

CITIZEN DIVIDENDS AND OIL RESOURCE RENTS

A Focus on Alaska, Norway and Nigeria

By Alanna Hartzok, Scotland, PA

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[Abstract: Citizens of Alaska have been receiving individual dividend checks from an oil rent trust fund since 1982. Norway's citizens receive substantial social services and invest oil rents in a permanent fund for the future. Nigeria has yet to establish a similar fund for its oil revenue stream. This paper explores the oil rent institutions of Alaska, Norway and Nigeria with a focus on these questions: Are citizen dividends from oil rent funds currently or potentially a source of substantial basic income? Are oil rent funds the best source for Citizen Dividends or should CDs be based on other types of resource rents?]

The paper recommends full use of information and communication technologies for transparency in extractive resource industries, that resource rent from non-renewable resources should be invested in socially and environmentally responsible ways and primarily in the needed transition to renewable energy based economies, and that oil and other non-renewable resource rent funds should transition towards capturing substantial resource rents from surface land site values (ground rent) and other permanent and sustainable sources of rent for possible distribution of citizen dividends.

ALASKA

The Alaska state constitution claims common heritage rights of ownership of oil and other minerals for the people of the state as a whole. Citizen dividend checks are distributed every year in Alaska out of the interest payments to an oil royalties deposit account called the Alaska Permanent Fund (APF) created in 1976 after oil was discovered on the North Slope. The APF is a public trust fund - a diversified stock, bond and real estate portfolio - into which are deposited the oil royalties received from the corporations which extract the oil from the lands of Alaska. The first citizen dividend check from the interest of the APF was issued in 1982 and was for \$1000 per every person for everyone in Alaska who had resided in the state for at least one year. Annual citizen dividends have been issued every year since then, for a total of more than \$23,000 per person.

In 2003, each of the nearly 600,000 Alaska US citizens (residents of Alaska for at least one year) received a check for \$1,107 from the APF. The total amount dispersed was \$663.2 million. The \$25 billion investment fund's core experienced stock market losses which led to the dividend's decline this past year compared to the several previous years. The amount was \$433 less, a 28 percent drop from the 2002 pay out of \$1,540, and a 44 percent decrease from the all-time high of \$1,964 in year 2000. The amount changes based on a five-year average

of APF investment income derived from the bonds, stock dividends, real estate and other investments.

Alaska relies on oil for about 80 percent of its revenue and has no sales or income tax. Alaska state government is mandated to invest 25% of its oil revenue into the APF while the other 75% of oil royalty revenue is dispersed to other government funds to finance education, infrastructure and social services. If 100% of Alaska's oil royalties had been deposited into the APF, it is conceivable that the CD this year could have been about \$4,400 or \$17,600 for a family of four. But then there would have been no funds for roads, education and other Public services and no funds available to run the state legislature - a libertarian dream fulfillment or a social and economic disaster, which one we will never know. If state services were to have been maintained while 100% of oil royalties were deposited in the APF, there would of course have been the need for income, sales and other taxes on wages and production.

At the end of the 2002 fiscal year, the state of Alaska had a deficit of nearly \$400 million. State lawmakers frequently debate whether the APF should be used to help run state government, but the Fund is protected by law from being used for government expenditures. Rather than cutting into the Fund and citizen dividends, others are proposing an increase in oil rents and royalties from oil corporations.

On February 5th of this year of 2004, several Democratic Representatives filed legislation to help Alaskans recover a fairer share for their oil. That same week former Alaska Governors Jay Hammond and Wally Hickel stated that it is time to review the fairness of oil tax exemptions contained in a 1989 law known as "the ELF", or Economic Limit Factor. Their viewpoint is that ELF gives unjustified tax exemptions. The Alaska Fair Share bill would redress the Economic Limit Factor and meet the constitutional obligation to make sure Alaska's oil provides "the maximum benefit to the people" as mandated by the state constitution.

Because of the ELF statute tax breaks, Alaska's oil production tax rate has plummeted from 13.5% in 1993 to 7.5% today, and by 2013, it would be down to 4% if the law is not changed. Also because of ELF, 11 of the last 14 fields developed since 1989 pay none or almost none of Alaska's 15% Production Tax. While the state's share for Alaska oil has fallen, corporate oil profits have soared. BP and Conoco Phillips reported net earnings of \$9 billion and \$7 billion respectively last year. According to the Department of Revenue, at recent oil prices of \$30 per barrel the annual share corporations receive for Alaska oil would exceed total state oil revenue by \$1.2 billion.

The Alaska Fair Share bill establishes a modest minimum production tax of 5% and would raise an additional \$400 million in revenue this year. That approximates the current state budget gap. The (continued on page 12)

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bill raises more at higher prices per barrel, and an additional \$100 million at average prices, according to the Department. The bill also lets the state share in profits above \$20 per barrel by slowly increasing the severance tax above that price. To encourage development, the Alaska Fair Share bill reduces the severance tax rate at low prices, when companies face the prospect of reduced profits, and possible investment losses.

Passage of the bill would alleviate state government expense shortfalls, and would possibly result in higher citizen dividend payments as more funds would be deposited into the APF. We cannot predict this for certain, however, as the CD's come from the investment portfolio interest, are averaged over a five year investment period, and determined by the portfolio performance.

We do know that due in large part to the citizen dividend payments combined with the happy consequences of no state income or sales taxes, Alaska is the only state in the United States where the wealth gap has decreased in the past decade. The citizen dividends from the APF are an important and significant source of income, especially for rural families maintaining more land based subsistence lifestyles.

NORWAY

Norway, one of the world's richest economies, is a model of prudent economic management of resource wealth. So states the IMF 2000 Article IV consultation with Norway. Norway is the top non-OPEC oil exporter, the world's third-largest exporter of oil, and pumps about 3.2 million barrels per day. Norway's oil and gas industry underpins the economy, providing up to 25% of the country's gross domestic product. This country of nearly four and one half million people has a steady growth rate, almost no poverty, and negligible unemployment. Norway has a diverse economy based on agriculture, forestry, fishing and manufacturing, among other things, and its oil industry has developed amid much planning, bargaining, and public debate.

The most recent U.N. Human Development Report ranks Norway the number one place in the world to live, based on a cocktail of indicators about health, wealth and social outlook. Nearly 1% of GDP is spent each year to fight global poverty and enhance peace. Oslo often plays a mediating role in foreign conflicts, from efforts to reconcile North and South Korea to the now foundering Middle East peace process. Norway has created an economy that retained its progressive tax structure, re-invested its oil profits throughout the economy, and saved money to cushion future market shocks.

Norway struck oil in the North Sea in the 1960s. Norwegians' best defense against the decline of the industry that has made it the world's fourth-wealthiest country is the State Petroleum Fund which is managed by the national Norges Bank. Parliament created the oil fund in 1990, but the state had its

first budget surplus only in 1995. Until then, oil income was used to pay down Norway's staggering foreign debt from the tough years before North Sea riches could be exploited. A substantial amount of the profits from the exploitation of a resource that is viewed as belonging to all Norwegians, not just the current generation, is invested in foreign stocks and bonds. The state-owned fund guards against spending too freely on public sector services in boom years so as not to lay off droves of state workers when the economy goes bust.

The Petroleum Fund is an instrument designed to prevent Norway's substantial oil profits from being taken too rapidly into the economy. State bank officials and government leaders believe that dispersing oil revenues directly would overheat the Norwegian economy and suppress private sector growth. Their view is that the resource rent collected from the sale of their natural wealth of oil should be conserved.

Norway has extracted only about 30% of its known oil resources in the three decades and reserves are expected to last 40 more years. But the oil that's left is mostly in depths, distances and quantities that make its extraction less likely to produce profits of the magnitude to which the country has become accustomed.

From the perspective of some, Norway focuses more on how to administer and distribute the assets already acquired than on how new value is to be created. There are generous benefits for both men and women of eight weeks' vacation, liberal sick leave and day care that is reliable and inexpensive. Three-year maternity leaves, broad part-time opportunities and creative application of telecommuting help keep women in the work force. State assistance to single mothers is so generous that there is no need for a father's income.

Norway's State Petroleum Fund is now worth about \$60 billion. Many of Norway's citizens fail to see why they should pay some of Europe's highest tax rates when Norway's crude output is worth about \$7,000 a year for each citizen, about one fourth of per capita GDP of \$28,433. If the \$60 billion is invested for a rate of return of 10%, then each Norwegian citizen could receive \$1333 as an annual CD. The state's priority instead is to conserve and build the Fund and funnel fund revenue into social benefits.

NIGERIA

Two thousand years ago, Pliny the Elder wrote that the two greatest curses of civilization were the discovery of silver and gold. Perhaps oil and gas should be added to the list of natural wealth that ends up damaging more than helping people in many parts of the world that are rich in subsoil resources. This has certainly been the case in Nigeria.

There have been 28 wars waged in Africa in the past three years over the control of mineral resources, many of them in West Africa. Conflicts in Nigeria have been ongoing since oil was first discovered four decades ago. Nigeria is Africa's most populous nation - home to more than 130 million people, or one-sixth (continued on p. 13)

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of the population of the African continent. The giant of West Africa, Nigeria has half the area's population and one of its most highly educated workforces. Nigeria is the fifth-largest supplier of oil to the United States. The Bush administration has recognized African oil as a key US strategic interest as the country seeks more stable sources of petroleum outside the turbulent Middle East.

Nigeria is potentially Africa's richest country. As the world's sixth largest producer of crude oil, with huge reserves of mineral and agricultural riches and manpower, it should be enjoying some of the highest global living standards. But it has some of the lowest living standards in Africa. Surveys conducted by Nigeria's Federal Office of Statistics show that in a 16 year period between 1980 and 1996, Nigeria's poverty level rose from 28 to 66 percent. GDP per person in 1982 was \$860, in 1996 it was \$280, and now reported to be \$290. Numerically, while 17.7 million people lived in poverty in 1980, the population living on less than US \$1.40 a day, rose to 67.1 million by 1996.

Northern and southern Nigeria are essentially two different countries. Some view the oil producing region of the Niger Delta in the south as a sort of internal colony of Nigeria. Home to 15 million impoverished people, the Niger Delta region produces 90 percent of Nigeria's wealth. Under the swamps and mangroves of one of the world's richest ecosystems lie vast reserves - an estimated 40 more years of crude and a century of natural gas. The first oil was produced here in 1956. After 40 years of production, there are rutted roads, decrepit schools, few health clinics, no conduits for running water, and polluted creeks and farmlands. There have been dozens of oil spills and gas flares spew carbon dioxide 24 hours a day. The Niger Delta is one of this country's poorest regions, despite its oil wealth. Most people are struggling to survive on less than \$1 a day. Away from the main towns there is no real development, no roads, no electricity, no running water and no telephones.

Most of the oil that has earned Nigeria close to US\$340 billion since production began over four decades ago has come from the Niger Delta onshore sites. Some put the number at \$300 billion with about \$50 billion "disappeared overseas" meaning stolen by corrupt officials. Shell and other western oil companies extract oil worth an estimated \$150 billion a year in recent years from the area. A rough estimate is that Nigeria earns some \$10 billion every year from oil.

Based on Nigeria's 1988 population of 100 million, if Nigeria had distributed the entire \$340 billion it has received in oil exploration up until year 2000, over a forty year period, the citizen dividend per person per year would have been about \$85. Based on the figure of \$10 billion that Nigeria earns every year from oil and a current population of 130 million, distributing the full amount as citizen dividends would yield about \$77 per year per person. Based on oil extraction worth of \$150 billion a year from the area, and a resource rent of 10% (or \$15 billion) charged by the Nigerian government, the annual citizen dividend would be about \$115 per person per year.

As noted earlier, GDP per person in 1982 was \$860, in 1996

it had fallen to \$280. Based on the current GDP of \$290, adding the \$115 dividend, would bring the income per person per year to \$405. For a family of four, that would be \$1620 per year with the dividend (\$1160 without the dividend). Based on the GDP per person in 1982, a family of four would have earned \$3440. That same family in 1982 with the dividend of \$85 added would have had \$3780. While a citizen's dividend in Nigeria would mean a significant increase in annual income, one must note the vastly more substantial decrease in GDP from 1982 up until this time.

After the discovery of oil and with the high exchange rate of US petrodollars compared to Nigerian nairas, palm oil, ground nuts and other previous export products of Nigeria were for the most part eliminated. Nigeria's economy had been mostly subsistence agriculture and fishing, and with the collapse of their few export commodities, the economy took a nosedive for most Nigerians.

What has become of Nigeria's oil wealth? Nigeria was rated the world's most corrupt country (out of 52) by Transparency International's Corruption Perception Index. Much has been made of the fact that money generated from Africa's oil reserves has been lost in corruption, mismanagement and violent conflict. In Nigeria, an estimated \$4 billion in government funds was stolen by the dictatorship of General Sani Abacha in the 1990s. Some estimate that as much as \$50 billion in oil revenue has been stolen since Nigeria first began production.

Faced with severe balance of payments problems in the mid 1980s, the then military ruler, General Ibrahim Babangida, adopted International Monetary Fund and World Bank advised structural adjustment programs. The key objective was to ensure that Nigeria serviced its external debt of US \$28 billion and maintained macro-economic stability, while cutting back on social spending. Starved of funds, social service institutions began to decay and service delivery in schools and hospitals sharply declined. The World Bank estimates that public spending per capita on health is less than \$5 and as low as \$2 in some parts of Nigeria, contrary to \$34 recommended for low-income countries by the World Health Organization. Infrastructure and utilities began to collapse.

Comparing the \$4 billion stolen by Abacha to the \$28 billion in external debt that Nigeria was forced to pay by the IMF/WB advised structural adjustment programs, it seems that a case could be made that the greater crime can be found in the neoliberal economic system. As has happened to many other third world resource rich countries, government leaders were urged to use the oil and mineral wealth royalty payments to secure loans for their countries and to buy military equipment and other foreign made commodities. Then the accumulated debt was called in on the backs of the people as a whole.

The IMF and WB could have insisted that a transparent oil rent fund similar to the Alaska Permanent Fund be established as a condition for loans. The fact that the international banking (continued on p. 14)

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institutions did not act in a responsible manner by promoting transparent public finance institutions and socially just structural adjustments programs but instead put countries into odious debt lends credence to the position that these institutions were established to maintain the predominance of the US dollar as the major global currency over and above any humanitarian or even good governance objectives.

What might happen to the people of Nigeria in the years ahead? President Obasanjo and his administration intend to increase Nigeria's oil reserves to 50 billion barrels by 2010 and to raise its production capacity to five million barrels per day by 2010. Confirmed offshore oil deposits have increased from about 30 percent of the country's total reserves in 1997 to about 50 percent today. As Nigeria moves closer to the reserves and production targets set by Obasanjo, this percentage is likely to increase to more than 70 percent. Since oil production for Nigeria is set to move increasingly offshore of the Niger Delta, people in the region are concerned that they will be left behind once again with no share of the federally controlled oil wealth. Nigerians would be wise to revamp and diversify their economy sooner rather than later.

Given the extent of the corruption, violence, destruction and environmental devastation, perhaps the people of the Niger Delta should make a hard push for the federal government and the oil companies to repair and restore their land and water and then look forward to a new day of sustainable development based on renewable sources of energy and their own capacity for self-directed development. Any oil resource rents that they can draw down from the federal government or finagle directly from the oil companies might better be directed towards capping and tapping the dozens of natural gas flares to provide an energy source for the region that will help it transition to renewable energy of wind, solar, and microhydropower.

Additionally, transparent, interest free (perhaps a 2% management fee only) revolving loan funds for ecovillage and sustainable development projects could be established with the oil revenue, either managed on the federal level or via separately mandated funds on the state level. Thus the oil revenue would be used for internal development projects, not invested externally as is the case with the Alaska and Norwegian permanent funds. As these projects proceed, and the economy gently expands, land values will rise and these funds could then transition towards a surface land rent and distribution fund. A portion of these funds could then be distributed as citizen dividends.

Let us note here that land based taxes and land value recapture policies are recommended in the 1996 Action Agenda of the United Nations Center for Human Settlements, a document agreed to by all UN member states. The approach was also strongly promoted by ecological economist Herman Daly of the University of Maryland in a very important speech that he gave to the World Bank on April 30, 2002. Although Professor Sala-i-Martin at Columbia University recently wrote a paper advising the World Bank to help establish a fund in Nigeria similar to the Alaska Permanent Fund, those of us who have been advocating for a Niger Delta Fund are now

thinking that a sustainable development focus would be better than using the oil revenue for citizen dividends in terms of overall wealth creation for the region.

Nigeria newspapers earlier this week gave us some positive and hopeful stories. President Olusegun Obasanjo has fully endorsed the Extractive Industries Transparency Initiative (EITI) and has inaugurated the National Stakeholders Working Group, a 28-person team which will work to publish all payments made by and to its multi-billion dollar oil industry. Obasanjo wants to hold to account the Nigerian National Petroleum Corporation and its international partners, including Chevron Texaco and ExxonMobil, the Anglo-Dutch major Shell and France's Total.

President Obasanjo also said that whatever resources the country gets from extractive industries should be invested in "renewable and non-depleting aspects of our national economy. What we should, of course, not do is, advertently or inadvertently, waste these resources because...they are not renewable." He further stated that "apart from being non-renewable, I have said on a number of occasions that what God has put in the soil for Nigerians are put in the soil for past, present and future Nigerians... therefore, those of us who are managing it must manage it for all Nigerians - past, present and future. And we cannot do that unless we are transparent..."

Other good news out of Nigeria this past week is that Obasanjo signed into law the Allocation of Revenue Act 2004 which abolishes the dichotomy between onshore and offshore oil production in respect of the principle of derivation for the purposes of allocation of oil revenue accruing to the Federation. This announcement was received with jubilation in the Niger Delta states where state officials described it as a victory for the "down-trodden people of the Niger Delta."

All of this is also very good news for those of us working to secure resource rents for the people worldwide and to underpin our political democracies with earth rights democracy ethics and policies.

As the world turns, in a case being investigated by the US Justice Department and the FBI, it is alleged that Halliburton paid over \$100 million to bribe Nigerian oil ministry officials and \$200 million to bribe government officials surrounding the award of the Nigeria Liquefied Natural Gas project between 1995 - 2002. A Halliburton spokesperson said the company has handed over documents to the Justice Department but insisted that the company did no wrong. She said that Halliburton always maintains the highest ethical business standards.

CLIMATE CHANGE AND OTHER ENVIRONMENTAL CONSIDERATIONS

Some environmentalists raise the concern that citizen dividends and social services based on petroleum and other nonrenewable resources rents makes it that much more difficult to shift to renewable sources of energy. Alaskan representatives frequently have voted to open up the Alaska National Wildlife Refuge and other areas for more oil drilling. This writer's first response to this concern is that if citizens do not get a rightful share of these resource rents, then corporations will capture even greater amounts of surplus profits. While this is true, we need to look at the issue in a holistic way.

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From the vantage point of a planetary civilization, we clearly need to shift to renewable energy sources. There is clear and compelling scientific evidence of global warming. Climate change is one of the most pressing environmental problems of our time. Carbon dioxide and other gases released by fossil fuel consumption and deforestation is trapping heat in our atmosphere for 100 years or longer, with devastating environmental consequence. It is time to go full throttle in addressing this enormous challenge.

We need to use oil resource rents to shift to renewable energy and sustainable economies. Both the Alaskan and Norwegian petroleum funds invest in stocks, bonds and real estate. Interest from these investments are distributed as citizen dividends in Alaska and for Norway social services. The priorities of the fund portfolios need to be scrutinized and revamped. Currently the investment portfolios are mandated to follow the "prudent investor rule" meaning that managers must find the balance point between highest profits and lowest risks. Fund investments are not based on or screened for socially and/or environmentally responsible criteria.

Furthermore, those of us working for a full range of resource rents as the basis for earth rights democracy view oil rent fund investment in real estate worldwide as an expropriation of surface land resource rents from other nations and thus are not a just source of interest income for the citizens of oil rent fund countries like Alaska and Norway.

The Alaskan and Norwegian funds, and the Nigerian fund if it is established, needs to have socially and environmentally responsible criteria. Investments should be made in renewable energy - wind, solar, green hydrogen, microhydropower - and in reforestation and other environmental restoration activities. A portion of the funds should be made available as interest free (suggested 2% - 3% management fee) revolving loan funds to people in developing nations to help finance their efforts for sustainable development. A criteria of the loans should be that the communities receiving the loans begin implementing surface land value (ground rent) recapture in their towns, regions and nations. Land value based resource rent funds, if full ground rent is collected for the people as a whole, promotes land reform and affordable land access for current and future generations in addition to generating funds for public benefits and citizen dividends.

In the US about one half of corporate profits comes from real estate related activities so we know that resource rents from surface lands could be a substantial source of funds for basic income and citizen dividends. In addition to land sites, rents from the electromagnetic spectrum, water power points and satellite orbital zones should be sourced for citizen dividends in the future.

KEY RECOMMENDATIONS

In concluding this consideration of oil resource rents as a basis for citizen dividends and basic income payments, here are three key recommendations:

(1) Full use should be made of information and communication technologies for total transparency in revenue raising and expenditure on the part of both government and extractive resource industries, as modeled by the Alaska Permanent Fund and promoted by the Extractive Industries Transparency Initiative;

(2) Resource rent from non-renewable resources should be invested in socially and environmentally responsible ways and primarily in the needed transition to renewable energy based economies; and

(3) Oil and other non-renewable resource rent funds should themselves transition towards capturing substantial resource rents from surface land site values (ground rent) and other permanent and sustainable sources of rent, such as hydropower points, electromagnetic spectrum and satellite orbital zones.

(Alanna Hartzok is Co-Founder and Co-Director of Earth Rights Institute, Vice President of the Council of Georgist Organizations, and UN NGO Representative for the International Union for Land Value Taxation. Other published articles of hers are posted at <http://www.earthrights.net>
Contact info: earthrts@pa.net or 717-264-0957) <<
