State Competition and the Global Politics of Energy

https://www.e-ir.info/2012/05/01/state-competition-and-the-global-politics-of-energy/

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The end of the Cold War can be argued as bringing an end to the 'old wars', and as international relations entered into the 21st Century, it was argued that there are 'new wars' in this new age. The time of resource wars has begun and the further we advance in time, the more often we will see conflicts concerning vital resources like oil and gas. It is inevitable that there will be a lack of resources available for every nation-state, unless there is a discovery of an alternative plentiful resource. The emergence of the oil boom in the 60s-70s, saw state competition defining the politics of energy. Nevertheless, over time markets have been established to control the price of oil, and improve the producer-consumer relations; developments which in turn ensure that markets trading oil on a global scale have become more transparent. This paper will critically engage with the realist claim that state competition still defines the global energy of politics rather than markets, as claimed by liberalism.

The typical proclamations made by realist are that the international realm is "characterised by anarchy, distrust, and the ever-present prospect of war" (Dannreuther R, 2010, p.2). It is evident throughout history that states are led by self-interests, and national interest does play a very bias role when states make decisions in the international arena. Kenneth Waltz, the father and founder of neo-realism, contended that the international system is anarchical, also claiming that the structure of the system is focused on the balance of power between states. The custom of realpolitik "prioritises the interests of the sovereign" (Dannreuther R, 2010, p.2), and the "key goal of statesmen seeking to preserve international stability is to contain the ineluctable drive for power by states" (Dannreuther R, 2010, p.2).

The openness and control of energy is a major element of national interests and state competition for energy resources. This is due to energy resources becoming scarce because of the arguments of 'peak oil' theory, which only encourages states to compete for access to these resources. "Chinese leadership see that the insecurity of the Malacca straits, and the prospect of a military embargo of its oil supplies, represents a fundamental threat to China's core national interests" (Dannreuther R, 2010, p.3). We are already witness to national interests and eagerness of a state for fuel with the resurfacing for the 'scramble for Africa' mainly from China, which sees Africa as very opportune for its national and strategic interests.

The U.S. dependence of oil imports can be seen as the "'Achilles heel' of American power" (Bromley S, 2005, p.226). However, the US was not always dependant on its oil imports: "until the end of the Second World War, the United States was by far the largest oil producer in the world and self-sufficient in oil supplies" (Bromley S, 2005, p.230). This drastically changed however, as state interests and greed lead the U.S. to comprehend that they cannot always be sustainable on the production of their own oil, and as a result they became one of the first countries to start exploration of oil in the Middle East and become an importer of oil, allowing them to keep reserves of their own oil. "Control of oil may be seen as the centre of gravity of US economic hegemony" (Bromley S, 2005, p.227). The US most definitely has a "degree of influence" (Bromley S, 2005, p.228) when it comes to oil explorations, especially in the Middle East. This was proven after 1945 when the U.S. strategically took the steps to be the first nation to start exploration of oil in the Middle East, and since the U.S. was the first state to do this, "Saudi Arabia and the Gulf states, in effect, exchanged military security for cooperation on pricing and production decisions ..., thereby reconciling their economic interests with those of the oil majors and the major consuming countries." (Bromley S, 2005, p.244).

This meant that the U.S. for a lengthy period had negotiated long term contracts with state owned oil companies like

Saudi Aramco for an incredibly low price. The U.S. has such a degree of influence in the oil markets that even in the OPEC cartel it has an observer status. “Since the OPEC nationalizations of the 1970s, US policy towards the international oil industry outside America rested on a combination of support for its companies as the producers and distributors of traded oil and cooperative relations with swing producers-especially Saudi Arabia- to stabilize the international markets” (Bromley S, 2005, p.246). Over the past 20 years the Saudi’s have published official state figures of their oil reserves and they have steadily been similar, this fabrication of statistics has occurred due to the U.S.-Saudi interests in dictating the global oil markets for their benefits and needs, enabling the two nations to control the global price of oil. If actual statistical figures would show that the Saudi oil reserves have dwindled since American exploration then there would be significant oil price hikes. This was recently proven when the political uprising occurred in Libya against the dictatorship of Col. Gaddafi and there was a fear that it could cause an oil price hike due to shortages of oil supply as a result of the sanctions and embargos and instability in the region. However as always the Saudis came to the rescue and increased output to balance the market price of oil and to continue the flow of supply of oil. The same can be said with the current threats of Iran who claim that they will block the Strait of Hormuz; of course the Saudis will come to the rescue again.

The “Caspian Sea basin (comprising Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan, along with parts of Russia and Iran) harbours as much as 270 billion barrels of oil” (Klare M, T, 2002, p.2). The Caspian Sea basin also holds “some 665 trillion cubic feet of natural gas” (Klare M, T, 2002, p.2). At the time of the Soviet Union, these reserves where “exclusive property of the Soviet state” (Klare M, T, 2002, p.2), but since the breakup of the Soviet Union most of these resources came under new ownership, all of whom seek to yield maximum profits from their newly established property by selling to eager consumers of the west. Russia feels weakened by this and is always ready to reassert its power in the region. A case in question is the Russia-Georgia Crises of 2008, and also the disputes among Russia and Ukraine over gas pipelines. Intensifying U.S. military engagement with Central Asian states has remained a key apparatus for encouraging their integration into “Western politico-military institutions, encourage civilian control over militaries, and institutionalize cooperative relations with the United States military, while dissuading other regional powers- especially Russia, China, and India- from seeking to dominate the region.” (Bromley S, 2005, p.247).

Western oil corporations, see the Caspian Basin as a key potential to foreign investment. “Virtually all of the giant energy firms have announced plans to team up with local enterprises in exploiting the Caspian’s oil and gas supplies. For this reason, the American government has focused enormous attention on the region and its economic development” (Klare M, T, 2002, p.3). Keen to boost the global expansion of U.S. trade and investment, the Commerce Department and additional federal agencies have assisted American companies in their struggles to establish joint projects with Central Asian energy corporations and to inaugurate the necessary infrastructure and pipelines. American bureaucrats see a tactical interest in the expansion of Caspian energy supplies because of the enduring peril of conflict in the Persian Gulf region, Washington aspirations to transform the Caspian basin into an alternative source of energy that can “satisfy Western needs if and when oil deliveries from the Gulf are blocked or suspended” (Klare M, T, 2002, p.3).

President Jimmy Carter understood that U.S. national security interests were at breach following the Soviet invasion of Afghanistan. A challenge by any outside power to advance control of the Persian Gulf region will be considered as an “assault on the vital interests of the United States of America, he told a joint session of Congress” (Klare M, T, 2002, p.4). This was later formulated as the ‘Carter Doctrine’ which was used to justify the U.S. intervention in Kuwait, when Iraq impeded on Kuwaiti sovereignty over the oil dispute. Thus, there is a precedent throughout U.S. history of involvement of oil producing states and their security concerns, as Clinton stated “our economic and security interests are inextricably linked” (Klare M, T, 2002, p.8). It was in the national interests of the U.S. to be involved in Kuwait – Iraq (1990s), in Azerbaijan (1998), to provide military training to counter Russian, Chinese, and Indian influences, and Iraq (2003) as it questioned U.S. energy security of supply.

Although, structurally, “oil markets have been getting freer and more transparent since the 1970s, for most of the 1980s and 1990s there was a major imbalance between supply (and reserves) and demand,” (Bromley S, 2005, p.238) even when the world demand for oil did not captivate all the supply that was on bid, prices did not fall far enough to stabilise the market, either through enlarged demand or through the loss of high-cost supply. The steady pre-eminence of markets and private property across the Middle East, “as the protection afforded to statist, protected models of development by oil rents receded, worked in America’s favour” (Bromley S, 2005, p.244). Parsimoniously, the U. S. now had neither the greater resources, nor the political motives, to offer concessions to its cronies. In the longer term, the United States faced the possibility of future geopolitical competition from China and India and perhaps from a resurgent Russia. Nonetheless, oil and the “forward development of military power to guarantee the general openness of international markets to the mutual benefit of all leading capitalist states remain at the core of US hegemony” (Bromley S, 2005, p.254).

The liberal paradigm is that liberalising the markets are the best way forward for producer and consumer states to cooperate. However, it is not enough just freeing up the markets; there has to be a coherent and effective institution in place to oversee the ‘rules of the game.’ “These ‘rules of the game’, that is to say the institutional architecture that underpins global energy, govern central aspects of financing, trading, and hedging oil and gas ventures via financial markets, investment treaties and trade agreements; and they address short-term supply risks in the event of market failure or disruption” (Goldthau A & Witte. M, J, 2009, p.374). Through a fusion of these aspects can there be greater transparency and cooperation in the sector of energy.

Robert Gilpin has been exceedingly prominent in emphasising the economic factors which are critical to national power, for example, “multinational corporations are key components of a country’s overall national power” (Dannreuther R, 2010, p.4). Susan Strange (Dannreuther R, 2010, p.4) maintains that the power of states is determined by “four dimensions of power – military, production, finance and ideas – and that any country’s international standing and relative power must be assessed across these four dimensions”. The position of ideas in international politics has been supplementary propagated by “Joseph Nye and his argument that there are ‘soft’ as well as ‘hard’ dimensions of power, and that the attractiveness of national culture and ideology are critical facets of national power” (Dannreuther R, 2010, p.4).

Liberalist critique the realist assumptions of state-centric policies, and argue that too much weight is given towards state competition and not a lot is awarded towards the role of transnational, national, and local actors. The European Union, according to liberalist perception, is the role model organisation for liberal thinking in the international arena in terms of how it conducts itself and incapacitated state sovereignty. “If international energy were liberalised and principles of comparative advantage where properly instituted then energy and minerals would be provided at not only the most economically efficient way but also without the compulsion of geopolitical competition and the conflicts and wars that ensue from that” (Dannreuther R, 2010, p.9).

Owing to the role model institution like the EU, liberals have suggested there can be the same inter-state cooperation involved when it comes to energy politics, through states joining or ratifying the IEA or ECT, respectively. “There are often proposals for regional energy cooperative institutions, such as those proposed for South Asia or for North-East Asia to bring together Russia, China and Japan into a mutually beneficial rather than competitive energy relationship” (Dannreuther R, 2010, p.9).

Without having theses global oil markets the producer nations can use the ‘oil weapon’. A clear example of this is the political turmoil in the Persian Gulf in the 1970s. “Thus, in the aftermath of the oil shocks, consumer nations created emergency sharing mechanisms and combined forces in the International Energy Agency (IEA). At the same time, the oil exporters’ efforts to nationalize domestic production not only deprived western ‘Big Oil’ of concessions and hence access to reserves; it also broke up the previously existing vertical integration of the industry and, as a consequence, deprived the newly created national oil companies (NOCs) of refining and retail outlets in importing markets” (Goldthau A & Witte. M, J, 2009, p.376). It was a testing time for global oil markets as it created a “global pool that made price formation more transparent and predictable” (Goldthau A & Witte M, J, 2009, p.376).

Regardless of the re-emergence of state actors and resource nationalism, markets signify more than ever in global oil and gas. “Chinese-owned foreign assets contributed between 10 and 15 per cent to China’s crude oil imports in 2005, the remainder was purchased on the global market—a vital mechanism to satisfy the country’s exploding demand. In addition, most of the oil produced by ventures in which China’s NOCs hold stakes is sold on world markets” (Goldthau. A & Witte. M, J, 2009, p.382). On-going large-scale liberalization endeavours, “such as the current reform of the European gas market," (Goldthau. A & Witte. M, J, 2009, p.382) are constructed on the perception that price formation is superior with markets and not delegated to governments.

The liberalist perception is that instead of geopolitical reason and options, the solution to the challenges is that markets play a vital role, if they are correctly managed and given structure through rules and institutions. By doing this only then you can have a more free, fair and transparent global energy market.

To conclude, it would be very foolish to say that markets don't play a role in the global politics of energy. The question is however, how much of a role do they play in the global politics of energy and is that role superior in comparison to state competition? This essay firmly argues that state competition plays a vital and influential role in the global politics of energy. This is due to the basic history of statism, and throughout history we see the greed and self-interests of states and how the great super powers always fight to regain control of their power or to reaffirm their position on the international stage. U.S. hegemony is critically based around importing oil and the preservation of its own oil supplies, as the U.S. has realised that to sustain its power as the world's number one it has to be able to have a plentiful supply of resources. If the global politics of energy was more market orientated then why was the U.S. so adamant during the Cold War when the Soviets invaded Afghanistan, to go to the Middle East and secure the oil fields? This was due to the fear of the U.S. losing out on the oil from the Middle East to the great rival and power bloc towards the U.S., the Soviet Union. As we move forward today, the global politics of energy has intensified in the state competition with the rising super that is China, which not only is rivalled by the U.S. but faces strong opposition in the name of India. We live in a multi-polar world, with emerging economies like the BRIC nations who are all thriving, and competing for importing and exploration of energy resources.

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Date written: 03/2012