

Guyana: Building Sustainable Security



American Security Project

Perspective

—
Andrew Holland

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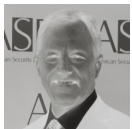
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In this Report:

In 2015, oil was found off the coast of the small South American country of Guyana. Since then, successive test wells have confirmed that these reserves are some of the richest oil discoveries in decades.

Oil production, and the revenues it will generate, will transform the country and the region. As chaos continues to grow in its neighbor Venezuela, a growing and more prosperous Guyana could become a linchpin of stability for the greater Caribbean Basin. If properly managed, these new resources could help Guyana become a model for how to build sustainable security and prosperity. For too long, US policy has ignored the interests of the Caribbean and Latin America—seeing it only as a source of problems. This report shows how the geopolitical challenges and opportunities presented by the coming oil boom will transform Guyana, and how American policymakers should build a closer relationship with the country to ensure sustainable, long-term security.

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IN BRIEF

- In the next decade, Guyana, a small country on the Caribbean and Atlantic coast of South America, will become one of the largest producers of oil, per capita, in the world.
- A resource boom has not always been beneficial to small, poor countries – the “Resource Curse” can result in failed governments, macroeconomic stagnation, and endemic corruption. While its western neighbor, Venezuela, shows the worst effects of resource over-reliance, Guyana is taking steps to avoid this curse.
- Guyana faces geopolitical challenges ranging from transnational crime to threats to its territorial integrity. If properly managed, the oil boom can help alleviate these threats and turn Guyana into a model for the region.

About the Author

Andrew Holland is the American Security Project's Chief Operating Officer. His area of research is on energy, climate change, trade, and infrastructure policy. For more than 15 years, he has worked at the center of debates about how to achieve sustainable energy security and how to effectively address climate change. He served as Legislative Assistant on Energy, Environment, and Infrastructure for United States Senator Chuck Hagel of Nebraska and also worked in the US House of Representatives. He holds a Master's Degree in International Strategy and Economics from the University of St. Andrews in Scotland and a Bachelor's Degree in History and Economics from Wake Forest University in North Carolina.

Introduction

Guyana is a small country on the Atlantic Coast of South America, bordering Venezuela, Suriname, and Brazil. The country is the only one in South America whose official language is English, having been a part of the British Empire until 1966. Long before that, Guyana's first appearance in written history came in the 16th century as English and Spanish explorers searched for El Dorado, the mythical lost city of gold, reputed to lie in the Guiana Highlands around what is now the border between Venezuela and Guyana.

Like many small, developing post-colonial nations, Guyana's economic and political development has not always been smooth. The country's GDP grew, and then fell. Deep ethnic rifts were exposed between Afro-Guyanese, descendants of slaves; Indo-Guyanese, descendants of British-imported indentured servants; and indigenous Amerindian groups. Its small population of about 780,000 has mostly collected along the coast, with small pockets of mining and extractive industries in the largely wild interior. Although Guyana is located on the South American continent, it identifies itself as a Caribbean nation, hosting the CARICOM consulate in its capital city of Georgetown. Due to political unrest and economic underperformance since independence, it became a large source of emigrants, with populations of Guyanese living in New York, London, and Canada. Its economy has remained principally focused on natural resource extraction and agriculture. Although the city of gold was never found, Guyana has developed a substantial gold mining sector; gold has been the country's largest export since 2009.¹



Source: CIA World Fact Book

Today, the young nation of Guyana may have finally found its version of El Dorado. It turns out that the riches were not located in a lost city along a mythical lake, but 120 miles offshore, buried deep below the sea floor, more than a mile underwater.² Guyana's El Dorado is not a myth – it is a vast deepwater oil find.

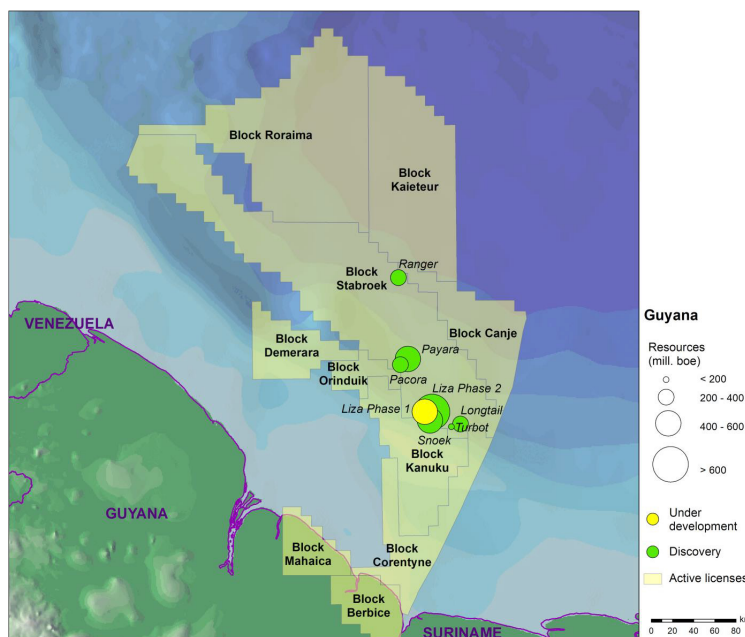
The Oil Discovery

In May 2015, ExxonMobil announced “a significant oil discovery on the Stabroek Block”³ – a lease it shares with Hess and the Chinese National Offshore Oil Company (CNOOC). This discovery in the Liza field would be confirmed and expanded into further oil fields discovered inside that block. ExxonMobil has a 45% ownership share, while Hess has 30% and CNOOC 25%. All together, these discoveries in the Stabroek block alone amount to the largest offshore crude oil discoveries in the world since 2015. Rystad Energy, a consultancy, estimates that these finds amount to 3 billion barrels of recoverable oil.⁴

In some ways, these discoveries should not be a surprise, as Guyana's offshore geology indicates that it contains a part of the East Venezuela Basin, in which Venezuela's prodigious Orinoco oil belt sits, and a part of the Guyana-Suriname basin. In 2000, the U.S. Geological Survey published an assessment of undiscovered oil and gas in Central and South America that specifically highlighted these basins as some of the most promising frontier provinces.⁵ However, for over a century, dating back to 1916, exploration attempts had come up short in their efforts to find oil. Some gas had been extracted for local use, but no commercially viable oil had been found.⁶

As the initial shock of the 2015 discovery wore off, the sheer size of the oil field became apparent. ExxonMobil now estimates more than 4 billion recoverable barrels in their Stabroek Block.⁷ Importantly, unlike other recent discoveries of offshore petroleum resources in places like Israel, Egypt, Australia, or Russia, almost all the reserves are expected to be valuable light sweet crude, not harder to monetize resources like gas or heavy oil. After production starts in 2020, Rystad estimates that output will swiftly rise to over 100 thousand barrels per day by 2022. If all goes smoothly in permitting and production, output could rise to over 700 thousand barrels per day by 2030. At such a level, it would rank ahead of OPEC countries like Ecuador, Equatorial Guinea, or Gabon.

In fact, these production levels may underestimate the country's production, because they only account for the ExxonMobil/Hess/CNOOC consortium's license in the Stabroek block. As other oil companies explore elsewhere in Guyana's waters, they could see similar outcomes: Tullow Oil, for example, is preparing to start drilling in its Orinduik license plot, which neighbors the Stabroek.⁸ However you predict it, with Guyana's small population of less than 1 million people, the country will quickly rise to the top of the rankings of oil production per person, outranking even Gulf monarchies like Kuwait or the United Arab Emirates. Such a windfall will undoubtedly change the country: the actions of the government and people of Guyana will determine how it changes.



Oil discoveries shown within offshore lease blocks.
Source: Rystad Energy UCube

The Outlook for Guyana – a Chance for Security and Stability

The opportunity that oil wealth presents is clear. More money will flow into Guyana, both to government coffers in the form of royalties, profit sharing, and lease payments; and to the broader economy, as workers are hired and local contracts are signed. The economic boom, if directed properly, could provide the basis for dealing with longstanding security problems.

However, throwing money on top of intractable social problems without reform could end up only making them worse. A growing body of evidence shows that unexpected increases in resource wealth given to countries with weak and unstable political institutions can only make the problems worse and more intractable.⁹ It can add a layer of government instability and economic challenges to already existing internal threats. For that reason, policymakers should acknowledge that money could solve some problems, while reform and foresight must be used to prevent others.

Solving Security Challenges with More Resources

Some of the security challenges that Guyana faces can be lessened with more money. For instance, Guyana is a common transit country for cocaine headed from Columbia and Venezuela to the United States, Canada, and Europe. In the last decade, under pressure from the U.S. to combat drug smuggling, the government passed legislation to address money laundering, terrorist financing, and extradition. It has created a new Special Organized Crime Unit and has launched an updated Drug Strategy Plan.¹⁰ Each of these actions provided important legal and institutional ability to fight drug trafficking and organized crime, but the country has lacked the means to fund and support the efforts. Guyana's large coastline, long navigable rivers, and sparsely inhabited jungles provide easy cover for illicit smuggling. Increasing funding and manpower in their Coast Guard, customs enforcement agency, and police will allow the country to more effectively manage its borders and understand how and where illicit goods transit to larger markets.

Guyana is a member of the U.S.-led Caribbean Basin Security Initiative, in which the U.S. collaborates with Caribbean countries to build the capacity to address transnational threats. Such collaboration allows intelligence sharing so that host countries can monitor and track illicit goods. With greater resources dedicated to law enforcement, the government of Guyana can more effectively act on American intelligence.

In connection to the rise of transnational security threats like drug trafficking, domestic criminal activity has increased in Guyana. From 2000 to 2015, the homicide rate doubled, from 10 to 19.4 homicides per 100,000 people.¹¹ The U.N. Office on Drugs and Crime ranks this as the fourth highest homicide rate in South America, after Brazil, Colombia, and Venezuela.¹² The violent crime rate is similarly high, particularly in Georgetown, the capitol. Although these statistics are separate from transnational threats that directly impact the United States, the financing, weapons, and criminal organizations involved in drug trafficking are often the same as those involved in domestic crime. Of course, more money alone will not solve an intractable problem like violent crime: Guyana must ensure its judicial system is perceived as fair and equitable to all ethnic groups, and that corruption does not undermine the ability of the security services to do their jobs. However, more resources devoted to police, criminal courts, crime prevention, and criminal rehabilitation programs can reduce crime rates.

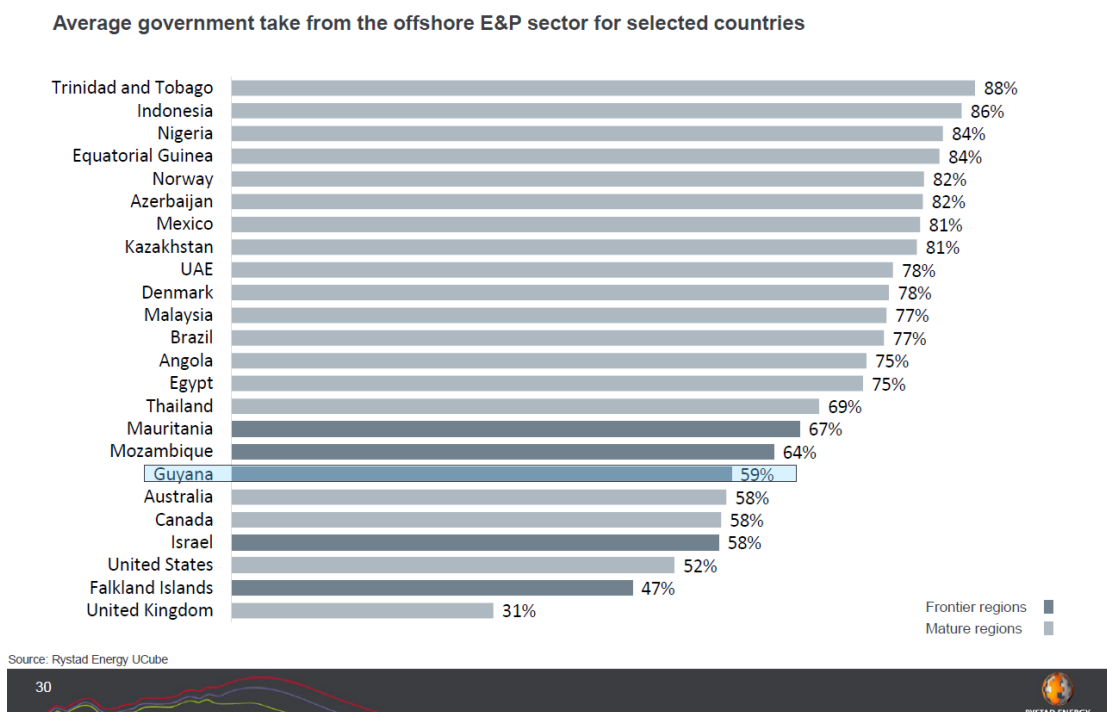
A Security Imperative: Avoiding the Resource Curse

Some problems are not solved with money. While finding a resource like oil should be a blessing to a country, as ASP has argued in previous papers, a resource boom does not always benefit the country that receives the windfall.¹³ Too many times, countries experience a "Resource Curse" where the full value of natural resources are lost, and the population is left worse off.

There are several reasons that a country could be "cursed" by resources. First, a country that ties its fate to the boom-bust cycle of global commodity markets can quickly go broke if a crash comes. Alternatively, a seemingly well-managed economic boom could drive harmful changes to the domestic economy through macroeconomic effects on the currency – harming the competitiveness of other domestic products (the so-called Dutch Disease). Finally, in too many countries the benefits of a natural resource boom have only accrued to a well-connected elite, or have simply been stolen, with revenues destined for schools and infrastructure ending up in secret bank accounts in offshore tax havens.

There has been a great deal written about the Resource Curse, including long studies specifically about ways for Guyana to avoid it.¹⁴ Guyana has its own history of gold mining to point the way to both positive and negative outcomes.¹⁵ It is clear that the government and people of Guyana are aware of the pitfalls – and they have engaged expert support from institutions like the World Bank, International Monetary Fund, Inter-American Development Bank, and others.¹⁶ The key lesson from countries that have minimized the effects of a resource curse is transparency: when the public can see that revenues are fairly collected and dedicated to the public good, they can hold their politicians accountable for their actions. For that reason, Guyana joined the Extractive Industries Transparency Initiative (EITI) in October 2017, and is required to submit a full report detailing what the oil industry pays and for what. We already know that under the contract agreed to by the ExxonMobil-led consortium and the Guyanese government, 59% of the revenues from oil production will go to the government Guyana, while the rest is split between the oil companies.¹⁷ Rystad, the energy consultancy, has found that this is an internationally competitive rate for “frontier” regions where oil prospecting is less certain and involves greater risk and more infrastructure investment.¹⁸

Comparing Guyana's government take



Guyana's contract is commensurate with other “Frontier” fields. Source: Rystad Energy

In the end, it is imperative for Guyana's security that the politicians do, in fact, avoid the resource curse. We need only look across Guyana's western border, to Venezuela, to see how a country rich in natural resources can fall victim to this curse.¹⁹ This is a security and humanitarian crisis. Venezuelans are fleeing the country as hyperinflation rages while basic services like health care and food distribution fail. Meanwhile, the country has become a haven for transnational criminals and the government has become implicated in humanitarian abuses as it puts down demonstrations. These outcomes are directly attributable to the resource curse and the imposition of policies of resource nationalism. For decades, Venezuela had underperformed economically. When Hugo Chavez came to power in 1999, he was very clear about how he wanted to rewrite the economic rules – building a socialist, populist revolution with the dollars earned selling oil.

There are models for how to build a prosperous, stable country with oil revenues. Norway has grown from a small, poor country to one of the wealthiest in the world. Some Gulf States like the United Arab Emirates and Qatar have shown a remarkable rise from poverty to wealth in a generation, with some unsteady missteps. The resource curse is not a prophecy: it is a warning. Through foresighted investment and smart policy, Guyana can overcome the resource curse. It can use its newfound wealth to build a secure, stable future for its people. Moreover, oil wealth could make the country into a model for the rest of the Caribbean and South America. Such an outcome will have deep geopolitical consequences for the region.

The Geopolitical Implications of Guyana's Oil Boom

The islands and states of the Caribbean have always been too small to control their own geopolitical destinies – they are blown by winds far from their shores: colonialism, slavery, or the Cold War. Guyana, a Caribbean state, shares cultural, economic, and linguistic ties with the islands. The geopolitics of the Caribbean has been defined for more than a century by its proximity to the United States. For the last two decades, Venezuela has challenged American leadership in the Caribbean and northern Latin America.

Guyana, as a small, poor nation neighboring the emerging regional power, was overlooked. It joined the Venezuelan-run PetroCaribe program in 2009, exporting rice at subsidized costs in exchange for underpriced Venezuelan oil.²⁰ Venezuela had established PetroCaribe in 2005 as a tacit tool of foreign policy to build alliances throughout the Caribbean region by offering oil at reduced prices.²¹ Because these countries were so energy insecure – needing imports of fuel oil to keep their electricity on – they jumped at the opportunity. It was understood, if unsaid, that PetroCaribe recipients would support Venezuela's foreign policy in fora like the United Nations, Organization of American States, and elsewhere.²²

However, membership did not provide Guyana any consideration from Venezuela once the tables turned and Guyana began to allow private companies to explore for oil. In October 2013, the Venezuelan navy boarded and detained the crew of a vessel operating under contract with US-owned Anadarko Petroleum to explore for oil.²³ The ship was in Guyana's Exclusive Economic Zone (EEZ), far from the internationally recognized boundary. Once Guyana's oil find was announced in 2015, Venezuela quickly dumped Guyana from PetroCaribe, replacing its rice with a contract for rice from neighboring Suriname.²⁴ Within weeks, both Suriname and Venezuela would revive long dormant claims to Guyanese territory.

Even though Venezuela's power is declining in the country's ongoing economic and humanitarian crisis, it is still trying to assert itself with its smaller neighbors – even threatening military action over border disputes. Guyana and other Caribbean nations can step away from Venezuelan dominance, but they will have to overcome the challenge presented by an increasingly desperate neighbor.

The Threat of Conflict Over Guyana's Borders

The Venezuelan claim to Guyana's territory is expansive, claiming all the way to the Essequibo River, which would reduce the size of Guyana by 53,000 square miles. If accepted, this would shrink the size of Guyana by nearly two-thirds, and reduce the offshore EEZ to a small triangle far from its oil fields. This border dispute extends far back into history; knowing that, the Stabroek block was designed in 1999 specifically to establish the maritime borders, stretching from one side of the EEZ to the other.

Throughout the five decades since Guyana's independence in 1966, the question of the Venezuelan border has flared-up periodically, with Venezuela trying to reverse an American-led commission in 1899 designating the borders as they are today. Border tensions have seemed loudest when Venezuela's government was looking to distract from internal problems. Meanwhile, the constant threat of an escalating border dispute may have undermined economic development in the newly-independent Guyana by creating enough uncertainty to scare away foreign investors.²⁵

Since oil was found in 2015, Venezuela's rhetoric about the border has only become more threatening – even as their government's capacity to do anything about it has decreased. In May 2015, President Maduro issued an official decree creating “Strategic Maritime and Insular Integral Defense Region” that extends from Guyanese territory claimed by Venezuela into the Atlantic, far exceeding any previous claim by Venezuela on maritime territory.²⁶ It would include the majority of the Stabroek Block in which oil exploration activity is already ongoing.²⁷



Venezuelan claims on Guyanese territory.

After increasingly heated rhetoric by Venezuela over the land border as well, the Guyanese set up two military bases on their border. Instead of fighting an armed invasion, they have mostly found Venezuelans – including members of the military – trying to trade for food or medical attention.²⁸ Even so, in a February visit to Georgetown, Brazilian Defense Minister Raul Jungmann pledged military support to defend Guyana in case Venezuela attempted to invade.²⁹ Although the Venezuelan military appears to lack the will or ability to seize territory, no observers should underestimate a desperate authoritarian government's desire to distract from chaos at home with adventures abroad.



A Map of the “Maritime and Insular Integral Defense Zone” as issued by National Organization for Maritime Rescue and Safety (ONSA), a Venezuelan quasi-governmental organization. It shows the Liza-1 Field within Venezuela's territory.

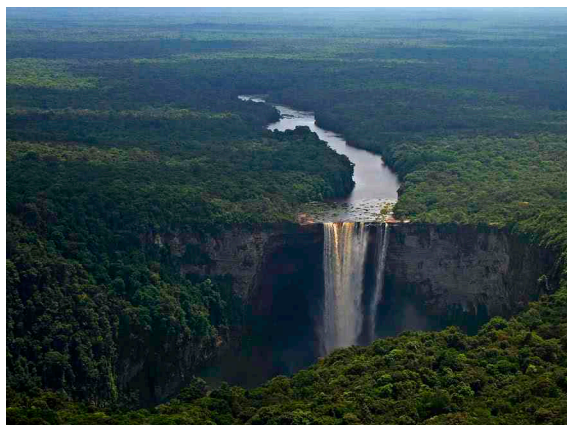
In January 2018, the dispute was referred by the UN Secretary General to the International Court of Justice in The Hague. Although the government of Venezuela has refused to take part in the process, the government of Guyana is attempting to find a judgment by the court to finally end the dispute.³⁰

The United States has a role to play in supporting the rule of law and the proper application of the UN Law of the Sea. No players should expect that U.S. will provide a direct security guarantee to Guyana, but the U.S. must stand for international law and the sanctity of borders. Moreover, should the U.S. seek to increase pressure on Venezuela, beyond existing sanctions, surely support for Guyana – and the American-backed agreement of 1899 – would be an appropriate measure. Additionally, as Guyana’s government resources increase with royalties coming in, the purchase of modern naval vessels would add some hard power to the legal dispute.

New Energy Independence Gives a Geopolitical Opportunity

For small countries, energy security affords resilience to external threats. Without energy security, a country’s economic and social well-being becomes hostage to foreign actors. There are few places in the world that exhibit the challenges of energy insecurity more so than the nations around the Caribbean. Limited fossil fuel resources coupled with a lack of infrastructure has required these countries to rely almost exclusively on energy imports – the high cost of which places a heavy economic burden on these countries.

Dependence has always been a challenge for Caribbean nations – going back in history, the countries of the region have depended on outside forces for their economic fortunes – whether they imported slaves, food,



Kaieteur Falls - part of Guyana’s astonishing scenery and biodiversity. Image source: National Trust of Guayana

weapons or oil. And that dependence on external actors has created troubling geopolitical outcomes. In little more than a century, they went from colonial outposts, to Cold War pawns, to supplicants to Venezuela. Each transition involved traumatic economic, social, and cultural dislocation. If these countries could stand on their own, as an equal, they could choose their own path in global affairs, without regard to where imports of energy or food came from.

As soon as oil begins flowing in 2020, Guyana will become an energy exporter – no longer dependent upon the whims of foreign politics. With that will come new challenges like a dependence on global market prices and all the problems of the resource curse, but it also provides a great opportunity.

As part of its preparations for the influx of capital, Guyana’s government has proposed an ambitious *Green State Development Strategy* with the objective “to reorient and diversify Guyana’s economy.” They intend to use their incoming resources to fund a clean, resilient economy. With an ambitious timeframe of only seven years, they plan to move to 100% renewable energy by 2025. They plan to build resilient coastal infrastructure to protect from extreme weather and sea level rise. They plan to protect the astonishing biological diversity of the Guyana Shield from the encroachment of development. They plan to utilize international financing from the United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD) to ensure that some of the largest areas of untouched rainforest is preserved – land that constitutes a huge carbon-sink preventing greenhouse gas emissions. The vast forests of the Guiana Shield contain about 18% of all the carbon dioxide stored in the world’s tropical forests. They plan to empower indigenous people to support the ecological health of their area.³¹ The Green State Development Strategy is an ambitious proposal – but must go beyond a proposal to actual implementation.

If Guyana is able to implement this ambitious plan, they can provide a model for the region. The opportunity is that advances in energy technology and a growing global awareness about the threats of climate change mean that energy security is not just about producing energy – it must also be about sustainability. Fortunately, new, clean technology also provides geopolitical advantages, as they allow countries to separate foreign policy from energy imports. This would fit into existing initiatives among Caribbean nations, like the Caribbean Climate-Smart Accelerator that are bringing the region closer to becoming truly energy independent.³² Guyana’s model (ironically funded by oil revenues) could show the way toward making the whole Caribbean region more resilient to changes in geopolitics, changes in markets, and the randomness of extreme weather.

Conclusion: Guyana as a Model for the Caribbean and South America

No one should pretend that just because Guyana found oil and will profit from its extraction that its history, divided politics, and geopolitical challenges are gone. On the other hand, no one should pronounce an entire nation as “cursed” before the revenues begin to flow. Guyana appears to be engaging in the critical, long range process of preparing for oil resources, but political pressures will increase as a Presidential election approaches in 2020. Certainly, plans for how to develop and use their resources will be a part of that debate – as is appropriate for a sovereign, democratic nation. Guyana’s neighbors should not interfere with this process. The United States has a clear stake in the success of Guyana – both as a potential customer for their oil production, but more importantly because the U.S. needs the Caribbean – the third border – to become safer and more secure. The U.S. does not need more instability to its South.



The Guyanese Parliament Building.
Image source: Wikimedia Commons.

There is no time to waste. First oil is currently scheduled for early 2020. Once production has started, the government of Guyana should have the policies in place for how to collect and distribute revenue. Should that timeline slip, due to uncertainty about regulations or contract disputes, it becomes more likely that oil production gets caught in domestic and international politics.

Guyana will have an important role to play in the future of the Caribbean, and indeed South America as well. As a member of CARICOM and the host of that the 15-member organization’s secretariat in Georgetown, it is well positioned to show leadership to the Caribbean. As the only English-speaking country in South America, it can act as a critical bridge to the United States. By being at the center of some of the most important and pristine ecological regions – the Amazon rainforest and the Guiana Shield – it can become a model for how to balance economic growth with sustainability and environmental conservation.

The people of Guyana have an opportunity to define their future, and if they are able to succeed, they can share their example with the other small, dependent, insecure nations. It is an end worth working for.

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The American Security Project (ASP) is a nonpartisan organization created to educate the American public and the world about the changing nature of national security in the 21st Century.

Gone are the days when a nation's security could be measured by bombers and battleships. Security in this new era requires harnessing all of America's strengths: the force of our diplomacy; the might of our military; the vigor and competitiveness of our economy; and the power of our ideals.

We believe that America must lead in the pursuit of our common goals and shared security. We must confront international challenges with our partners and with all the tools at our disposal and address emerging problems before they become security crises. And to do this we must forge a bipartisan consensus here at home.

ASP brings together prominent American business leaders, former members of Congress, retired military flag officers, and prominent former government officials. ASP conducts research on a broad range of issues and engages and empowers the American public by taking its findings directly to them via events, traditional & new media, meetings, and publications.

We live in a time when the threats to our security are as complex and diverse as terrorism, nuclear proliferation, climate change, energy challenges, and our economic wellbeing. Partisan bickering and age old solutions simply won't solve our problems. America – and the world - needs an honest dialogue about security that is as robust as it is realistic.

ASP exists to promote that dialogue, to forge that consensus, and to spur constructive action so that America meets the challenges to its security while seizing the opportunities that abound.



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