FUELLING CONFLICT OR FINANCING PEACE AND DEVELOPMENT?

LINKAGES BETWEEN MNC INVESTMENT, DEVELOPMENT AND CONFLICT:
A CASE STUDY ANALYSIS OF BP AMOCO'S SOCIAL POLICIES AND PRACTICES IN COLOMBIA

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Abstract

Foreign direct investment by western-based MNCs in developing countries is argued to be both a potential source of conflict and an instrument to promote development and peace. Yet there has been very little analysis of the micro-level factors that determine whether an MNC is likely to have a positive or negative impact on a conflict situation. A single case study provides the opportunity to investigate the context-specific interactions between an MNC and its host society, providing insight into the broader relationship between MNC investment, development, and conflict. In examining how BP Amoco has responded to the armed conflict in Casanare, Colombia, this paper argues that MNCs can play a positive role in helping to minimize sources of conflict by implementing policies and practices designed to mitigate any conflict risks and maximize any developmental impacts linked to their operations. However, if MNCs are to become partners in promoting peace in developing countries, there must be incentives to encourage corporate decision-makers to participate more closely in conflict prevention initiatives. The paper puts forth a number of policy recommendations on ways to mainstream corporate conflict prevention.

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List of Acronyms

AUC	Autodefensas Unidas de Colombia
BP	British Petroleum
BPD	Business Partners for Development
BPXC	British Petroleum Exploration Colombia
CIDA	Canadian International Development Agency
CIDA-INC	Industrial Cooperation Program (CIDA)
CIFP	Country Indicators for Foreign Policy
CODHES	Consultoría para los Derechos Humanos y el Desplazamiento
CSR	corporate social responsibility
DANE	Departamento Administrativo Nacional de Estadística
DFID	Department for International Development (U.K.)
DSC	Defence Services Colombia
ECLAC	Economic Commission for Latin America and the Caribbean
Ecopetrol	Empresa Colombiana de Petroleos
EDC	Export Development Canada
ELN	Ejército de Liberación Nacional
FARC	Fuerzas Armadas Revolucionarias de Colombia
FDI	foreign direct investment
FEWER	Forum on Early Warning and Early Response
GDP	gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
MNC	multinational corporation
NGO	non-governmental organization
OCENSA	Oleoducto Central, S.A.
ODA	official development assistance
ODC	Oleoducto de Colombia, S.A.
OECD	Organisation for Economic Co-operation and Development
PAHO	Pan-American Health Organization
PCIA	peace and conflict impact assessment
PELC	Political & Economic Link Consulting
Redepaz	Red Nacional de Iniciativas por la Paz y contra la Guerra
UN	United Nations
USCR	U.S. Committee on Refugees
WTO	World Trade Organization

“The end of the cold war and the onset of globalization in the 1990s, contrary to initial expectations, have not been followed by widespread [economic] growth and social and political cohesion. Rather the last decade has seen an increase in inequality, exclusion, and violence around the world.” Andrés Solimano, Country Director, World Bank (2000b, p. viii)

“On our journey into the twenty-first century, we cannot carry the heavy baggage of violence and social structures that perpetuate inequality, exclusion, injustice, and violations of human dignity. At the dawn of the new millennium, it is up to us to take on the challenge of establishing democracy, social justice, human rights, environmental protection, and human security – all elements of authentic human development. They are also the political foundations for a lasting and stable peace, bound to the ideal of respect for people as individuals, the beginning and end of all social action” Andrés Pastrana, former President of Colombia (2000, p. ix)

INTRODUCTION

Western-style capitalism has come to dominate the world economy, as the governments of a growing number of countries now embrace neoliberal economic policies and endorse greater global economic integration through international trade and investment (Mehmet, 1999, pp. 1-2). However, there is disagreement about the likely consequences of economic globalization for the developing world. Much of the controversy remains focused on whether this process of market liberalization and integration promotes sustainable development and peace, or whether it generates inequalities that heighten the risk of instability and violent conflict (Gissinger & Gleditsch, 1999, p. 327). This debate has been closely scrutinized over the past decade, as armed conflicts have flared up in all regions of the developing world.[1]

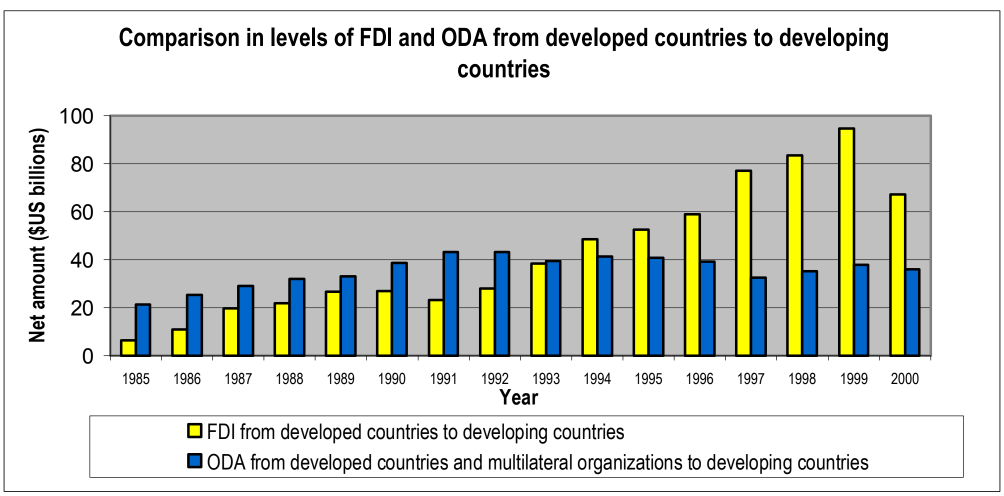
At the same time, the enormous global expansion of multinational corporations (MNCs) has transformed opinions about the role and responsibilities of foreign investors in developing countries (Schwartz & Gibb, 1999, p. 6). Although most developing countries now encourage

[1] According to Stanley Samarasinghe, 15 of the 20 poorest countries have experienced armed conflict since the mid-1980s; half of the world’s low-income countries are either engaged in conflict or are in the process of transition from conflict; and almost every low-income country that is not experiencing armed conflict shares at least 1 border with a country in conflict (cited in Solomon, 2002, p. 3).

foreign direct investment (FDI) as a means to fuel economic growth and finance human and development, many MNCs have been harshly criticized for the social, economic, environmental, political impacts associated with their operations (Willetts, 1998, p. 209). Development theorists opposed to neoliberal policies argue that the global production and distribution processes of MNCs are likely to worsen international and domestic disparities and engender a "race to the bottom" as governments around the world hasten to attract investment by weakening labour regulations and environmental standards (Gissinger & Gleditsch, 1999, pp. 334-337).[2]

In contrast, many governments, non-governmental organizations (NGOs), and multilateral organizations have increasingly come to view the private sector, and especially MNCs, as an important partner in development (Cragg, 2001, p. 11). This changing perception is in large part a response to the widening gap between flows of FDI and official development assistance (ODA) from the developed world to developing countries (See Figure 1).

Figure 1



Source: (OECD, n.d.)

[2] For example, Ozay Mehmet (1999) argues that the "westernization" and "capitalization" of developing countries primarily benefits monopolistic MNCs at the expense of the poor in low-income countries (p. 27).

As ODA funding has stagnated, more development financing demands have shifted towards the private sector, requiring greater interaction and cooperation between civil society, government, and business. According to Dr. Robert Davies of the Prince of Wales Business Leaders Forum, “Private sector investment in developing countries now exceeds that of governments more than ten-fold. Responsible international companies will welcome the recognition of the contribution they can make to human development in poorer countries” (cited in DFID, 1999). In fact, several donor governments now support aid programs that promote private sector partnerships in the hopes of leveraging private resources for development purposes (Charles, McNulty & Pennel, 1998, p. 2).

This changing perception of the role of the private sector in development has coincided with a growing recognition that MNCs ought to consider broader social concerns and ethical issues in their business operations (Rovere, 2000, p. 6). In particular, the concept of corporate social responsibility (CSR) encourages business to develop policies and practices that will have a positive impact on society (Nelson, 2000, p. 146).[3] Many companies are establishing inter-sectoral development programs in cooperation with local governments and NGOs as a demonstration of their tangible commitment to CSR principles (Cragg, 2001, p. 11). At the same time, intense public criticism targeting MNC behaviour in developing countries has forced several MNCs to introduce codes of conduct and impact assessment procedures governing social and environmental issues (Schwartz & Gibb, 1999, p. 11).[4]

Such corporate accountability and business ethics issues are especially relevant in the context of conflict-prone countries. The effects of MNC investment in high impact sectors, such as

[3] Corporate social responsibility implies that a company’s task is to seek an optimum balance in responding to the diverse needs of the various stakeholders affected by its decisions. It generally refers to ways of managing business processes in order to produce an overall positive impact on society (Nelson, 2000, p. 146).
[4] Voluntary codes of conduct vary considerably, ranging from vague statements of business principles to substantive guidelines that regulate MNC operations (Jenkins, 2001, p. iii).

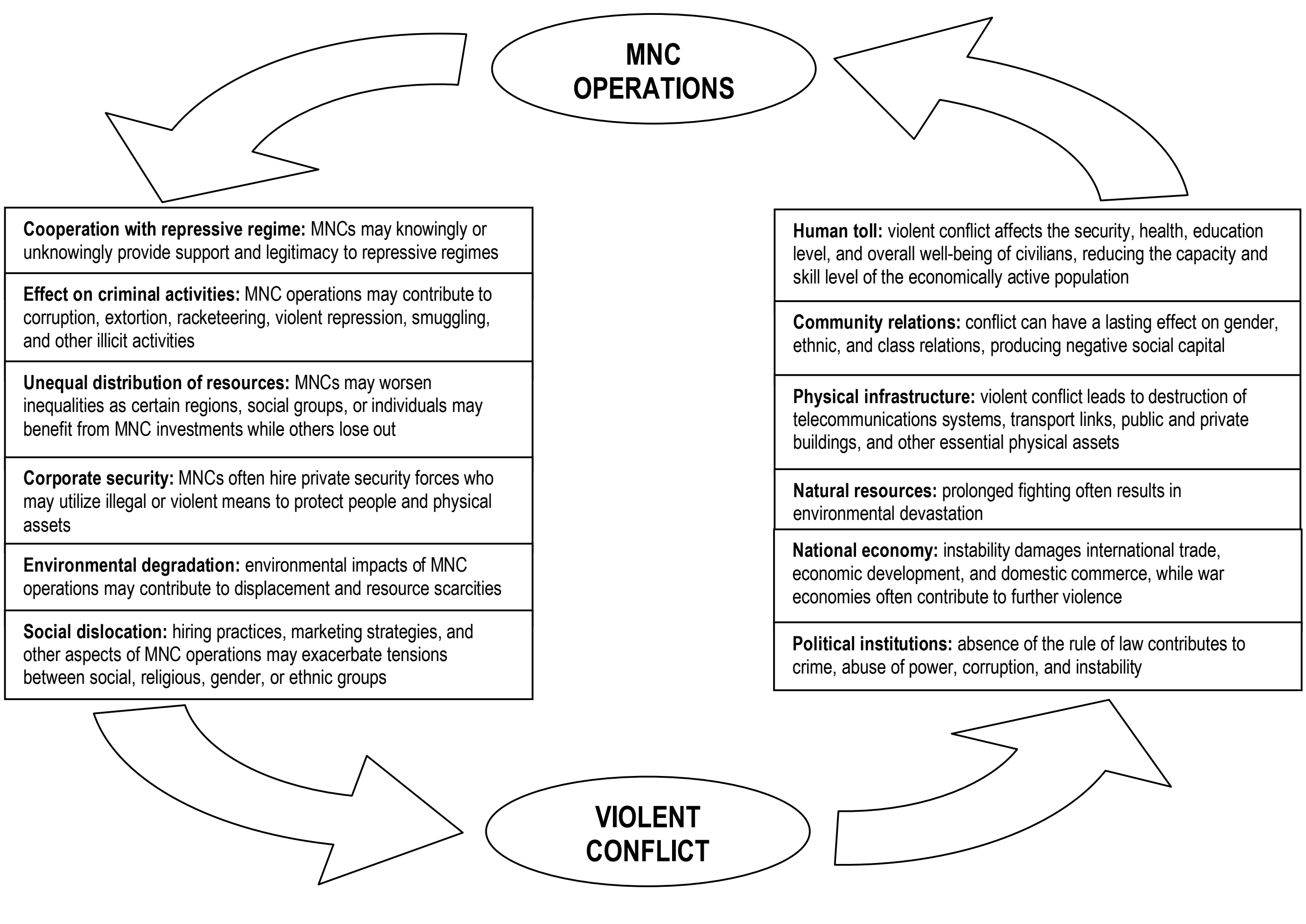
extractive industries and infrastructure, have been associated with worsening levels of instability and violence in many developing countries (Nelson, 2000, pp. 14-15). Media reports of human rights violations linked to the activities of oil companies such as BP Amoco in Colombia, Royal Dutch/Shell Group in Nigeria, Talisman in Sudan, and Unocal in Myanmar have compounded concerns about risks related to MNC operations in conflict-prone countries (Mitchell, 1998, pp. 245-250). An article by the Economist draws attention to the difficult questions that this topic raises:

> […] is competition for wealth and resources becoming the major cause of new wars around the world? Where tribal violence, independence struggles or cold-war rivalry were once blamed for wars, now bandits, traders and some businesses are being fingered, especially in developing countries. Though some conflicts are ethnic or religious clashes, or stem from scraps over influence, many of today's wars, especially civil ones, have a strong commercial element too often ignored by analysts outside, though not by businessmen willing to profit from war. (2000a, p. 46)

Although the vast majority of MNCs do not stand to profit from the upheaval associated with war, their operations can affect and be affected by violent conflict (See Figure 2).

Figure 2: Potential conflict causes and effects pertaining to MNCs

Negative feedback: MNCs contribute to an escalation of conflict which produces effects that are detrimental to MNC operations



Adapted from: (Nelson, 2000, pp. 30-62)

While the private sector has not played an active role in conflict prevention or peacebuilding efforts to date, the public perception of corporate responsibility in conflict zones is changing, as Juliette Bennett of the International Peace Forum stated at a United Nations (UN) Global Compact conference in 1999:

> One of the realities of doing business in the global marketplace is that managers in multinational corporations find themselves operating in areas of armed conflict, indigenous cultural disputes, epidemic disease and other kinds of social upheaval. As globalization of the world's economy continues, the international business community will increasingly find itself confronted with the challenge of promoting peacebuilding in its areas of operation, or being blamed for contributing to the conditions that lead to violent conflict. These challenges will increasingly require business professionals to apply conflict resolution and peacebuilding strategies in situations where promoting peace is an essential element of successful business operations. (p. 11)

In response to these new demands being placed on the private sector, several multilateral organizations and NGOs have developed strategies to promote partnerships with MNCs to minimize sources of conflict in developing countries (Haufler, 2001, p. 659) (See Appendix 1).[5]

Though these efforts may prove rewarding, it is important to keep in mind that theories about the relationship between MNC investment, development and conflict are at the centre of much academic debate (Gissinger & Gleditsch, 1999, p. 328). Market liberalization, FDI, economic growth, social welfare, and governance in developing countries both affect and are affected by violent conflict, yet these interactions are not fully understood (Solomon, 2002, p. 27). As the World Bank states on its website for Peacebuilding and Reconstruction:

[5] Conflict prevention refers to activities undertaken over the short-term to reduce manifest tensions and/or to prevent the outbreak or recurrence of violent of conflict, while peacebuilding refers to activities undertaken over the medium and longer-term to address root causes of violent conflict in a targeted manner (Lund & Mehler, 1999, p. 25). In the context of corporate contributions to these efforts, it is important to emphasize that only apolitical and non-military strategies would be considered appropriate interventions.

> War and armed conflict not only threaten national and regional security, they inflict long-lasting damage to nations' economies and set back the development process. The destruction of physical assets – roads, ports, and factories, the disruption of trade links, and the loss of life and social capital is devastating**.** Violent conflict also leaves a legacy of militarized, divided societies, widespread displacement of populations, and decimated institutional capacity. […] It has become increasingly clear to economists that large-scale political and criminal violence threatens to relegate several countries and regions of the developing world to a perpetual trap of poverty and slow or negative economic growth. At the same time, such images coming from developing nations are sharply contrasted to the economic prosperity, consumer capitalism, and political pluralism of the industrialized West (World Bank, n.d.).

Even though some indicators of underdevelopment are associated with a high risk that conflict will ensue, it is not yet clear exactly how these contribute to outbreaks of violence in developing countries.[6] Meanwhile, the development process itself often seems to result in an exacerbation of latent or existing violence, as traditional social, economic, and political structures are disrupted (Gaigals & Leonhardt, 2001, p. 6).[7]

These issues have generated significant concern among the development community, as the adverse developmental impacts of violent conflict have been observed not only in states that are in obvious political turmoil, but also in societies that suffer from economic and social unrest (McIlwaine, 1999, p. 453). According to John Redwood (1999) of the World Bank, violence and crime "erode physical, human, natural, and social capital, undermine the investment climate, and deplete the state's capacity to govern. Previously regarded as an issue of criminal pathology or human rights, violence is now recognized as a macroeconomic problem" (p. v). As this new understanding of violence has become more prevalent, organizations such as the Forum on Early Warning and Early Response (FEWER) have begun to emphasize the importance of promoting conflict prevention in developing countries (Russell, 2001, p. 9).

[6] Countries with a low GDP per capita (below $US 1791) are more than twice as likely to experience a major crisis and twice as likely to experience a war than a country with a high GDP per capita. Other characteristics associated with state failure and conflict include: partial democracy, high population growth rate with large proportion of young people, weak or underdeveloped global trade links, dubious commitment to human rights and political freedoms, high infant mortality rates, low life expectancy, low caloric intakes (O'Brien, 2001, p. 23).

[7] For example, international assistance to support large-scale commercial farming in Ethiopia deepened inequality, limited access to resources, and increased tensions between competing pastoralist groups and between pastoralists and the state, resulting in an exacerbation of conflict (Gaigals & Leonhardt, 2001, p. 6).

One of the more innovative areas of conflict prevention research pertains to theories about economic causes of war and peace (Keen, 1998, p. 11). At a macro-level, theorists have increasingly focused on the relationship between globalization, development, and conflict (Gaigals & Leonhardt, 2001, p. 6). While liberal economists maintain that the globalization of the world economy will strengthen the prospects for development, democracy and peace, many development theorists are concerned that the global economic system magnifies instability and conflict in developing countries (Gissinger & Gleditsch, 1999, p. 328). Based on these divergent claims, "Global market forces and the impact of business are increasingly being seen as both exacerbating conflict and having the potential to reduce conflict" (Frankental & House, 2000, p. 40).

The focus of this paper relates to the broader debate about the impact of global trade and investment on development and conflict, as it investigates whether MNCs can contribute to conflict prevention and, if so, how. This is a topic which raises a number of questions: How does MNC investment affect conflict-related risks in developing countries? Which factors determine whether the activities of an MNC are likely to have a positive or negative impact on a conflict situation? What are the main criteria that affect corporate decision-making in conflict zones? What types of conflict prevention strategies have MNCs implemented, and how successful have these been?

The paper's central argument is that MNCs can contribute to conflict prevention through the implementation of policies and practices designed to minimize any conflict risks and maximize any developmental impacts linked to their operations. But, it is unrealistic to assume that MNCs' interests are necessarily congruent with those of other actors seeking to prevent violence (Berman, 2000, p. 32). As an additional complication, each company may face a distinct set of circumstances related to its internal structure and external environment that affect its response to conflict in a unique way (Solomon, 2002, p. 27). Therefore, it is important to examine the micro-level factors that determine whether an MNC is able to make a positive contribution to conflict prevention efforts in developing countries. A single case study provides the opportunity to investigate the context-specific interactions between an MNC and its host society, providing insight into the broader impacts of an MNC's operations on conflict.

As a case that highlights the complexity of these issues, the paper analyses the experiences of British Petroleum Exploration Colombia (BPXC), a wholly-owned subsidiary of BP Amoco, in Casanare, Colombia.[8] The country's on-going civil conflict has had a major impact on BPXC's operations and hampered its ability to address the diverse needs of the local, regional, and national stakeholders affected by its oil projects (Almond, 2001, p. 17). Meanwhile, oil investment in Colombia has exacerbated the civil conflict that has plagued the country for the last half-century (Tull, 2001, p. 23). BPXC's facilities are a direct target of the guerrilla groups, while paramilitaries have been accused of violently harassing any individuals opposed to oil exploration in the region. As BPXC relies mainly on government security forces to guard its facilities, armed encounters between the guerrillas, paramilitaries, and government forces have increased due to the company's presence (Davy, McPhail & Moreno, 1999, p. 19). In addition, worsening violence has been linked to indirect impacts stemming from the heightened inequalities associated with the influx of money to the region and from the increase in corruption and crime that has accompanied this influx (Davy et al., 1999, p. 9).

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[8] British Petroleum (BP) merged with Amoco in 1998 and is now known as BP Amoco, although many corporate documents still refer to the company as BP. In this paper, the terms BP and BP Amoco are used interchangeably.

Currently, the company's sponsorship of the *Casanare 2000* sustainable development program, in partnership with civil society groups and the local government, is a key component of its strategy to reduce sources of conflict in the region. According to a World Bank evaluation of the program, "the goal is to sustain the benefits from BPXC's social investments, to promote better stewardship of the substantial incomes generated by royalties and to overcome the constraints to social and economic development resulting from increased violence" (Davy et al., 1999, pp. 4-5). BP Amoco's attempts to address the many complex issues related to the social impacts of its operations have positioned the company at the forefront of efforts to mainstream corporate conflict prevention (Rienstra, 2001, p. 3).

Meanwhile, understanding the macro-level relationship between MNC investment, development and conflict may provide insight into ways to help resolve the civil war in Colombia. According to the former president of Colombia, Andrés Pastrana (2000), the civil conflict in Colombia stems primarily from the country's unequal distribution of wealth and power, the exclusion of the poor from the country's development process, and the low level of private and public investment directed towards marginal social groups and regions (p. ix). In detailing an agenda for peace in Colombia, he states:

> The reconciliation process must be the stage for restoring material and spiritual well-being to all Colombians. We will not achieve this merely by silencing weapons but by transforming the economic, political, and social structures that delay our access to the benefits of development. […] We have to understand that there can be no peace without development – but also that there can be no development without democracy. We must incorporate this understanding in all our economic and social investment plans and programs, both public and private, both as instruments for expanding opportunities for material progress and as a vehicle for social understanding. (p. ix)

Thus, the overall background of violence in Colombia refers to the broader issues with which this paper is concerned.

In answering the research questions presented earlier, the paper is divided into three main parts. First, the paper examines the impact of MNC investment on conflict-related risks in developing countries and isolates those factors that determine whether the activities of an MNC are likely to have a positive or negative influence on a conflict situation. After analysing and rejecting two contending macro-level theories that link MNC investment, development and conflict, the paper offers an alternative micro-level framework to assess the context-specific factors which affect the overall impact of an MNC on conflict. This framework examines three main variables: the type of conflict, the characteristics of the company, and the interactions between the company and other actors representing different sectors of society. Both the macro-level theories and the micro-level framework are evaluated using evidence from the case study.

Second, the paper analyses how MNCs factor social concerns into corporate decision-making. This is an important topic of analysis, as it is necessary to generate a better understanding of the processes that determine corporate responses to conflict, to evaluate whether or not it is reasonable to try to involve MNCs in conflict prevention activities. Once establishing the general risk factors that influence corporate behaviour in conflict-prone countries, a model of corporate decision-making is presented and analysed. This model is then examined in the context of BPXC's social policy-making in Casanare.

Third, the paper assesses strategies by which private sector actors can monitor, evaluate and minimize their effect on conflict. The argument put forth is that MNCs can support conflict prevention efforts in two ways: 1) by introducing policies and practices to mitigate any negative impacts which could exacerbate the risk of violent conflict (the "do no harm" principle); and 2) by introducing policies and practices which could positively contribute to peacebuilding (the "do some good" principle). Particular emphasis is placed on the potential for companies to manage their social policies and practices in such a way as to promote peace and development. The effectiveness of this approach to corporate conflict prevention is examined drawing on evidence from the case study.

The findings of this research could generate a number of recommendations about how to encourage improved participation by MNCs in corporate conflict prevention efforts in developing countries. Currently it seems that the private sector is reluctant to take responsibility for conflict prevention, especially since large MNCs are already vulnerable to criticisms about their inordinate power and influence (Rienstra, 2001, p. 35). Yet there are many cases where MNCs are badly affected by their own irresponsible behaviour in conflict zones, as a result of consumer boycotts, lawsuits, decreased share value, and higher operating costs (Sherman, 2001, p. 11). If there is pressure on MNCs to behave in a socially responsible manner and clear benefits for doing so, there is likely to be growing support among MNC decision-makers for more concrete guidelines, policies, and regulations regarding the role and responsibility of the private sector in conflict-prone countries (Champain, 2001, p. 155).

Meanwhile, it is important to monitor the initial efforts of companies such as BP Amoco, who are leading the way in developing social investment programs designed to help minimize conflict. Two recent evaluations of BPXC's strategy to promote capacity-building partnerships in Casanare identify both risks and opportunities related to the company's social policies and practices. Despite the on-going challenges that BPXC confronts in operating in Colombia, the company seems to be taking its responsibilities seriously, and has responded rapidly to external recommendations regarding possible areas of improvement. Although the tangible benefits of the company's social investments in Casanare have so far been limited, it is critical that future evaluations continue to investigate the strengths and weaknesses of the company's approach to reducing sources of conflict in Casanare.

In contributing to this growing body of literature on corporate conflict prevention in developing countries, this paper seeks to encourage MNCs to assume a greater role in improving the social, economic, environmental, and political conditions of the countries in which they operate. In time, the eventual objective is for companies of all sizes to adopt socially responsible practices, to foster a climate of peace in conflict-prone societies, to help prevent and mitigate crisis situations, and to contribute to economic reconstruction and social reconciliation, but there is much work that needs to be done to achieve these goals. Only by learning to manage the conflict-related risks and impacts linked to their operations will companies come to realize the profits of investing in peace and development.

CHAPTER 1: THEORETICAL LINKAGES BETWEEN MNC INVESTMENT, DEVELOPMENT AND CONFLICT

> "[…] it is a sad reality that in certain circumstances the operations of global companies such as BP can become the catalyst or excuse for conflict – not because we are doing our job badly, but because we and others are perhaps doing it too well. Increased prosperity often represents a threat to minority or vested interests – some want to capture a larger share for themselves; others see it as undermining their own internal position. This is particularly the case in societies which are undemocratic, where institutions are less developed, or where societies are deeply divided." Dr. Chris Gibson-Smith, Managing Director, BP Amoco (1998, ¶ 3)

1.1 Macro-level and micro-level approaches to understanding how MNC investment affects conflict in developing countries

To evaluate the role and responsibilities of MNCs in helping to prevent outbreaks of violent conflict, it is necessary to understand the theoretical claims that are made about the linkages between MNC investment, development and conflict. These claims pertain directly to questions about how MNC investment affects conflict-related risks in developing countries and which factors determine whether the activities of an MNC are likely to have a positive or negative impact on a conflict situation.

As stated in the introduction, there are two basic interpretations of how MNC investment, development and conflict inter-connect at a macro-level (Gissinger & Gleditsch, 1999, p. 327). First, there is the liberal argument that increased trade and FDI stimulate economic growth and human development, which in turn strengthen democracy, fostering peace and stability (Levy, 1996, pp. 7-8).[9] This theory suggests that globalization, and the associated increase in trade and investment are liable to have a peacebuilding effect (Gissinger & Gleditsch, 1999, p. 334). The main hypotheses of this theory are summarized in Figure 3:

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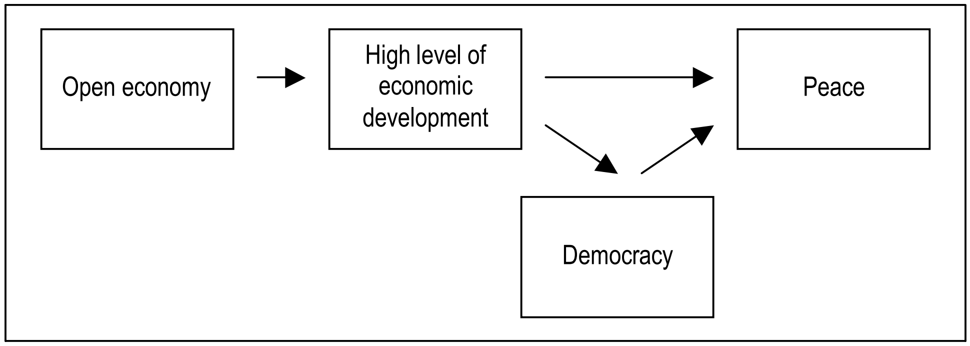
[9] According to Roy Licklader (2001), almost all international efforts to strengthen democracy in conflict-prone states have been guided by the assumption that a democratic political system will prevent future outbreaks of violent conflict (p. 709). This assumption stems from the democratic peace theory, which argues that mature democracies do not wage war against each other. It has also been noted that stable democracies do not tend to display major violence at the domestic level (Gleditsch, 1999, p. 643).

Figure 3: The liberal model of linkages between economic liberalization, prosperity, democracy and peace



Source: (Gissinger & Gleditsch, 1999, p. 333)

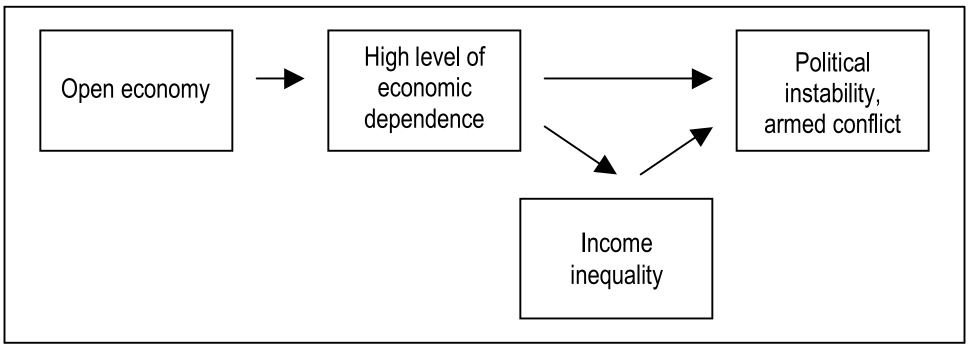
In fact, evidence from an analysis undertaken by Ranveig Gissinger & Nils Petter Gleditsch (1999) seems to confirm the argument that countries which are more involved in international trade tend to experience greater domestic peace (p. 329). However, the beneficial impacts of trade are highly dependent on the type of goods being traded: exports of manufactured goods often create higher levels of welfare and equality, whereas exports of primary products seem to promote poverty and inequality (p. 329).[10]

In contrast, dependency theorists and other critics of neoliberalism claim that market liberalization and increased investment by MNCs in developing countries perpetuate economic dependence and underdevelopment as " […] foreign investment is thought less likely to contribute to public revenue, less likely to encourage indigenous entrepreneurship, less likely to promote links to other industries in the domestic economy, and more likely to use inappropriate capital-intensive technology" (Gissinger & Gleditsch, 1999, p. 335). As Figure 4 illustrates, it is argued that this

[10] Paul Collier, an economist with the World Bank, has provided further evidence of a correlation between primary exports and conflict. In a recent paper on the linkages between development and conflict, Collier (2001) argues that developing countries' national income level, GDP growth rate, and economic structure are reliable indicators of conflict risk (p. 3). He concludes that economic growth and diversification away from primary commodities would have an enormous impact in terms of conflict prevention, both in those countries that have not yet experienced conflict and in countries recovering from widespread violence (p. 4). Such research implies that the private sector, especially MNCs who are capable of mobilizing vast resources and capital for economic development purposes, can help to promote peace.

results in income inequality, which generates economic discontent, sparking social, economic, and political unrest in developing countries and heightening the risk of violent conflict (Paris, 1997, pp. 85-86):

Figure 4: The dependency model of linkages between economic liberalization, underdevelopment, inequality and armed conflict



Source: (Gissinger & Gleditsch, 1999, p. 338)

Empirical analysis has shown that high levels of FDI in developing countries are in fact associated with higher levels of inequality and political conflict (Gissinger & Gleditsch, 1999, p. 329).[11] In a related argument, studies by Dani Rodrik suggest that instability associated with the global economic system can exacerbate socio-political tensions in countries that lack effective institutions to manage conflict (Rodrik, 1998, p. 156).[12]

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[11] In particular, FDI in extractive industries is of primary concern. This topic is currently the focus of a research program at the London School of Economics that seeks to explain the correlation between oil dependency and conflict: "A preliminary hypothesis about the link between conflicts and oil dependence has to do with the character of the state. […] Increasingly, what might be described as a privatization of the state takes place in which the state shifts from being a public instrument of governance towards being the private instrument of the ruling group, generally linked in to a network of patronage often based on ethnicity. Oil dependence, it can be argued accelerates this process, lessening the need for non-oil tax revenues or for public accountability, and accentuating the divisions in society between those who have access to state institutions and those who are excluded. The consequence is often the mobilization of exclusive ideologies based on identity such as nationalism on which claims to state power are based" (London School of Economics, n.d.).

[12] Dani Rodrik (1998) argues that only those developing countries which are able to manage the conflicts triggered by economic interdependence will benefit from integration with the world economy (p. 149). According to his analysis, the risks associated with increased openness to the world market are especially high when societies are characterized by steep socio-economic inequalities, ethnic fragmentation, and imbalances in decision-making power (p. 150).

However, neither the dependency theory nor the liberal theory is entirely satisfactory in explaining the impact of MNC investment on conflict in developing countries. Critiques of these theories address some of the major flaws pertaining to the liberal and dependency arguments. As Roland Paris (1997) states about the liberal model:

> The central tenet of the [liberal internationalist] paradigm is the assumption that the surest foundation for peace, both within and between states, is market democracy, that is, a liberal democratic polity and a market-oriented economy. Peacebuilding is in effect an enormous experiment in social engineering – an experiment that involves transplanting Western models of social, political, and economic organization into war-shattered states in order to control civil conflict: in other words, pacification through political and economic liberalization. This paradigm, however, has not been a particularly effective model for establishing stable peace. Paradoxically, the very process of political and economic liberalization has generated destabilizing side effects in war-shattered states, hindering the consolidation of peace and in some cases even sparking renewed fighting. […] At best, the liberal internationalist approach to peacebuilding has generated unforeseen problems. At worst, peacebuilding missions have had the "perverse effect" of undermining the very peace they were meant to buttress. (p. 56)

Similarly, the dependency model has attracted criticism regarding the problematic argument that inequality directly generates conflict. The main problem is that "Inequality changes only gradually over time, whereas armed conflict may erupt suddenly at any point, making it almost impossible to say when inequality results in armed conflict and when it does not" (Gissinger & Gleditsch, 1999, p. 338). Although theories that focus on the causal role of inequality in conflict have been in existence for centuries, more recent research into the correlation between conflict and inequality has failed to find a significant causal relationship (Collier & Hoeffler, 2001, p. 10).

Despite the weaknesses evident in both arguments, there has generally been a lack of useful debate between the two opposing sides. As Rodrik (1997) states:

> What we are witnessing is more a dialogue of the deaf than a rational discussion. Those who favor international integration dismiss globalization's opponents as knee-jerk protectionists who do not understand the principle of comparative advantage and the complexities of trade laws and institutions. Globalization's critics, on the other hand, fault economists and trade specialists for their narrow, technocratic perspective. They argue that economists are too enamored with their fancy models and do not have a good handle on how the real world works. The result is that there is too much opponent bashing – and too little learning – on each side. (p. 20)

Recent research indicates that the conflict-related impacts of economic liberalization are more complex than either of these theories would claim (Gissinger & Gleditsch, 1999, p. 329). In fact, there is evidence to suggest that global market forces, such as MNC investment, have the potential both to exacerbate conflict and to contribute to a reduction in conflict in developing countries (Frankental & House, 2000, p. 40).

What is lacking in the macro-level analysis is an understanding of how specific factors, such as local context, firm decision-making, and interactions between different actors affect the impact an MNC has on conflict. Although macro-level theories do provide some insight into the broad linkages between MNC investment, development and conflict, they do not offer an adequate framework for determining how individual MNCs can play a constructive or detrimental role in conflict-prone countries. Rather, the overall influence a company may have on a conflict situation is highly dependent on micro-level factors related to the individual company and its interactions with the host society (Nelson, 2000, p. 37).

In examining these micro-level factors, the paper argues that direct investment by MNCs can affect the environmental, social, economic, and political stability of host countries in both negative and positive ways. Table 1 summarizes the key claims that have been made about these positive and negative effects. The distinction between direct and indirect impacts pertains to the level of influence and responsibility attributed to MNCs: direct impacts are those that result from a company's core operational policies and practices, whereas indirect impacts are feedback effects related to MNC investment.

Table 1: Positive and negative impacts of MNC investment and their effects on conflict

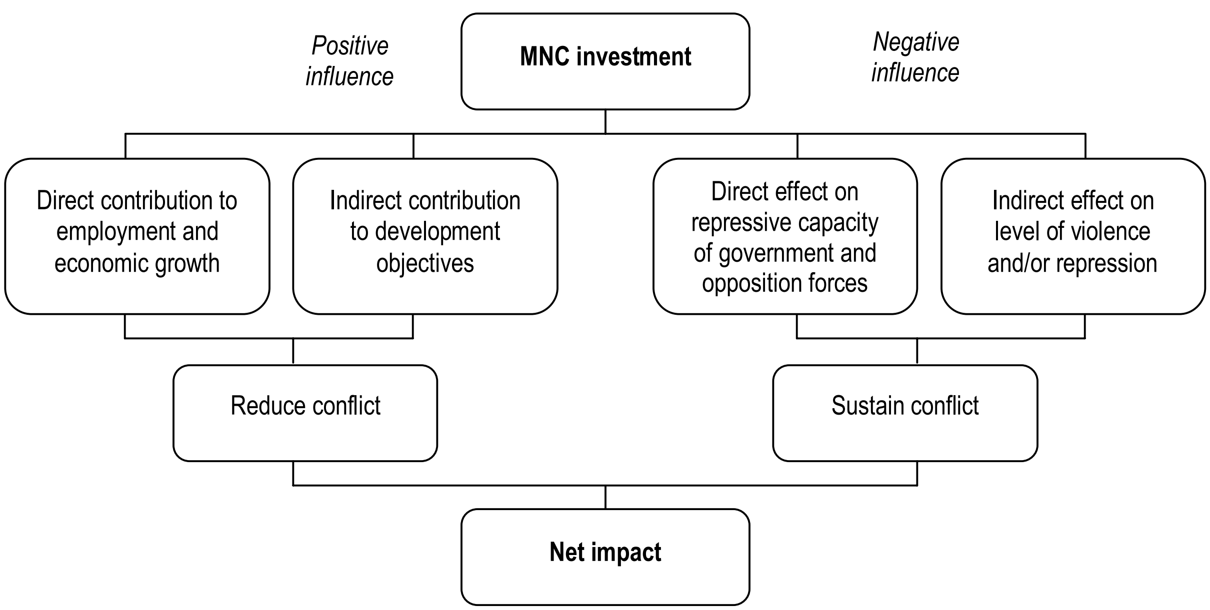
POTENTIAL AREAS OF IMPACT			SPECIFIC EXAMPLES	HOW THESE MIGHT AFFECT CONFLICT
POSITIVE IMPACTS	DIRECT EFFECTS	human capital investment and employment	-better work-force training - more jobs for local workers, leading to income generation and poverty reduction	- enable the conversion of war economies and economic violence through the improvement of economic infrastructure, a positive employment impact, and the increased productivity, training and income generation associated with FDI - promote transparency, accountability, democratic culture, rule of law, independence of legal system, and better human rights conditions thereby reducing the risk of conflict
		economic effects	- increase tax revenues, export revenues, foreign currency reserves and royalties for government - supportive of other macroeconomic objectives (i.e. value added to productivity, increase in GDP, balance of payments, etc.)	
		environment and labour	- adhere to environmental and labour practices that promote universally acceptable standards	
	INDIRECT EFFECTS	forward and backward linkages	- stimulate other economic activity not directly related to the project - provide benefits to direct suppliers of goods and services to the project	- increase the opportunity cost of violent conflict by promoting a better quality of life, by encouraging constructive social communication and better inter-group dialogue, by improving local communications and transport infrastructure, and by facilitating resettlement, housing, education and employment in post-conflict countries - foster an improved institutional capacity to manage/resolve violent conflict and to promote tolerance and build peace - promote efficient and effective organizational responsiveness to crises by demonstrating flexibility in modifying institutional roles and expectations to suit changing environment and needs
		social development	- improve social infrastructure for workers and the surrounding community - increase incomes and capabilities of workers and their families	
		knowledge and technology	- enable the transfer of skills, knowledge, and technology	
		demonstration effects	- raise the confidence levels of potential domestic and/or foreign investors - promote the formalization of informal sectors - serve as an example for domestic companies	
		financial sector development	- accelerate the development of local financial services and capital markets	
NEGATIVE IMPACTS	DIRECT EFFECTS	interactions with government and society	- provide support and legitimacy to repressive regimes - adhere to operational policies and practices that exacerbate conflict between class, religious, or ethnic groups	- strengthen the repressive capacity of the government or opposition groups by providing access to resources which could be used to perpetuate violence - create new patterns of social, economic, and political interaction that generate discontent and inter-group conflict - fuel conflict as a result of negative impacts associated with FDI, such as the displacement of communities
		competition and technology	- introduce new technologies that disrupt the traditional economy - create competition for scarce jobs with MNCs, placing downward pressure on incomes in certain sectors - utilize low-cost production techniques relying on cheap labour and weak domestic environmental regulations	
		individual and/or collective resources	- disturb patterns of access to and usage of: economic resources, environmental resources (especially non-renewable resources), as well non-material public goods - build infrastructure or provide access to resources that are used by parties in a violent conflict	
	INDIRECT EFFECTS	inequality	- create or exacerbate domestic inequalities and generate new forms of socio-economic marginalization - produce for export markets with most profits being repatriated to home company of the MNC, thereby worsening international inequalities	- create disparity as a result of the gains and losses stemming from environmental, social, economic, and political impacts of MNC investment, which could heighten the risk of conflict, especially if certain ethnic groups, social classes, or regions benefit/suffer disproportionately than others - make the economy more vulnerable to global economic shocks, which could have a destabilizing effect on economic growth rates,
		social, political, and economic upheaval	- disrupt traditional structures/practices of political, economic, and social control - lobby for government policies (including privatization, subsidies, market reform etc.) that may create hardships for others	

		crime and violence	- create incentives for corruption, extortion, violent repression, smuggling, and other illegal activities	

Adapted from: (Saravanamuttoo, 1999, p. 7; Bush, 1998, pp. 14-16)

Figure 5, which is adapted from a model designed to assess how MNCs affect human rights in developing countries, demonstrates how these impacts balance out in determining the overall influence of a company's investment. In the model, it is assumed that the MNC has a positive influence in terms of its role in promoting employment, economic growth, and development, but has a negative influence in terms of its effect on the repressive capabilities of armed actors and the overall level of violence. The net impact would then depend on the magnitude of the positive and negative influences related to the MNC's activities.

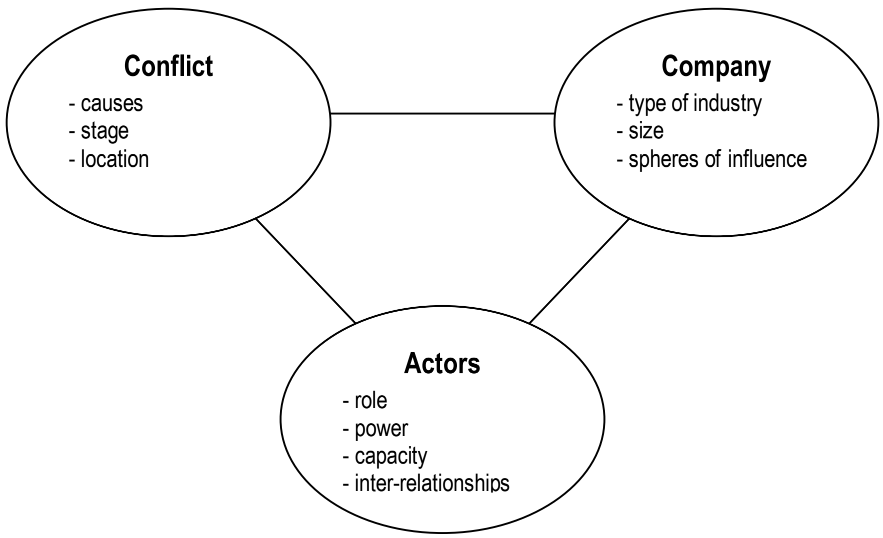
Figure 5: Interaction between negative/positive and direct/indirect conflict impacts



Adapted from: (Forcese, 1997b, p. 47)

As both Table 1 and Figure 5 indicate, MNC investment can either be a constructive or detrimental force, therefore, it is important to analyse in greater detail those factors that determine the type of influence an MNC may have on a conflict situation. According to Jane Nelson (2000) of the Prince of Wales International Business Leaders Forum, the variables affecting the impact of MNC investment in risky states or regions include three key factors: the nature of the conflict, the characteristics of the company, and the interactions between different actors in the region (p. 36) (See Figure 6).

Figure 6: Key factors affecting corporate engagement in conflict-prone developing countries



Source: (Nelson, 2000, p. 8)

According to Jane Nelson (2000), "It is the dynamic and complex linkages between these factors that determine how a company either influences or is influenced by conflict in any particular situation." (p. 37). As a result, the role and responsibilities of MNCs in preventing conflict in developing countries depend to a large extent on the interplay between these three variables.

First, the nature of the conflict itself has significant implications for MNC investment. Whether or not an MNC is going to have a positive or negative effect on the situation depends in part on the causes, stage, and location of the conflict and how these are affected by the MNC's operations (Nelson, 2000, p. 37). Of these three factors, arguably the most important is the cause of the conflict, which can determine the major risk factors pertaining to the impacts of an MNC's activities (See Table 2):

Table 2: How MNCs can play a positive or negative role depending on the type of conflict

TYPE OF CONFLICT	MAIN CAUSES OF CONFLICT	POTENTIAL POSITIVE INFLUENCE OF BUSINESS	POTENTIAL NEGATIVE INFLUENCE OF BUSINESS
RESOURCE-BASED	- exploitation of strategic resources - inability to meet basic needs - environmental degradation	- help provide access to basic needs and promote the development of sustainable local livelihoods - be highly sensitive to ways in which strategic resources are exploited and advocate fair, transparent and conscientious dealings with both any stakeholders as well as the national government - develop good community relations through participatory consultations - minimize environmental degradation and social disruption and ensure that any resettlement programs are as fair and comprehensive as possible - influence how public revenues are used and distributed	- become involved in an unfair patronage system or monopolistic practices that lead to unfair resource usage - undermine ability of local communities to meet basic needs as a result of the manner in which natural resources are affected (environmental degradation, bad resettlement scheme) - unequally distribute any benefits and/or disadvantages associated with corporate operations
IDENTITY-BASED	- identity politics - religious fundamentalism - impact of globalization	- undertake efforts to increase tolerance of diversity through: fair hiring policies, culturally-sensitive work environment, a responsible approach to marketing of products and services, promotion of community development projects, publicity campaigns that encourage tolerance, and advocacy for open media and active civil society	- worsen identity issues through a variety of poorly planned or executed policies including: discrimination in the workplace, poor treatment of indigenous communities, marketing products/services that undermine local cultures, facilitating insensitive resettlement programs that exclude a particular ethnic group from access to resources or livelihood opportunities
IDEOLOGY-BASED	- political and economic polarization - geo-political factors	- help to alleviate poverty and disparity by generating equitable and sustainable economic growth - promote social cohesion by expressing tolerance and understanding of different ideologies - demonstrate that capitalism can benefit poorer communities by sponsoring local development initiatives in cooperation with government and civil society	- demonstrate arrogance and insensitivity to local cultural beliefs - exacerbate ideological polarization by becoming isolated from domestic society and ignoring domestic poverty
GOVERNANCE-BASED	- political, social, and economic institutions are weak and/or illegitimate	- engage in responsible policy dialogue on key development issues - support open civil society - help to develop and maintain social capital, and assist in institution building	- cooperate and collude with corrupt or repressive regimes - undertake activities that weaken social and political institutions and structures

Adapted from: (Nelson, 2000, pp. 37-41)

Therefore, whether the company is likely to have a positive or negative influence depends on its ability to assess the causes of the conflict and the effectiveness of the risk management strategies it employs in response.

Likewise, the stage and location of the conflict are key factors that affect the role an MNC might play in exacerbating or minimizing conflict (Nelson, 2000, pp. 44-47). For example, if a company chooses to invest in a country that is experiencing an on-going conflict that affects its area of operations, its net impact will be closely linked to whether or not it is able to remain neutral and engage in legitimate, transparent, and conscientious trade (Haufler, 2001, p. 664). A company may be forced to withdraw from a country if it is unable to manage the risks related to company personnel, assets, and reputation. However, in pre and post-conflict situations, or when conflicts are further removed from a company's area of business, an MNC's overall impact may be more strongly linked to its role in building social and economic infrastructure, diversifying the economy, contributing to human development and promoting stable economic growth (Nelson, 2000, pp. 45-47). In these situations, an MNC may be more easily able to contribute positively to the situation.

The second main set of variables that determine the impacts of MNC investment on conflict concern the characteristics of the company itself. In particular, these include the type of industry an MNC is involved in, as well as its size and potential spheres of influence. The ecological and social "footprint" of each type of industry bears different risk factors (Nelson, 2000, p. 58). The sectors that have been associated with the most severe conflict risks (excluding those which are directly involved in conflict-related industries) include extractive industries, infrastructure development, tourism, and agriculture and forestry.[13] Although companies involved in these activities can mitigate the impacts of their operations, by their very nature they tend to generate displacement, inequality, and environmental change, all of which could exacerbate conflict risks (Nelson, 2000, p. 57).

[13] In particular, if the industry generates primary resource exports, the risks of generating conflict may be heightened (Collier, 2001). This has been the case with conflict diamonds in Africa and other primary resources such as tropical hardwoods in South East Asia, and export agriculture in Latin America.

An industry that attracts major attention in highlighting the negative impacts of MNC investment on conflict is the oil and gas sector (Mitchell, 1998, pp. 245-251).[14] A well-publicized case that emphasizes the potential linkages between resource exploitation and conflict in countries with repressive governments concerns Royal Dutch/Shell Group in Nigeria (Manby, 1999, pp. 6-18). Large-scale oil production in the Niger Delta led to massive environmental impacts and inequities, affecting the livelihoods of the Ogoni people (Manby, 1999, pp. 7-8). Meanwhile, the oil revenues paid to the government were squandered with very few social benefits accruing to the Nigerian people (Schwartz & Gibb, 1999, p. 27). By the early 1990s, massive protests targeting foreign oil companies prompted a repressive crackdown from the country's military dictatorship (Maney,1999, p. 9). The level of violence escalated, as Royal Dutch/Shell Group was accused of cooperating with General Abacha's regime to quash the Ogoni's protests (Mitchell, 1998, p. 249). In this context of repression, corruption, inequality, environmental damage, and social unrest, it was widely felt that Royal Dutch/Shell Group shared a burden of responsibility for the escalation in conflict (Manby, 1999, pp. 17-8).

Two related factors that play an important role in determining the impact of MNCs on conflict concern the company's size and potential spheres of influence, which can affect the extent of any effects an MNC is likely to have (Nelson, 2000, p. 59). For example, in the case of Nigeria, although other MNCs such as Chevron and Mobil also carried out operations in the Niger Delta, the Ogoni's protests focused on the role of Royal Dutch/Shell Group, which was by far the largest investor in the region (Schwartz & Gibbs, 1999, p. 40). In general, the bigger the MNC and its spheres of influence, the more widely felt are the social, political, economic, and environmental

[14] Around 40% of world production of oil comes from countries where human rights are inadequately protected by the current governments (Mitchell, 1998, p. 250).

impacts associated with its operations (Nelson, 2000, p. 59). Therefore, companies with a larger international profile tend to assume an increased responsibility to monitor and mitigate any impacts associated with their operations (Nelson, 2000, p. 56).

The third factor to consider in analysing the impact of MNC investment on conflict encompasses the inter-relationships between the MNC and other actors. An MNC's impact on the conflict will be conditioned by its interactions with local and national governments, legal opposition parties, lawless groups (guerrillas, warlords, paramilitaries), traditional leaders, NGOs (national and international), community-based organizations, bilateral and multilateral agencies, the media, as well as with business associations and other companies (Nelson, 2000, pp. 49-54). As this variable is determined mainly by local context and individual actors, it is difficult to make general predictions about how each of these might affect an MNC's impact on conflict.[15] However, Table 3 attempts to summarize as concisely as possible how interactions between each actor and the company could alter the potential for conflict.

Table 3: Conflict impacts resulting from the interactions between MNCs and other actors

Actor	Involvement in conflict and capacity to affect change	Interaction with MNCs
Local and/or national government	- government bears the primary responsibility to address sources of conflict - ability to play a proactive role may depend on government's legitimacy, institutional strength, and access to the resources necessary to carry out its functions effectively	- companies can be put in a difficult situation if there are power struggles between the government and local communities - companies also face risks and challenges associated with cooperating with a repressive regime
Legal opposition parties	- may have tense relationship with government as a result of repression or intimidation - may be directly involved in instigating violence against the government or towards working for peace	- companies must carefully manage public and private interactions with opposition group leaders if this is a potential source of conflict - companies may be affected by protest activities and public demonstrations
Lawless groups	- play a key role in conflict and are often engaged in illicit commercial dealings to finance their rebellion - may be unwilling to work towards peace if they are able to sustain their activities through illegal means	- companies may willingly or unwillingly cooperate with lawless groups to protect their own interests, especially if the company is a target of attack - companies may represent a source of income for lawless groups involved in kidnapping or extortion

[15] The impact of external actors on firm decision-making is discussed in greater detail in Chapter 2.

Actor	Involvement in conflict and capacity to affect change	Interaction with MNCs
Traditional leaders	- role in conflict may be especially important in areas where there are indigenous populations - may be a factor in resolving conflicts when there are unresolved tensions between government and indigenous groups or tensions between different ethnic groups	- companies involved in resource extraction in remote areas often produce negative environmental and social impacts that affect indigenous societies and create or exacerbate sources of conflict
National and international NGOs	- may play a role in monitoring conflict, lobbying for peace, undertaking conflict resolution efforts, delivering humanitarian services, supporting peacebuilding - NGOs may be controversial organizations in countries with repressive governments and therefore may be a source of conflict	- can form partnerships to help resolve issues of mutual concern - can have a confrontational relationship based on mutual distrust and hostility
Grassroots community organizations	- may voice competing demands on behalf of local communities - may give rise to tensions between community and government or between different local groups - may play a proactive role in promoting peace	- good relations with local communities are extremely important to any company that seeks to contribute positively - could be difficult for companies to ensure that their relations with community organizations do not become politicized
Bilateral and multilateral agencies	- often become involved in outreach activities that affect the policies and practices of different actors involved in a conflict - may play a role in promoting conflict resolution and peacebuilding efforts	- partnerships between MNCs and bilateral and multilateral organizations can be valuable in assisting companies to come up with solutions to manage politically sensitive issues such as bad governance and human rights abuses
Media	- role of media in conflict depends on who controls it and how they use it – can be a tool to promote peace or to generate conflict - at a local level may be a source of conflict while international media may help generate pressure to resolve conflicts	- relations with local media may be problematic if there are concerns about biases that may distort information and contribute to conflict - increasingly, media is used to expose bad business practices (both perceived and actual) which could force companies to improve their policies and practices
Business associations and other companies	- can advocate for peace, promote better governance structures, support improvements to human rights conditions, sponsor development projects and otherwise support politically neutral responses to prevent conflict	- companies may exercise more influence over other actors' responses to conflict if they act collectively

Adapted from (Nelson, 2000, pp. 49-54)

In summary, the argument that MNC investment can contribute to conflict prevention is premised on assumptions about the ability of companies to manage the negative and positive impacts related to their activities. While there are no easy answers about the role and responsibilities of MNCs in conflict zones, the tables in this section attempt to isolate the conditions under which MNCs can either exacerbate or minimize conflict. However, as Jane Nelson (2000) states:

> The relationship between violent conflict, economic development and the role of the private sector is often complex and situation-specific. […] It would be simplistic, and in many cases incorrect, to suggest that non-contestable, causal relationships exist between them. In particular, it would be incorrect to assume that there is a linear conflict - economic development - peace continuum. (p. 10).

Therefore, the overall influence an MNC may have in preventing macro-level conflicts will depend to a large extent on the micro-level interactions between the company and its host society. The only way to understand the more complex aspects of this relationship is to examine specific evidence from actual case studies. This is the primary objective of the following section, which analyses the macro-level relationship between MNC investment, conflict, and development in Colombia, followed by a micro-level evaluation of the conflict-related impacts of BP Amoco's operations in Casanare, Colombia.

1.2 MNC Oil investment in Colombia: Fuelling the conflict?

1.2.1 Historical background examining macro-level causes and effects of violence in Colombia

Before assessing the specific factors pertaining to BP Amoco and the impacts of its investment in Casanare, it is useful to provide a brief historical background regarding the current civil conflict in Colombia. This section not only reviews the causes and effects of the political violence but it also examines the relationship between conflict, MNC investment, and development in Colombia, considering the macro-level theories discussed in the previous section.

Colombia has experienced violent civil conflict at various levels of intensity throughout much of its history as an independent country. The most recent wave of violence can be traced back to the late-1940s, the beginning of over a decade of bloodshed, known as '*La Violencia*,' which devastated rural communities in central Colombia (Muggah, 2000, p. 203). The political conflict had its roots in the long-standing hostility between the Conservative and Liberal parties, which escalated following the 1948 assassination of Jorge Eleicer Gaitán, a popular Liberal leader (Moser, 2000, p. 20).

A power-sharing arrangement between the two parties in 1957 helped to calm the political violence, but by the early 1960s, leftist guerrilla groups began voicing political, social and economic grievances on behalf of the poor, who were increasingly excluded from the country's development process (Obregón & Stavropoulou, 1998, pp. 404-405). While many of the smaller armed groups gave up their struggles following peace negotiations with the government in the 1980s, two large guerrilla movements are still active today, including the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the Ejército de Liberación Nacional (ELN), who control more than 40% of the country (Meltzer, 2001, p. 3). Both of these rival guerrilla groups adhere to similar Marxist ideologies, although their political agendas have been somewhat overshadowed by their increasing involvement in the booming narco-trafficking industry (Shifter, 1999, p. 14).

Unfortunately, the level of violence has deteriorated over the last two decades as right-wing paramilitary forces, known collectively as the Autodefensas Unidas de Colombia (AUC), have expanded rapidly and become deeply involved in the conflict (Solimano, 2000a, p. 1). The various illegal armed groups target the civilian population, relying on massacres, extra-judicial executions, extortion, kidnapping, forced displacement and other terrorist tactics to eliminate potential sources of enemy support (Meltzer, 2001, p. 3).[16] Meanwhile, the government has been unable to provide security to vulnerable communities and individuals and has also been accused of violating human rights in an effort to regain control of the country.

Consequently, the civil war has resulted in massive human tragedy for Colombians: the country is now home to over 1.5 million people involuntarily displaced since 1985 and an estimated 4 million people have left Colombia altogether (McDermott, 2001). The country's murder and kidnapping rates are among the worst in the world, as the number of homicides among males aged 14 to 44 years of age rose from 29 to 394 per 100,000 people between 1980 and 1995 (Rabasa & Chalk, 2001, p. 6).[17] The past half-century of conflict has predominantly affected politically and economically marginal regions of the country, where the violence is centred on access and control over land and resources (Moser, 2000, p. 9).[18] Therefore, it is not surprising that the main conflict zones are found within departments that typify the following characteristics:

> […] little or no access to channels of political participation, persecution of social or political dissidents, criminalization of popular protests, discrimination against indigenous or Afro-Colombian communities, drug cultivation or trafficking, lack of basic public services, enormous disparities in wealth, and a disorganized process of colonization, among other complex social and economic problems. (Obregón & Stavropoulou, 1998, p. 415)

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[16] While the FARC, ELN, and government security forces also commit atrocities, human rights reports have condemned paramilitary organizations for perpetrating the most human rights abuses against civilians.

[17] Only around 5-10% of the 38,000 violent deaths that were recorded in 2000 were attributed to the political conflict, while around 25,000 were labelled homicides (Meltzer, 2001, pp. 3-4). According a report by the Pan American Health Organization (PAHO) in 2001, there were an average of 64.1 murders per 100,000 people in Colombia from 1992 to 2000, compared to Canada, which experienced an average of around 2 murders per 100,000 people.

[18] Around 80-90% of internally displaced people affected by the violence originate from departments with the lowest per capita incomes, including: Los Llanos, Urabá, Magdalena Medio, Norte de Santander, and Chocó (Obregón & Stavropoulou, 1998, p. 418).

While the causes of the conflict are multiple and complex, many analysts agree that violence in Colombia is rooted in the political, economic, and social exclusion that has resulted from the country's uneven development process (Montaño & Durán, 2000, pp. 90-91).

Over the past several months, the political situation has worsened as peace negotiations between the Colombian government and the FARC broke off in February (Wilson, 2002, p. A14). In addition, there are indications that armed militias in urban slums are becoming increasingly involved in political violence, a phenomenon that until recently had been mainly contained to rural regions (McDermott, 2001). There is a growing sense of desperation about the prospects for peace, as few Colombians foresee a negotiated end to the conflict. In fact, the country's newly elected president, Alvaro Uribe, plans to crackdown on illegal armed groups when he takes power on August 7, 2002. Thus it seems likely that the violence will continue to escalate, leading to greater hardships for the civilian population.

Given the political and social turmoil that Colombia has experienced in the last half-century, it is astonishing that it managed to avoid the macroeconomic instability that plagued much of Latin America over the last three decades (Shifter, 1999, p.14). In fact, while many Latin American economies contracted during the 1980s, Colombia averaged 1.5% per capita growth in its gross domestic product (GDP) from 1980 to 1990 (World Bank, 2001, p. 1). Beginning in 1990, the government launched a process of political and economic "*apertura*" or "opening" which saw the restructuring of government through the introduction of a new constitution in 1991 and the liberalization of trade and investment laws (Velez, 2002, p. 3).[19] These reforms included legislation designed to enable greater participation in decision-making by decentralizing control over many

[19] Average tariff levels were reduced from 44% in 1990 to 11.8% by March of 1992 (Velez, 2002, p. 3).

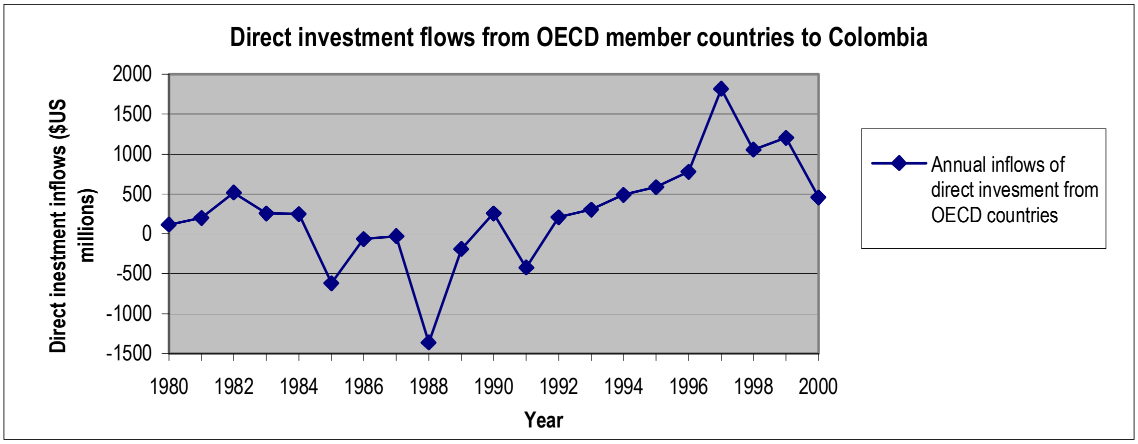
key areas of social policy-making (Montaño & Durán, 2000, pp. 90-91). At the same time, municipal and departmental governments gained access to new fiscal resources with which to finance development programs and social spending (Angell, Lowden & Thorp, 2001, p. 17). It was widely hoped that these reforms, reflecting a movement towards more participatory forms of democratic decision-making and away from exclusionary sources of economic and political power, would pave the way for future peace and prosperity (Angell et al., 2001, p. 30).

On the basis of the liberal argument analysed in Chapter 1.1, one might have predicted that there would be a decrease in political conflict resulting from these reforms, while the dependency argument would suggest that rising inequality resulting from economic liberalization policies would further destabilize the political conflict. In fact, the Colombian experience suggests that decentralization and economic liberalization are not a panacea for resolving conflict and promoting development, and can in fact generate new sources of conflict (Angell et al., 2001, p. 31). As the following graphs and analysis indicate, there is some evidence to support the claims of the dependency model, although most analysts argue that the current causes of violence in Colombia are considerably more complex than this model would claim.[20]

In response to the liberalization of trade and investment laws, Colombia experienced a dramatic increase in direct investment following 1992 (See Figure 7), which was associated with healthy economic growth until 1995.[21]

Figure 7

[20] For example, Moser (2000) argues that the political conflict is a combination of the following factors: historical legacy of violence; unequal access to economic resources; unequal access to political power; power struggle over control of narcotics production and trafficking; weakness of the state (pp. 20-21).
[21] Between 1988 and 1995, the average rate of GDP growth was 4.3% (Velez, 2002, p. 5), but after 1995, the GDP growth rate decreased on average by 0.23% annually between 1995 and 2000 (ECLAC, 2002, p. 69).



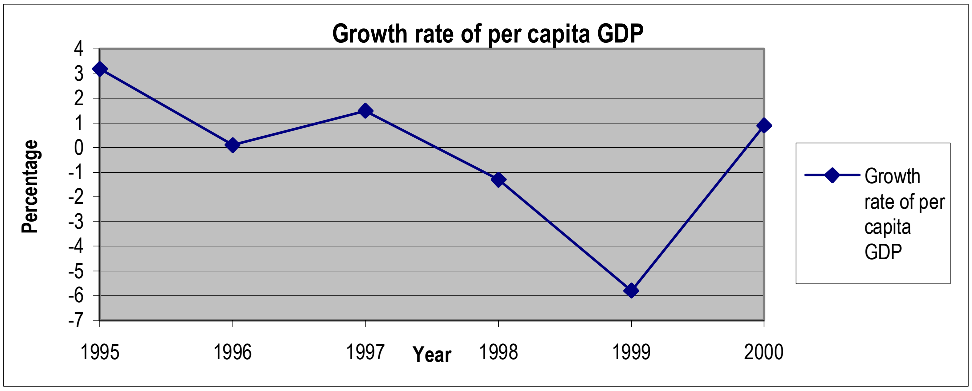
Source: (OECD database)

Much of this increase in FDI has targeted the energy sector, as the country's known oil reserves amount to around three billion barrels, while less than 20% of the territory has been explored as a result of the civil conflict (Dudley & Murillo, 1998, p. 43). In the past decade oil production has grown by over 80% as the terms of investment for foreign MNCs have improved due to the neoliberal reforms (Klare, 2001, p. 20). Oil is now Colombia's leading source of export income, accounting for 34.84% of the total value of exports in 2000 and generating about $US 3 to 4 billion in foreign revenue (DANE, n.d.).[22] The petroleum industry, which is dominated by foreign MNCs and the state-owned oil company, is now a massive revenue source for the Colombian government, with round 85% of oil revenues returned to the state through equity investments, royalty payments and taxation (Moser, 2001, p. 295).

Although the petroleum industry experienced a major boom as a result of the economic restructuring, other sectors of the Colombian economy have not adapted well to the neoliberal reforms introduced in the early 1990s. In fact, Colombia recently experienced its worst economic crisis since the 1930s, due to the prolonged impacts of a severe recession that began in 1995 (See Figure 8), coinciding with the worsening political conflict (See Figure 9) (Roy, 2000, p. 3).

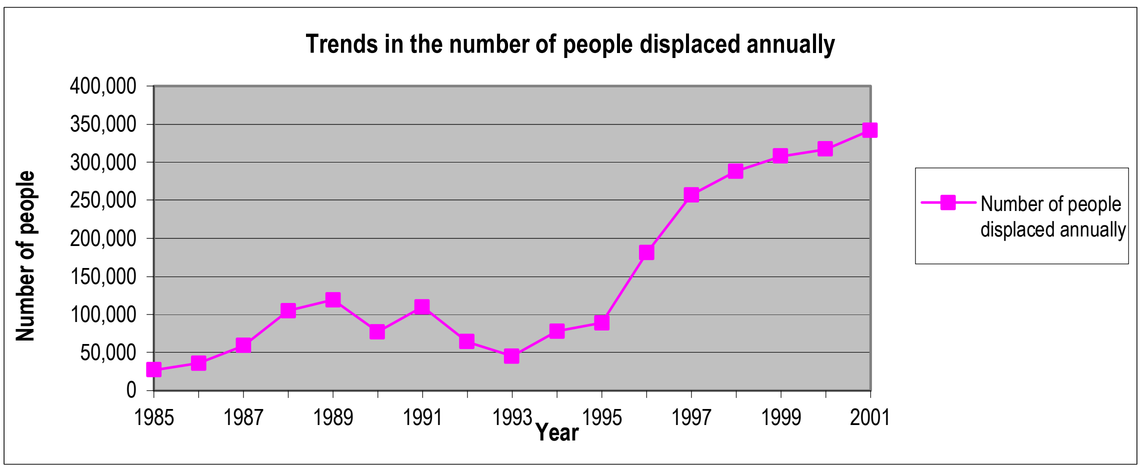
[22] As part of its negotiations for loans from the International Monetary Fund (IMF), the Colombian government agreed to promote growth in private sector oil investment. Around 25% of the central government's budget comes directly from oil revenue (Martínez Villegas, 1999, p. 9).

Figure 8



Source: (ECLAC, 2002, p. 69)

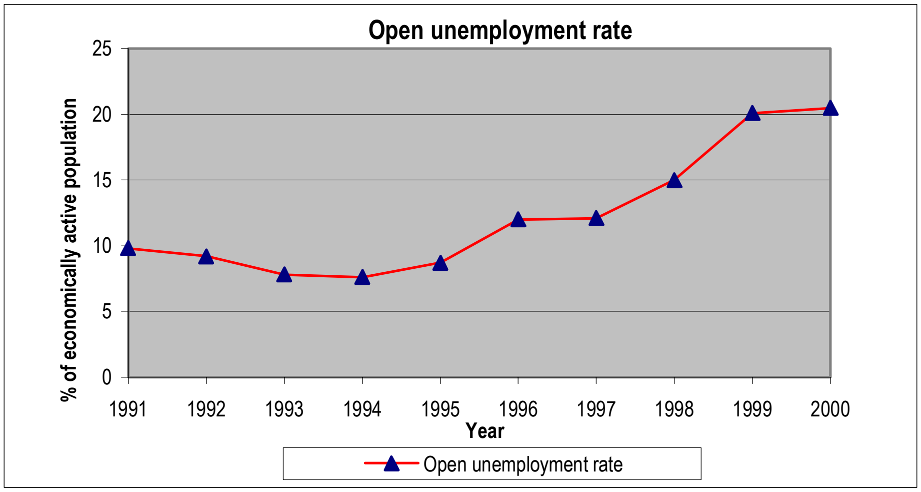
Figure 9



Source: (CODHES, 2002)

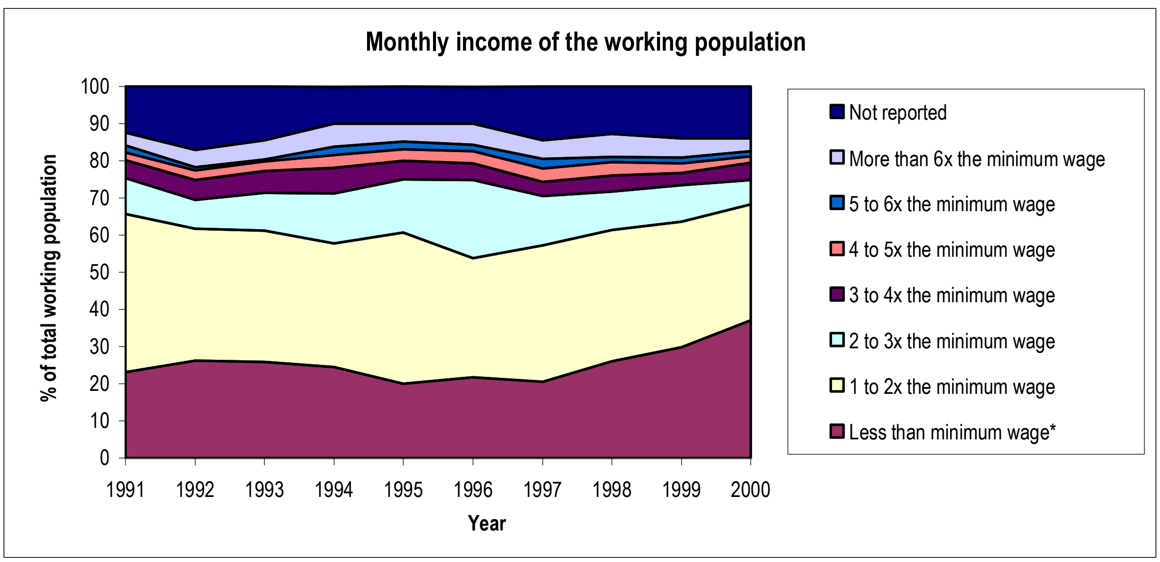
Not surprisingly, the country's poverty rate, measured as a percentage of the total population living on less than $US 2 dollars a day, rose to 64% by 1999 after declining by rates of around 1.5% per year between 1978 and 1995 (Velez, 2002, p. 12). Although the economy has recovered somewhat in the last two years, the unemployment rate remains at its worst level ever (See Figure 10), while the incomes of the working population have deteriorated (See Figure 11).

Figure 10



Source: (DANE, 2002)

Figure 11



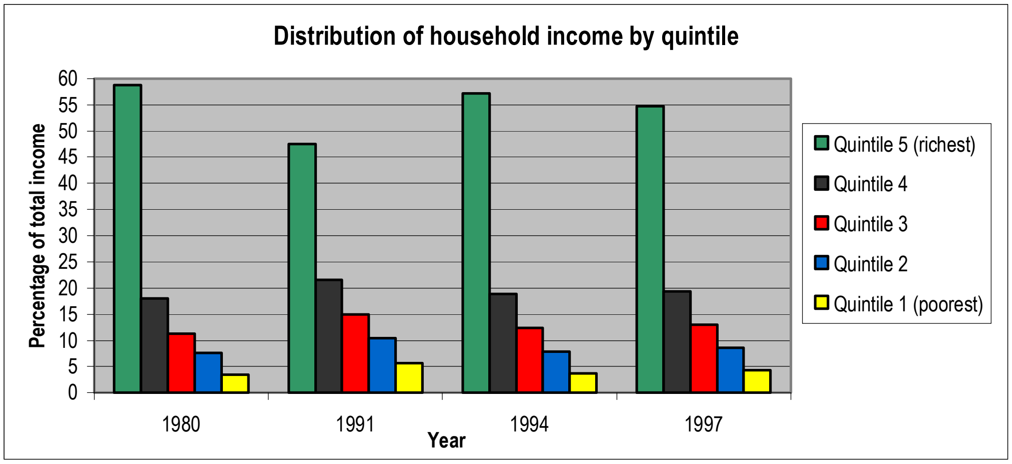
*household poverty line = approximately 2x the monthly minimum wage of $US 140

Source: (DANE, 2002)

In addition, since 1991, income inequalities have worsened (See Figure 12) as approximately 12.9% of income accrues to the poorest 40% of households, compared to 39.5% which is captured by the richest 10% of households (ECLAC, 2002, p. 62).[23]

[23] The Gini coefficient measuring per capita income inequality rose to 0.57 by 1999 (Velez, 2002, p. 14).

Figure 12



Source: (ECLAC, 2002, p. 62)

Therefore, the evidence from Colombia provides little support for the claim that increased integration with the world economy is a macro-level cause of peace, as the recent deterioration of Colombia's economy and the worsening political violence run contrary to the model's main predictions. It does seems likely that there is a linkage between the worsening economic condition and the escalation of the civil conflict, as each began to deteriorate simultaneously. However, it is difficult to attribute cause and effect, since the argument could be made that the escalation of the civil conflict worsened the economic situation or vice-versa. As Andrés Solimano states, "Without sustained peace there will be no economic and social development. In turn, without economic and social development and democracy, peace will be difficult to consolidate" (Solimano, 2000a, p. 8). Therefore, the downward trend in the economy and the increasing level of violence could simply indicate a self-reinforcing spiral.

Yet it is interesting to note that a large proportion of the increased FDI in Colombia has focused on the petroleum sector. There is substantial evidence to support the claim that this type of investment can contribute indirectly to conflict by strengthening the repressive capacity of the state and creating new sources of tension between affected populations, oil companies, and the government (LSE, n.d.). In Colombia the linkages between oil and conflict are quite direct, as the oil industry is a favourite target of guerrilla groups who seek to disrupt the flow of royalty payments and other oil-related revenues to the national government (Klare, 2001, pp. 20-21).[24] Meanwhile, illegal armed groups, including both the guerrilla and the paramilitaries, profit from the extortion and kidnapping of personnel working for oil MNCs and smaller contractors (Dudley & Murillo, 1998, p. 44). Consequently, it is not surprising that reports indicate that the departments which receive the highest royalty payments from oil activities are those that produce the most internally displaced people (Velez, 2002, p. 7). This relationship linking oil production to escalating conflict has important implications regarding the role and responsibility of oil MNCs operating in Colombia.

In sum, Colombia is in the midst of a severe social, political, and economic crisis that threatens the long-term stability of the entire Andean region (Meltzer, 2001, p. 5). Most analysts agree that efforts to resolve the political conflict must simultaneously address sources of social and economic unrest (Montaño & Durán, 2000, pp. 90-91). Foreign investors in Colombia cannot afford to be passive observers of government efforts to achieve these ambitious objectives, as they share a burden of the responsibility to minimize sources of conflict and to contribute to sustainable and equitable development.[25] The following section examines the conflict-related impacts of MNC investment in the oil sector, assessing the overall influence of BP Amoco's operations in Casanare.

1.2.2 How BP Amoco's investment in Colombia has affected the civil conflict

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[24] The departments of Arauca and Norte Santander account for approximately 10% of all the confrontations between the guerrilla and military, largely as a result of the presence of a major oil production facility and pipeline operated by Occidental Petroleum (Dudley & Murillo, 1998, p. 44).

[25] In fact, there would be several business benefits to reducing overall levels of violence in Colombia: the estimated expenditure on private and public security in Colombia equals close to 15% of the country's GDP, while the associated costs related to the war equal approximately 4% of annual GDP (Moser, 2000, p. 27)

In analysing the direct and indirect impacts of BP Amoco's investment in Casanare on the civil conflict, the paper presents a historical overview of the company's involvement in the region, evaluating the relationship of BPXC with other stakeholders, and assessing the major consequences of this investment. The intent is to elaborate the complex micro-level linkages between MNC investment, development and conflict identified in Chapter 1.1.

BP Amoco's main Colombian subsidiary, BPXC, has had a presence in Casanare since 1987, when it began exploring for oil in the north-eastern region of the country (Almond, 2001, p. 17). At that time, Casanare was a sparsely populated agricultural zone isolated from the rest of the country and administered by the departmental government of Boyacá. With the introduction of Colombia's new constitution in 1991, Casanare became an independent department with greater fiscal autonomy from the central government and more control over its policy-making and planning (Angell et al., 2001, p. 17).

That same year, BPXC discovered major oil reserves in Casanare, and the subsequent exploitation of these reserves has resulted in BPXC becoming a dominant political, social, and economic force in Casanare (BP Amoco, 2000). Despite initial optimism regarding the role of oil investment in promoting development and economic growth, Casanare continues to be plagued by the extreme weakness of its public institutions, the persistence of economic and social underdevelopment, and the escalation of political violence that has restricted the ability of civil society to participate effectively in regional and local governance (Dudley & Murillo, 1998, p. 46).

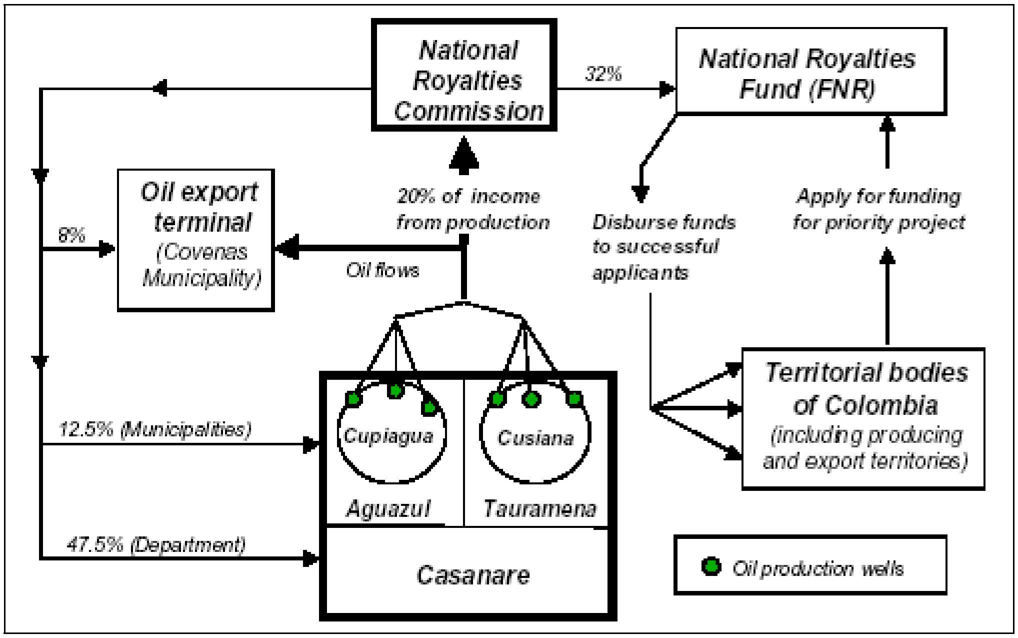
Over the last decade and a half, BP Amoco has invested approximately $US 3 billion in its operations in Casanare (BP Amoco, 2000, p. 1). Presently, BPXC is the appointed operator of the

Cusiana and Cupiagua oil fields in partnership with Total and Triton, two U.S.-based MNCs, and Empresa Colombiana de Petroleos (Ecopetrol), the state-owned oil company. These fields generate approximately 50% of the country's total oil production, worth around $US 2 billion in net income from exports in 1999 (BP Amoco, 2000, p. 1). The Colombian state receives approximately 85% of the income from the oil fields as revenue from three sources: through Ecopetrol which owns a 50% stake in the oil field, in royalty payments which amount to a 20% share of income from oil production, and from a total tax burden of approximately 45% on the oil operations (Davy et al., 1999, p. 13).

Colombia has in place a progressive system of allocating royalty payments that is supposed to ensure that regions and communities affected by oil development benefit from government revenues (Davy et al., 1999, p. 23). This royalty system developed out of the 1991 Constitution, which reformed sub-national public finance by reassigning social spending to departmental and municipal governments. This fiscal decentralization sought to promote participatory democracy by establishing mechanisms through which civil society could contribute to government decision-making (Angell et al., 2001, p. 28). According to Law 141 of 1993, the distribution of royalties is based on a sliding scale that allocates around 68% of funds to oil producing departments and municipalities, while approximately 32% goes towards a national fund intended to redistribute revenue among other regions in Colombia (Angell et al., 2001, p. 34).

The National Royalties Commission allocates 47.5% of the royalty payments from the Cupiagua and Cusiana production facilities to Casanare's departmental government, 12.5% is shared by the municipalities of Tauramena and Aguazul, and 8% goes to the town of Coveñas where the export terminal is located (See Figure 13):

Figure 13: Allocation of BPXC's royalty payments

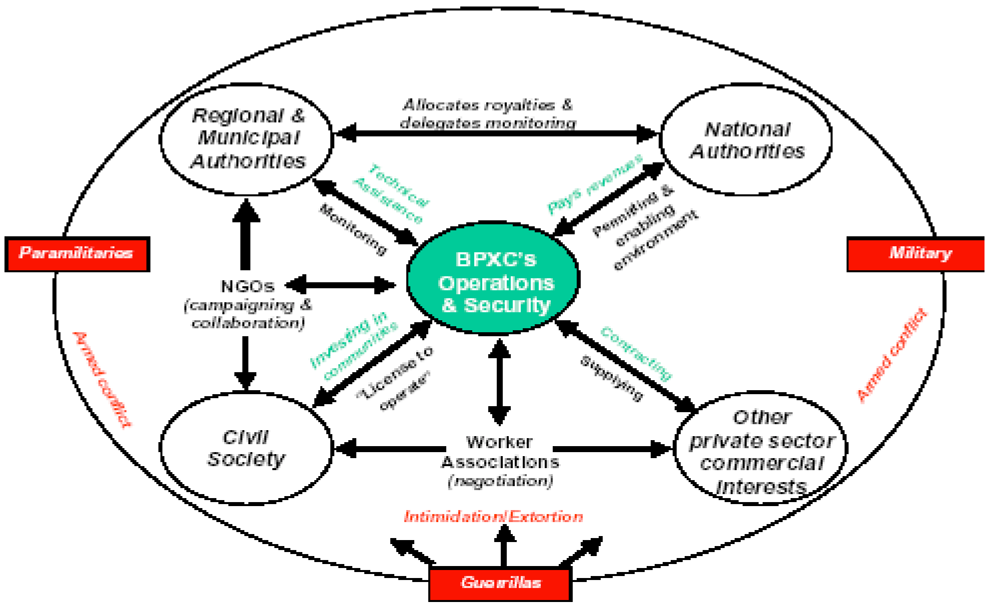


Source: (Davy et al., 1999, p. 23)

The remainder of the oil revenues are distributed to appropriate social development projects throughout Colombia through a selection process administered by the National Royalties Fund (Davy et al., 1999, p. 23). While this royalty system attempts to ensure that communities are compensated for the environmental and social impacts associated with natural resource exploitation, the allocation of funds has led to complaints of new regional inequities resulting from the influx of revenues into the country's main oil producing departments and municipalities.

Within this context of political reform and fiscal decentralization, it is important to analyse how the investment by BPXC has affected the inter-relationships between different actors in Casanare. Figure 14 illustrates the interaction between BPXC and other stakeholders affected by the oil development (See Figure 14):

Figure 14: Stakeholder dynamics in Casanare



Source: (Davy et al., 1999, p. 14)

As concluded in Chapter 1.1, understanding the interaction between BPXC and the other actors involved in the region is critical to determining how the company can manage its influence so as to contribute positively to peace and development. By examining the involvement of different stakeholders affected by or engaged in the conflict in Casanare, it is possible to gain a better sense of the overall role BPXC might play in preventing an escalation of violence (See Table 4).

Table 4: BPXC's interactions with different actors in Casanare

Actor	Involvement in conflict in Casanare	Interaction with BPXC
National government	- engaged in war against guerrilla groups - accused of collaborating with paramilitaries - has tried to improve track record of its security forces with respect to abiding by human rights norms	- controls oil exploitation by the private sector - receives 32% of the royalties from BPXC - provides security for oil companies (approximately 3000 soldiers for BPXC's facilities)
Regional and municipal governments	- departmental administration lacks capacity to govern as staff are mostly politically appointed and have little experience, leading to problems with corruption and transparency that exacerbate the political conflict	- receives 60% of the royalties from BPXC - issues permits and licenses to company - monitors environmental impacts of oil production - cooperates with BPXC to promote sustainable investment of royalties in development priorities in the region
Lawless groups	- guerrilla groups and paramilitary are involved in extortion, kidnapping, attacks on infrastructure, extra-judicial executions, and other security threats to civilians - guerrillas are against oil investment by MNCs and directly target their facilities (are the primary security force in 6 of the department's 19 municipalities) - paramilitaries commit human rights abuses against those opposed to the oil investment and trade unionists	- guerrilla groups attempt to take BPXC employees hostage, extort finances from BPXC and its contactors, attack oil infrastructure and otherwise disrupt BPXC's operations (3 main objectives are to eliminate royalties to government, fund their own activities, and get rid of foreign MNCs) - BPXC private security forces have been accused of collaborating with paramilitaries to threaten and intimidate the local communities but the allegations were not proven

Actor	Involvement in conflict in Casanare	Interaction with BPXC
Civil society	- represented by village associations, workers associations, church leaders, NGOs and other community or grassroots organizations - articulate the interests of civil society and of communities that have been dramatically affected by the oil investment - attempt to mitigate impact of conflict on local communities and individuals - often play a key role in trying to promote peace in the region - community leaders are often targets of violence by either the guerrillas or the paramilitary groups	- BPXC's community relations and interactions with local NGOs have improved, mainly as a result of a need to manage the increasing levels of distrust and antipathy towards their operations in Casanare - communities provide BPXC with a "license to operate" based on continued cooperation and collaboration to address local needs - form partnerships with BPXC to help promote sustainable development and conflict resolution - monitor and publicize social and environmental impacts associated with BPXC's operations - BPXC is attempting to improve civic participation in the management of royalties and development programs
Other private sector actors	- the private sector is a source of revenue for armed groups as both the paramilitaries and guerrillas charge protection money, "taxes", and attempt to extort money through kidnapping, disrupting commercial activity	- contractors and suppliers have good relations with BPXC - Chamber of Commerce has worked with BPXC on creating sustainable economic alternatives in the region to reduce oil dependence

Adapted from: (Davy et al., 1999, pp. 14-16)

As Table 4 indicates, BPXC must manage a wide variety of complex issues in managing its operations in Casanare. Public perception of the company and of its role and responsibilities in the region has changed dramatically over the course of the last decade and a half. The residents of Casanare originally considered the oil investment to be a financial windfall, as it was expected to generate rapid economic development and an expansion in local employment opportunities (Almond, 2001, p. 17). However, now the company faces growing distrust and community disenchantment with the oil industry:

> BPXC has become the focus of expectations that often overlap with roles and responsibilities of government (for example, in such areas as health and education). Thus BPXC, rather than government, has become the target of frustration and disappointment at the failure of government to deliver improvements in quality of life. (Davy et al., 1999, p. 41)

This changing attitude towards BPXC's operations is a direct result of the negative impacts associated with the company's activities. As discussed in Chapter 1.1, these impacts can be broadly categorized according to their direct and indirect effects on the region's economic, social, environmental and political well-being.

First, the economic impacts resulting from the oil development in the region have been massive. Between 1985 and 1993, the region's GDP averaged 7.8% growth annually, more than double the national figure (BP Amoco, 2000, p. 3). The rapid economic growth transformed the local economy, which traditionally had focused on agriculture, as the oil industry's contribution to the local GDP grew from 12.5% to 44% between 1985 and 1993 (BP Amoco, 2000, p. 3). This high level of dependency on oil is somewhat alarming, since the oil fields have an expected lifespan of less than 20 years (Tull, 2001, p. 9). Although the oil investment has stimulated growth in sectors such as air transport, machinery and equipment, finance and business services, and construction (BP Amoco, 2000, p. 3), these burgeoning industries are heavily reliant on oil investment and do not offer long-term prospects for the region.

As for the employment effect, at the peak of construction in 1996, the maximum number of employees was only 7000, of which approximately 60% were local residents (Davy et al., 1999, p. 32). In 2000, 31% of jobs were eliminated as the construction phase ended and employment opportunities were reduced to lower paying maintenance jobs (BP Amoco, 2000, p. 5). This collapse in job numbers resulting from the abrupt decline in contract work and construction activities has been catastrophic, contributing to unemployment rates in excess of 80% in some neighbourhoods of Yopal, Tauramena, and Aguazul (Moser & McIlwaine, 2000, p. 13). Meanwhile, there has been a steep rise in inflation due to increased spending in the region, which has driven up the cost of land and housing prices (Davy et al., 1999, p. 41). While the overall economy of the region has improved, many residents of Casanare argue that they have yet to experience any beneficial impacts deriving from the oil investment (Davy et al., pp. 15- 16).

The second main area of impacts relates to social changes associated indirectly with the BPXCs's investment within the region (BP Amoco, 2000, pp. 2-3). Because of the oil boom, there was an influx of migrants, primarily young males, searching for employment in the oil industry. Between 1985 and 1997, the population grew by 45% and is now estimated at approximately 250,000 people (BP Amoco, 2000, pp. 2-3). The demographic makeup of the department has been transformed by this in-migration. Prior to the oil exploration in 1987, Casanare was 68% rural, but within a decade the urban population rose to 62% (BP Amoco, 2000, p. 3). Increased competition for land and resources has led to displacement, profoundly affecting the region's indigenous population (Dudley & Murillo, 1998, p. 45).

In addition, the masculinity index and proportion of the adult population rose considerably, which in part explains an increase in social problems, such as prostitution, drunkenness, and violence (Davy et al., 1999, p. 16).[26] Another indirect impact associated with BPXC's operations has been an increase in income inequality. Those employed in the oil industry are paid wages of $US 750 per month, which is around five times higher than the regional average (Tull, 2001, p. 23).[27] Meanwhile, Casanare still lags behind the rest of Colombia in terms of human development. A 1995 survey commissioned by BPXC found that 47% of people still had basic needs unsatisfied, compared to 32% on average throughout Colombia (BP Amoco, 2000, p. 3).

Although these indicators suggest that the oil investment has exacerbated many of the socio-economic problems that underlie the civil conflict in the region, there is great potential for the oil revenues generated by BPXC's production to finance social development in Casanare. By 2001, the royalties from the Cupiagua and Cusiana production facilities had generated around $US 600 million in government revenues for Casanare (Tull, 2001, p. 7). As a direct result of the

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[26] The masculinity index in Casanare as a whole is 109 while in Tauramena, which has been heavily affected by the oil development the masculinity index is at 128 (Davy et al., 1999, p. 17).
[27] In 1995, per capita income in Casanare was $CP 930,000 per year, compared to the national average for Colombia of $CP 1,850,000 per year (Davy et al., 1999, p. 17).

royalties, the department's total income jumped from $CP 7 billion in 1992 to $CP 123 billion in 1997, representing between 45% and 73% of the annual budget (Davy et al., 1999, p. 24). However, there are tight restrictions on how this money can be spent. Law 141 requires all of the royalties to be invested in priority social projects, as defined by departmental and municipal development plans (Davy et al., 1999, p. 23).[28]

Unfortunately, there is a perception that much of the money transferred to the departmental and municipal governments has been mismanaged (Davy et al., 1999, p. 31). The main problems relate to the weak accountability procedures resulting from a lack of institutional capacity and transparency within these levels of government (Tull, 2001, pp. 10-11). In addition, unknown amounts of money have been siphoned off due to corruption, bribery, and extortion related to the civil conflict. This has meant that the development expectations of the local population have not yet been addressed (Davy et al., 1999, pp. 33-34).[29] Furthermore, the distribution of royalty payments to Tauramena and Aguazul, the two municipalities within which the oil fields are actually located, has generated new intra-regional inequities in terms of access to the benefits of the oil production (Davy et al., 1999, p. 41).

In addition to the money generated by the royalty payments, BP Amoco has spent over $US 30 million on its own sustainable development initiatives, including funding for a wide array of programs pertaining to human development, institutional strengthening, economic development, and infrastructure (BP Amoco, 2000, p. 6).[30] However, this figure represents only around 1% of the company's total investments in the region. Meanwhile, an analysis of corporate social responsibility

[28] Departments must invest in projects in the sectors of education, health, water supply and sewage systems, while municipalities must invest in education, health, public services, electricity and sanitation (Davy et al., 1999, p. 23).
[29] The only real development success stemming from the oil royalties relates to the achievement of universal access to primary education within the department.
[30] Specific social projects are described in greater detail in Chapters 2.2 and 3.2.

among oil MNCs in Colombia found that they spend on average around 3.9% of their total capital expenditure mitigating social impacts and approximately 13.4% of capital expenditure on managing environmental impacts (Moser, 2001, p. 298). These figures suggest that BPXC's funding for social programs is fairly insignificant, both in relation to the company's total investment and compared to the oil royalties that generate around $US 90 million a year for the department and municipalities (Davy et al., 1999, p. 24).[31]

Because BPXC's funding for social investments and social impact mitigation is so limited, the company has focused much of its spending initiatives towards establishing partnerships with civil society organizations and co-financing projects with the municipal and departmental governments to help strengthen participatory planning and project management. In this way the company hopes to ensure that royalty revenues contribute effectively to sustainable human development (Davy et al., 1999, p. 40). However, according to a study of community perspectives on BPXC's social investments, undertaken by Corporación Cemilla, a grassroots NGO:

> One of the most striking findings to emerge from this work is the clear distinction that the people of Casanare make between social investments by BPXC, and social investments supported by royalties from the project. Despite the fact that royalties are a direct result of BPXC's operations, their social investment potential is viewed as separate from the need for BPXC to invest in communities to mitigate the adverse social and environmental impacts of the project. (Davy et al., 1999, p. 39)

Evidently, there is a perception that BPXC has not fulfilled its social obligations to the residents of Casanare and ought to invest more of its own money into social development projects. Although evaluations of the company's social investments to date indicate that projects have generally been well-managed and planned, many of the residents feel that these efforts have been too disparate and localized to improve the overall quality of life in the region (Davy et al., 1999, p. 40).[32] Most

[31] As discussed earlier, the royalty money is supposed to target social priorities identified in departmental and municipal development plans.

[32] Many residents feel that BPXC's social investment programs amount to inadequate compensation for the negative impacts of the company's activities (Davy et al., 1999, p. 40).

would like to see the company take a more proactive role in promoting strategic social development in Casanare.

Furthermore, according to the World Bank's analysis of the social impacts of BPXC's operations in Colombia, there is a widespread belief among residents that "on balance, the social and environmental costs [of the oil development] have outweighed the benefits" (Davy et al., 1999, p. 16). The main impacts cited by the local residents include employment-related impacts resulting from the disproportionately high pay-scale in the oil sector, the resultant in-migration to the region, inflated prices for housing and land, increases in the cost of many goods and services, and an explosion of social problems including violence, prostitution, drug abuse and alcoholism (Davy et al., 1999, p. 40).

In interviews, local residents often reminisce about the pre-oil era with great nostalgia. For example, in the neighbouring department of Arauca, Jorge Cedeño, the mayor of Arauca City, argues that “Perhaps it would have been better for us to have gone on without oil. We did not have public services it is true, but with so few of us we could have found other solutions. We would have survived on cattle ranching and farming. Sure we have received benefits from the oil but at the cost of enormous consequences” (cited in Metcalfe, 2002) Likewise, within Casanare local authorities have spoken out about the detrimental social impacts of oil investment and publicly lament the changes that have occurred in the region over the past decade (Dudley & Murillo, 1998, p. 46).[33]

While the direct and indirect economic and social impacts resulting from BPXC’s investment in the region have been monumental, the most disturbing issue confronting Casanare is

[33] Many regional governments are increasingly wary of the negative impacts associated with oil development, while the country’s indigenous groups, most notably the U’wa, are actively resisting oil exploration on their territory (Reinsborough, 2001, p. 44).

the escalation of political conflict, which has resulted in human tragedy and environmental destruction (Metcalfe, 2002). The increasing violence that has accompanied the recent economic and social transformations in the region poses an enormous challenge for investors in the Colombian oil sector. Although Casanare has experienced varying levels of armed conflict since "*La Violencia*," the situation has undoubtedly deteriorated as a result of BPXC's investment:

> The expectation of economic opportunities resulted in large-scale inmigration that resulted in a growing disaffection in local communities. The injection of cash into the local economy and the presence of contractors fuelled corruption and extortion, causing civil conflicts to escalate. The violent activities of both guerrilla and paramilitary groups still affect all elements of society in Casanare, casting a shadow of intimidation among its communities and impeding its social and economic progress. (Davy et al., 1999, p. 1)

As discussed in Chapter 1.1, the causes of this escalation in violence can be traced both directly and indirectly to the oil company's actions.

Prior to the oil investment, the ELN and FARC established strongholds in several communities in Casanare, as the region was almost totally neglected by state security forces. It is estimated that these guerrilla groups are the dominant political force in six of the nineteen municipalities of Casanare (Davy et al., 1999, p. 19). Meanwhile, paramilitary forces grew throughout the 1990s, largely by providing security to cattle ranchers in the region, and are now a major actor in the civil conflict. The increased commercial activity in Casanare stemming from the boom in the oil industry provides the guerrillas and paramilitary groups with a local revenue source as these illegal groups "tax" businesses in Casanare, while some pay "vaccination fees" to ensure that they are not victims of violent attacks (Moser & McIlwaine, 2000, p. 66). The kidnapping of oil workers and businessmen is another lucrative way for the ELN and FARC to finance their operations (Moser & McIlwaine, 2000, p. 67). In 1997, it was calculated that the FARC received approximately $CP 931,728,000 in extortion payments from the petroleum sector, while the ELN received $CP 59,016,991,000 (Caballero, 1998, p. 30).[34]

In addition, BPXC is a prime target for guerrilla attacks as both the ELN and FARC oppose MNC investment on the basis of their Marxist ideologies and seek to weaken the government by depriving it of an essential revenue source (Davy et al., 1999, p. 19).[35] In response to the increased security needs following the discovery of oil, the government significantly strengthened its military and police presence in Casanare in the early 1990s (BP Amoco, 2000, pp. 3-4).[36] The resultant militarization of Casanare has led to tensions between local communities and BPXC:

> While this strategy of protection from the local external context [referring to the protection of oil facilities by the military] reduces the threat of attack, it also creates isolation from the communities located within the relevant region of operation. The construction of heavily fortified and defended production facilities, physically isolates MNOCs [multinational oil companies] from their immediate context, while their association with the army accentuates any perceptions local communities have of MNOCs acting as an extension of Central Government interests. Moreover, the close links between Colombia's army, paramilitary groups and human rights abuses, further deepen community distrust. (Moser, 2001, p. 302)

The close interaction between BPXC and the government security forces has undoubtedly contributed to worsening relations between the company and regional communities, who fear an escalation in human rights abuses associated with the conflict between the military, paramilitary and guerrilla (Davy et al., 1999, p. 38). Furthermore, the local residents increasingly blame BPXC for attracting (albeit unintentionally) guerrilla and paramilitary groups to the area (Metcalfe, 2002).

Although BPXC has tried to remain uninvolved in the political conflict by refusing to pay off illegal armed groups, the company has faced several allegations of human rights abuse pertaining

[34] Although FARC is much larger than the ELN, the ELN has traditionally targeted the oil sector more heavily. More recently, there have been indications that the FARC is making a bid to seize control of oil-producing territories (Metcalfe, 2002).

[35] There have been systemic attacks on Colombia's oil pipelines for the last decade and a half, resulting in massive oil spills and contamination of land and water (Dudley & Murillo, 1998, p. 44).

[36] Until 1995, BPXC paid a $US 1.25 "war tax" per barrel of oil to compensate the government for the costs of providing 3000 soldiers to guard the oil facilities (Economist, 1997, p. 32). BPXC now enters into periodic contracts to support "non-lethal" aspects of the military's security services (including food, accommodation, medicine, etc.), and in 1999 agreed to pay the military $US 8 million over 3 years (BP Amoco, 2000, p. 4).

to its security practices (Economist, 1994, p. 32). In 1996 and 1997, the firm in charge of BPXC's private security, Defence Services Colombia (DSC), was accused of having trained and armed police and military staff in counter-insurgency techniques. According to Susan Lee (1997), a spokesperson for Amnesty International:

> In the context of the current human rights crisis in Colombia -- in which the Colombian security forces have been responsible for widespread extrajudicial executions, torture and "disappearances" of civilians – it would be extremely difficult to guarantee that any form of military, security and police training arranged by a private company to protect their own interests is not directly or indirectly contributing to further abuses against the local population.

There were also reports that BPXC filmed community meetings and turned the videos over to the government as a means of singling out those opposed to the oil development (Rienstra, 2001, p. 23). Although these reports were not substantiated, they precipitated a worsening of the relationship between local residents and BPXC, and led to a decreased level of trust and cooperation between civil society groups and the oil company (Davy et al., 1999, p. 38).

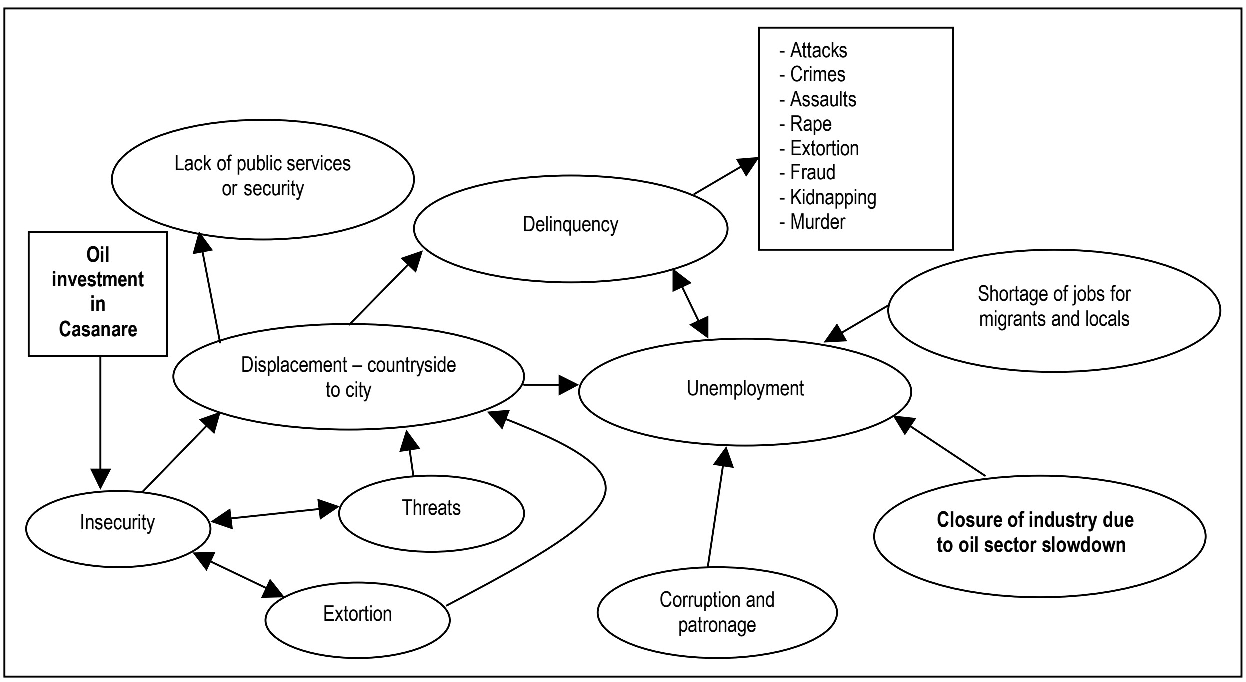
Clearly, BPXC's operations have directly affected the capacity of both the government and illegal armed actors to wage war. In addition, its facilities represent military targets for the ELN and FARC, provoking confrontations between the government, the guerrillas and the paramilitaries. The worst damages experienced by BPXC resulted from an attack in October 1998, when the ELN blew up the OCENSA pipeline near the village of Machuca in Antioquia, resulting in the death of 70 people (BP Amoco, 2000, p. 3).[37] Meanwhile, the environmental damage resulting from oil spills related to guerrilla attacks on pipelines has had a devastating impact on ecosystem health and

[37] A further issue that has not yet been resolved pertains to compensation for land expropriated to build the OCENSA pipeline and ODC pipeline, operated and partially owned by two subsidiaries of BP Amoco known as Oleoducto Central (OCENSA) and Oleoducto de Colombia (ODC), which transport BPXC's oil to the coastal port of Coveñas. Peasants in the Zaragoza region claim that the original compensation arrangements were inadequate, especially given the recent deterioration of the security situation, which has led to the restriction of access to all land bordering the pipeline. Currently twenty families are suing OCENSA and five families are suing ODC for damages resulting from the environmental, social, and conflict-related impacts of the pipelines (Higginbottom, 2001, p. 3).

community well-being. This demonstrates that the impacts of BP Amoco's investment and operations on the Colombian conflict are not geographically contained to Casanare.

At the same time, it is evident that the indirect impacts of BPXC's operations are contributing to the underlying causes of conflict. Figure 15 demonstrates the linkages between oil investment in Casanare and potential sources of social, political, and economic violence:

Figure 15: Causal impact diagram of the relationship between oil investment and political, economic, and social violence in Casanare



Source: (Moser & McIlwaine, 2000, p. 65)

The direct linkage between this violence and worsening poverty is well-documented in Yopal, the departmental capital of Casanare, where approximately 50% to 60% of people living in informal neighbourhoods have been recently displaced from the countryside due to the escalation of the civil conflict (Moser & McIlwaine, 2000, p. 64).

Given the social, economic, environmental and political changes that BPXC's operations have brought to the region, it is important that the company remains involved in trying to ensure that its investments are a positive force in Casanare. Although BPXC has become more engaged in promoting sustainable development and conflict resolution in Colombia, it is clear that there are major challenges confronting these efforts. In these difficult circumstances, BPXC's main responsibility is to manage the indirect and direct impacts of its operations and to maintain transparency in all of its dealings with other actors in the region. More proactive strategies for reducing sources of conflict and violence are discussed in greater detail in Chapter 3.