

The Corporation: A New State Actor in the International Political System

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The year was 1981 in Miami Florida. Frank Lopez, proprietor of 'Lopez Mercedes', was suspicious of his new employee Tony. Though Mr. Lopez was the owner of a relatively successful car dealership, his business income was certainly not enough to sustain his multi-million dollar lifestyle. In fact, Mr. Lopez was Miami's third largest dealer of cocaine. Tony was one of his new 'business partners' but was certainly not hired for his skills as an auto salesman. Mr. Lopez had been in the business for a long time and felt that he had mastered all the 'ins and outs' of his dangerous industry. The key was to keep a low profile. Being the third largest supplier in the area kept the top two other suppliers in constant competition with each other to be *the* largest – this was competition he did not want. Being the largest supplier meant that too many men would be needed for security, and too many police officers would need to be paid off to mask the underground drug war. Being third, in fact, had the lowest expenses, which resulted in the greatest net income. Mr. Lopez was sure that he found the key to success in the underground cocaine industry.

Tony however, saw things differently. Why be satisfied with the usual monthly shipment of \$500,000 worth of cocaine when his connection in Columbia has the ability to supply \$18,000,000? Sure, such a large amount of drugs has never entered the United States in one shipment before, but this does not mean that it is impossible to accomplish. Tony knew that keeping a low profile was not the key to success in the business; the problem was the system itself. Paying off police officers, working with other crime families, staying within a strict territory – these were the true problems with the cocaine industry. However, Tony knew that the system was sophisticated: After all, everybody won. The police succeeded to mitigate the amount of drugs entering the United States, if not prevent them completely, and they made some extra money to supplement their salaries; the buyers were able to access an available drug source, with minimal risk of being caught while the drug cartels each received a healthy share of the profits.

The above scenario describes the complex, and historically accurate drug network that was well illustrated in the movie '*SCARFACE*'. The drug industry, especially during the early nineteen eighties, was a sophisticated system. It had strong units, weaker units, a hierarchy dictating specific roles of the units involved, and it even had a regulation mechanism in the form of a corrupt police force. The movie *SCARFACE* however, is about Tony Montana – a drug lord who drastically changes the drug system by saturating the market with product, killing his competitors, and stopping

bribes to police officers. In Tony's world, there would be no units, and though *SCARFACE* is a fiction, the change in the drug system described in the movie is historically accurate. As a result, new strategies needed to be implemented by the American government to prevent the influx of drugs; and they had a lot of catching up to do. It seems that the government suddenly had no understanding of how to combat drugs in this new environment: all because of a change of the system.

This paper however is not a historical analysis of the American drug trade. The significance of the anecdote about Tony Montana rests not in the product he sold, but his ability to see a system and alter it to his advantage. He did not merely take over as the new boss in town - sub-consciously playing by all the same rules as Mr. Lopez. Instead he dramatically reformed the system, changed its units, and altered the American concept of the drug trade forever.

The cocaine trade of course, is not an average industry. As an almost universally illegal product, cocaine producers are forced to develop their own security forces, seek clandestine transportation and trade methods, and may even infiltrate state politics to ensure the local source of regulation continues to look the other way. As a result, an elaborate subordinate-system within a system has developed – well outside the reach and power of the established legitimate states (units), but still subject to the restricting construct of the stronger international political system.

Is the drug trade the only rogue system – a system operating in defiance of the superior international political system - in the world today? Are the drug cartels the only businesses that have managed to elude the power of the international system of politics and law? To think that they are, is naïve. Another example of a rouge system is the Private Military Firm (PMF) industry. PMFs' rouge status comes from how they are able to take advantage of the lack of regulation of their industry and self-made rules to exploit the anarchy that surrounds the African diamond and oil industry.

Purpose

The following is an analysis of the primary resource industry and its effects on the modern concept of structural realism. To narrow the analysis the main region and time frame of study will be private business activities in Angola, particularly after 1991. The resource sectors of study will be oil and diamonds with a significant look at the emergence of PMFs, an industry that has established itself in 1991, and proliferated at a dramatic rate since. The research questions to be answered are:

1. Does the privatization of military power allow private corporations to become state actors, hence influencing the global political structure?
And if so:
2. If corporations have become state actors, how does this impact Waltz's theory of structural realism?

What is the International System?

The author of the first substantial work on modern PMFs, P.W. Singer, suggests that one of the first lessons any student in international relations would learn would be that "states are central, and, in fact, the only truly relevant actors in world politics"². This is the general theory of international relations that Kenneth Waltz sought to convey in his famous work *Theory of International Politics* that is known as 'structural realism'³. Realist theories of international relations emerged after World War 2 in response to the failed application of idealism, which was the predominant theory of international relations after World War 1. Idealism proposes that war can be prevented through established international institutions (like the League of Nations for example) that encourage mutual understanding and goodwill between nations. Conversely, Realism establishes a connection between human nature and the interactions of states. Political philosopher Thomas Hobbes believed that man in an environment of anarchy would be an ultimately selfish entity. The realist underpinning to Hobbes can be summarized by his famous quote, that without order humanity is destined to live in continual fear, in danger of violent death. The life of people in such a system would not be pleasant as it would be "solitary, poor, nasty, brutish, and short."⁴ Men would attempt to gain the greatest personal wealth and power no matter what it costs others.⁵ Realism simply applies this Hobbesian concept to the anarchy of the international system. The analogy has been made that each country is a like a person that attempts to gain power over others until it is the most powerful 'unit' in the system. When a state does succeed and becomes the most powerful, it becomes the hegemony, the head-state in a new world order (i.e. *Pax Britannica*, *Pax Americana*).

The relation between hegemonic powers and subordinate states falls under the study of structural realism. Waltz believes that "the structure is a system-wide component that makes it possible to think of the system [of international relations] as a whole"⁶. The concept of the structure is key; it is the most abstract aspect of the theory. According to realists, the international system may be bi-polar (as it was during the Cold

War when there was a battle for hegemony between the United States and the U.S.S.R) or it may be uni-polar (as many suggest it is currently, with the United States as the sole hegemon). It may be widely understood that there is an international system, and that the countries (the units) are players in this system. However, it may not be widely understood that the structure of the system is what keeps the system operating. Waltz illustrates this by drawing a link between the international system and the hierarchy of a domestic political system, which contains units (institutions and agencies) that “stand vis-à-vis each other in relation of super and subordination”.⁷ The different units each have different political authority. A good domestic system would be one that has a strong centralized source of power, usually in the executive branch (e.g. a president or prime minister) who can lead and control the sub-ordinate powers. It is important that the centralized source of power does not abuse its power, because the sub-ordinate powers collectively have enough authority to keep the central power in check. If the structure of the system breaks down, the system will go through a change (perhaps a revolution or civil war), which will result in a new system – hopefully one that works.

Changes in the international system occur in a very similar manner. Similar to the way we classify nations as democracies, despotisms, or communist, we can classify the system as uni-polar, multi-polar, bi-polar – and predict the structural interactions accordingly. The central unit(s) of the structure will control the subordinate units, while the subordinate units manage to work together to keep the central power(s) in check. If power is abused or lost by the central unit the subordinate powers can succeed in an international revolution of the system's structure, resulting in a new balance of power.

The Last Big Change

The last big change of international relations occurred in 1991 – the fall of the Soviet Union – marking the end of the Cold War. This dramatic change however, did not mark the fall of the international political system. The fall of the Soviet Union was simply a change within the system, not a change of it.⁸ The major impact of the new uni-polar environment was that countries would have to rethink how they are going to defend themselves (as siding with the American or Soviet ‘worlds’ would no longer be a way to gain military support). The bi-polar order of the Cold War had previously established “an international order structured by horror and vacuum whereby every state had some utility for the main [protagonists] in that it was important to prevent its control by the rival”⁹. The structure that exists today, regardless of the debate over whether it is truly uni-polar,

is a change *in* the system and not *of* the system. The main protagonists in the international political environment can still be categorized as super-power, middle power, and third-world, as they were during the Cold War. The types of players have not changed. The only way the system could be changed entirely is if the units were no longer categorized in the way above. In other words, when super powers are no longer super, when middle and third world powers are no longer valued by military or economic strength, or perhaps, if an entirely *new* type of unit enters the political field – one which forever alters our conception of how the international system works. Is this possible? What would be necessary for this to occur?

Case Study: Angola

As noted above, the purpose for picking a single country of study is to narrow the research of this paper to a reasonable scope. Angola was chosen specifically because it is an excellent example of a country that struggled under the bi-polar Cold War system and reacted dramatically to the fall of the Soviet Union and the change in international structure. Yet, by the time the uni-polar structure established itself, Angola continued to struggle as a state in the new international environment. Many would suggest that Angola is a failed state because of the civil war that started in 1975 and has continued to this day, even after UN intervention and a period of legitimate elections. However, despite of this reason, Waltz might have suggested that Angola will continue to struggle until it can find an effective domestic structure, at which point in time, a successful domestic system would emerge.

Historical Details

Angola is a former Portuguese colony “whose particularly unpleasant and intractable civil war has run since 1975”¹⁰. 1975 marked Angola’s declaration of independence from Portugal’s colonial rule when at that time, “several hundred thousand Portuguese – virtually the entire population – abandoned the country but not before stripping it of everything of value including ... even taking their doorknobs.”¹¹ As a result, the nation was left with very few educated citizens who understood state making, but many who were well trained at guerilla warfare.¹² Throughout the Cold War, the balance of force has always managed to prevent either side from achieving outright military victory. Despite a decade of UN involvement, each side has repeatedly appealed

to external actors to turn the tide.¹³ As a result, countries involved in the Angola conflict have been Cuba, Zaire, The Soviet Union, South Africa¹⁴, and America¹⁵.

The three main protagonists in the Angola conflict after 1975 were the “theoretically Marxist” MPLA (Movimento Popular de Liberacao de Angola) that drew its support from the Mbundu population¹⁶; the FNLA (Frente de Liberacao de Angola) recruited from the Bakongo in the north-west and had support from, and bases in, Zaire; and UNITA (Uniao NacionaI para Independencia de Angola) that was made up mostly of the Ovimbundu population of East Angola. The external support of these forces is clear. The Soviet Union and Cuba supported the MPLA while the United States and South Africa supplied arms, training, and supplies to the FNLA, but UNITA particularly, to reflect an intensifying Cold War¹⁷.

Why would the world’s super-powers care about Angola, with its underdeveloped infrastructure and brutal rebel groups? They cared because Angola has strategic significance in the form of a US\$1.8 – 3.0 billion per year offshore oil industry¹⁸, and a considerably lucrative US\$600 million per year diamond industry¹⁹. In true Cold War fashion, both the Soviet and Western powers would rather have seen an unstable Angola than concede the potential wealth to the other side.

By 1989 however, external actors were now pushing both parties to negotiate a conclusion to the conflict. UNITA however, broke a June 1989 ceasefire and was nearly destroyed in the MPLA’s subsequent nine-month offensive²⁰. This victory, and the MPLA’s renunciation of one-party rule, paved the way for the Bicesse and Estoril Agreements (April-May 1991), specifying UN-conducted military integration and multi-party elections for September 1992.²¹ The ceasefire held until the MPLA leader Eduardo Dos Santos won the first round of the elections with 49.5 per cent.²² Jonas Savimbi, leader of UNITA, refused to abide by the result and the incomplete demobilization and reintegration facilitated the resumption of full-scale civil war.

Angola’s War Economy

Back in the United States, during the Clinton administration, Al Gore held a global forum on fighting corruption. James Wolfensohn, the World Bank president addressed the leaders of the African nations (Angola was not present) with the following words:

I do not start with Finance. I do not start with water. I do not start with education... If you cannot [establish] in a country a sense of proper governance that is unambiguous in its opposition to

corruption, then general statements or even specific statements that we make will fall to the ground.²³

It is unfortunate that the military leaders in Angola were not present at the forum, perhaps someone's advice, if not Wolfensohn's, could have had an impact. Angola's reality is that it should be one of the most prosperous nations in Africa. It is the second largest sub-Saharan oil producer, and with recent findings, could become the largest by 2010²⁴. It is the sixth largest supplier of crude oil to the United States, and the diamonds found in Angola are some of the finest in the world.²⁵ Corruption, however, has everything to do with the problems in Angola, as the basis of its entire economy is in primary resources.

A nation's wealth of primary resources is key to its development as an industrialized nation. In a country comparatively poor in natural resources, the country's only hope of success lies in its ability to organize the available human resources. In this environment, power is created through stability, employing the people, building tradable products and working towards building a financial (banking) industry that actually builds wealth through financial growth and providing a forum for capital investment. For Angola, the opposite is true. The government in power can find wealth and power through foreign currency and foreign trade, as tradable products are readily available – it comes right out of the ground, using a relatively small amount of domestic labour. As much as 90% of Angola's income comes directly through "oil rent"²⁶ (the process of giving a foreign company the permission to extract oil from sovereign territory for an annual lump sum). As Phillippe Le Billon reports, "the oil rent has, in fact, been increasingly used for military objectives, debt servicing, and to subsidize the life of the [bourgeoisie] – with an increasingly tenuous support for social services and basic goods imports and subsidies benefiting the population."²⁷

Lootable and Unlootable Resources

Some comment should be made on the strategic military importance of Angola's unique availability of resources, as it is particularly conducive to the fueling of a civil war and has mistakenly been suggested as the main cause of the violence by historians and business leaders familiar with the conflict, though the evidence of a causal link is strong²⁸. Angola's two main resources, diamonds and oil can be classified as 'lootable' and 'unlootable' accordingly²⁹. The general hypothesis is that while the presence of unlootable resources tends to influence a *separatist conflict* while the presence of a lootable resource will influence a straight civil war.³⁰ Why is this? Unlootable resources

require a high level of capital investment along with an educated and well-trained labour force to mine the materials (examples of this are oil or deep shaft mining). Most third world countries do not have these key elements available, and can only hope to receive financial benefit from the presence of the resource by establishing a legitimate government that can attract foreign investors. Usually, the financial payoff of unlootable resources never trickles down to the poor parts of society, as they are not needed as part of the extraction process. Lootable resources tend to benefit the poor population because they are easily extracted, but tend to require large amounts of cheap labour. Alluvia diamonds or drugs are good examples of lootable resources. Because the resource usually exists in a large territory (which is hard to defend when compared to an oil field or deep shaft mine), and a large group of workers needs to be established, the leaders of the labour force must be very disciplinary and security minded. These elements together; the need to defend territory, control of a working population, and effort to ensure that everyone is given a piece of the profits, all the necessary elements for a hierarchal rebel group is established.

Because UNITA had access to its own source of wealth, the resulting war was a civil war where the goal of UNITA was to take ultimate control of the entire country. The government's dependency on oil rent was not a well-kept secret. In March of 1993, UNITA forces captured the oil facilities in the coastal town of Soyo, essentially cutting off the government's financial life-blood. Strategically, this UNITA victory should have succeeded in toppling the MPLA party forever, as the FAA (Forças Armadas Angolanas), did not have the ability to retake the town without destroying vital oil extraction equipment³¹.

The loss of Soyo was significant in two ways. First, the government's key source of revenue for the war effort was essentially cut off. Now it was only a matter of time before the MPLA party would be ousted. Second, the two major oil companies – Sonogal (the state oil company) and Branch-Heritage Oil Company (Canadian Based)³² were not allowed to remove their equipment, which were being leased at \$20,000 per day. The cost of the 'hostile takeover' would be financially devastating for both of the companies – something that Savimbi's UNITA perhaps did not consider.

It was at this time that the local business authorities took matters of national security in their own hands, as Singer writes:

The exact details of the initial contact are not public, but what is known is that this is the point that Executive Outcomes first made its mark in the Angolan conflict. The firm was hired to recapture the town of Soyo (and Sonogal and Heritage Oil's valuable assets along with it) on behalf of the Angolan army. An EO unit of about 80 men quickly launched a commando assault that, after fierce fighting, seized the installation from the UNITA rebels³³

Not only was Executive Outcomes fighting with superior technology and tactics, they also had an intelligence edge. "The commandos [Executive Outcomes] were actually former SADF soldiers, who had fought alongside [UNITA] earlier in the war", meaning that Executive Outcomes had intimate insight into UNITA's tactics, equipment, and leadership. UNITA quickly attempted to appeal to UN observers by suggesting that white *mercenaries* (which are considered internationally illegal)³⁴, while the oil companies simply "responded that the men were actually just 'security guards' defending the site, which was a rather remarkable claim, considering that UNITA was in control of the facility at the time."³⁵

A few conclusions could be made after the Soyo operation. First, after Executive Outcomes went public about its involvement in the conflict, observers were amazed at the company's overall combat effectiveness and that the historical enemies of the MPLA party were fighting alongside them, simply due to a business agreement³⁶. Next, the Soyo incident infers that private actors participating in warfare are starting to encroach on the 'state's' monopoly on military power³⁷. The sudden materialization of Executive Outcomes was no doubt a complete wildcard for the UNITA rebels. In their understanding of the Angola system the appearance of an outside, well organized, well-trained, private army, right under the nose of UN observers – was an alien event to say the least, as one UNITA soldier stated at the time,

We used to know we could sleep well at night. In this recent war, new tactics meant that fighting continued at night and that light infantry units led by these Executive Outcomes guys would come deep behind our lines. We could no longer rest. It weakened us very much. It is the new tactics in which they trained the FAA [the Angolan government army] that made the difference. They introduced a new style of warfare to Angola. We were not used to this.³⁸

Private Military Firms

Defining a private military firm (PMF) can be a difficult proposition. The hiring of trained soldiers by armies has occurred as long as war has existed. When numbers

became more important than quality state-soldiers, mercenaries were usually the answer. PMFs however, have transcended the typical idea of 'guns for hire'. PMFs have actually integrated themselves into the modern market economy as legitimately registered companies, and are the most successful in nations with the most stable, least war-prone societies. The accepted definitions of mercenaries and PMFs compare as follow:

Mercenary: An individual or organization financed to act for a foreign entity with a military style of framework (including conduct of military style operations) without regard for ideals, legal or moral commitments, and domestic and international law.³⁹

Private Military Firm or Private Military Company (PMF or PMC): A registered civilian company that specializes in the provision of contract military training (instruction or simulation programs), military support operations (logistical support), operational capabilities (special forces advisors and command and control, communications and intelligence [C3I] functions) and or military equipment, to legitimate domestic and foreign entities.⁴⁰

Definitions however, tend to fall short of their purpose, as understanding the actors within the private military industry tends to require some level of explanation. The current industry taxonomy has tended to class PMFs into groups, "rather than thinking about them only on a case-by-case basis. The typical analytic division has been to distinguish firms by the general level of their activity."⁴¹ Two major classifications have emerged; those that are considered 'passive' and those that are considered 'active'. "For example, companies that engage in combat operations or seize territory, such as Executive Outcomes, are placed in the 'active' category, whereas those that defend territory or provide training and advice, such as MPRI (Military Professional Resources Incorporated) are placed in the 'passive' category."⁴² But this classification seems to be insufficient. "To place different firms within this active-passive division also often requires impossible dexterity and usually is dependent on one's perspective. One person's active firm in another person's passive one"⁴³. For example, consider a firm that is hired to secure an area within a conflict zone (Armorgroup or Southern Cross Security)⁴⁴, the firms will be considered passive until the secure area is threatened, then suddenly they will be active. As of yet, the industry's active/passive categorization is separated by the pull of a trigger.

P.W. Singer, suggested a 'tip-of-the-spear typology' that breaks the industry down through a spectrum-based classification with three major classes: Military Provider Firms, Military Consultant Firms, and Military Support Firms.⁴⁵ With this classification, the 'activity level' of firms is evaluated based on their proximity to actual military fronts. Singer's classification is significant as it illustrates the ambiguous context in which military firms tend to exist. It is the ability for a firm to be versatile in this environment that gives them their greatest competitive edge (along with their ability to dodge regulation). MPRI for example, has made efforts to compare itself to other leaders in the industry in order to classify itself as a consulting firm, a U.S. state department official argues that "the only difference [between EO and MPRI] is that MPRI hasn't pulled the trigger – yet"⁴⁶. However it should be noted that the MPRI's major resource, retired senior officers, would not be directly involved in a direct-combat role, even if they were still in the active duty military.

Though the Private Military industry is extremely broad, and can include anything from the active or semi-active firms as noted above to firms who simply specialize in the provision of uniforms (like 'Logistikunicorp' for the Canadian Forces), the firms that are capable of having a strategic impact on the political and security environments in which they are contracted to operate, are the highly active firms such as Executive Outcomes, MPRI, or Sandline Inc. (was registered in the Bahamas but based in the UK. It was closely connected with Executive Outcomes though it dissolved in April 2004)⁴⁷. It is these firms that are prospering as the result of a "weakening of state controls" on security,⁴⁸ which has always been a sacred monopoly held by the state. One of the most significant factors of this key change in the global environment is not simply the presence of PMFs but the customers they serve.

Business in Angola

Multinational corporations and their allied PMFs now have the capacity to engage in what has been termed 'security led investment' in which the physical weakness of the local state is irrelevant to their business operations.⁴⁹ Angola is a prime environment for a 'security led investment'. The resources are there. All a company has to do is avoid a war. As one oil manager comments:

We, as well as [other companies], have proven that we can produce anyhow. The conflict does not matter so much for our activities, except if the whole country was in blood

and flames, including Luanda. Even then... the price of petrol bothers us much more than the political situation.⁵⁰

The question remains however, who are the mysterious companies operating in the war torn territories of Angola?

Diamonds

Alluvial diamonds, which are of a particularly high quality in Angola, come from riverbeds that have been historically controlled by UNITA. The implication of this during the 1990s was that the purchasing of diamonds on the African market often meant directly funding UNITA's activities. Executive Gary Ralfe of De Beers Group, which controls approximately seventy per cent of the world's rough trade in diamonds⁵¹ comments:

Unita... has over the recent few years been responsible for most of the production in Angola. One of the essential jobs that we De Beers [sic] carry out worldwide is to ensure that diamonds coming onto the markets do not threaten the overall price structure and therefore although we know [sic] direct relationship with UNITA, there is no doubt that we buy many of those diamonds that emanate from the Unita-held areas in Angola, second-hand on the markets of Antwerp and TelAviv.⁵²

Since 1998, the year the UN regulated diamond companies by making it illegal for companies to purchase product from rebel groups,⁵³ De Beers has:

Denied any purchase of UNITA diamonds, although company officials continue to note that it would be difficult to avoid doing so. Yet ironically, De Beers also hinted at its satisfaction at the resumption of the conflict in Angola, the sanctions against illegal exports by UNITA...reduced extraction due to warfare made De Beers-CSO activities more profitable. Along with the rising sales from 'millennium' diamond gifts, this profitability brought a 250 percent increase in the share value of De Beers during 1999.⁵⁴

De Beers is an excellent example of a powerful corporation that strategically chooses to keep an arm's length relationship with Angolan leaders. The rules in the diamond industry are very different from the oil industry (which will be discussed later). Though diamonds are naturally occurring and must be mined from the landscape, they are in fact not a 'primary resource' per se. Diamonds are a 'luxury item', and the unique nature of the diamond market has a direct impact on the way they can be mined. As such, the diamond industry is a much less aggressive player in Angola's political system. When compared to the oil industry, the foundations for a hypothesis on corporations as state actors can be formed.

Consider the decisions De Beers made during the 1990s with regard to mining in Angola. By 1998, along with a number of “civil society organizations”⁵⁵ De Beers took an active role as a leader in “curtail[ing] ‘conflict diamond’ sales ... to protect their public image and economic interests”⁵⁶. As well, De Beers pulled out of prospecting operations with the legitimate Angolan government in the sector of ‘kimberlite’ deposits. Kimberlites are a high-quality form of diamond that are found in volcano tubes, and can only be mined with a large capital investment – which is why the government was in control of this sector. The company suggested simply that they had reached an impasse with the Angolan government after the new restrictions on the diamond industry were implemented⁵⁷.

In the diamond industry, the final product – diamond jewelry for gifts – are difficult to sell if there is a highly negative connotation attached to the process of mining diamonds. It is also quite easy to track the origin of diamonds, or find alternatives (pearls, or precious gems). Very few people would have difficulty surviving if they did not receive new diamonds for a long period of time. In fact, companies like De Beers have the ability to alter the supply of diamonds to fit the social the current social context. As the reality of the war in Angola and its connection with diamonds became evident, De Beers wanted to do everything in its power to separate itself from the conflict, ensuring that it was viewed by potential customers as high-quality and socially responsible⁵⁸. As a result, De Beers was never afraid to leave its investments in Angola. No other companies will attempt to take its place, as they would be equally concerned with the negative connotation behind their products, and they can always return to the country after it stabilizes. Therefore, though the supply of diamonds in Angola helped fuel UNITA’s war effort throughout the cold war, in the new international, post-cold-war system, diamond companies will not act as direct state actors in Angola nor will they be satisfied with mining contracts that may fuel the civil war.

Oil

Oil, though often compared to diamonds in the context of the Angolan war, is a very different product with a very different market dynamic. Oil is certainly a primary resource. Crude products are demanded on a daily basis in all developed worlds from gasoline to plastics. Few people can escape life without demanding some form of crude oil product on a regular, if not daily basis. As a result of this, oil companies are seldom concerned with the connotation connected to oil. Though many consumers are

concerned about conflicts and wars directly or indirectly caused by the extraction of oil, few can find a practical alternative to the gas pump. Generally, oil companies keep providing crude, and consumers keep using the product, even if they have no idea of the actual history behind the end consumer product. It is impossible to know if the source of the gas was from a peaceful nation, or a warring one.

The implication of this is that crude oil companies can be much more aggressive with how it extracts oil – and they have to be – because there is no ONE major oil company internationally (like De Beers for the diamond industry), if a company stops producing from a site that they have already explored and invested in, there will quickly be another company who is willing to replace them. Where the demand for diamonds is economically ‘elastic’, easily changed by small alterations in price or social values, the demand for oil is ‘inelastic’, seldom changed by alterations in price or social values. If the demand for oil will be generally consistent, it matters very little of how it is extracted.

Hence the significance of “security led investments” as mentioned above. “There is a double standard in matters of competition and risks, one concerning corporate interests and the other concerning Angolan interests”⁵⁹. Companies know about corruption and acknowledge its potential and developmental impact on Angola⁶⁰, yet when political reforms threaten their direct interests, oil companies will do what is necessary to ensure a political environment that is friendly to crude production.⁶¹

Heritage Oil Corporation

The Heritage Oil Corporation is a Canadian registered company available for public trade on the Toronto Stock Exchange.⁶² Heritage Oil’s website advertises itself as an “international oil and gas exploration, development and production company [with] ... operations in a number of African companies and the middle east.”⁶³ Heritage Oil was the company operating in Soyo during UNITA’s 1993 occupation of the town⁶⁴ and its connection to affiliated companies is complicated. P.W. Singer writes in *Corporate Warriors* about the Heritage Oil Corporation as a part of the “Branch-Heritage group” that is part of a greater holding firm known as “DiamondWorks”. DiamondWorks was a Canadian registered company (based in Vancouver) that was available for public trade, though it is no longer registered today.⁶⁵ As inferred by its name, DiamondWork’s interest was in the precious gems and minerals business, but as a ‘holding firm’ would not have been directly active in the operations. Instead, it would finance high-risk ventures, and likely assign one of its companies such as the Heritage Oil Corporation to

make the actual capital investment. A country like Angola would have to approach a holding firm such as DiamondWorks with a proposal and an 'invitation' to explore the possibility of mineral extraction from the country. This would not disclude oil as a possible resource of interest as DiamondWorks's specialty is investment as opposed to the actual activities of the exploitation.

The interesting connection between the Heritage Oil Corporation, DiamondWorks and Executive Outcomes, is that many of the leading personnel from Executive Outcomes, Heritage Oil, and the PMF called 'Sandline' have served for some capacity for DiamondWorks, including at the executive level⁶⁶. This would infer that there is one 'core' or 'clique' that are the main players in the Angola oil campaign, and that the companies are far less segregated than meets the eye.

What is known for certain however is that, Anthony Buckingham, an ex-SAS veteran "known for his behind the scenes influence throughout Africa"⁶⁷ was the company's senior director with nearly one third of DiamondWorks' shares⁶⁸. Buckingham was definitely a strategic thinker, "it is thought that an unofficial part of a contract that Executive Outcomes, and Sandline have also made with cash-strapped countries was the provision of resource concessions to its related companies."⁶⁹ This means that Executive Outcomes would perform a 'service' for a government, asking for the nation's resource as collateral. Executive Outcomes would then protect the resources for the allied company while it is extracted. Therefore, doing business with Executive Outcomes meant doing business with one of the companies owned by DiamondWorks.

An arrangement like this was made after Executive Outcomes liberated Heritage Oil's mining equipment from UNITA's occupation of Soyo in 1993. The Angolan government awarded Executive Outcomes a forty million dollar, one-year contract, "to help train the state army and direct front-line operations."⁷⁰ The Angolan government however, had very little choice in the matter as most observers at the time felt that the MPLA government was "teetering on the edge of defeat"⁷¹. Reportedly, Buckingham and one of his colleagues, Simon Mann (also in the mineral business, but currently serving time for attempting to topple the Zimbabwean government)⁷² "played key roles in brokering the deal, which occurred at the personal behest of the Angolan president"⁷³.

What was the result of this? With Executive Outcome direction, Angola "re-established the 16th Brigade... which had been shattered by the South African military in the 1980s"⁷⁴. The Angolan troops were trained in tactics that ranged from "motorized

infantry to engineering and artillery”⁷⁵. Or in other words, Tony Buckingham, with the aid of DiamondWork’s unique business network, succeeded in driving back an entire rebellion, and ensured that it would not return for a very long time.

Implications for the definition of a state

Michael Mann, author of the book *States, War and Capitalism*, suggested the following criteria when defining a state:⁷⁶

1. A *differentiated* set of institutions and personnel embodying
2. *centrality* in the sense that political relations radiate outwards from a center to cover
3. a *territorially demarcated area*, over which it exercises
4. a monopoly of *authoritative binding rule-making*, backed up by a monopoly of the means of physical violence.

The above definition does not seek to suggest that any level of international recognition is necessary for a state to exist. Mann’s definition of a state suggests that if it walks like a duck, and talks like a duck, it is a duck. Leading to the question: If a corporation acts like a state, is it a state? Consider the Heritage Oil Corporation in Angola. Does it meet Mann’s criteria?

1. The oil industry in Angola employed fewer than ten thousand nationals. What opportunities did these individuals obtain that the average Angolan did not? A steady job. A life in a secure town. Access to infrastructure and consumer goods. As a result, these ten thousand nationals were the bourgeoisies of Angola who would have had the greatest impact on the political wing of the legitimate government. It must be accepted that the presence of foreign investors did create an institution and personnel that was segregated from the rest of society. Generally, the power in Angola was of a transitional nature in which the major context for this aspect of statehood was “warlordism”⁷⁷ – those who had wealth were the leaders of the country by default as they were the only ones who could afford to raise any kind of physical force on behalf of the nation. Therefore, the presence of Heritage oil created a differentiated institution.
2. Heritage Oil was a central power figure. The fact that the company’s leader, Anthony Buckingham, was in a position to negotiate with the legitimate government in matters of national defense, as well as contribute resources to actually improve and modernize the national force, shows that Heritage Oil had a

- great deal of central decision making authority. The MPLA party would not have survived the 1993 assault on Soyo had Heritage Oil not stepped in.
3. Heritage Oil's territory was Soyo. The deal between the company and the Angolan government consisted of Heritage Oil paying rent, as long as the local conflict did not interfere with crude production. Heritage Oil demonstrated that it was prepared to do what was necessary to preserve its territory.
 4. Heritage Oil did what was necessary to exercise its regional power by employing Executive Outcomes as "security guards" to retake the facilities. Had a PMF not been available to accomplish this, Heritage Oil would have lost its authority within the region.

Heritage Oil's actions are indicative of the increased ability of corporations to challenge state power since the end of the Cold War. As Singer suggests, "obviously the likelihood of a corporate military nexus challenging powerful states is a distant scenario, but historic precedent certainly exists for private business enterprise to become direct military competitors of state."⁷⁸ Singer suggests that the legacy of companies such as the Hudson's Bay Company (who fired upon a British squadron, and successfully drove them away)⁷⁹, or the various colonial 'East India Companies' is destined to repeat itself in the international system. This can be done today because the extra piece of the puzzle – the privatization of military force – that was not available during the bi-polar system, is widely available today. Because of the ability to utilize physical force, companies can meet all four of Mann's characteristics of a state. The Heritage Oil Corporation met Michael Mann's criteria of state characteristics, but is the question of whether or not corporations are true states answered?

What about the 'purpose' of a state? Kenneth Waltz suggested that the only definite purpose of the state was to ensure its own survival. "Survival is a prerequisite to achieving any goals that states may have other than the goal of promoting their own disappearance as political entities"⁸⁰. Is this the goal of Heritage Oil? Would the goal of Heritage Oil's holding firm, DiamondWorks, be significant as well?

The generally accepted purpose of a business in corporate academics is simply to make a profit. Beyond that purpose, a corporation has no reason to exist. Certainly, modern international corporations strive to develop mission or vision statements that include other business and social goals ranging from having the best product on the market to improving the conditions of the environment, but seldom does a publicly traded

corporation forget to include a comment about increasing shareholder wealth. There is no doubt that Heritage Oil's motivations had everything to do with 'the bottom line' – Having a rebel force annex equipment that was being leased at US\$20 000 per day was no doubt bad for business – even more motivation for Anthony Buckingham, and his one third share of DiamondWorks, to make a move to change the situation.

This suggests that Heritage Oil also met Waltz's criteria for the basic definition as a state. The company needed to ensure its own survival within the realm of Angola before it could hope to continue to influence the government militaristically or otherwise. In actuality, after UNITA took Soyo, the Angolan government was essentially toppled and powerless. It was Heritage Oil Corporation that *acted as the state* to defend its own regional territory, and to train a military force on behalf of the Angolan government. The fact that Executive Outcomes acted as the executive officer is irrelevant. Heritage Oil was the source of the influence, finances, and ultimate power in Angola. The only notable difference between the state of Heritage Oil Corporation and our usual understanding of a state, is that Heritage Oil's goal was to take care of its shareholders, not the citizens within its territory. This however, does not degrade the fact that the company was a complete state actor.

Changing Structural Realism?

Waltz addressed the suggestion that non-state actors involved in transnational activities might challenge the state-centric conception of international politics.⁸¹ His conclusion was that as long as the *most important* units of the international system are states, the state-centric theory would hold. As well, since no alternative theory involving non-state actors has been established against the state-centric theory, concepts involving non-state actors will never have the ability to truly challenge the concept of the state as central.

Certainly, if one must prove that corporations are becoming the *most important* actors in the international system, a case study involving oil operations within a geopolitically insignificant country like Angola will no doubt fall short. However, how would Waltz classify a unit that exists within other units, and cannot be regulated by the domestic systems of those units? Where do they fall within the domestic hierarchy? How can we evaluate how much power corporations *do* have throughout the major political powers in the world? Today, the private military corporation MPRI is in charge of running the American military's Regular Officer Training Program⁸², while Halliburton,

a Texas based oil giant, has interests in Iraq while being allied closely with its own PMF called Brown and Root⁸³. The complexities of the Halliburton and Brown and Root relationship become even more complex when it is considered that Dick Cheney and the Bush family have direct interests in both companies⁸⁴. If companies can *influence* the international system by taking part in domestic politics, or even by becoming state actors in failed states such as the Heritage Oil Corporation in Angola, it is evident that there is a new unit in the system that must be given more credit as legitimate political entity.

Generally however, the activities of Heritage Oil in Angola must not be written off as insignificant simply because they have not challenged the greatest state powers. Essentially, Angola in 1993 was a situation of a rebel group declaring war with a corporation, whether it realized it or not. The Angolan government was never structured to be a central authority. During the cold war, it was directed and funded by the Soviet Union. Directly after, it could not exist without another more powerful state to be the locus of control. Instead of getting what is considered a conventional state to fill the vacuum, it received a corporation. As such, the corporation acted as a state to fulfill its purpose as a profit making entity. The major implications of this for Waltz's theory of structural realism can not be determined by looking at the case in Angola alone. More research needs to be conducted to analyze the total impact of a company like Heritage Oil for Africa in general. Today, Heritage Oil is in the Democratic Republic of Congo, the Sultanate of Oman, and Uganda⁸⁵. Only through a greater understanding of the impact of corporations in conflict regions, can a realization of the international corporation's effect on the international system be achieved.

Conclusion

The change of the political structure since the Cold War has opened up a whole new world of possibilities for the achievement of political and financial power for those who are perceptive enough to recognize the power vacuum within the uni-polar system. Soviet military equipment, over produced and unused, remains as an easily obtained commodity within the international market. Corporate actors, rushing in to meet the demand for resources and military protection, will form the next major powers throughout the globe. Corporations like Heritage Oil are not subordinate to the greater political state-centric system by competing with other companies within their industries. They are *within* the state-centric system; their competitors are the states themselves.

As new members of the system, how will they react? Will they be satisfied with lying low, and playing by the rules of the hierarchal international structure? Or will they see the vulnerabilities, and dramatically alter the system? Like Tony Montana in *SCARFACE*, he needed to understand and be *apart* of the system before he could succeed in making a change *of* the system. Are the powerful political units today going to remain satisfied with lying low, and keeping the status quo of the world order? Or will they see that power is changing hands as quickly as stock certificates on an exchange floor. If the rise of privatized military power succeeds, time will be the only obstacle to a dramatically new system.

ENDNOTES

- ¹ Oliver Stone “SCARFACE” (Brian De Palma, 1983)
- ² P.W. Singer. *Corporate Warriors*. (New York: Cornell University Press, 2003.), p 169.
- ³ Kenneth Waltz. *Theory of International Politics* (California: University of California).
- ⁴ Thomas Hobbes, *Leviathan* (Harmondsworth, UK: Penguin Books, 1968), p 186.
- ⁵ *Ibid.*, 184. (“And from this diffidence of one another, there is no way for any man to secure himself, so reasonable, as Anticipation; that is, by force, or wiles, to master the persons of all men he can, so long, till he see no other power great enough to endanger him...”)
- ⁶ Kenneth Waltz. *Theory of International Politics*, p 79.
- ⁷ *Ibid.*, p 81.
- ⁸ Kenneth Waltz. “Structural Realism After the Cold War” *International Security*. (V25:1) p 5.
- ⁹ Elke Krahnmann. “Controlling Private Military Companies: The United Kingdom and Germany”
- ¹⁰ Richard Holmes. *The Oxford Companion to Military History*. (Oxford: Oxford University Press: 2001) p 57.
- ¹¹ Singer. *Corporate Warriors*, p 107.
- ¹² *Ibid.*, p 107.
- ¹³ *Ibid.*, p 107.
- ¹⁴ *Ibid.*, p 107.
- ¹⁵ Singer. *Corporate Warriors*, p 107.
- ¹⁶ Holmes. *The Oxford Companion to Military History*, p 57.
- ¹⁷ *Ibid.*, p 57.
- ¹⁸ Global Witness. *A Crude Awakening: The Role of Oil and Banking in Angola’s Civil War and the plunder of State Assets*. London: Global Witness Inc, 1999., p 6.
- ¹⁹ Holmes. *The Oxford Companion to Military History*, p 57.
- ²⁰ *Ibid.*, p 57.
- ²¹ *Ibid.*, p 57.
- ²² *Ibid.*, p 57.
- ²³ Virginia Gamba and Richard Cornwell. “Arms, Elites, and Resources in the Angolan Civil War” *Greed and Grievance: Economic Agendas in Civil War*. (Boulder: Lynne Rienner Publishers, Inc., 2000.) p 157.
- ²⁴ Singer. *Corporate Warriors*, p 107.
- ²⁵ *Ibid.*, p 107.
- ²⁶ Phillippe Le Billon. “Angola’s Political Economy of War: The role of Oil and Diamonds, 1975-2000” *African Affairs*. V100: 55-80, p 61.
- ²⁷ *Ibid.*, p 63.

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- 28 Michael L. Ross “Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil War” *The Political Economy of Armed Conflict*. (Boulder: Lynne Rienner Publishers, Inc., 2003.) p 48.
- 29 Ibid, p 47.
- 30 Ibid, p 47.
- 31 Singer. *Corporate Warriors*, p 108.
- 32 Ibid., p 108.
- 33 Ibid., p 108.
- 34 S. Goddard. *The Private Military Company: A Legitimate International Entity Within Modern Conflict*. Kansas: Fort Leavenworth: 2001, p53.
- 35 Singer. *Corporate Warriors*, p 108.
- 36 Ibid, p 108.
- 37 Ibid, p 169.
- 38 Ibid, p 110.
- Philip van Niekerk as quoted in Shearer, *Private Armies*, p 48.
- 39 Goddard. *The Private Military Company*, p 8.
- 40 Ibid., p 8.
- 41 Singer. *Corporate Warriors*, p 89.
- 42 Ibid., p 89.
- 43 Ibid., p 89.
- 44 Ibid., p 89.
- 45 Ibid., p 93.
- 46 Ibid., p 119.
- David Shearer, *Private Armies and Military Intervention* (London: International Institute for Strategic Studies, Adelphi Paper no. 316, February 1998), p 39.
- 47 Goddard. *The Private Military Company*, p 4.
- 48 Singer. *Corporate Warriors*, p 170.
- 49 Ibid., p 188.
- 50 Le Billon. “Angola’s Political Economy of War” *African Affairs.*, p 77.
- 51 Ibid., p 75.
- 52 Ibid., p 75.
- De Beers (1997) ‘press conference with Alrosa Company and De Beers Corporation’ October 21, 1997, Federal Information Systems Corporation Official Kremlin International New Broadcast, 21 October 1997, cited in, Human Rights Watch, *Angola Unravels*.
- 53 Le Billon, “Angola’s Political Economy of War” *African Affairs.*, p
- 54 Ibid., p 76.
- 55 Ibid., p 76
- 56 Ibid., p 76.

57 BBC News “De Beers pulls out of Angola”, Thursday 24 May, 2001.

58 Le Billon, “Angola’s Political Economy of War” *African Affairs.*, p 76.

59 Ibid., p 77.

60 Ibid., p 77.

61 Ibid., p 78.

62 www.tsx.ca

63 ibid.

64 Singer. *Corporate Warriors*, p, 104.

65 Ibid., 105.

66 Singer, *Corporate Warriors*, p 105.

67 Singer, *Corporate Warriors*, p 104.

68 Will Purcell, Stock Watch streetwire (Canada) Nov 11, 2003.

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69 Singer, *Corporate Warriors*. p 105

70 Ibid., p 109.

71 Ibid., p 109.

72 BBC NEWS “Profile: Simon Mann”

73 Singer. *Corporate Warriors*, p 109.

74 Ibid, p 109.

75 Ibid, p 109.

76 Michael Mann. *States, War, and Capitalism*. (New York: Basil Blackwell Ltd., 1988), p 4.

77 Dietrich Jung. *A Political Economy of Intra-State War*. (London: Routledge, 2003), p 20.

78 Singer. *Corporate Warriors*, p188.

79 Ibid., p 34.

80 Waltz. *Theory of International Politics*, p 91.

81 Ibid., p 94.

82 Singer. *Corporate Warriors*, p 121.

83 Ibid., p 137.

84 Ibid., p 140.

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