Defining and Overcoming Risk - Some Global and Middle East Factors  

By Paul Tempest*  

Risk, like beauty, essentially lies in the eye of the beholder. What appears to be dire peril to Shell or Exxon may look to an independent entrepreneur like a golden opportunity. People see the same part of the world or set of circumstances from different angles, so that not only is there a wide variety of risk, but also a wide variety in the perception of risk.  

Nonetheless, defining and overcoming risk is something we all have to face in the global oil and gas industries - from the short- and long-term viability and profitability of some of the largest multinational corporations and institutions ever known to the personal risks and opportunities of our own individual survival and advancement.  

Covering corporate risk is like a mini-skirt. The wearer wants it long enough to cover essentials, yet short enough to evoke interest. In all such matters, there is a balance of interest to be struck. So it is with risk whether concerning corporate investment, sovereign credibility or regional security.  

Some Global Factors  

Let me begin with a fundamental macro-economic paradox. Out of total worldwide oil and gas upstream investment, we are spending about three-quarters in high-cost OECD regions. The remaining quarter has to be shared between the entire developing world and the states of the Former Soviet Union. Yet the OECD areas have only 6 percent of proven reserves of oil and 9 percent of gas and there is very little hope that these small shares can be increased from new exploration. What is more, OECD is producing at a much higher rate than would be indicated from the reserve position - 25 percent of world oil production and 43 percent of world gas production. So OECD oil and gas reserves are being depleted much faster than elsewhere. Another way of putting it, is that while oil and gas remain essential to the global economy (certainly over the next 2-3 decades), the main producers (Middle East) are slowly but steadily strengthening their competitive position vis-à-vis the rest. This phenomenon is, however, not fully appreciated by the oil market, which continues to be dazzled by buoyant production growth among non-OPEC producers.  

A Russia/Gulf Alignment  

What is new in the geopolitics of energy is that we can no longer assume that Russia, the rest of the CIS and the Gulf area are in some form of competition with each other, as throughout the Cold War. In many ways, the past year has seen the realization of Czarist and Stalinist dreams - Russian penetration south to the petroleum riches of the Gulf and a warm-water port, just outside the Straits of Hormuz, with the ultimate intention of splitting Western Europe from the resources of India, China and South-East Asia. The north-south railway which the Czar proposed in 1901 and whose route was thoroughly surveyed in 1901-3 by the most distinguished Russian engineers and railway builders of their day is now almost complete, offering a brand-new container route through Russia and Iran to the Indian Ocean. Another grand design, the linking of the southern silk route by rail from China to Europe, is also virtually completed offering in combination with the new north-south link, equally valuable rail container routes to the Gulf from both East and West.  

The Key Role of Iran  

Further evidence of Russian and CIS penetration of the Gulf is immediately apparent in the substantial increasing flow of Russian and other CIS nationals into the Lower Gulf with the airports of Sharjah, Dubai and Abu Dhabi often offering frequent passenger flights per day to these destinations and with a new role for the Lower Gulf as principal entrepot for consumer goods of Asian, European and U.S. origin destined for the CIS. Predictably, aid in both directions, joint projects in the petroleum and non-petroleum sectors and substantial flows of private capital are creating new opportunities for the CIS to expand their embassies, consulates and commercial representation in the Gulf.  

The key to the drawing together of Russian and Lower Gulf interests lies in Iran. Although always wary throughout recent recorded history of the intentions and aspirations of the Bear to the North, Iran's attitude is changing. New common ground between Russia and Iran has recently been found in handling the Kurds in Northern Iran (and reflecting the aspirations of those in Northern Iraq), in facing the problems of a turbulent Afghanistan with its attendant refugee problems and belligerence towards neighbors and above all, in formulating common objectives to stabilize dissidence close to and within their respective borders (e.g., the Chechen uprising, Azerbaijan/Armenia/Georgia and other boundary and ethnic minority disputes.) I have mentioned the rapid progress in coordinating and linking the Russian and Iranian rail networks. Caspian marine links, new air-links and strengthened access by road have all been under recent discussion. Most significant of all is the agreement by Russia and Iran to invoke old Russian-Iranian treaties dating back to 1921 in handling the issues of Caspian oil development and the rights of other riparian states.  

While the United States continues to force the pace of the economic and commercial isolation of Iran by the imposition of a trade embargo, Iran turns increasingly to Russia and also to Germany, China and Japan for over: and covert support, much of its trade passing through Dubai and other Emirate ports. Gradually, despite U.S. sanctions, Iran is opening up. I see this as an inexorable if perhaps lengthy process. One day perhaps this year, next year or within the next ten, the government in Iran will begin to embrace more liberal and open policies. Once this great country really begins to move, as undoubtedly it will, and as this national regional leader begins to recognize its own strength, the whole balance of

*Paul Tempest is Director General, World Petroleum Permanent Council.
Defining and Overcoming Risk (continued from page 9)

power in Arabia will tilt sharply toward Iran. Under such circumstances it is very difficult to view the Saudi and U.S. policy stance as a continuing exercise in confrontation and containment and much more plausible to expect Arabian responses to be more sensitive to Iranian interests.

A New Technology

How will such developments enhance or endanger energy supply security for the rest of the world? Do we have to assume increasing dependence, as at present, on oil and natural gas when the supply is almost bound to be increasingly dominated by Russia and the Middle East?

In this matter, my own view is far from pessimistic. Russian/Gulf hegemony depends on political stabilization and economic growth in Russia and the CIS, which may take some considerable time. The clearer the issue of increasing energy dependence on Russian/Middle East sources becomes, the more likely we are to accelerate global responses in new technology. Already, we can see quite clearly the emergence of new vehicles with very low petroleum consumption, new economies in the use of oil and natural gas for electricity generation and space-heating, the development of new environmentally-friendly energy substitutes. Perhaps the greatest brake and risk in this process will be the reluctance of the major automobile manufacturers and fuel suppliers as well as the slowness of leading consumer and producer governments, all highly dependent on revenue from oil and gas, to modify their stance and to divert investment into stimulating new technology. Indeed it may be that, in the 21st century, the seed-beds of a completely new energy electronics technology will be pioneered by Japan and the Asian tigers, taken up massively by China and developed thereafter in India, Brazil, Indonesia or Nigeria.

The INTERNATIONAL ASSOCIATION FOR ENERGY ECONOMICS

Announces

The 20th International Conference

Energy and Economic Growth: Is Sustainable Growth Possible?

To Be Held At The

India Habitat Center
New Delhi, India
January 22-24, 1997

Conference Themes:

- Global energy economy and the developing countries.
- Minimum energy needs, social development and economic growth.
- Environmental concerns and the limits to energy and economic development.
- Role of technology in global sustainability.
- Issues in capital flows for energy development in Asia.

*** CALL FOR PAPERS ***

Deadline for Submission of Abstracts: August 1, 1996

Anyone interested in organizing a session should propose topics, objectives and possible speakers. Abstracts should be between 200-500 words giving an overview of the topic to be covered at the conference. At least one author from an accepted paper must pay the registration fees and attend the conference to present the paper. All Abstracts/Proposed Sessions and Inquiries should be submitted to:

Dr. Leena Srivastava
Dean, Policy Analysis Division
Tata Energy Research Institute
Habitat Place
Lodi Road, New Delhi - 110 003
INDIA

Phone: 91-11-4622246 or 4601550
Fax: 91-11-4621770 or 4632609

The 20th IAEE International Conference is being hosted by the Indian Association for Energy and Environmental Economics (IAEEE) and the Tata Energy Research Institute (TERI).

General Conference Chairman:
Dr. R.K. Pachauri

Technical Committee Chairperson:
Dr. Leena Srivastava

Advertise in the IAEE Newsletter

1/4 Page $250
1/2 Page 450
Full Page 750
Inside Cover Page 900

For more details contact:
IAEE Headquarters
28790 Chagrin Blvd., Suite 210
Cleveland, OH 44122, USA
Phone: 216-464-5365
Fax: 216-464-2737