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briefing paper

Oil, Gas and International Insecurity: Tackling a Self-fuelling Fire

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Energy, Environment and Development Programme | March 2009 | EEDP BP 09/02

Summary points

- In the United States, European Union and Asia, fears about dependence on oil and gas imports from unstable regions have become a major theme of political debate. This paper provides a high-level and historical perspective on this complex issue.
- Dependence on oil and gas imports raises real economic- and political-security issues for many countries. Neither the global economic crisis nor climate change policies – both of which look set to restrain oil and gas demand – will solve the problem entirely. In fact, over the next few decades it is likely to become worse.
- The reason why oil and gas production is associated with international insecurity is not just that some energy-rich regions happen to be unstable or happen to be politically at odds with energy-importing countries. The ways in which companies and governments have exploited these fuel sources over time have themselves often sown the seeds of instability, distrust and disagreement within and between countries.
- Current policy responses to this challenge are focused on broad-brush measures such as reducing energy demand and strengthening military or diplomatic alliances with oil-producing regions. Comparatively little attention is devoted to the 'self-fuelling fire' that underlies the problem. More ambitious initiatives in this area are urgently needed.

A major theme of political debates globally

It has become a widely accepted and anxiety-provoking theme in political debates in many countries that dependence on oil and gas imports from unstable or difficult parts of the world threatens economic, political and international stability.

In the US, for example, within a week of taking office, President Barack Obama declared that 'America's dependence on oil is one of the most serious threats that our nation has faced'. British Prime Minister Gordon Brown and other EU leaders have likewise voiced increasing fears about energy insecurity in recent years, with their attention particularly focused on Europe's crisis-prone dependence on Russian gas. During the 2008 war in Georgia, Mr Brown argued that 'we risk sleepwalking into an energy dependence on less stable or reliable partners'. Energy security has also shot up the political agenda in import-dependent Asian economies from Japan to India in recent years.

> "The fear of being forced by import dependence into unbalanced relationships with undesirable partners plays a powerful role in shaping the energy and foreign policies of major energy-consuming countries"

The slump in oil and gas prices from the highs of 2008 has softened some of these concerns. At the same time, however, it has placed more of a question mark against the internal political stability of various oil- and gas-rich countries – Russia, for example – which have seen their revenues plummet.

In short, the fear of being forced by import dependence into unbalanced relationships with undesirable partners plays a powerful role in shaping the energy and foreign policies of major energy-consuming countries. Together with the fact that oil and gas, as carbon-based fuels, are also a cause of climate change, such concerns help drive a huge range of policies, governing issues from the fuel efficiency of American cars to Chinese diplomatic relations in the Middle East and Central Asia.

This paper seeks to provide a 'bird's-eye view' and historical perspective on this complex, multifaceted topic. Three basic points are thrown into relief by this perspective:

- There are good reasons for concern about oil and gas import dependence, even if some fears may be overblown.
- A significant driver of the problems with such import dependence is the inherent destabilizing dynamics of oil and gas exploitation, at least as it has been undertaken by companies and governments over the last several decades (this is the 'self-fuelling fire' in the title of this paper).
- While an array of different policies is being developed to tackle such problems, relatively little international attention is focused on changing these underlying dynamics. This represents an important policy gap, albeit one that is difficult to fill.

What exactly are the security risks from oil and gas imports?

While the dangers are at times exaggerated by commentators – apocalyptic depictions of future energy wars and a world in thrall to Moscow and Riyadh make good headlines[1] – politicians are nonetheless right to take these issues seriously. Oil and gas have undoubted, and often overwhelming, economic advantages as fuels (which is why they currently supply some

1. See, for example, 'Europe faces Russian oil supplies ransom': www.thisismoney.co.uk/news/article.html?in_article_id=406505&in_page_id=2; 'Chavez: Bigger threat to U.S. than Osama?': http://www.wnd.com/index.php?fa=PAGE.view&pageId=88401; also Sir David King, former chief scientific adviser to the UK government, recently described the US invasion of Iraq as 'the first of the resource wars' that he expects to proliferate in coming years.

55% of the world's primary energy demand). But their dominance of global energy systems can lead to various sorts of international political and economic security issues. On a theoretical level, three types of risks from dependence on oil and gas imports stand out:

- *Supplies of oil and gas imports might be disrupted* with physical shortages of these fuels damaging importing countries' economies.
- *The price of oil and gas imports might jump* to a level that again would have significant negative economic impacts on importing countries.
- Import dependence in oil and gas in general might *sour or negatively distort political relations between countries or regions*.

There have already been well-known examples of problems in each category. Examples of supply disruptions include the 1973 Arab oil embargo and also the cut-off of Russian gas supplies to Europe via Ukraine in January 2009. Similarly, the oil price spiked at levels damaging to importing economies in both the 1970s and also in mid-2008.

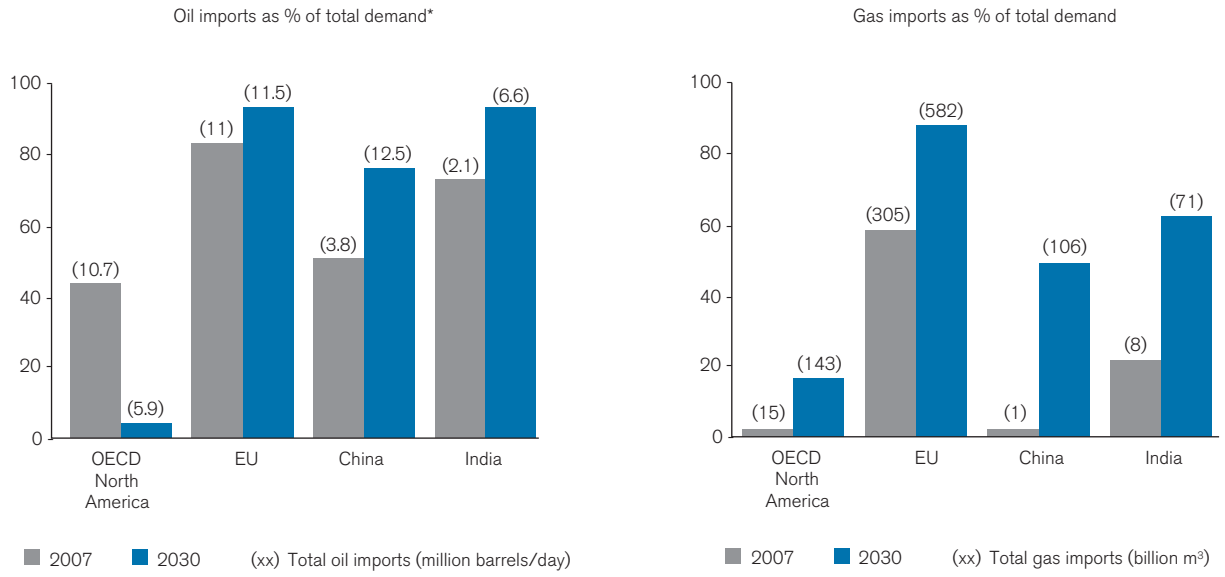
Import dependence can have a potential souring effect on international relations in various different ways. First, importing nations have clearly sometimes sought to exert influence in exporting regions for the sake of their own energy security in ways that may have had damaging as well as positive effects (US-led policy in the Middle East both before the Second World War and also in recent decades being a much-discussed example of this). Second, exporters have clearly sometimes used their control of energy supplies to exert unwelcome influence over importing regions – in recent years, Russia, Iran and Venezuela have all been accused, rightly or wrongly, of seeking to use their oil and gas exports as a 'political weapon' abroad. Third, tensions have sometimes developed as a result of competition between importing countries, whether for supplies from energy-exporting regions, for rights over disputed resource-rich territory (such as the Arctic floor or the South China Sea) or for control of vital supply routes (such as the Strait of Hormuz, through which some 40% of the world's seaborne traded oil passes). Fourth and finally, when oil and gas prices fall, exporters may suffer internal economic and political instability to such a degree that this heightens regional tensions (it will be interesting to see whether such internal crises and their broader ripple effects occur in 2009 among any of the major exporters as their governments struggle with dramatically lower revenues).

Clearly there are numerous counterbalancing forces that have helped keep in check many of these potential security problems in recent decades. The existence of a liquid global market in oil has limited the impact of supply disruptions by allowing importers to source crude oil from alternative suppliers. Similarly, high prices have often spurred technological innovation and encouraged the development of new or 'unconventional' reserves, which has helped force prices down again over the long term. The high oil price in recent years, for example, has encouraged investment in Canada's vast oil sands reserves as well as the exploitation of oil in increasingly deep offshore waters.

Looking forward, however, such moderating dynamics seem unlikely to solve all potential security problems, which may even worsen. For a start, already high levels of oil and gas import dependence look set to increase for a number of major energy-consuming countries over the next few decades (see Figure 1, based on the International Energy Agency's 'reference scenario' which assumes current government policies remain as they are). The European Union, for example, is projected under this scenario to depend on imports for 86% of its gas by 2030, compared with 57% in 2006. China's and India's import dependence on oil, meanwhile, are projected to rise to 75% and over 90% respectively. (One exception to this worrying picture is North America's oil-import dependence, which is expected to improve under this scenario, in large part owing to Canadian oil sands production.)

Some seemingly unavoidable long-term drivers underlie these predictions. One is the expected growth in energy demand driven by ongoing industrialization in non-OECD countries. Another is the concentration of remaining reserves in a worryingly small number of

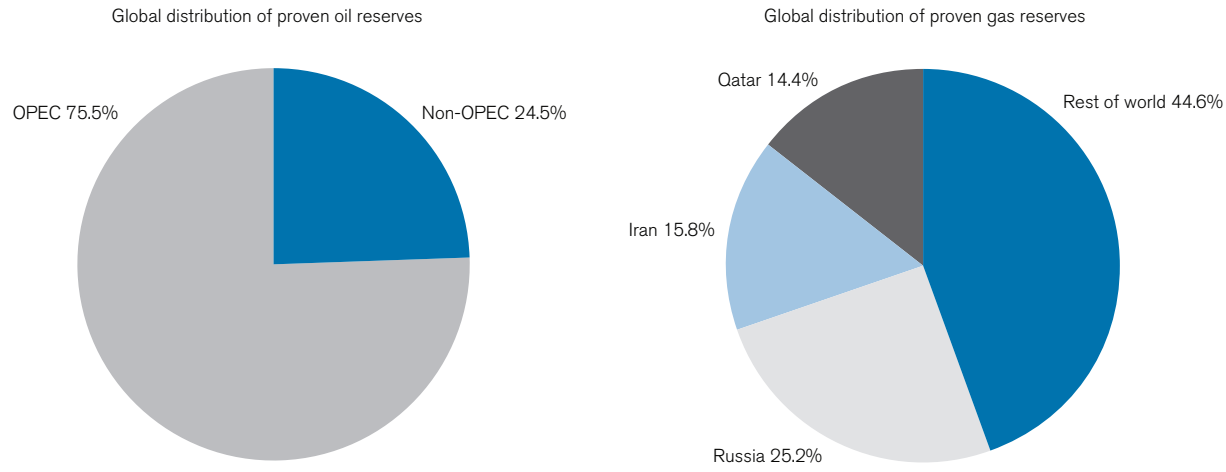
Figure 1: Oil and gas import dependence to 2030



* Approximate figures

Source: International Energy Agency, *World Energy Outlook 2008*

Figure 2: Global distribution of oil and gas reserves



Source: BP *Statistical Review of World Energy*, June 2008

countries (see Figure 2). According to statistics from BP, some 75% of the world's proven oil reserves are controlled by the 12 members of the Organization of the Petroleum Exporting Countries (OPEC) (with some 80% of this in the hands of its six Middle Eastern members). And Russia, Iran and Qatar together sit on 55% of the world's proven gas reserves. Meanwhile, the once plentiful reserves of many major consuming countries, such as Britain's North Sea region, are approaching the point of exhaustion.

Added to this, there are various well-known inflexibilities in global oil and markets, which limit their ability to act as a cushion against problems in the future. Constraints on investment are one aspect of

this.[2] The International Energy Agency (IEA) reckons a staggering $8.4 trillion of investment will be needed in oil and gas exploration and development by 2030 to keep up with demand. Yet most major energy-rich countries limit foreign investment in oil and gas partly for nationalist political reasons, while elsewhere international sanctions (as in Iran) and civil conflict (such as in Iraq and Nigeria) hamper attempts to boost supply.

Another obstacle is explicit attempts by OPEC to control oil supplies through production quotas (Russia, Iran and Qatar have recently made tentative moves to set up a similar organization for gas). Unlike oil, gas is mostly not internationally traded except across regional pipeline systems and the small but fast growing market in liquefied natural gas (LNG). This makes it difficult to source alternative gas supplies in cases of disruption.

A final factor making security challenges more than a theoretical risk is the sheer political instability or potential unfriendliness to importers of some of those countries sitting on the world's biggest oil and gas reserves. For example, Saudi Arabia, Iraq, Iran, Russia and Venezuela are all either non-democratic or relatively fragile democracies, with significant political factions or dissident elements within them opposed to 'Western' interests.

Do government policies to tackle climate change or the current global economic crisis – all of which seem set to restrain demand for oil and gas – make this picture less worrying? The short answer is: only up to a point, at least over the next few decades.

The economic crisis, for example, has hit global oil demand (which is expected to fall in 2009 and possibly even in 2010), creating surpluses in the market. Yet looking beyond the next few years, demand is likely to rebound, while cutbacks in oil and gas investment triggered by the current crisis actually may make supply even less responsive at that point. The IEA recently suggested that the oil price would bounce back to over $100/barrel as soon as the world economy recovers. The World Bank has predicted more cautiously that it would stabilize at around $75 in real terms over the long run – but that would still represent a significant increase from the $40/barrel price at the end of January 2009.[3] Meanwhile, as already mentioned, the current price collapse itself has the potential to trigger instability in some of the major exporting countries, with potential regional spillovers.

In terms of climate change policies designed to reduce use of fossil fuels, even stringent actions by government seem unlikely to significantly curb oil demand in the transport sector by 2030, such are the expected ongoing cost advantages of oil-fuelled cars and trucks during this period and also the rate of demand increase from emerging economies. Demand for gas (the cleanest of the fossil fuels in terms of carbon emissions) in some cases could rise as a result of such measures. Under an IEA scenario that assumes governments succeed in stabilizing greenhouse gases in the atmosphere at 450 parts per million CO_2 equivalent – a politically ambitious target dependent on strong policy action – OECD net oil and gas imports are certainly lower than they would have been in 2030 without such measures. But oil and gas still comprise some 50% of global primary energy demand at this point, and OPEC oil production will still need to increase by over 30% if it is to keep up with demand and the depletion of non-OPEC fields. What might accelerate further the shift away from fossil fuels is a major technological 'discontinuity' – for example an innovation that dramatically improves the costs and convenience of electric vehicles. But unless that happens, the coming decades can still be expected to be relatively nail-biting from an energy security perspective.

Underlying drivers: the inherent dynamics of oil and gas exploitation

The security risks from oil- and gas-import dependence are clearly worthy of policy attention. But is the right set of policies being deployed? It helps here to apply a

2. See in particular Paul Stevens, *The Coming Oil Supply Crunch*, Chatham House Report, August 2008.
3. Reported in *Financial Times*, 6/11/08; World Bank, *Global Economic Prospects 2009*, Chapter 2.

bird's-eye, historical perspective, for this indicates that the risks have been caused as much by the inherent impacts and dynamics of oil and gas exploitation (at least as it has been undertaken by companies and governments over the last several decades) as by exogenous factors. Whether policies are sufficiently focused on these inherent impacts and dynamics – or instead may be helping embed them further – is examined in the next section.

> "The literature on the "resource curse" has indicated that a host of economic and socio-political problems has been triggered or aggravated by the development of oil and gas reserves in producing countries."

Exogenous drivers of the security risks are important too. They include financial speculation in energy markets (in 2008 this appeared to be at least one of the factors behind the spike in the oil price); politically destabilizing shifts in oil-rich states unrelated to oil exploitation itself (for example, the dynamics of militant Islam in parts of the Middle East); and disruptions to energy supply infrastructure from climatic disasters (for example, recent hurricanes in the Gulf of Mexico which have hit oil and gas facilities). In a similar vein, energy-rich countries may choose not to develop their reserves not because of any oil-driven internal instability, but simply because this may make economic sense from their perspective: if prices are expected to rise significantly in the future, they may earn more revenue by deferring production than by extracting the oil now and investing the revenues elsewhere.

Nonetheless, some of the inherent impacts and dynamics of resource exploitation do stand out as central, long-term factors. They have been increasingly documented in academic literature in recent years – for example in studies on the 'resource curse' and on the links between resources and civil conflict. But the focus of such work has generally been on understanding ways to enhance the national development impacts resulting from resource exploitation, rather than on tackling potentially related international security risks.

What are these inherent impacts and dynamics? There are three basic patterns in terms of the way oil and gas reserves have been exploited in the past. Importantly these relate to the actions and interactions of both governments and companies, and can be mutually reinforcing, so that more than one often applies in any one producing country. Exploitation of oil and gas, in short, has in many cases (albeit not always):

1. ***Sown the seeds of national instability.*** The literature on the 'resource curse' has indicated that a host of economic and socio-political problems has been triggered or aggravated by the development of oil and gas reserves in producing countries. These include underdevelopment (one reason being that investment is often diverted from non-energy sectors of the economy, while failure to diversify away from oil and gas leaves the economy particularly exposed to commodity price swings); civil conflict (political factions often compete internally for control of oil and gas revenues); the perpetuation of non-democratic forms of government (elites often use their control of energy revenues to maintain their grip on power); and corruption and systems of political patronage (again motivated by the availability of and competition for revenues) which undermine governance or the effectiveness of democracies.

   Critically, such effects have in turn often made such countries less than stable as international suppliers of oil and gas or less than friendly to importing nations in terms of their foreign policies. Most major oil- and gas-exporting countries – including Saudi Arabia, Iraq, Nigeria,

Venezuela and Russia – have experienced one or more of these problems over the decades. Even if such problems have not been universal or constant, they have contributed to the security risks associated with these countries as suppliers.

What has given rise to such effects is often the interplay between international company and home and host government activity: the non-democratic nature of many energy-rich states, for example, is often linked both to domestic elites' control over revenues generated by the energy companies and also to home governments' support for these regimes aimed at keeping them stable as suppliers. Some, indeed, proved to be relatively stable over time. But perversely, instability has sometimes also resulted in the long term as internal pressures have mounted against the regime in the question (thus a question mark hangs over Saudi Arabia's long-term stability as a supplier, in spite of America's historical support for the Saudi monarchy).

2. ***Sown the seeds of public and political distrust.*** The way oil and gas has been exploited, or been seen to be exploited, in the past has often helped create distrust or hostility towards international companies wishing to continue investing in developing reserves – among both local communities and host nations. Sometimes this hostility has been merited; sometimes it is based on misperceptions. But either way, such is its scale that it has placed major global constraints on investment in oil and gas production.

   From a historical perspective, for example, public and political distrust underlay the ejection of foreign oil firms from much of the Middle East and other developing countries in the 1960s and 1970s: they were seen to be exploiting host nations – or at least failing to contribute sufficiently to their development. It is also now one of the factors behind the continuing reluctance of many of the world's major reserve holders – Saudi Arabia, Kuwait and Mexico, for example – to allow foreign energy firms back in on a significant scale (even though the record of such firms in this respect has certainly improved over the decades). Around 80% of the world's proven oil reserves are now in the hands of state-owned national oil companies, some of which are constrained in terms of investment capital compared with their international private-sector counterparts. Oil, and to a lesser extent gas, has often become a symbol of national pride and identity, and foreign firms, as a result of their past (perceived) actions, are not trusted enough to take the lead in development in this area.

   In many OECD countries, meanwhile, public and local community suspicions regarding the social and environmental impacts of oil and gas facilities has helped create barriers to new investments. In the 'downstream' oil business, this is one of the reasons why no new oil refineries have been built in the US for 30 years (though existing plants have been substantially expanded). Proposed 'upstream' oil and gas developments also encounter parallel obstacles. Most notably perhaps, America's Arctic National Wildlife Refuge, as well as much of the US outer continental shelf, remain off-limits to oil development. This is partly for legitimate environmental reasons, but also because of public and political distrust of the industry's claims to be able to operate in these areas without inflicting unacceptable damage.

3. ***Allowed internationally or nationally destabilizing forms of competition to emerge.*** Oil and gas development has also in many cases been undertaken in the absence of widely accepted norms, or 'rules of the game', as to how companies and governments should collaborate with each other and among themselves in its exploitation. This has added extra instability to production and the quest for new reserves in many cases. Of course, competition has generally been economically beneficial in oil and gas, as in other industries.

Table 1: Examples of security risks associated with major oil and gas producers

	% of world proven reserves (end 2007)		International security risks related to oil & gas – as perceived by importing countries (examples)	Contribution of 'inherent impacts and dynamics' of oil & gas exploitation to these risks (examples)
	Oil	Gas		
Saudi Arabia	21.3	4.0	• Effect of potential long-term instability of regime on production/role as swing supplier/world oil prices • Potential lack of investment in long-term supply capacity	• Regime control over oil and gas revenues over the decades may have held back process of democratization, creating long-term instability • Reluctance to allow foreign investment in oil partly due to resource nationalism/historical perception of exploitation by international oil companies (IOCs) • US and Western support for regime (including arms sales) may have had destabilizing as well as stabilizing effects over the long term
Iran	11.2	15.7	• Use of oil revenues and influence over international export routes (e.g. Strait of Hormuz) to pursue potentially destabilizing and anti-Western foreign policy • Lack of investment in long-term supply capacity (partly due to sanctions)	• Anti-Western foreign policy stance partly due to history of perceived exploitation at hands of Western oil firms (e.g. Anglo Iranian) and also by importing-country governments (e.g. 1953 US-backed coup) • Sometimes repressive and internationally combative regime boosted domestically over the long term by control of oil revenues
Iraq	9.3	1.8	• Investment in rebuilding supply capacity held back by inter-regional and ethnic tensions and political disagreements over new oil legislation	• Underlying the tensions are long-term sectarian/regional differences over control of oil • Lack of widely accepted norms for distributing revenues between federal and local levels holds back political agreement on oil legislation • Fears of handing too much control to foreign oil interests, partly based on historical memories, also hold back legislation
Venezuela	7.0	2.9	• Use of oil revenues to pursue potentially destabilizing and anti-US foreign policy • Lack of investment in long-term supply capacity	• Combative regime boosted domestically in recent years by control of oil revenues • Resource nationalism and government populism partly driven by perceived history of joint exploitation by IOCs and Venezuelan political elites
Russia	6.4	25.2	• Instability of gas exports to Europe, with perception of their use as foreign policy lever • Lack of investment in long-term oil and gas supply capacity	• Increasingly repressive and internationally combative regime boosted domestically over the last decade by control of oil revenues • Corruption and oligarchic influence over gas export business adds to instability
Nigeria	2.9	3.0	• Civil conflict in Niger Delta constrains national oil output (by approx 20%) and deters onshore investment	• Lack of widely accepted norms for distributing revenues between federal and local levels makes political settlement difficult • Local perception of past exploitation by IOCs fuels local anger

Source for reserve figures: *BP Statistical Review of World Energy*, June 2008

But in particular sensitive areas, zero-sum or negative-sum games have been allowed to evolve, which norms for collaboration might have avoided.

A cluster of problems comes under this banner. One is the risks of politically corrosive competition for influence in energy-rich regions between importing nations (for example, the historical competition between the great powers for influence in Middle East or, more recently, the wooing of non-democratic regimes in Central Asia by both Western and Asian powers). Another is the lack of well-established rules for exploiting oil and gas in disputed territories such as the Arctic or South China Sea, allowing chaotic and potentially dangerous scrambles which also can delay the development of resources.

A further problem is the absence of broadly accepted norms on the fair division of revenues from oil and gas production. This has created endless and often zero-sum disputes. For example, frequent disputes arise over the split between companies and host governments (such frictions have delayed oil investment in Russia and various other countries in recent years), even though company–government agreements can be designed to ensure more of a positive-sum game. Similarly – and linked with the issue of national instability above – resolving how to divide revenues within host countries between oil-producing regions and the federal government has often been a problem too. This issue underlies the violent civil conflict which continues to undermine production in Nigeria, for example. It is also one of the main points of political contention currently holding back legislation to allow foreign investment in Iraq's huge reserves.

By way of further illustration, Table 1 provides some examples of how these factors have contributed to the security risks associated with oil and gas exports from a set of the world's biggest reserve holders. They do not explain all the risks, but they clearly underlie a significant proportion of them. The next question is whether policy responses reflect the importance of these underlying drivers.

Policy responses: are the problem's roots being tackled or simply embedded?

There is no shortage of policy responses and initiatives in this area: as a high-profile issue for importing countries, the quest for energy security informs a vast range of policies to varying degrees. Existing responses fall into three broad categories:

1. ***Demand-side responses*** – i.e. efforts by importing countries to alter patterns of energy demand or generally to adapt domestic energy systems. Measures to reduce overall oil and gas consumption (through policies to encourage energy efficiency, for example) are clearly popular here. Most OECD governments see this as central to improving energy security, as well as a way of reducing greenhouse gas emissions. Another common focus in this respect is policies to shift demand away from oil and gas to energy sources which come with fewer concerns about security of supply (such as coal, nuclear power and renewable technologies – even though each of these produces very different levels of greenhouse gas emissions).

   Efforts are also often made to ensure energy is sourced from a more diverse set of suppliers so as to reduce reliance on any single, potentially unstable, exporter. The European Union, for example, is seeking to source more gas from the Caspian region and also North Africa as part of its strategy of limiting its dependence on Russian exports. Similarly, the US has made efforts to source more oil from West Africa – not always a stable region itself, but considered a way of reducing imports from the Middle East. (Such strategies have supply-side elements too – see below.) Building up emergency stockpiles of oil and gas to reduce the impact of potential supply

disruptions is another common tactic in this category. Countries which are members of the IEA, for example, are obliged to hold stocks equivalent to at least 90 days of net oil imports. Deregulation and competition in domestic energy markets is also sometimes seen by policy-makers as a partial solution in this area – for example, it may help encourage private investment to develop a more diverse set of supply options.

2. ***Responses aimed at stabilizing the supply side in the near term*** – i.e. efforts by importing countries to keep producers generally aligned with their own interests in the near term, and specifically to cajole or compel them to keep supplies flowing. This category again comprises a broad range of tactics. Most prominently, perhaps, it includes military alliances and intervention in producing countries. Whether or not the 2003 Iraq war was partly motivated by US oil security concerns (a still controversial issue), without doubt general US defence spending in the Persian Gulf – which over the decades has amounted to tens of billions of dollars per year[4] – has had as one of its principal aims to ensure the stability of oil exports from the region.

   Arguably more benignly, aid spending by importing countries in poor oil- and gas-exporting nations can also be seen as contributing – at least it is hoped – to the near-term stability of these countries as suppliers. And linked to both aid and military tactics is what has become known as 'resource diplomacy': pressure on exporters by importing countries, sometimes tied to offers of aid, military assistance or foreign policy support, to offer up access to their oil and gas reserves, to maintain stable supplies, or to support the development of new export routes.

   This was a tactic historically pioneered by Europe and the United States, and both still often energetically pursue it, for example in the Caspian region. But it has more recently been taken up by import-dependent Asian economies, led by China with Japan, India and South Korea close behind; there has been notable activity in this respect in oil- and gas-rich parts of Africa and Latin America. (Major importing countries, of course, do not always listen to exporters' political demands in their efforts to woo them – for example, the US has not radically altered its stance on the Arab-Israeli conflict in spite of calls on it to do so by Middle East exporters.)

   Also relevant in this category is importing countries' use of international trade rules to encourage oil- and gas-rich countries to open themselves up to foreign investment.

   Finally, importing countries' general foreign policy efforts at short-term containment of countries such as Venezuela and Iran (whose international assertiveness owes something to their oil and gas wealth) is another important, and large, subset of responses.

3. ***Responses aimed at tackling the roots of supply-side problems*** – i.e. efforts to avoid some of the inherent destabilizing impacts and dynamics of oil and gas exploitation highlighted in the previous section. There is certainly growing activity in this area. The issue of potential corruption and mismanagement of oil and gas revenues, for example, is partly being tackled by the Extractive Industries Transparency Initiative. The EITI has developed a standardized system for the public disclosure of such revenues by companies and governments with the aim of improving standards of governance in this area. In 2008, the World Bank announced a scheme, dubbed 'EITI++', to assist developing countries to enhance the governance of their resources sector more generally. In a similar vein, a 'Natural

4. Estimates of the exact figure vary. To give one example, the US costs of defending the Persian Gulf in 2004 are estimated at between $47 billion and $98 billion by academics Mark A.. Delucchi and James J. Murphy (*Energy Policy* 36, 2008).

Resource Charter' – a set of principles drafted by leading economists – has just been launched to help guide countries seeking to avoid the 'resource curse'.[5]

Some of the big oil and gas companies are also working in this area: among their 'corporate social responsibility' (CSR) programmes, for example, are initiatives aimed at enhancing the development impacts of their investments, and also at building trust with communities (an example here is the 'Voluntary Principles on Security and Human Rights') and with host governments. Industry public relations campaigns, meanwhile, seek to provide reassurance that oil and gas exploitation can be environmentally responsible. Separately, various efforts are also under way to establish more dialogue between governments over oil and gas issues: this may reduce the risk of the sort of zero-sum or damaging competition pinpointed previously. For example, regional dialogue appears to be gearing up to a degree on this issue in North-East Asia, a region where tensions have the potential to rise. Two global energy summits held in 2008 in Jeddah and London created fora for discussions between importing and exporting nations (as does the International Energy Forum, a biennial meeting of energy ministers).

Apart from volume and variety of initiatives and policy activity, what does this review of responses suggest? One basic point is that the balance of attention and resources, at both the national and international level, is at present overwhelmingly focused on the first and second categories. It is true that there are various initiatives in the third category, but these generally command a tiny fraction of the budgets and also of the high-level political attention devoted to policies in the other two.

For example, President Obama's drive to tackle the problems associated with US oil import dependence has so far almost exclusively focused on proposed domestic and demand-side measures, such as improved fuel economy standards (not that these are not sensible in themselves). There is a similar emphasis in policy debates in other OECD countries. Importing countries such as the US meanwhile continue their significant military expenditures in the Persian Gulf, for the time being at least.

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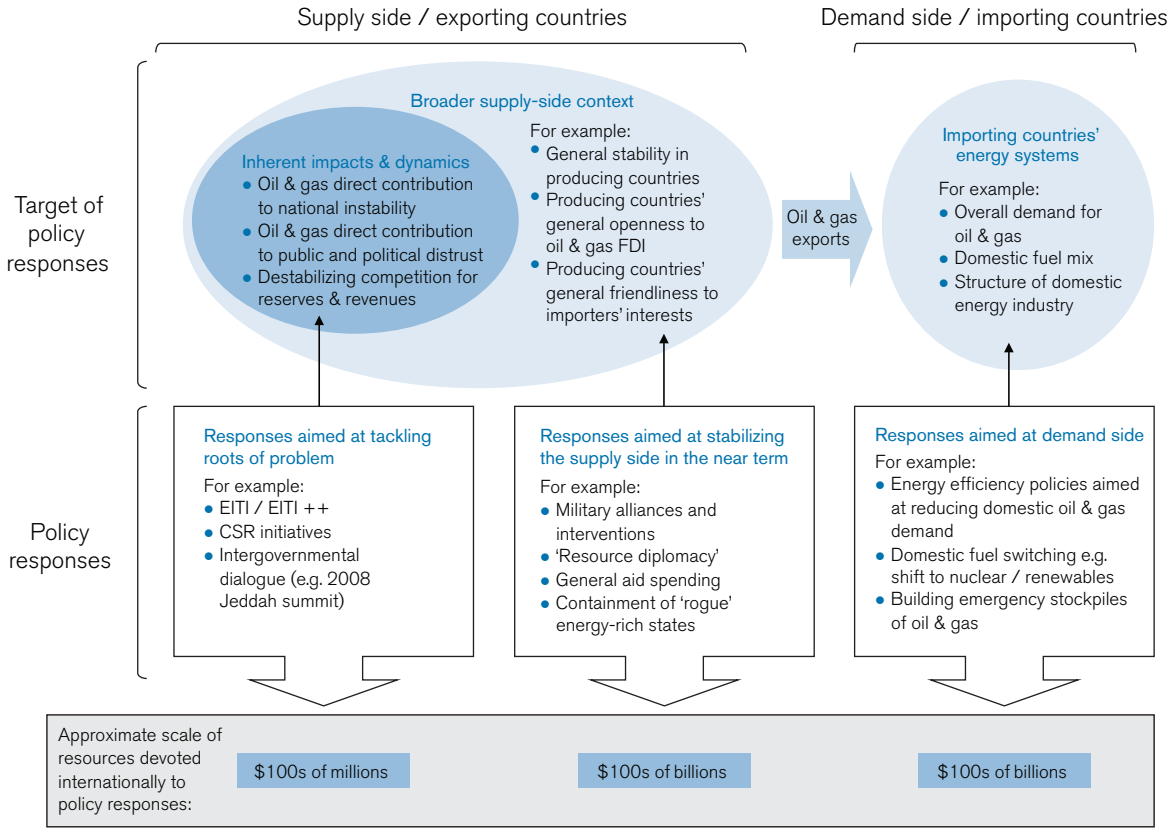
The current emphasis of attention can be seen in the following, admittedly basic, comparison: whereas the US allocates tens of billions of dollars per year to military spending in Gulf (much of this, as mentioned, motivated by energy security), the budget for running the EITI – arguably the highest-profile initiative in the third category – is around $3 million.[6] By the same token the CSR efforts of the big oil and gas firms – another third-category response – are minuscule in budgetary terms compared with their investments in exploiting oil and gas reserves (as an illustration, for every dollar of capital expenditure the large international companies typically spend under a cent on community investment). Figure 3 illustrates this imbalance.

Another basic point that is clear from the review of responses is that efforts in categories one and two are

5. See www.naturalresourcecharter.org.
6. Budget for EITI international secretariat, which is responsible for managing and driving the global take-up of the initiative.

Figure 3: Tackling international security risks from oil and gas import dependence – overview of policy responses



likely only to serve as partial solutions to the problem. Demand-side measures to reduce fossil fuel use are clearly important, and from a climate change perspective may need to be stepped up. As noted previously, however, setting aside the possibility of a major 'technological discontinuity' in clean energy, even stringent climate policies will only go so far in eliminating the dependence of major economies on oil and gas imports and therefore the related security risks. History suggests changing patterns of domestic energy demand can be a difficult and long process. As President Obama himself has pointed out, the US has been unsuccessfully seeking energy self-sufficiency since the 1970s.

Moreover, current efforts in the second category actually may make things worse. Measures now being used to stabilize the supply side – including military alliances and interventions in producing regions, efforts at short-term containment of key exporting countries, and competitive 'resource diplomacy' – may be strategically necessarily and also beneficial to importing countries in the short term. But it is precisely such activities that have sometimes led to the destabilizing long-term dynamics set out in the previous section. These measures may be helping to perpetuate non-democratic regimes that ultimately prove unstable; encouraging corruption and weak governance in producing countries (as local elites are wooed by different importers); creating local distrust of importing countries' energy firms (as these come to be perceived as symbols of foreign influence and interference); and raising the risk that competition for influence between importers turns into a dangerous 'scramble' for resources.

Aside from the potential negative effects of these dynamics on the populations of exporting countries and on communities living in oil- and gas-producing areas, the potential for 'blowback' against the

importers themselves is clear – although this may take decades to manifest itself. To give one example, Britain and America supported the Shah of Iran in the 1960s and 1970s partly with the aim of propping up a key oil-exporting ally. But this was in turn one of the factors behind the popular opposition that brought the 1979 revolution in the country and put in place an anti-Western regime that today is still perceived to pose a significant threat to international security.

In some senses, the risk of an excessive focus by importing countries on securing short-term stabilization and influence is now greater than in the past: the emergence of China, India and other developing economies as big energy consumers means there has recently been a major increase in the potential level of competition between importers.

Finally, many of the efforts in the third category are presented as elements of the international development or corporate responsibility agenda, rather than as tools to tackle tough energy security issues. This may be one of the reasons why they command less attention and attract fewer resources: they are seen to be the preserve of development agencies, academics or CSR teams within companies, and thus struggle to attract the priority accorded to, say, military affairs or high-level strategic concerns. Related to this, some of the initiatives in the third category – including the EITI – are also perceived by some producing countries to be part of a Western agenda. This perception, fair or not, has limited their take-up by some major producers who feel their own interests lie elsewhere.

Concluding remarks

The purpose of this paper has been to provide a high-level perspective on the extent of the international security problems associated with oil and gas imports and the range of policy responses currently targeted at them, rather than to make detailed recommendations. However, a basic message emerges from all the above: more strategic attention needs to be devoted to tackling the underlying drivers (though not at the expense of other worthwhile policies such as measures to reduce demand). Without more ambitious efforts in this area, the risk is that the roots of future energy insecurity will become embedded further by actions aimed at keeping problems in check in the near term.

> ‘Only initiatives with significant international political impetus behind them are likely to have an impact, and even then change is likely to be gradual’

Tackling the underlying drivers is easier said than done. Existing political power structures, long-standing patterns of behaviour and interaction among companies and governments, and public perceptions built up over decades cannot easily been changed. This suggests that only initiatives with significant international political impetus behind them are likely to have an impact, and even then change is likely to be gradual.

One potential overarching solution may be worth floating in this respect, though its implementation would entail immense challenges This would be to develop and gain widespread international agreement on a new set of norms for how oil and gas reserves can be exploited by companies and governments (of both importing and exporting countries) in ways that serve the public and global good. This could serve as a central mechanism for tackling simultaneously all three underlying drivers: the destabilizing ‘resource curse’ faced by host countries; public and political hostility regarding new oil and gas investment; and the destructive forms of competition for reserves and revenues. Clearly it would not solve all these problems – many solutions would need to be developed at the national and regional levels – but it could provide a high-level framework for progress.

The seeds of such an approach already lie in the existing attempts to develop norms on development-

related aspects of the challenge, such as the EITI and the 'Natural Resource Charter'. But again a new scale of ambition may be required: producing countries need to be heavily involved in the development of such norms, the political process needs to be at the highest level to build broad international agreement, and all aspects of the challenge need to be tackled (rather than just, say, development issues). It may be that the only feasible way to tackle the underlying drivers is through such a grand-scale initiative which is led, for example, by heads of state rather than ministers. Certainly the 'self-fuelling fire' – or the intrinsic destabilizing dynamics of oil and gas exploitation – has roots too deep to be extinguished through modest measures.

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