

Oil - paying the political price

By Daniel Litvin and Rob Foulkes

Consumers are worried about how they will afford the growing costs of petrol. Economists are worried about the effect of the high oil price on the national and global economy.

Well here is another oil-related issue to worry about: the effect of the high price on international politics.

Oil may have fallen somewhat from this week's high of almost \$140 a barrel, but the price remains near record levels.

And in such a tight market the balance of global power between oil exporting and oil importing countries begins to shift significantly.

There are myriad political implications of this situation, but two particular risks stand out.

The first is the empowering of energy-rich nations perceived, rightly or not, to pose some sort of threat to international stability or to the west.

Money to spend

High oil prices give these countries not just more revenues to fund their activities but also greater leverage over countries dependent on their imports.

One example of this is Venezuela, where president Hugo Chavez has funded his attempts at an anti-US "Bolivarian revolution" across Latin America, partly using his country's oil riches.

Another is Iran whose control of major oil reserves have helped embolden it in its stand off with the west over its alleged nuclear ambitions.

Oil money is also helping finance its overseas political and diplomatic manoeuvrings, including allegedly its support for foreign militant groups.

Oil and gas rich Russia, too, has become more assertive on the international stage, with concerns widespread in Europe that it is willing to use its dominance of gas supplies and pipelines in some parts of the continent - for example, Ukraine - to exert undue political influence.

Risk-taking



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Even non-state actors in oil-rich states are empowered by high prices.

In Nigeria, for example, attacks by rebels in the oil-rich Niger Delta on local installations have at various points triggered leaps in the oil price, attracting heightened global attention to their cause.

The second political risk is that major oil importing countries, anxious to secure supplies of energy essential for domestic economic growth, will begin to compete in a damaging way for influence in oil exporting regions.

For decades the big western powers have sought to carve out spheres of influence in resource rich areas such as the Middle East.

But competition is intensifying, particularly with the emergence of China and India as major oil importers seeking international supplies.

A new round of great-power competition is underway in Central Asia, for example, as Europe, Russia, China and the US vie for access to the region's energy reserves, while the US military has expressed concern at mounting tensions over the resources of the South China Sea.

The five countries bordering the Arctic recently met to avert open confrontation over claims to the area's mineral resources.

Historical patterns

In Africa, meanwhile, competition between Asian, European and US companies and governments for oil and mining deals has been likened by some commentators to the 19th Century "scramble for Africa".

There are potential benefits in all this for resource-rich but poor countries as outside powers woo them with ever bigger financial and development packages.

But there is a risk that historic patterns will be repeated: that is, the outside powers will continue to prop up unsavoury regimes in these countries just because they happen to be friendly to their interests, while corruption and economic mismanagement undermine long-term development.

There is also a risk that great power competition will turn to all-out conflict if any of the big oil importers feels that its access to supplies is seriously endangered.

America certainly went to war to protect its oil supplies in the first Gulf war - whether or not oil was a motive in the more recent invasion of Iraq.



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Price fall

What if oil prices fell dramatically? Would the dangerous connection between oil and politics then be severed?

Certainly the two sorts of international tensions described above would likely abate. But then others tensions could take their place.

For example, high prices have helped the governments and regimes of various oil-rich countries not just to advance their foreign policy agendas, but also to maintain their political legitimacy at home, for example through major domestic welfare programmes.

For this reason President Chavez of Venezuela, Prime Minister Putin of Russia and King Abdullah of Saudi Arabia all might find their domestic power bases under threat if oil price fell back to, say, the \$20-\$30 per barrel level of the early 2000s.

Many western nations would welcome a change in leadership in all three countries, but internal political disruption in any of them also might contribute to regional and global instability in the short term.

Admittedly, such a fall in prices seems unlikely soon given the physical limitations on global oil production that are starting to become apparent.

So the two big international political risks are the ones to look out for: just something extra to worry about when you fill your tank at the petrol station.

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