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## THE CURSE OF RESOURCES AND LOSS OF A SOCIAL LICENSE TO OPERATE

### **Mark Jenkins, Prospect Energy**

Some years ago I was asked by a client from the oil and gas industry to produce a risk assessment, and security plan for some of its operations in Eastern Europe. A particular focus of attention was an oil-field the size of Cornwall situated in a mountainous area inhabited by traditional, Eastern Orthodox communities.

The client had called me in because acts of theft, and sabotage of the company's assets had become so endemic that its operations there were becoming commercially unviable.

Arriving at the company's corporate headquarters I was given a brief by the corporate security officer. The suggestion was made that the problems could only be resolved through increased security measures; ie more drones, barbed wire and security guards.

The following day I travelled up to the oil-field. It quickly became very clear to me that increased security measures would not improve the situation, and that what the company needed to do was restore its relationships with the local communities.

The Company had lost its Social License to Operate, the root cause of the vast majority of security problems faced by the extractive industry.

In my experience as a risk management consultant - operating across some of the world's most high-risk environments - the root causes of the collapse of a company's Social License to Operate are invariably to be found in the phenomenon known as Dutch Disease/the Curse of Resources.

Prospect Energy Ltd | Regus House, Pegasus Business Park, Castle Donington, Derbyshire  
DE74 2TZ

[www.prospectenergy.co.uk](http://www.prospectenergy.co.uk) | [info@prospectenergy.co.uk](mailto:info@prospectenergy.co.uk) | +44 (0)203 427 5955

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## What is Dutch Disease/the Curse of Resources?

In 1959 - three years after Royal Dutch struck oil in commercial quantities in the Nigerian Delta - another well was sunk by the company in the village of Slochteren in the northern Netherlands, in partnership with Exxon of the USA.

The biggest gas field in Europe was discovered.

Soon after, however, people outside the industry began to lose their jobs. Other sectors in the Dutch economy slumped. In 1977 the Economist coined the term "Dutch Disease" to describe the phenomenon.

"Dutch Disease" refers to the apparent relationship between the increase in the economic development of natural resources, and a decline in the manufacturing/agricultural sector.

Dutch Disease enters a country through its currency. Basically, an increase in revenues from natural resources makes a nation's currency stronger, compared to that of other countries.

Consequently, the nation's other exports become more expensive for other countries to buy. Imports become cheaper making the affected country's manufacturing/agricultural sector less competitive. Arable land lies fallow as local farmers find that imported fare has replaced their produce.

Dutch Disease most often occurs in relation to natural resource discoveries. Mines and oil fields require huge investments of capital, but employ few people compared with the agricultural or manufacturing industries. Furthermore, natural resources discovered in Africa tend to go abroad in raw form so that other countries benefit from the value accrued, rather than the countries from which those resources came.

A cycle sets in, and as other parts of the economy decay, there is an increased dependency on natural resources by the affected country. As poverty breeds elsewhere the resource industry becomes an enclave of plenty for its leaders. Telecoms and financial services boom, while the process of industrialisation falters and then drops away.



When the oil runs out there is a crisis because the traditional industries no longer exist. Thus there is nothing for the country's economy to fall back on. Furthermore, the loss of traditional cottage industries represents a serious undermining of a country's identity, closely related as they usually are to a country's cultural heritage. Their loss undermines the health of village economies, so that their populations migrate to the city. These communities fragment, and their unemployed youth are quickly radicalized or criminalized.

In his book "Untapped: The Scramble for Africa's Oil" John Ghazvinian visited a supermarket in the oil producing state of Gabon. French cheeses and *foie gras* are available for sale, but bananas are not. During his stay in Gabon Ghazvinian was able to eat an abundance of fine French food and wine. But he never managed to find a banana, despite the fact Gabon is largely virgin rainforest, packed full of banana trees.

The phrase "Curse of Resources" refers to the observable phenomenon that resource rich countries grow more slowly, more corruptly, less equitably, more violently and with more authoritarian governments than others do. It is undeniably the case that there is a link between the existence of resource wealth, and an increased likelihood of weak democratic development, corruption and civil war. The greater the percentage of states revenues derived from natural resources, then the more pronounced these trends become.

### **Introduction to Prospect Energy, Prospect Law and Mark Jenkins**

Prospect Energy is an energy specialist technical consultancy firm based in London and the Midlands of the UK. It is a sister company of Prospect Law. The two firms provide advice on energy development projects and energy related litigation for clients in the UK and internationally.

Mark Jenkins advises clients on how to achieve commercial resilience in high-risk/non permissive environments. Among Mark's specialist areas of expertise are the management and motivation of traditional communities such as Bedouin tribesmen in the Sinai Desert, Somali Muslims in NE Kenya and Eastern Orthodox



Christians in remote parts of Eastern Europe. He has a particular interest in Islamic culture and has worked on the staff of HRH Prince Ghazi bin Muhammed bin Talal, Special Advisor and Personal Envoy to HM the Hashemite King of Jordan. Other interests of Mark's include renewable energy, especially solar power, and economic solutions which are based on the principle of sufficiency, rather than consumption.

For more information please contact us on 01332 818 785, or by email on: [info@prospectenergy.co.uk](mailto:info@prospectenergy.co.uk).