GEOPOLITICS OF GLOBAL OIL AND SECURITY: RETHINKING THE ROLE OF NATIONAL GOVERNMENTS

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1- What are the new terms that globalization imposes on governance of oil and gas?

2- What is the emerging ethos of national governments role in the world energy markets?

3- How do new multilateral arrangements answer to the increasing need for energy security and market stability?

Answering three core questions will elucidate the new geometry of the global Oil:
I – Oil and Globalization Processes

II- Multinational Energy Corporations and National Governments

III- Multilateral Governance of Oil and Regionalization
Oil and Globalization Processes

**New geometry of the global oil:**

- 1- Integration of economies, characterized by growing trade ties and transnational economic activities, promotes greater interdependence between consumer and supplier countries and their national markets.

- 2- With integration of economies intensifying, there is a mounting pressure towards a re-territorialization of socio-economic activities in the form of new economic and trade ensembles.

- 3- Contemporary processes of globalization and regionalization are mutually reinforcing tendencies within the global political economy.
Oil and Globalization Processes

GLOBAL SCALE

REGIONAL SCALE
Intermediary role between narrowly defined national agendas and overly broad global processes

NATIONAL SCALE
Net imports of oil met almost 45% of OECD North America’s total petroleum needs. Middle East OPEC was the single largest source, closely followed by Latin America. With production to fall behind steadily rising demand, the region’s import dependence is projected to rise to 58% by 2020. Oil dependence in Europe rises from 53% to 79% over the projection period. In OECD Pacific, it goes from an already very high 89% to over 92%. Outside OECD, Asia becomes increasingly dependent on imports. The Middle East, already the biggest exporting region, will see exports rise from 17mb/d in 1997 to over 41mb/d by 2020. Exports from Africa, Latin America and the transition economies also increase significantly.
The projections for oil demand and production by International Energy Agency suggest a significant increase in international trade of Oil and gas to meet a widening gap between consumption and indigenous output in many parts of the world. The projected net imports and exports of each major region from 28mb/d in 1997 is to reach over 60mb/d in 2020.
The Energy business is much about political risk management as it's about drilling rigs and building transit, refinery and distribution capacities.

The increasing international trade of hydrocarbons, under conditions of dependence and competition added to regional mismatch between location of demand and production suggests the relevance of political risk to potential market instability.

The changing geometry of energy markets follows same timeline as major geopolitical shifts and suggests the correlation between changing geopolitics and growing security concerns.

In the context of economic and political globalization and the restructuring national governments, the search for real security could no longer be found at the scale of the state but of the region, mediating between global and local interactions.

Among developments specific to energy recent technological breakthroughs constitute a new set of factor which is already heavily impacting upstream and downstream activities and their risk factor, shaping the evolution of the sector.
Conditions of economic globalization involve persuasive connection between economic growth and hydrocarbons demand growth, yet, dynamics of such interconnection are far from being fully grasped. What is more certain is the unpredictable nature of these factors and their effect on markets worldwide considering the increasing interdependencies between national economies.
Multinational Energy Corporations and National Governments

- The need to improve returns on assets in the face of weak oil prices in 1990s added to the increasing competition for the same markets have placed new demands on firms to develop multiple sources of advantage producing host of mega-firms through merger and acquisition activities.

- As to achieve their development strategies, MECs have taken advantage of their multinational nature and engaged in firm to firm negotiations adding a new layer to government-government and firm-government diplomacy.

- As to mediate with oil companies metamorphosed into mega firms, national governments had to assign a new role to their National Oil Companies by assigning a new role different from their traditional proprietorial one as Ministries of Petroleum, and embark in the new adventure of what some suggest as “agency capturing.”
Governments and multilateral system of governance

1- Cross-border networks of pipelines expand and maritime routes of shipment multiply, the general trend is to favor transnational regimes of governance in order to complement the geographic and sectorial limitation of state-state and state-firm types of negotiations.

2- The hydrocarbon sector is dependent on easy access to oil and gas fields and secured transfer to consuming markets.

3- National governments have become increasingly outward looking in order to manage more effectively the growing array of cross-border issues which regularly surface on national agendas.
Conclusion

Oil and Globalization Processes:

1- Increasing integration of economies, geographic mismatch between supply and demand added to the changing geopolitics fuel higher security concerns in the energy sector. Consequently, national governments are to adapt their role and responsibilities in securing sources of supply taking also into account pressures that economic globalization is imposing on many of the world’s leading energy producers and consumers. Governments need also to adapt with conditions of global competitive and political pressures as they have to do business, no more with individual oil companies but with mega energy firms.

Multinational Energy Corporations and National Governments:

2- National governments developmental role reveal a shift from prime actors to more of orchestrator of resources assigning a central role to MNCs in the process of wealth accumulation. In this context local government is to provide market friendly incentives, infrastructure, education, technology as well as guaranteeing investment security. As to meet these requirements, governments had to re-open their natural resources to foreign private investors. However, the return of the foreign investors is different from their historical solitary position vis-à-vis national governments. The come back seems to be as part of a multilateral regulatory package.
Multilateral Governance of Oil and Regionalization

3- Due to the significance of accessibility the new developmental role of national governments in the energy sector was shaped by the prevalence of security concern, and justified their active role in the emerging multilateral system of governance as an adequate response.

4- In the context of economic globalization national governments almost everywhere are promoting competitive markets and fiscal discipline, as the key to growth in a world of free trade and cross-border investment. The economic elements of energy trade risk are considered reduced by policies that promote the free movement of energy and energy related goods and services. The more general strategy behind these policies seems to find the answer to security concerns of the global economy in the legally binding multilateral regimes.
Global integrative processes

Changing National Government

Insecurity/ Instability/ need for private investment

Deregulation

De-territorialization

GEOPOLITICS

NEW INTER-STATE ARRANGEMENTS
NEW MNC-NATIONAL GOVERNMENT ARRANGEMENTS

Institutionalized Regulation
Re-territorialization

Economic Security/ Political Stability

Regional development strategies
National governments still matter as they will shape the energy supply-demand landscape. Governments will play a key role in addressing supply-security issues, in creating appropriate regulatory and market frameworks and in encouraging technology development and deployment.

The regulatory and structural reforms in the energy sector which governments promote will have a major impact on supply prospects. These reforms which started with the privatization of state-owned enterprises and the opening up of the energy sector to private capital are also favoring the removal of trade and investment barriers and encourage the development of new supply projects. By endorsing such endeavor national governments play an active role in the provision of security that the new geometry of the global oil is imposing on producer and consumer countries.