectors there are a lot of people involved, a lot of stakeholders, and the wealth is spread out and diversified.

With oil it's concentrated. You can have it in the hands of the private-sector people like Khodorkovsky who then control the government. Khodorkovsky, by the way, although he was supporting the opposition, was not a gentle man. He, as one of the oligarchs, had really been running roughshod over the Russian political and economic system. Or you have oil in the control of the government, which then becomes super-concentrated, super-powerful, begins to ignore other sectors, and becomes very corrupt. It's almost an unresolvable situation.

In America we have a good kind of ownership situation, I think, with private citizens who if you find oil in their backyard it's yours. You can get an oil company to come in, but you get the royalties.

In countries like Russia, that doesn't happen. So how do you divide up the power that oil represents in such concentrated ways? Russia hasn't done that. The problem with it is that incomes have risen because prices have risen, and so Russia is in better shape now in terms of income than it was eight or nine years ago. But what happens when production peaks or goes down? What happens when prices don't keep rising?

When you look behind the scenes of what brought down the Soviet Union, one of the triggers was that the price of oil collapsed in the 1980s, as did Soviet production.

That was one of the reasons why [Gorbachev's](#) reforms failed. He had no money to shore up the Soviet economy. The same kind of thing could happen in Russia one day too.

This is part of the curse of oil, in the sense that when things are good they're great; but when they're not great they fall apart. That's why oil is not like *Beverly Hillbillies*, where you find oil, you're rich, and you retire to a mansion somewhere.

QUESTION: As you know, the dominance of oil in the energy economy is actually relatively recent, with the shift away from coal in the postwar era and the rise of the private gas-driven car. What I'm wondering, though, is whether we may not see just as rapid a shift away from an oil-based economy in the coming decades between the rise of the electric car and pending breakthroughs in areas like solar and wind power.

PETER MAASS: We're going to have to have some sort of transition. Even the oil companies themselves say that in 20 to 30 years—these are the most optimistic estimates you'll find—oil will peak. If our energy consumption increases, we're going to have to be finding other sources. So we're going to be impelled to go that direction one way or the other. The question is: How quickly?

How much of the solution do we rely on? Is it going to be trying to find new energy sources, or is it going to be combining that with perhaps trying to consume less energy, conservation, et cetera?

I see it not so much as one answer, one direction, but many different things that are going to have to happen. [Robert Socolow](#) and [Stephen Pacala](#), who are at Princeton University, have a [plan](#) with seven different areas that we have to focus on, each one requiring monumental efforts in the way of conservation, in the way of carbon capture and storage, in the way of efficiency, in the way of exploiting natural gas and other types of energy reserves. But there is no one magic bullet.

Electric cars are great, but where are you going to get the electricity from? Is it going to be from coal, which is problematic from the climate point of view? Is it going to be from nuclear?

So you can find the technology, but you still need to find the energy sources. I think we're going to have to find it. Humanity is not going to cease. We are eminently survivable as a species and we're very smart. I would hope that we don't have to have a full-blown crisis with oil prices that go so high that the economy just stops dead in its tracks, which can happen.

And I hope that we find alternatives before global warming becomes such a problem that it's irreversible. I think it will actually, because here we are now, we're talking about it, and we still do have time. But we have to act quite strongly and quickly.

QUESTION: Well over 90 percent of all the oil reserves in the world are owned by governments. After hearing your talk, would you come to the conclusion that the problem is not oil but governments?

PETER MAASS: Well, maybe I would come to the conclusion that that has always been the problem, even before the oil age. We're talking about governance. It's not oil itself in a way that is the problem. It's how governments manage it. It's how individuals respond to it.

As I was saying at the beginning, oil is an inert substance. It doesn't tell us anything. It doesn't do anything except what we tell it to do, what we use it for.

And so when you have good government, as in Norway, which found democracy before it found oil, oil works out very well. When you don't have good governments, then oil can accentuate all the problems that exist.

Today, about 85 percent of the world's oil is owned by the national oil companies. I don't think that in and of itself has to be a problem. I don't see why it should be problematic structurally for state-owned companies to own these precious national assets.

When Chinese companies tried to buy Conoco here, there was just a furor—"We can't let the Chinese own an oil company of our own."

So it seems to me natural, actually, that there would be these national oil companies. In some cases, they're not as good as the Western companies, in terms of corruption, in terms of technology. But the problem isn't these companies themselves or the oil itself. It is this governance question.

That's why part of the answer in terms of transparency, in terms of publicizing revenue flows, is also democracy promotion. It comes down to very simple building-block-type things.

Us over here, acting in a way that encourages good behavior, or that requires good behavior, because we are going to publish every single dollar that we send over to these countries, rather than going to a country like Equatorial Guinea and helping the dictator drag suitcases full of cash over to his bank account at Riggs Bank.

QUESTION: I think the point is that most of those countries are kleptocracies, and also the conspiracy theories regarding big oil, big business, big pharmaceutical companies, and so on have been around for years. But business is business. They're not in the business in the sense of rebuilding economies. We're not going to find the kind of transparency that you're looking for in countries that are basically either dictatorships or kleptocracies or both.

And so you have to start looking at really what is the profit factor here beyond that. When you talk about oil, big oil, all of this, and you look at the price of gasoline, whether it's \$2.00 or \$3.00, and you think about how much it is really costing to find, develop, extricate, and refine oil, the profit margin is not overly great, particularly on the retail level when you look at it, with so much of the taxes involved.

When you talk about national companies, whether it's China or Venezuela or the like, they are using this oil for other purposes. It doesn't get down to the people, even if those countries are not necessarily kleptocracies.

So again, the onus is on big business. The problem has been around for years, ever since oil was really discovered, developed, and used as a main fuel.

PETER MAASS: I think it's very easy, and has been easy, for people like me to point the finger at big oil and say, "These are the bad guys." The thing is that I actually don't think that oil companies or oil businessmen are any different from the person who sold me my iPhone.

Actually, one of the favorite parts of my book is explaining what Baku was like in the 1990s. Baku, the capital of Azerbaijan, was like the Wild West in the 1990s. All of a sudden these oil fields were opened for exploration contracts to the Western world. In the Intourist Hotel, all the oilmen came there, competed viciously against each other, with a corrupt government. There were negotiations where weapons were brought out and pointed at executives' heads.

If you had sent an Apple executive to Baku at that time to sell iPods, he would have ended up getting involved in the same kind of troubled behavior that oil executives did. So I don't think that the problem is them in that way. They're no different from any other company, any other industry.

I think, however, that yes, there are kleptocracies in these countries. But actually, when you go back to that example I gave of Equatorial Guinea, I said: "Look, your president is not going to go to America if you mess with me." And again, I have no idea. It made a difference. And I do think that we have power.

There is a bill that was introduced in Congress last week. I think it's called the [Energy Security Through Transparency Act](#). Senators [Lugar](#) and [Schumer](#) and others have signed onto it. It would require any company that's registered with the [SEC](#) [U.S. Securities and Exchange Commission] as an extractive industry company to publicly declare and publish payments above \$100,000 that go to countries that have extractive industries.

Now, you could say, on the first hand, "Well, this is going to put American companies at a disadvantage, because the Chinese and the Russians don't have to declare this. So the folks in Angola will want to do business with those."

But actually, the genius thing is, of course, because we have this global economy, we can use this to our advantage because most of these extractive companies are registered in the United States, because they issue shares or raise money. So a law like this would apply to those companies.

So you make it very difficult for these kleptocrats to actually get away with this, because there aren't so many places for them to run. And they do need us. The American companies, particularly Exxon and Chevron, have this know-how, technology, and capability that still make them the leaders in the field by a fairly significant margin in my view.

I was at a party just a few blocks from here about a year ago, and an Italian executive who was involved actually quite deeply in Kazakhstan said to me: "You know, it would have just been better if Exxon had become the operator of this contract, because they would have gotten it done."

And the question is, how well are they enforced? In 1977 the [Foreign Corrupt Practices Act](#) was passed, which forbid payments to government officials for services. For about 20 years you saw no activity with that law whatsoever. It was there, it existed, and nothing really changed. The companies were still making the payments that they were always making, or they were using middlemen to make those payments. In the last couple of years there have been more prosecutions of that law.

So you are right, laws have been passed and been routinely ignored or forgotten. This means that we have them there. There's an Old West saying: "If you get involved in a gunfight, make sure there are no bullets left at the end."

I don't want to get back into war analogies here, because that's not the way we should go. But we have a lot of things, I think, that we can do, and a lot of power still, because of the power of our companies, the technology they have, and the fact that the global economic system does go through New York to a much bigger extent than it goes through any other city.

QUESTION: Your two main points were corruption and supply. Concerning supply, the United States and Canada have the world's largest reserves of oil in the sands and in the shale. The power cost to extract this stuff and refine it is very high. What do you think about just putting in nuclear power—the initial expense is very high—at the sites, because the long-term operation is very cheap for the supplies of oil?

The other issue is corruption. Now, we have an international organization like the United Nations whose membership consists of all the countries. Why doesn't the United Nations require or demand

or mandate from its members that there be no individual investment of public officials, whether they be government officials or military officials, outside their countries, and have them, all national leaders and their cohorts, put in annual certified statements of their assets? Wouldn't that solve the problem?

PETER MAASS: You get into tricky issues here, where there are violations of sovereignty. Effectively, pragmatically, yes, that would be great. You have corrupt leaderships in these countries, and if you can just force those corrupt leaders to be required to disclose their accounts, that's going to be a great help.

But on the other hand, it is a violation of sovereignty—Why us and not you? It's something that is being debated.

I remember when I covered the Balkans. Eventually, finally, after the war was finished there, [Slobodan Milosevic](#) was indicted by the war crimes tribunal, and there were financial blocks put on him and other people in terms of bank accounts they might have. It was helpful. It can be done. I think there are efforts to indeed target corrupt individuals.

In terms of the other question that you asked about using nuclear energy to help get the tar sands going in Canada, this is one of the incredible things about the energy situation we're in.

You have these tar sands in Canada. It is a huge amount of oil that is locked up there. But, unlike conventional oil, which you get out of the ground and it's pretty much a liquid and you refine it, the tar sands in Canada—and they also have this heavy oil in Venezuela, and again large, large reserves—you basically have to boil the earth. I'm not a geologist, so this is my incredibly simple version of it, but it's basically true. You have to boil the earth and also use a lot of water to get the oil out of it. And it causes an incredible amount of environmental harm because of the wastewater, because of the emissions from burning this stuff.

And then you also have to find an energy source. So people have talked about building a nuclear power plant in these tar sand fields in order to get the energy out of it.

That points to some of the difficulties of the future energy, because it takes very little energy to get oil out of the ground. That's one of the beauties of it, that you don't have to put in intensive operations to unlock all this energy. But if you have to build a nuclear power plant, which itself requires a lot of energy, which itself involves a lot of problems in terms of nuclear waste storage and the possibilities of accidents, then you're not getting as much bang for the buck in terms of pure energy out of this whole process. Then is it really worth it?

My view is probably it's not worth it, and it's just going to prove practically difficult to go much further beyond what Canada is doing now in terms of its tar sands. The environmental cost is going to make people reconsider—not in terms of shutting it down, but just whether or not they can keep increasing in the increments that they want.

Venezuela has a similar type of situation, where they have this very difficult oil. They will run into some of the same problems, in addition to the fact that their own oil company is incapable of managing these projects on their own and they need foreign oil companies. Of course then you get into the whole question of [Hugo Chavez](#).

JOANNE MYERS: I want to thank you. You obviously have done your homework. Thank you for sharing it with us.

Audio

From Ecuador to Nigeria, in most oil-producing countries oil has not brought any benefits to the poor and has often damaged people's health and ruined the environment, says Peter Maass. As for Iraq, although the war was not "all about oil," oil certainly played an important role.

Video

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