

Petro-Nationalism: The Futile Search for Oil Security

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Petro-nationalism is alive and well, manifesting itself both by oil consuming as well as oil producing countries. Unfortunately, for oil security the implications of Adelman's "great pool" or bathtub analogy are still not well-understood. With China joining the U.S. and the E.U. as voracious oil importers, this paper focuses on a relatively new form of petro-nationalism—by oil *consuming* countries. For China, petro-nationalism has involved circumventing market institutions in a variety of ways to enhance its own oil security. It has meant forging strategic bilateral trade agreements with oil producing states, dispatching its state-owned oil companies abroad to lock up oil supplies, and insulating its domestic economy from world oil price fluctuations. Likewise, U.S. policy makers have been reticent to relax oil and natural gas export controls enacted in the 1970's even though they violate WTO rules. Implicit in such actions is the belief that markets fail (or might fail in a future supply disruption) to provide energy security—the assured access to fuel at a reasonable cost.

This paper takes the contrarian viewpoint that petro-nationalist oil security policies are likely to be ineffectual, very costly, and politically destabilizing internationally. Because of the bathtub, oil security is a public goods problem with a worldwide scope. Thus cooperative solutions are essential. Particularly troublesome are two consuming country actions, such as bilateral supply agreements and efforts to achieve oil autarky, which aim specifically at achieving a political or economic advantage vis-a-vis other oil consuming nations. These misguided actions are likely to trigger politically destabilizing oil resource competition among major oil consuming nations.

Section II provides a description of the following two key premises underlying the petro-nationalist mindset: (1) the long run supply of oil is fixed immutably with no close substitutes; and (2) oil markets either are or would become regionally fragmented into a series of regional wash basins. Given these two premises, bilateral oil deals and oil autarky are seen as logical policies. As shown in Section IV, Adelman's bathtub analogy turns these policy prescriptions on their heads. A simple stylized model with two oil producing countries and two oil consuming countries is used to reveal the consequences of the two petro-nationalist policies.

Section V outlines workable policy actions that would genuinely enhance security without heightening international tensions. These include the maintenance of emergency supplies as well as reliance on the world oil market to produce security. Reliance upon the bathtub is itself a *positive* source of oil security during emergencies by spreading the adjustments worldwide, markets, firms, and consumers have much more ability to adapt than if all the adjustments had to be concentrated in one country or region.

Why then is petro-nationalism so intransigent to economic analysis? Finally, the paper turns to Realist International Relations Theory in an attempt to explain its popularity among security studies scholars.