

The Politics of Energy: Comparing Azerbaijan, Nigeria and Saudi Arabia



Jos Boonstra
Edward Burke
Richard Youngs

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The Politics of Energy: Comparing Azerbaijan, Nigeria and Saudi Arabia

Jos Boonstra, Edward Burke and Richard Youngs

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Richard Youngs is Coordinator of the Democratisation Programme at FRIDE. He also lectures at the University of Warwick in the UK. Jos Boonstra and Edward Burke are Senior Researcher and Researcher respectively for the Democratisation Programme.

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Goya, 5-7, Pasaje 2º. 28001 Madrid – SPAIN

Tel.: +34 912 44 47 40 – Fax: +34 912 44 47 41

Email: fride@fride.org

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As part of an ongoing focus on the international politics of energy, we published a working paper in July 2008 offering an overview of the relationship between energy security and issues of democratic governance.¹ That paper assessed the commonly forwarded proposition that the increasing tightness of international energy markets since 2002 has militated against prospects for democratic reform in producer states. Demand for oil and gas is rising fast; global reserves are, according to many, set to reach their peak; and vastly augmented revenues have flowed into the coffers of producer states. The 'rentier state' dynamics that help account for the lack of democracy in most oil-rich countries seem to have further intensified. At the same time, international pressure on these regimes for democratic reform is widely seen as having weakened, as Western countries seek access to ever scarcer resources in a more competitive global market.

While confirming much of this negative scenario, our working paper also argued that the relationship between energy and democracy is more complex and varied than has been frequently suggested. High energy prices have undoubtedly empowered many non-democratic regimes. However, in many states, the 'oil bonanza' of recent years has also led to new popular protest against the mismanagement of increased revenues by regimes. Governments are under a more intense critical spotlight than they were when international markets were not nearly so tight. Furthermore, while Western countries often seem to have indulged autocratic 'petrolist' states, the international good governance agenda has, if anything, gained new vitality as consumer states seek more transparent and predictable access to scarce resources. The conclusion we drew was that while none of these factors negates the problematic impact of energy on democracy, the national and international politics of energy security are more multi-faceted than usually asserted.

In this current working paper, such analysis is taken a step further. The same questions are examined in greater detail by exploring three producer states: Nigeria, Azerbaijan and Saudi Arabia. Each of these states has benefitted from massive increases in oil and gas revenues in recent years, but none is fully democratic. The following three questions are explored in relation to each of the three countries:

- The impact that energy issues have had on incumbent regimes.
- Whether energy factors have been responsible for new state-level good governance initiatives and/or for inciting pro-democracy activity against the respective governments.
- Whether international efforts to promote democratic and good governance reforms in these three countries have, on balance, increased or decreased since energy prices began to rise.

Evidence from the three cases sheds further light on some of the most salient points raised in our original overview paper. Firstly, the new energy panorama has increased pressure for reform in the three countries and their respective regimes have responded to this in different ways. Secondly, some of the more notable reform efforts in the three states are related to improving the governance of the energy sector. Thirdly, the US and the EU have combined new engagements concerning energy and security in these three states with good governance initiatives. This paper argues that the variation in these trends reinforces our contention that a more nuanced understanding of the energy-democracy relationship is warranted.

¹ R. Youngs, 'Energy: A Reinforced Obstacle to Democracy?', FRIDE Working Paper, July 2008

Azerbaijan

With a GDP growth rate of over 30 percent in 2007, Azerbaijan is the fastest growing economy in the world. This enormous growth rate is almost exclusively attributed to increased energy exports and high oil prices. As well as being a key producer, Azerbaijan also has emerged as a crucial oil and gas transport hub between Central Asia and Europe. The former Soviet Republic, independent since 1991, slowly but steadily moved from an incoherent transition period to an authoritarian regime under the leadership of Heydar Aliyev, who was then succeeded by his son Ilham in 2005. While Azerbaijan has worked hard to raise its international profile as a reliable energy exporter and stable partner, its democratic credentials remain weak and human rights are increasingly under threat. In addition, any resurgence of the Nagorno-Karabakh conflict will have serious implications for energy supplies.

Domestic developments

Azerbaijan has proven oil reserves of 7 billion barrels, whilst gas reserves are estimated at 1.37 trillion cubic metres.² The Baku-Tbilisi-Ceyhan (BTC) oil pipeline became fully operational in mid-2006, pumping oil to the Turkish harbour of Ceyhan. From there, the oil is transported in tankers to EU countries and elsewhere. The Baku-Tbilisi-Erzurum (BTE) gas pipeline follows roughly the same route and delivers gas from Azerbaijan's Shah Deniz field to Turkey. The pipeline became operational in early 2007 and Azerbaijan was thus transformed from a net gas importer to a substantial exporter. This energy-transport network to Europe over ex-Soviet territory is the first to bypass Russia and is of immense strategic importance to Azerbaijan, Georgia, Turkey and the EU. Profits are likely to further increase as soon as Azerbaijan is able

² I. Ahmadov, 'Azerbaijan's Energy Opportunities: What kind of Sustainability do we want?', presentation at the seminar *The EU Strategy for Central Asia: Promoting democracy and human rights*, FRIDE seminar, Madrid, 19 November 2007

to transport Central Asian gas through an envisaged Transcaspian pipeline (TCP), and oil from Kazakhstan and Turkmenistan through the Caspian Sea, to connect to the BTC and BTE lines.

Sky-rocketing economic growth has tripled the national budget within four years to 12 billion dollars in 2008. The Azerbaijani economy is likely to grow further in the coming years. However, it is forecasted to reach its peak in 2012, when Azerbaijan oil reserves are set to decline and the transport of Central Asian energy will increasingly replace the income from national production.³

The Azerbaijani economy has become ever more dependent on energy. The state has not invested significantly in other sectors of the economy, such as agriculture, upon which a large proportion of the population is dependent. Only a small percentage of the Azerbaijani workforce is employed in the energy sector. The country has begun to demonstrate symptoms of 'Dutch Disease', as sharp increases in energy revenues have pushed up the exchange rate, resulting in other industries becoming less competitive. To counter this trend, a State Oil Fund (SOFAZ) was established in 1999 to preserve revenues for future generations and today oil income above the budgeted oil price of \$35 is diverted to the fund,⁴ which totalled over 5 billion dollars in June 2008.⁵ As oil wealth has grown, however, corruption has also worsened - Transparency International currently ranks the country 150th out of 179 countries.⁶ The feudal system of exercising power and distributing wealth serves the elite well. In practical terms, only a fraction of national oil revenue trickles down to the population.

The rise in energy revenues in Azerbaijan has been accompanied by a decline in democratic standards. The

³ 'Nagorno-Karabakh: Risking war', *International Crisis Group, Europe Report No 187*, 14 November 2007

⁴ 'European Neighbourhood Policy: Economic Review of EU Neighbour Countries', *European Economy Occasional Papers*, No. 30 (June 2007)

⁵ 'SOFAZ assets exceed 5 billion USD', State Oil Fund of Azerbaijan

⁶ Transparency International, *Corruption Perceptions Index 2007*

Aliyev leadership has strengthened its grip on power; the Parliament has a mere rubber-stamp role; the opposition is ineffective; and elections are characterised by fraud and misconduct. The November 2005 parliamentary elections that took place against the backdrop of the Rose revolution in Georgia (December 2003) and the Orange revolution in Ukraine (December 2004) were characterised by a determination not to allow similar events in Azerbaijan. The OSCE reported that 'there were continued restrictions on the freedom of assembly, as well as the harassment, intimidation and detention of some candidates and their supporters'.⁷ After election day, large opposition protests were put down by force. Under international pressure, President Aliyev promised to democratise election procedures.

Three years later, in the run-up to the 15 October 2008 Presidential elections, there is little evidence of reform. Opposition parties are increasingly disillusioned and weak. Their offices are tucked away in the suburbs of Baku as a result of dubious eviction procedures; they are only allowed to hold rallies far from the city centre; and they have scarce access to media outlets and limited funding. At the time of writing, the Musavat party has presented its long-standing leader as a candidate, while three other opposition parties united in the Azadliq block plan to boycott the elections. The state of political opposition to the ruling Yeni Azerbaijan Party has led many to lament that the opportunity for reform has passed and the current regime has firmly entrenched itself, using increases in oil revenues and the consent of Western powers to maintain a grip on power.

Civil society is marginally better off and can work in relative freedom, but is small and has limited impact. This is especially true of the more politically-orientated NGOs. In the field of human rights, Azerbaijan has a poor record. In 2007, Freedom House characterised Azerbaijan as 'not free' and pointed to a downward trend 'due to a decline in press freedom, including

⁷ OSCE/ODIHR Election Observation Mission Final Report, Republic of Azerbaijan Parliamentary Elections 6 November 2005, 1 February 2006

President Aliyev's increasingly tight grip on the media'.⁸ The Council of Europe – of which Azerbaijan is not only a member, but also subject to regular monitoring by the Parliamentary Assembly – also reported shortcomings in elections, the rule of law and human rights. It stated that 'regrettably, instead of improving, the general environment for the independent media in Azerbaijan has since [2006] deteriorated'.⁹

Another defining factor is the Nagorno-Karabakh conflict. The war between Armenia and Azerbaijan over Nagorno-Karabakh – a region within Azerbaijan that is mainly populated by Armenians – started after the collapse of the Soviet Union and caused over 25,000 deaths. When Armenia captured Nagorno-Karabakh and seven surrounding provinces, over 200,000 Azerbaijanis fled from Armenia and over half a million from Nagorno-Karabakh.¹⁰ Since a ceasefire was signed in 1994, Nagorno-Karabakh has developed as a *de facto* independent state with support from Armenia.

Negotiations through the OSCE Minsk format have led nowhere to date. Although the conflict is characterised as 'frozen', incidents take place on a regular basis, with snipers killing dozens of soldiers from each side every year. The conflict partly defines Azerbaijani society in that it is frustrated with the loss of territory. Armenia is the common enemy and internal differences in opinion over the issue do not exist. Indeed, the opposition is often tougher on Nagorno-Karabakh than the government.

Azerbaijan's economic growth has led to a tripling of the annual defence budget over the last three years to 1.1 billion dollars.¹¹ President Aliyev had promised that Azerbaijan's defence budget would match Armenia's state budget, and it now does. The funds that did not go into SOFAZ, or disappeared into the

⁸ Freedom House, *Freedom in the world, Azerbaijan 2007*

⁹ Resolution 1545, 'Honouring of obligations and commitments by Azerbaijan', Parliamentary Assembly of the Council of Europe. April 2007 p. 8

¹⁰ 'Assessment of the IDP situation in Azerbaijan and cooperation mechanisms in place to address their needs', Report by the UNHCR-OCHA Mission to the Republic of Azerbaijan, March 2005

¹¹ 'Nagorno-Karabakh: Risking War', *International Crisis Group, Europe Report No. 187*, 14 November 2007, p. 12

corruption machine, have been invested in military and infrastructure projects. Nevertheless, it is unlikely that Azerbaijan will try to recapture its lost territories by force. Essentially, the Azerbaijan government has a keen interest in maintaining the status quo. A renewed war would put energy exports at serious risk, as the BTC and BTE pipelines are close to Nagorno-Karabakh. Azerbaijan would also no longer be able to argue that it is the victim of Armenian aggression. Furthermore, the government would no longer be able to use Nagorno-Karabakh as a pretence for not implementing democratic reforms. In this sense, the conflict is closely connected to Azerbaijan's increasing energy wealth and its evolution towards a stable, albeit non-democratic, state.

Almost the only discernable democratic development over the last few years has been the pro-active stance that Azerbaijan's government has taken in initiating improvements in the governance of the energy sector. Azerbaijan has played an active role in the Baku Initiative that was set up by the EU and by the Black Sea and Caspian Sea littoral states in 2004.¹² This policy dialogue aims to enhance energy cooperation and issues of good governance pertaining to energy. Azerbaijan was also a founding member of the Extractive Industries Transparency Initiative (EITI). The EITI was established in 2003 as a coalition of governments, companies, civil society groups, investors and international organisations that aim to improve governance in resource-rich countries.¹³ Azerbaijan is currently a 'candidate country' since it has achieved the initial criteria, but it will need to implement many more reforms if it is to acquire the status of 'compliant country'. However, Azerbaijan's leadership is very aware that both initiatives also affect Azerbaijan's international reputation. Active participation is, in that sense, not purely internally driven with a view to improve energy governance and revenue transparency.

¹² 'The Baku Initiative', European Commission for External Relations (RELEX), July 2007

¹³ Extractive Industries Transparency Initiative web site, <http://eitransparency.org/eiti/summary>

EU and US positions

While the US and the EU gain from a stable Azerbaijan that produces and exports energy, both believe that an evolutionary approach to democratisation would not undermine security in the region. In addition to the importance of energy, the US also sees Azerbaijan as a crucial secular Muslim country that is a strong ally in the fight against terrorism. Azerbaijan has been a hub for the US war effort in Iraq and is an important staging post for NATO troops on their way to Afghanistan. Washington has tended to prioritise geopolitical interests over promoting democracy in Azerbaijan, although financial support for democracy promotion is substantial. When Ilham Aliyev visited the White House in April 2006, he was praised by President Bush for his stance on terrorism and his commitment to economic and social modernisation. While the EU does not have a strong geo-strategic mindset, it has also tried to combine energy interests with democracy promotion, albeit prioritising the former in practice.

The Azerbaijani leadership will be more inclined to work effectively on economic and social projects than on more direct forms of democratisation such as parliamentary support or an overhaul of the Election Code. As long as central power structures remain untouched, reforms are endorsed and sometimes encouraged. When discussing US and EU assistance, Azerbaijan makes the case for more education programmes instead of directly emphasising democracy and human rights.

The EU has mostly focused on institution-building through bilateral programmes with the government, although some individual member states grant direct support to civil society and small initiatives. The US is well known for a more direct approach to civil society programmes. In 2007, USAID assistance was still substantial, albeit declining: over 10 million dollars were spent on democracy and good governance.¹⁴ Norway is another important donor in the democracy

¹⁴ USAID budget Azerbaijan, <http://www.usaid.gov/policy/budget/cbj2007/ee/az.html>

field. The OSCE and Council of Europe offices in Baku are also active, though on smaller budgets. The Open Society Institute in Azerbaijan is mostly known for the funding it gives to civil society, the media and energy revenue transparency initiatives.

Among the EU member states, Germany, Sweden and the United Kingdom are the most active, not only in providing grants, but also in monitoring democratisation processes. German democracy funding is likely to increase as more German Stiftungen establish a presence in Baku, while the UK focuses on small Embassy grants. New member states such as Poland have limited funding available, but are beginning to support small media and civil society projects. EU member countries with a presence in Baku, along with the US, Norway, Turkey, the Council of Europe and the OSCE, meet regularly in Baku to coordinate their efforts to monitor and provide support, especially regarding media freedom and reforms to the election code.

The European Union now has most of the structures in place to work with Azerbaijan on a host of issues including energy cooperation and democracy promotion. Within the framework of the European Neighbourhood Policy (ENP), the EU and Azerbaijan concluded an Action Plan (AP) in 2006. One of the priorities of the Action Plan is 'to strengthen democracy in the country, including a fair and transparent electoral process, in line with international requirements'.¹⁵ Due to the lack of a Commission Delegation office in Baku and delays in concluding a so-called National Indicative Programme (NIP), democracy and good governance programmes have, until recently, been little more than rhetorical commitments of values from both sides. Of the 92 million euros allocated to Azerbaijan under the ENP for a period of four years, a third is supposed to go to the priority area of 'democratic development and good governance'.¹⁶ These funds are bilaterally agreed. The

EU is also set to step up democracy promotion through mechanisms such as the European Instrument for Democracy and Human Rights (EIDHR), which offers direct assistance to non-state actors.

Energy co-operation is an important part of the ENP and Action Plan. The EU has sought to separate in part its energy interests from democracy and human rights considerations by drawing up a separate Memorandum of Understanding on Energy with Azerbaijan. Most commentators in Azerbaijan argue that the 'energy comes first' principle applies strongly to EU-Azerbaijan relations, and indeed, co-operation on energy is flourishing. Of the modest resources (92 million euros) allocated to bilateral programmes with Azerbaijan, one third is earmarked for energy, transport and environment - the same as that reserved for democracy and good governance. Although it is difficult to determine the exact size of EU funds available for the energy sector, including regional and cross-border programmes, it is recognised that these dwarf democratisation programmes.

There are three arguments supporting the claim that the EU and the US have leverage. First and foremost, Azerbaijan needs a good relationship with the EU and the US. Aside from a brief interlude in its history, the country has mostly been ruled from Tehran, and later, Moscow. Azerbaijanis want to strengthen their national identity and do not take their sovereignty for granted. With the regional powers of Iran and Russia surrounding Azerbaijan, good ties with the EU and US are imperative. A loss of partnership with the West would weaken Azerbaijan's position on Nagorno-Karabakh, in addition to strengthening Russian influence over the country's energy industry. Secondly, while there is an increasing focus on the energy security interests of the EU (and, to a lesser extent, the US), interdependence has also grown in importance. Azerbaijan needs the technological know-how of Western countries - especially that of British Petroleum - and is largely dependent on energy exports through the BTC and BTE pipelines. Finally, even if Azerbaijan might not feel inclined to try to outperform all ENP countries in the field of

¹⁵ EU / Azerbaijan Action Plan, 4, http://ec.europa.eu/world/enp/pdf/action_plans/azerbaijan_enp_ap_final_en.pdf

¹⁶ European Neighbourhood and Partnership Instrument, Azerbaijan, National Indicative Programme, 2007-2010

democracy, it will at least want to equal the performance of Armenia. Classifications where Armenia is characterised as a 'willing' ENP partner, and Azerbaijan as a 'passive' one, do not go down well in Baku.¹⁷

More critical public statements by the US, the EU and its member states are likely to be more effective if Azerbaijan feels that its international reputation is under serious scrutiny. In the run-up to the Presidential elections, the US has been increasingly critical: the Secretary of State, Condoleezza Rice, has argued that the democratisation progress to date is a disappointment, and President Bush has placed Azerbaijan in the same group as China, Cuba, Eritrea and Iran when discussing media freedom.¹⁸ The EU Commission stated in its ENP progress report on Azerbaijan this year that 'the Azerbaijani government has not exploited the opportunities offered by the ENP Action Plan to carry out political and economic reforms in the country, in areas such as democracy [and] rule of law'. Also, the EU Council occasionally makes critical statements about Azerbaijan's harsh treatment of journalists and its lack of electoral reform. International criticism of this kind persuaded President Aliyev to grant an amnesty to 119 prisoners in January 2008, including several journalists.¹⁹ Hard-hitting statements from the Council of Europe, the OSCE and NATO on Azerbaijan's failure to comply with commitments to democracy are also a powerful means of limiting the authoritarian instincts of the regime. At the time of writing, however, it remains to be seen to what extent Western partners will maintain such pressure in the run-up to the presidential elections in October.

¹⁷ M. Emerson, G. Noutcheva and N. Popescu, 'European Neighbourhood Policy Two Years on: Time indeed for an 'ENP plus'', *CEPS Policy Brief*, No. 126 (March 2007), 24

¹⁸ M. Muradova, 'Official to US: Azerbaijan proceeding on its own path', *Eurasia Insight*, 12 May 2008

¹⁹ Declaration of the Presidency on behalf of the European Union on the release of 119 prisoners in Azerbaijan, 8 January 2008, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/cfsp/97936.pdf

Nigeria

Unlike Azerbaijan, Nigeria did make a formal transition to democracy in 1999. However, in reality, democratic rights in Nigeria have been increasingly undermined since 2002-3. In this case, a complex, three-way relationship between energy, poor governance and conflict has become further entrenched and has conditioned the democracy-energy relationship.

Domestic developments

The insurgency in the Delta region has worsened in recent years, with more frequent attacks on oil installations and an increase in the number of kidnappings of Western oil workers (over 100 of which occurred in 2006-2007). At specific moments in 2006 and 2007, the conflict shut down 20 percent of the country's oil production and seriously hampered the government's plans to double production. Huge amounts of oil have been lost through siphoning or illegal 'bunkering', which helps fund militant groups. Attacks also increasingly target offshore facilities that international oil companies had thought more secure. Militant groups, the most prominent of which is the Movement for the Emancipation of the Niger Delta (MEND), are driven by the lack of control over and share in energy resources that local communities enjoy.

Unrest was fostered by government manipulation of local and national elections in 2003. The government of President Obasanjo introduced various schemes to increase investment in infrastructure in the Delta, but resources were siphoned off through corruption and most projects failed. Since the break-through democratic transition of 1999, governance reforms have not ended widespread embezzlement of the country's oil revenues despite an ostensible anti-corruption drive by President Obasanjo after his reelection in 2003 and Nigeria becoming the first state to sign up to the EITI. The country remains awash with oil largesse that has served as an incentive for venal politicians to lay their hands on state revenues.

Rather than embedding the rule of law, the Obasanjo government sought to buy off militants in the Delta with oil contracts and government positions, providing an incentive for violence to be perpetuated by groups hoping for similar largesse. Several companies linked to militant groups were granted security contracts. At the 2005 National Political Reform Conference, groups from the Delta demanded that 25-50 percent of oil revenues go direct to local communities in oil-producing areas, without being channeled through corrupt federal government bodies. This reform was also advocated by the Special Committee on Oil Producing Areas, which included representatives of the oil majors. The government offered only a 17 percent transfer, further enraging local communities. Progress was nevertheless made on the transparency of energy-related payments under the Nigerian EITI, although some of this was reversed as Obasanjo gradually tightened personal political control.²⁰

Observers noted the same kind of resource nationalism evident in other producer states, as Obasanjo introduced new quotas on minimum Nigerian participation in oil licenses. Spending on 'gifts' for local administrations by oil executives increased.²¹ In his final months in office in 2007, the President doled out licensing offers for 45 oil blocks to political cronies. Between 2003 and 2007, all major new oil contracts went to Asian companies who offered development packages in return. Chinese, Indian and other Asian firms were expressly favoured when their respective governments supported Obasanjo in his unconstitutional bid for a third term in office.²²

Since oil prices have risen, oil companies have channeled increased sums in bribes to local governors. This has further inflamed the populace as the distribution of such largesse is erratic and patronage-driven. Local governors may have stormed out of the 2005 national forum on political reform because the

government refused to sufficiently increase the percentage of oil revenue to be retained in the Delta, but they themselves are responsible for siphoning off the share that does flow back into the Delta. As the 2007 elections approached, 33 of Nigeria's 36 state governors were under investigation.

Nigeria's 2007 elections confirmed the fragility of the country's democracy. The senate had to block Obasanjo's unconstitutional bid to stand for a third term, amid rumours of sizeable bribes changing hands. The president made manoeuvres to exclude key opposition figure Atiku Abubakar from the election, clearing the way for his anointed PDP (ruling party) successor. The electoral commission was denied autonomy and state elections on 14 April bore witness to blatant manipulation in favour of the ruling party and presidential cronies. Despite the Supreme Court granting Abubakar last minute permission to run, the PDP then swept back to power at the federal level as their presidential candidate, Umaru Yar'Adua, secured an improbable 70 percent of the vote.

Since being elected in April 2007, President Yar'Adua has adopted a more conciliatory and consultative approach to the Delta conflict, offering militants amnesty and an opportunity for dialogue. He has not, however, addressed fundamental grievances related to local control over oil and gas revenues.²³ Oil output in May 2007 was at its lowest level since 2003.²⁴ Militants briefly called a cease-fire after the elections, but since the autumn of 2007, attacks on oil installations and kidnappings have increased in frequency. Yar'Adua has promised to revisit some of the oil contracts doled out to Obasanjo's cronies.²⁵ By 2008, growing anger among Nigerians was evident as details concerning the corrupt management of the oil sector during the Obasanjo era emerged; this prompted the new president to promise far-reaching reforms in the governance of the oil industry.²⁶ Court rulings in

²⁰ For a comprehensive account of the dynamics of conflict in the Delta, see ICG, 'Fuelling the Niger Delta Crisis', *Africa Report* 118, Brussels: International Crisis Group, 28 September 2006

²¹ *The Economist*, 21 October 2006, pp. 71-2

²² *Africa-Asia Confidential* 1/1, 2 November 2007, p. 3

²³ ICG, 'Nigeria: Ending Unrest in the Niger Delta', *Africa Report* 135, Brussels: International Crisis Group, December 2007, p. 1

²⁴ *Ibid.*, p. 9

²⁵ *Africa Confidential* 48/12, 8 June 2007

²⁶ *Africa Confidential* 48/23, 16 November 2007, p. 6

late 2007 forced some senators and local officials elected in April to leave office.

EU and US positions

Even though Nigeria has undergone a democratic transition and is of increasing importance for energy interests, overall Western involvement in the country has remained relatively limited. Nigeria is Africa's most under-funded state in terms of its ODA/GNP ratio. The European Commission and the British government are the only two European donors of any meaningful size. In 2004, a 'preventive strategy' was drawn up by the EU's Africa working group, but was not implemented due to a lack of engagement from member states.²⁷

Indeed, as Nigeria's internal strife has worsened, Western funding has clearly been orientated towards security considerations. US patrols of the Gulf of Guinea have multiplied, linked to the new Africa Command; European arms sales have increased; France has extended its RECOMP military programme to Nigeria; and Germany has stationed a team of officers for capacity-building. Priority has been given to helping better equip Nigerian security forces. The UK Foreign and Commonwealth Office created the post of 'energy expert for West Africa' and indicated that it would look favourably on requests from Nigeria for military training related to the protection of oil facilities. In July 2008, the UK agreed to further enhance security cooperation.

The US and UK have cooperated under a new Gulf of Guinea Energy Security Strategy (GGESS), to look at further enhancing security assistance. The UK has trained Nigerian security units in techniques to preventing bunkering. In the summer of 2005, the UK pushed successfully for Nigeria to be offered the biggest ever debt relief package, just as President Obasanjo was mired in a series of domestic scandals and accused of unconstitutionally marginalising

political rivals. Western diplomats insist that Nigeria is too powerful to be susceptible to European pressure exerted through threatened aid reductions.

Of EU member state development agencies, only DFID has an office in Nigeria. While counting Nigeria as its second largest gas supplier, Spain is not a prominent or proactive player in EU policy towards Nigeria. The UK is looking to sign LNG deals, but its energy dependence on Nigeria is actually low. For one critic, Western detachment can be explained by the fact that the oil illegally bunkered in Nigeria increasingly finds its way into European and US markets anyway.²⁸

At the same time, Western concerns have intensified over the impact of Nigeria's failure to consolidate its new democracy or to contain corruption. Obasanjo's actions had promised to be highly beneficial for energy interests, as he rescinded contracts awarded to military cronies under the Abacha regime and cleared the field for international oil companies. However, he then gradually moved back to favouring his own cronies for contracts, most of whom had little expertise in the oil business. The scenario in Nigeria sheds light on the oil-democracy relationship by providing a clear example of how higher oil prices, far from having a quiescent effect, can serve to stoke more protest, anger and conflict. In this case, bloated revenues made it more unacceptable to citizens that governance reforms had not provided an open and fair way of distributing the additional resources.

Increasingly, European aid projects have become more orientated towards governance. British development projects have supported public scrutiny of federal budgets, as well as enabling NGOs in the Delta to track oil revenues, and the Ministry of Finance to set up an Oil and Gas Accounting Unit. Such development projects have also encouraged benchmark rankings between federal states on transparency and promoted the work of the Economic and Financial Crimes Commission. The EU did strongly criticise the running of local elections in 2003 for failing to meet even

²⁷ Saferworld–International Alert, 'Developing an EU Strategy to Address Fragile States: Priorities for the UK Presidency of the EU in 2005', London: Saferworld–International Alert, 2005, p. 10

²⁸ N. Shaxson, 'Poisoned Wells: The Dirty Politics of African Oil', New York: Palgrave MacMillan, 2007 p. 202

minimal democratic standards. A Census Support project was the Commission's biggest initiative in Nigeria, providing over 100 million euros for a new and fairer census prior to the 2007 elections. DFID declined to offer new direct budgetary support, because of the likelihood that such funds might be siphoned off to finance the nepotism that increasingly pervaded the Nigerian polity. DFID insists that a more systematic focus on the links between development and security agendas is central to its new approach, for example, by increasing efforts on transparency reforms in the Niger Delta. UK officials insist that security cooperation is also to undergo reform, with the aim of increasing democratic control over security forces and restraining the latter's tactics. US engagement has become more orientated towards security, providing new military hardware to the Nigerian government to patrol the Delta and even pushing NATO to get involved in the Gulf of Guinea.

The violence and political manipulation surrounding Nigeria's April 2007 elections pushed up oil prices and conditioned European policy calculations. The EU criticised Obasanjo's grab for a third term. The UK and the Commission worked with Canada and Japan on UNDP election preparation projects, in the face of government efforts to curtail external monitoring.²⁹ EU monitors were strongly critical after the poll, giving what they claimed was the EU's most damning election rebuke ever issued anywhere in the world.³⁰ However, there was universal agreement among EU policy-makers that punitive measures would not be desirable against Nigeria, with diplomats citing energy supply concerns as a primary reason for their reticence. The EU worked with the electoral commission to try to exert influence from the 'inside', and a number of member states sought to water down the European electoral monitoring effort.

Against this background, the EP criticized EU governments for moving straight back to 'business as

normal'. It also urged use of democratic sanctions, but member states blocked this. The EU did not monitor the local elections in late 2007 that were violent and unfree. UK diplomats have been cool towards Yar'Adua and are watching to see if he meets EITI commitments to open up the Nigerian National Petroleum Corporation to transparent accounting procedures. In this sense, reform dynamics suffered a major setback at the end of December 2007 when Yar'Adua removed the corruption-busting head of the Economic and Financial Crimes Commission.³¹ In fact, the notable development was the President's call for a renegotiation of existing international contracts. With tensions growing, diplomats revealed that a new high-level EU-Nigeria political dialogue initiated in March 2008 – in large part due to energy security concerns – achieved few tangible advances.

Saudi Arabia

Saudi Arabia has long been perceived as an entrenched rentier state, a country "arranged as a hierarchy of layers of rentiers, with the government at the top of the pyramid", with a commercial class... dependent on and allied to the ruling elite.³² In less than 80 years, Saudi Arabia has undergone a massive social and economic transformation as a direct consequence of its oil wealth. During this period, the al-Saud family has consolidated its rule through the distribution of government largesse and periods of high oil prices have generally been accompanied by a commensurate decline in political dissent.³³ Given the dramatic increase in the price of oil, the Saudi government now has an unprecedented source of income to dispense. The IMF estimates that Saudi Arabia has seen a three-fold increase in its GDP since 1998, while Saudi

³¹ R. Joseph, 'Challenges of a 'Frontier'' Region', *Journal of Democracy*, 19/2, 2008, p. 103

³² H. Beblawi, 'The Rentier State in the Arab World', in H. Beblawi and G. Luciani (eds.), *The Rentier State*, London: Crook Helm, 1987 p. 53

³³ A. Hamzawy, 'The Saudi Labyrinth: Evaluating the Current Political Opening', Washington DC: Carnegie Endowment, 2006 p. 3

²⁹ J. Ibrahim, 'Nigeria's 2007 Elections: The Fitful Path to Democratic Citizenship', *Special Report 182*, Washington, D.C.: United States Institute for Peace, January 2007, p. 8

³⁰ *The Economist*, 28 April 2007, p. 45

Arabia's foreign assets are set to increase to \$474 billion by the end of 2008.³⁴

Domestic developments

According to the received wisdom of rentier state theory, the above circumstances should further entrench the classic symptoms of resource curse, as reflected in a rise in authoritarian behaviour, the crowding out of other economic activities, and spiralling corruption. Such a theory does not adequately explain the case of Saudi Arabia, however, where political events such as the accession of King Abdullah in 2005 have ushered in a period of cautious liberalisation. Saudi Arabia is also developing economic resistance to the accepted symptoms of resource curse - exports of non-oil based products have increased by 20 percent annually, and inward investment of Gross Fixed Capital Formation (GFCF) has increased from 1 percent for much of the 1990s to 32.1 percent in 2006. An emerging pattern of economic diversification is evidence of recognition by the state of the limitations of energy rentierism in response to the rising demands of Saudi Arabian citizens.³⁵ Whereas the oil boom of the 1960s created a "dependent bourgeoisie", the economic reforms pursued by King Abdullah, including Saudi Arabia's accession to the World Trade Organisation (WTO) in 2005, have seen a cautious but steady retreat of the state from its predominant role in many sectors of Saudi industry and commerce.

However, such early indications of a divergence away from entrenched oil revenue dependency should not be exaggerated. Saudi Arabia's current economic fortunes are inextricably linked to world oil prices. It is expected to earn \$260 billion from its oil revenues in 2008, an unprecedented income in a country renowned for its lavish misuse of funds.³⁶ The government expects to increase oil production to 12.5 million barrels per day

(bbl/d) by 2009.³⁷ The Saudi oil industry remains largely closed to foreign investment and Saudi Aramco, the state oil company, has established a reputation for both secrecy and efficiency. While it is widely believed that Saudi Arabia holds between a quarter and a fifth of the world's oil reserves, Saudi Arabia's gas potential may still be unfulfilled as much of the country remains to be explored. This process has recently been accelerated, not least due to the looming possibility of gas shortages which could seriously restrict the country's economic development. Although significant advances have been made in the development of petrochemical industries (SABIC is now the seventh largest petrochemical in the world), the Saudi Arabian economy remains highly dependent on oil export revenues, which constitute almost 90% of export earnings.

Sharp increases in energy revenues, combined with a weak US dollar to which the Saudi Arabian Riyal is pegged, have led to rapid inflation in Saudi Arabia, which soared to a rate of 11 percent in mid-2008, compared with 3.1 percent in June 2007.³⁸ The rising economic hardship faced by segments of the population can be gauged from an analysis of the increase in food prices: the food import bill for January 2008 was 44 percent higher than 12 months previously, and inflated prices have led to calls from leaders such as the Grand Mufti, Abdulaziz al-Sheikh, for the government to detain or confiscate the businesses of those who sell flour above the government-subsidized price.³⁹ Public sector workers complain that their 15 percent wage increase in 2005 is insufficient to meet inflationary prices. In early 2008, the government announced a temporary five percent inflation allowance for workers in the public sector.⁴⁰

³⁴ Middle East Online, 'Record oil income fuels Gulf boom, economic ills', 20 June 2008

³⁵ ISN ETH Zurich, 'Saudi Arabia's Economic Liberalisation', 12 December 2007

³⁶ Jadwa Investment, Monthly Bulletin, 'Oil's Surge: what's behind it and what it means for Saudi Arabia', May 2008

³⁷ Energy Information Administration (EIA), 'Country Analysis Briefs: Saudi Arabia', updated August 2008

³⁸ Middle East Online, 'Amid oil boom, inflation makes Saudis feel poorer', 9 July 2008

³⁹ K. Pollack, 'Will oil profits reshape the Middle East?', *New York Times*, 13 July 2008

⁴⁰ Jon Stakianakis, 'New Saudi Measures may cost got. SR66 Billion', *Arab News*, 18 February 2008

Currently, the majority of the Saudi workforce is employed by governmental institutions and a significant proportion of the remainder is employed in companies in which the government has a majority stake. Salaries are widely perceived to be more lucrative in the public sector, which poses serious obstacles to future economic reform.⁴¹ The most alarming statistic for the Saudi Arabian government, however, is a growing unemployment rate that stands at 30 percent for young people under the age of 30 and 11.5 percent overall.⁴² Historically, the government has co-opted considerable segments of society by providing employment opportunities. A population explosion has negated this as a viable policy, however, and the government must now lay the necessary economic and social foundations to encourage private enterprise and foreign direct investment (FDI).⁴³

Saudi Arabia is now a predominantly urbanised society with a populace that enjoys greatly enhanced access to education. This is a key change from the early days of the oil boom when Saudi Arabia's current oil minister, Ali Naimi, was able to join Aramco without being able to read or write.⁴⁴ An educated, predominantly urban populace has set higher demands for the government and it is commonly held that if the current record oil windfall is perceived to have been squandered, the credibility of Saudi Arabia's rulers will be greatly diminished. It is therefore vital that King Abdullah's economic plans succeed in curbing rising unemployment and delivering a more equitable society. Leading figures recall the recent unrest of 2003 and 2004, when a state of near insurrection gripped the country following a series of bombing attacks by extreme Islamist groups in the Kingdom. It has been

⁴¹ T. Niblock and M. Malik, 'The Political Economy of Saudi Arabia,' Oxford: Routledge, 2007 p. 221

⁴² N. Janardhan, 'Economic Diversification and Knowledge Economy in the Gulf', Paper delivered at the Gulf Studies Conference, Exeter University, July 3rd 2008 and Middle East Online, 'Amid oil boom, inflation makes Saudis feel poorer', 9 July 2008

⁴³ S. Hertog, 'Segmented Clientelism: the Political Economy of Saudi Economic Reform Efforts' in P. Aarts and G. Nonneman (eds.), *Saudi Arabia in the Balance – Political Economy, Society, Foreign Affairs*, London: Hurst, 2006 p. 115

⁴⁴ The Financial Times 'FT Report – Saudi Arabia 2007: A very testing time for a delinquent school system' 4 December 2007

concluded that economic factors also played a radicalising role in the Kingdom: "Administrative, financial and judicial reforms are very important to address the phenomenon of violence and terrorism. Many people sympathize with the extremists when they carry out terrorist activities in the belief that these acts are a way of pressuring the state to carry out the necessary reforms."⁴⁵

The years 2003 and 2004 also saw a series of bold petitions advocating wide-ranging reforms, most powerfully "A Vision for the Present and Future of the Nation", which was signed by 104 academics, businessmen and religious scholars. This was followed in 2004 by the "Petition for a Constitutional Monarchy", signed by a group of the country's liberals. This latter petition was perceived by the government as an attack on the Kingdom's leadership and prompted the arrest of twelve of its signatories. Three of the twelve refused to withdraw their support for the document and received extended prison sentences that were later commuted by King Abdullah. Such a clamp-down on liberal reformers is indicative of the state's intolerance of calls for reform that challenge the al-Saud family's pre-eminent role in government.

It is instructive to note that political unrest mirrored the deepening economic frustrations of the Saudi Arabian population: the previous year, Saudi Arabia's GDP per capita had fallen to \$8424 per capita, down from \$18000 in 1981.⁴⁶ The resurgence of the economy may have bought Saudi Arabia valuable time to address the underlying economic grievances that have alienated some sectors of the population from the state. King Abdullah is aware that frustrations with previous government misspending and corruption must be addressed and that such practices have reinforced the view that Saudi Arabia's people were badly let down by their government's failure to move beyond oil dependency. This disillusionment with the state led to a

⁴⁵ Sheik Abdul al-Ubaikan, quoted in ICG Report, 'Can Saudi Arabia Reform Itself?', ICG Middle East Report, No. 28, 14 July 2004 p. 11

⁴⁶ ICG Report, 'Can Saudi Arabia Reform Itself?', ICG Middle East Report, No. 28, 14 July 2004 p. 10

drift away from the state clergy. The government is sensitive to the emergence of a powerful and politically-engaged group of unofficial religious scholars critical of the state's shortcomings with regard to its expenditure of oil revenues and, where possible, has moved to co-opt rather than confront such leaders.

It can be concluded that a recent trend has emerged where criticism of government policies is tolerated by King Abdullah so long as it is articulated through the prism of economic reform. Transparency and accountability have emerged as issues of genuine debate within Saudi society. While direct criticism of leading figures in government, not least members of the al-Saud family, remains taboo, a desire for political reform can be expressed through the guise of stressing the need to establish institutions and mechanisms to guarantee efficiency and accountability. Given Saudi Arabia's notorious lack of protection for the freedom of expression and its rigidly conservative judiciary, this royally-granted space for dissent may not last. However, it is representative of King Abdullah's desire to initiate a broad national dialogue on the future of the country; to alleviate the culture of dependency on the state; and to prioritise efficiency when it comes to managing the country's economic affairs.

Saudi Arabia's entry into the WTO in 2005 was indicative of King Abdullah's determination to open up the Saudi economy. Prior to accession to the WTO, a series of regulatory frameworks had to be introduced to comply with international standards. These included laws on commercial data, competition policy and trademarks. Such reforms saw Saudi Arabia greatly increase its standings on corruption indexes, not least that of Transparency International where it ranks almost 70 places ahead of both Azerbaijan and Nigeria.⁴⁷ The government also announced plans to privatise a number of state-owned companies including telecommunications and, more recently, the company providing Saudi Arabia with much of its desalinated water. In so doing, it demonstrated its trust in the potential of the private

sector to provide such services more efficiently. One expert observed that: "Whereas previously government expenditure was intended to constitute the motor driving development forward, it was now meant to fill the more limited role of facilitation."⁴⁸

The diversification of Saudi Arabia's economy, achieved through the investment of its oil money to facilitate the growth of the private sector, has already had a tangible effect on relations between the state and its citizens. Private sector growth is now exceeding that of the public sector, a trend which contrasts with previous oil booms.⁴⁹ Although personal relationships with leading figures in the government still matter enormously, the Saudi Arabian bourgeoisie is behaving with a hitherto unseen degree of independence.⁵⁰ Leading figures in government have also recognised the need for institutional and social change to attract FDI: "We're not an isolated island. We realize the challenge today in order for us to be more competitive means more transparency and more gender equality."⁵¹

After the unrest of 2003/2004, King Abdullah moved swiftly to implement a series of reforms aimed at easing the tension that had gripped the country. For example, further powers were granted to the Majlis al-Shura, including the right to initiate legislation, and a series of National Dialogues was commissioned. This initiative embraced the participation of women and minorities such as the Shia, and was ostensibly aimed at charting a future course for the country. Municipal Council elections were held in 2005 and a Human Rights Commission was established in addition to a civil society organisation, the National Society for Human Rights (NSHR). The regional chambers of commerce were also granted unprecedented influence over government policy and the Jeddah Chamber of Commerce elected two women members to its board.

⁴⁸ Niblock, *op. cit.*, p. 184

⁴⁹ E. Paasche, 'Saudi Arabia's Economic Liberalization', ISN ETH Zurich, 12 December 2007

⁵⁰ S. Hertog in A. Khalaf and G. Luciani, 'Constitutional Reform and Political Participation in the Gulf', Dubai: GRC, 2006. p. 257

⁵¹ Abdullah al-Hameedadin, Head of the Economic Cities Agency and SAGIA, quoted in 'Saudis Look Beyond Oil to New Economy in the Desert', *Washington Post* 17 July 2008

⁴⁷ Transparency International, *Corruption Perceptions Index 2007*

Of course, while these reforms appear relatively radical in the recent history of Saudi Arabia, they have been carefully controlled by the government. The election of half of the members of Saudi Arabia's Municipal councils by popular vote can be seen as a significant breakthrough in the growth of democratic practices in the Kingdom. Nonetheless, the powers of the Councils are ill-defined and their proceedings are poorly regulated, contributing to a disappointing turnout of 25 to 35 percent of the electorate. Elections have not been extended to the Majlis al-Shura, which remains an entirely royally appointed entity. Yet the Majlis al-Shura is by no means simply a hollow institution reciting government mantra: uncensored television coverage of debates has frequently gripped the country and its members are drawn from a diverse range of backgrounds. State corruption is regularly discussed, with repercussions for some government officials. The King himself has made moves to curb the excesses of members of the Royal Family, imposing a hitherto unseen discipline on their expenditure. Under recently promulgated law, the Majlis al-Shura can now present its recommendations for approval by the King rather than the cabinet.⁵²

The series of National Dialogues initiated in 2003 that continue to this day, have similarly enthralled a populace not accustomed to such direct and wide-ranging consultations. Televised debates were held on issues such as women's rights, economic issues and education. Saudi Arabian minority interests, such as the rights of the country's Shia citizens, were also discussed - a major taboo subject in the eyes of the country's more conservative clergy, some of whom refused to attend. The recommendations of the National Dialogues made reference to the urgency of political and judicial reform, the latter constituting a serious challenge to the current practices of the Wahhabi judiciary.⁵³

Modest reforms have been motivated by a desire to establish outlets for grievances away from radical

Islam, but can also be linked to a desire for increased participation in economic management. The first reports of the NSHR included strong criticism of the judicial process, the activities of the religious police and the lack of economic opportunities for the Kingdom's citizens. Other nascent civil society organisations (CSOs) have also emerged in recent years, including the Saudi Journalists Association (SJA) and professional associations such as the Saudi Engineering Association (SEA). In 2001, the government permitted the formation of labour committees in companies that employed more than one hundred workers. Such changes are not insignificant, even if the "corporate state" for now remains in control.⁵⁴

EU and US positions

European and US democracy support to Saudi Arabia is extremely limited. This can be attributed in part to the difficulty of implementing projects, but a more important factor is that Saudi Arabia has consistently been viewed as a necessary exception to democracy promotion programmes out of deference to energy realism. The EU has demonstrated a palpable lack of interest in political events in Saudi Arabia - an approach that also applies to the other five countries of the Gulf Cooperation Council (GCC), which the EU has only accredited with two diplomats for the whole region.⁵⁵ One important leader in the Gulf noted that for Javier Solana, High Representative for the Common Foreign and Security Policy, the GCC, including Saudi Arabia, remained "a black hole". After 2002, the Commission shelved 'decentralized' civil society programmes in GCC countries, arguing that these yielded little dividend and created tensions with regional governments. In 2005, the European Commission did place Saudi Arabia on its list of target countries for the European Initiative for Democracy and Human Rights (EIDHR), but grants were extremely limited in scale. Of the EU Member States, democracy assistance in Saudi

⁵⁴ S. Hertog, 'Constitutional Reform and Political Participation in the Gulf', A. Khalaf and G. Luciani, 'Constitutional Reform and Political Participation in the Gulf', Dubai: GRC, 2006. p. 239

⁵⁵ A. Echagüe, 'The European Union and the Gulf Cooperation Council', FRIDE Working Paper, May 2007

⁵² A. Hamzawy, *op. cit.*, p. 11

⁵³ *Ibid.*

Arabia is generally reduced to small-scale projects implemented by local Embassies. Some Member States of the EU have even advocated significantly watering down a political and human rights clause common to all EU Free Trade Agreements in order to expedite the signing of an EU-GCC FTA.⁵⁶

A common EU approach to political and economic relations with Saudi Arabia is also notable by its absence, with several of the larger Member States unwilling to give up their perceived national advantages in dealing directly with Saudi Arabia. The UK's commitment to international standards of transparency and reform in Saudi Arabia was also called sharply into question in 2007 when former Prime Minister Tony Blair intervened to close an investigation into massive bribery allegations potentially implicating the son of Crown Prince Sultan, Prince Bander.⁵⁷

Saudi Arabia also currently constitutes a lacuna in US democracy promotion assistance. In comparison with the funding given to other Middle Eastern countries by the US State Department's MEPI initiative, Saudi Arabia receives scant attention. In addition to the close ties between the Bush Administration and the Saudi government, as well as a common perception that "domestic dynamics generate very few possibilities for a significant US role", US government officials exercise extreme caution when in Saudi Arabia due to security fears. This, in turn, hinders any potential impact on local stakeholders. Foreign service officers only have a one-year posting in Saudi Arabia and the US Embassy and Consulate in Jeddah "have become absolute fortresses".⁵⁸ As in the case of the EU, Saudi Arabia's status as a middle-income state disqualifies it from the substantial state capacity-building assistance offered to other Middle Eastern states. However, it is also unlikely that the cautious

government of Saudi Arabia would accept such assistance if it was to be offered.

Conclusion

The comparison of these three cases enables us to shed light on the three questions posed at the outset of this paper.

Firstly, domestic developments in these three countries suggest significant variation in how the new energy panorama has impacted upon political reform. Since the advent of higher oil prices, Azerbaijan has increasingly moved away from democracy as its authoritarian elite has tightened its grip on society. The country has registered a decline in most political rights scores. Nigeria has not reverted to outright dictatorship, but its formally democratic system increasingly lacks genuine transparency, pluralism and accountability. The increasingly tense conflict in the Niger Delta over the management of energy resources reflects deepening political and economic inequality, whilst also involving increased human rights abuses and repressive security. In contrast, the reforms implemented in Saudi Arabia in recent years have borne witness to an unprecedented engagement of citizens in helping to shape the future direction of their country. The consultative style of government embraced by King Abdullah does not constitute an obvious precursor to the establishment of a form of democratic government in Saudi Arabia, nor should such a shift be expected in the near future (indeed the country remains the most authoritarian of the three countries considered here). However, for the first time, the Saudi state has moved towards engaging a large and diverse number of interest groups in the country. That such reform has occurred during a time of soaring oil prices runs contrary to established theories surrounding the rentier state, as reformers in the regime seem concerned with the longer-term instability lying beyond the short term bonanza from increased oil revenues.

In each of the three countries, pressures for reform have increased since oil prices began to rise, rather

⁵⁶ Interview with a senior European diplomat, Brussels, April 24th 2008

⁵⁷ The Financial Times, 'Damning verdict on Saudi arms case', 11 April 2008

⁵⁸ T. Wittes and I. Soleman, 'Economic and Political Development Trip Report – Riyadh and Jeddah, Saudi Arabia', Brookings/CFR, February 2008 p. 6

than having subsided in the way that rentier state theory would predict. Pressure for reform has come from the regions in Nigeria; from the business sector in Saudi Arabia; and from pro-European sectors of the state administration in Azerbaijan. Moreover, while the three countries' dependence on oil and gas revenues has increased, efforts have been made to diversify economic activity in a way that might bode well for political change in the longer term – although more so in Saudi Arabia than the other two cases. Furthermore, where processes for reform have stalled, the above account shows that oil is not necessarily the primary cause. Factors other than oil – namely, the broader dynamics of conflict and international security – have played a part in these domestic political trends.

Secondly, it is precisely in the management of energy resources that some of the most notable new efforts have emerged to improve governance standards. The Aliyev regime has played a prominent role in the energy governance commitments of the EITI and the Baku Initiative. In the energy sector, the Azerbaijani government has seen merit in improving governance standards. In Nigeria, the mismanagement of energy resources has been the primary factor that has kept a critical spotlight on the government's undermining of democratic processes. The Obasanjo government's commitment to the EITI, recent moves to render the energy sector more transparent, and lively debates within political reform forums over the redistribution of energy resources, have all occurred throughout a period in which Nigeria's overall performance on democratic rights has worsened. Many of the (still cautious) reforms in Saudi Arabia are also concerned with opening up room for debate on the way in which oil revenue is deployed.

Thirdly, in line with the above combination of reform dynamics, this paper demonstrates how European and US policies have sought to deepen engagement with non-democratic regimes, while also encouraging good governance improvements in these states' energy sectors. The three case studies bear witness to a range of new Western initiatives concerned with governance reforms linked to energy supplies. These initiatives have been most notable in Nigeria and most cautious in Saudi Arabia. Such variation suggests that the nature of external policies is conditioned by whether an energy-producing state is seen as a stable or unstable non-democratic regime. Both the EU and the US have sought, in some of their initiatives, to separate out rather than to unite energy policy and democracy strategy. To a large extent, the new energy-driven cooperation in the three countries is indeed security- rather than governance-oriented. However, the lack of good governance in the management of the energy sectors in each of the three states has also been increasingly judged as prejudicial to Western interests.

This paper suggests that it is not so much a question of the West militating firmly against political reform in the name of energy, but rather of its engagement – either for or against democracy – being surprisingly thin given the supposedly imperative nature of energy concerns. Overall, it would be too simplistic to presume that democracy support has been entirely over-ridden by energy security concerns. Nonetheless, both the US and the EU need to focus far more consistently and systematically on the new concern with 'energy governance' if they are to have the kind of positive impact necessary for their own longer-term security interests.

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FRIDE

Expanding upon the conclusions identified in FRIDE WP 65 *Energy: A Reinforced Obstacle to Democracy*, this paper adopts a case study approach to evaluate the complex relationship between energy and democracy. Using the examples of Azerbaijan, Nigeria and Saudi Arabia, the authors observe that while high energy prices have undoubtedly empowered the regimes of these countries, rising expectations regarding the use of natural resource wealth have also led to increased popular protest against the mismanagement of state revenues. The paper concludes that while it would be too simplistic to presume that democracy support has been entirely over-ridden by energy security concerns, both the US and the EU need to focus far more consistently and systematically on the new concern with 'energy governance' if they are to have the kind of positive impact necessary for their own longer-term security interests.

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