

The other face of Janus - The Disadvantages of Natural Resources

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“Without energy, there would be no humans; there would be no human civilisation”, nothing but a defenceless creature...¹ Transforming the elements of the nature into energy represents the basis of human development. As a civilisation, we owe every thing to this capacity of transformation: our standard of living, the technical achievements, and the intellectual life. So, it is logical to try to keep this standard and to improve it constantly. The improvement has meant an upgrading of the material used to obtain the magical transformation of the natural elements into caloric energy: wood, coal, oil, natural gas, uranium, plutonium.

Holding (in proximity if possible) the necessary elements of energy production represents a key factor in development. Nowadays, in the conditions of an ever-increasing scarcity of the close-by energetic resources, the battle to control these resources has unimaginable stakes. This is why the countries blessed with today's most wanted resources are often seen as rejoicing their privileged situation, while the resources-hungry industrialised countries look jealously to these riches they must sometimes buy at prohibitive prices.

However, the situation is not so rosy; on the contrary. In the following paper, the current situation, so vividly depicted in the media as a fight between the “good” (who need the oil and gas in order to keep their level of civilisation) and the “bad” (those who dare raise the prices and use the world's needs in energy to their advantage), will be portrayed from a different perspective. Holding important natural resources reserves might prove to have significant shortcomings that many energy-producing countries must face.

¹ Paris, gen. Henry *La guerre du pétrole*, Géostratégiques, January 2005, No. 6, p. 45, http://www.strategicsinternational.com/7_article4.pdf

The Internal Dimension

1. Political instability

The weakness of a big part of the oil and gas producing countries doesn't come from abroad, but from within. The political instability and the lack of freedom in these countries have made analysts consider that by 2020 around 50% of total oil demand will be "met by countries with a significant potential risk of internal instability"². As we speak, in the top 5 of the oil-producing countries, 4 countries received a "Not Free" rank in the 2007 Freedom House Report³. In both oil and gas top 20 of producing countries 50% of the countries are "not free", while 5-15% are "partially free".⁴

The lack of freedom combined with an authoritarian regime that holds under state control the natural resources represent instability factors that complicate any trade relation these countries might have. The political crises that they go through represent, in the eyes of their energy clients, real catastrophes. Not being able to rely on the energy sources or their transportation routes can lead, as we have seen, to the decision of forcefully installing order in the region, as it happened with the Afghanistan⁵ and Iraq conflicts.

Russia is the perfect contemporary example for this situation. The Youkos scandal and the Gazprom monopoly are a part of the reason this country is seen as such an unreliable source of energy if not a real menace to international security. The fact that the presidency⁶ itself describes the oil and gas reserves as being part of a plan to rebuild Russia's great-power status doesn't make Western officials to see this

² UK International Priorities: *The Energy Strategy*, London, p. 13,
http://www.fco.gov.uk/Files/kfile/Energy_Report_281004.pdf

³ Freedom in the World 2007,
http://www.freedomhouse.org/uploads/press_release/fiw07_charts.pdf

⁴ Comparison of the Freedom House 2007 report with the oil and natural gas production in the World Factbook 2007, <https://www.cia.gov/cia/publications/factbook/index.html>

⁵ This country had a great importance due to its strategic geography; its territory representing the passage point of the Caspian oil and gas towards the Persian Gulf. This importance was stressed since the 19th century when the British and Tsarist Empire were fighting over the dominance in this part of Asia in the so called "Great Game".
(<http://www.oxuscom.com/greatgame.htm>)

⁶ While attending the St. Petersburg Mining Institute, Vladimir Putin wrote a dissertation entitled "Toward a Russian Transnational Energy Company". His thesis was: Russia should use its vast energy reserves for geostrategic advantage. Information from Richard Heinberg's *Energy Geopolitics* 2006 MuseLetter, No. 170, June 2006,
<http://www.richardheinberg.com/museletter/170>

country as less threatening.

2. Economic Weakness

However, the fact that the struggle for power will become more ferocious with energy resources in the middle isn't the only internal weakness oil or gas rich countries will have to face. The economic life of a country is completely different when natural resources are available. The development of the industrialised countries depended on this in the 19th century. However, analysts concur that "if coal was the basis of the industrial revolution in the 19th century leading to the development of the industrialised countries, one cannot say the same thing today about the oil producing countries"⁷. Becoming a petrostate is not at all an ideal in a world where the economic growth needs to be achieved in the long term and not only as long as the oil keeps flowing in the pipes.

To build all your economy on the natural resources exports has proved to be a losing strategy for countries such as Saudi Arabia, Iraq, Iran. The population and the administration become accustomed to the inflow of money, while all the other sectors of the economy are dead. What many of the analysts have seen as Iran's way to build the nuclear weapon could in fact represent this country's early attempt to replace the hydrocarbon resources that are "draining away"⁸.

The political and the economic dimensions of the internal weaknesses of an energy-rich country are very much related, creating a vicious circle ever more difficult to eradicate than any other problem: the governments in power, in order to have the population on their side, never make them pay for the products coming from the natural reserves of the country.

These populist measures, instead of helping, accustom the population to not understanding the meaning of "energy-saving", encouraging wastefulness. This might not be so crucial in Venezuela or Saudi Arabia for example, but when your country has winters with temperatures of -30° C, the heating bill is a very important expenditure. In Russia, the population and the industrial system receive important subsidies from

⁷ Paris, gen. Henry *La guerre du pétrole*, *Géostratégiques*, January 2005, No. 6, http://www.strategicsinternational.com/7_article4.pdf

⁸ Richard Heinberg, op.cit.

the government for most of the products and services coming from oil or gas. In spite of being the second largest oil producer, Russia is also the fifth largest consumer with an economic performance that doesn't explain such consumption (the 12.000\$ GDP per capita is one of the smallest from the developed countries group⁹). The situation is similar in terms of natural gas. Russia consumes 69% of its production. Besides being the first world natural gas producer, it is also the second largest consumer. In an attempt to meet all the foreign export contracts, Gazprom has tried to diminish allocations for the raising internal demand through cuts and similar situations are present in Saudi Arabia, Iran and Venezuela.¹⁰

The External Dimension

1. Perceiving the other

As we have already anticipated, there is also an external perception. All the events taking place in an energy-exporting country will be attentively watched and analysed by those interested in the resources at stake. Therefore the perception the energetic partners have on one another is crucial in establishing a good trading relationship.

In the EU, every winter seems to begin with the fear that Russia will "turn off the taps". According to energy analysts, "such fears are justifiable in that they require serious planning, but are also vulnerable to hyperbole in the public press and political statements and problems can become unrealistically magnified."¹¹ Therefore, in a chain reaction, the Russo-phobia in the Central and East European countries spreads towards higher forums of security decision. From the Polish defence Minister who compared the pipeline between Russia and Germany to the 1939 Hitler-Stalin deal partitioning Poland¹² and the Romanian president declaring that Gazprom is "more

⁹ Michael Fredholm, *Gazprom in Crisis*, October 2006, Conflict Studies Research Centre, Defence Academy of the United Kingdom, pp. 11-12

¹⁰ The World Factbook 2007 <https://www.cia.gov/cia/publications/factbook/index.html>

¹¹ Andrew Monaghan, "Russian Oil and Energy Security", November 2005, Conflict Studies Research Centre, Defence Academy of the United Kingdom, p. 4, <http://www.defac.ac.uk/colleges/csrc/document-listings/russian/05%2865%29.pdf>

¹² Mark Beunderman, *Poland Compares German-Russian pipeline to Nazi-Soviet pact*, May 2, 2006, http://www.ezilon.com/information/article_16607.shtml

efficient than the Red Army used to be"¹³, the international community witnessed a generalization of this fear culminating during the NATO summit in Riga when one of the officials declared that "the use of energy as an overt weapon is not a theoretical threat of the future: it is happening now"¹⁴.

Since we have seen what conflicts can be unleashed when fear becomes more powerful than the lucid reflection, new troubles rise on the horizon for oil and gas exporting countries.

2. "Mutual dependence" or exploiting the weaknesses

The most common image in the popular mentality is, as we have seen above, that exporting countries are most of the times blackmailing the importing countries, putting pressure through cutting the supplies, raising the prices with every chance, always looking for the highest bidder. Still, there are strong counterarguments to this commonly spread image.

Using again the most talked-about energy dependency, Russia-EU, it seems that the current public opinion has neglected an already visible crisis in Russia. Analysts have argued that the Russian government has concerns over the fact that the EU demand isn't growing and the market is restricted. "Indeed, many note that oil consumption in Europe is not growing substantially: during the last 25 years, Europe has rapidly shifted from the consumption of traditional fuels, primarily coal and oil to natural gas and to a lesser degree, nuclear energy"¹⁵. Thus, between 1973 and 2000, the share of oil in Europe's energy consumption dropped from 60 to 40%. Another expert noted that oil demand growth in the EU 27 in 2015, as compared to 2000, would be minus 12, 5%. Thus even the development to the Baltic pipeline system has a limited strategic perspective for Russia, since it is limited purely to this stagnating European market.¹⁶

¹³ Vladimir Socor, *Romanian President Concerned by European Dependence on Russian Energy*, November 21, 2006, http://www.jamestown.org/edm/article.php?article_id=2371664

¹⁴ Vladimir Socor, *Lugar Urges Active Role for NATO in Energy Security Policy*, December 1, 2006, http://www.jamestown.org/edm/article.php?article_id=2371701

¹⁵ Milov, V - *Russian Energy Policy Challenges*. Presentation, Moscow, February 2005, in Andrew Monaghan, op.cit., p. 8

¹⁶ Grigoriev, L & A Chaplygina, "Looking into the Future: The Energy Dialogue between Russia and the European Union", *Russia in Global Affairs*, May 2003,

Western analysts also note that EU oil demand is flat, because the population is stable; it is more efficient at using oil and moving away from oil use. One author has argued that the EU is leading the world in the shift to renewable sources of energy and is “far ahead the USA and Asia in the race to end its dependence on natural resources to make it the first continent of energy independence”.¹⁷ Providing the foundations for such arguments, BP’s Annual Statistical Review suggests that oil consumption in Europe has barely increased since 1995 – from 13, 7 million barrels to 14, 7 million barrels per day. The overall increase from 2004 to 2005 was just 0, 7%.¹⁸

Even if EU’s share in Russian exports has doubled since 1991, Russia’s share in EU’s total oil imports *decreases*, this suggests that Russia is more dependent on the EU market than the EU on Russian oil. Revenues from oil exports, particularly to Western Europe as the primary consumer, are simply too important to the Russian economy. Russia is not only currently depending on its West European market, it is also dependent on Eastern and Central European transit routes.¹⁹

This “mutual dependence” goes even further in the case of Russia because even if this reputed “energy enemy” would try to cut EU’s share from its exports (although we have seen that this is very important for the Russian economy) and it would find other buyers such as China, there are other weaknesses that put pressure on Russia, making it impossible for any of the European catastrophic scenarios to actually take place. The geography²⁰ of the Russian oil and gas fields shows that the EU as a consumer is the most logical choice: the current producing fields are in the European part of the Russian Federation and the infrastructure is connected only to this continent, undoubtedly because of the system built during the USSR to link Russia to the Central European countries. Furthermore, important prospective fields are in geographic areas with a very harsh climate that require initial investments surpassing any Russian financial possibility. This transforms the “mutual dependence” into a very

<http://eng.globalaffairs.ru/numbers/3/476.html> and Baev P., *Putin's European Project: Derailed or Set back in Reformatting?*, November 2004, p. 2,

http://www.csis.org/media/csis/pubs/pm_0331.pdf

¹⁷ Leonard, M. *Why Europe Will Run the 21st Century*, London: The Fourth State, 2005, pp. 79-80, apud Andrew Monaghan op.cit.

¹⁸ BP Annual Statistical Review, 2006, p.11,

http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2006/STAGING/local_assets/downloads/pdf/oil_section_2006.pdf

¹⁹ Andrew Monaghan, op.cit., p.9

²⁰ <http://www.eia.gov/cabs/Russia/Maps.html>

sure future dependence of this country on foreign investment in order to exploit these resources.

This brings us to the main point of this interdependence: that it can be transformed into a clear dependence, but not of the buyer to the supplier. On the contrary, although holding the resources, the producing country might not hold the upper hand if it has the already-mentioned internal weaknesses. Furthermore, these weaknesses will be exploited by the buyer in order to keep a balance in the relationship. In this type of realist logics, Russia and other countries like it are highly dependent on the foreign investment in developing the production, in creating new oil or gas pipelines and in maintaining its infrastructure up-to-date. Plus, the country needs to send the resources somewhere. Although a world embargo for the reduction of oil prices is unimaginable, pressures can be made.

Conclusion

The main argument of this paper was to prove that having been blessed with some special geological processes that took place several million years ago doesn't mean that the peoples established on those grounds formed nations born with the silver spoon in their mouth. On the contrary, the pressure is even higher as a country should be forbidden to fail economically while possessing resources that others states are capable of starting wars for.

The natural resources represent in fact a great power-factor, but only when used for a sustainable development. The fear of the powerful countries, so used to rule over the others, of not holding the control, of not having the certainty to count on those resources in their own terms is what makes this situation so explosive. The pressure can make some countries work better as it did with the European countries after the 70s oil crisis, while it can make others react in haste with no idea on the outcome, as it happened with the US and its intervention in Iraq.

Unfortunately, the general feeling is that it's unimportant in which camp you are in, everybody is loosing in this world dominated by the fear of seeing the last drop of oil while a viable replacement hasn't been found. The reaction to this feeling of reaching an end is what will determine the winners of tomorrow. The real race of today isn't who holds or has access to more oil or gas but who can answer the challenge of change before that final drop of oil has been extracted.

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