THE AMERICAN UNIVERSITY IN CAIRO
الجامعة الأمريكية بالقاهرة
KHAMASIN
الخماسين
Department of Political Science

EDITORS NOTE

Maye Kassem
Jun 01, 2014

This volume of Khamasin examines the importance of oil in politics. This is the first time that Khamasin dedicates an entire volume on one theme. Of course oil is an essential factor in global politics. In this issue, Sam Quigley, in his article “Chinese Oil Acquisitions in Nigeria and Angola”, examines how the rapid growth of the Chinese population is causing China to turn to countries such as Nigeria and Angola to fulfill its growing demand for oil. Meanwhile, author Yannik Schneider examines the current events in the Ukraine. Schneider takes an economic perspective on the crisisand examines why being a key supplier of oil to Europe, allows Russia a key role in international politics.In the article “Oil Theft in Nigeria”,author Aly El Salmy focuses on howthe production of oil is sometimes severely harmed by militants. These militants attack oil pipelines and sell the oil on the black market, leaving oil companies helpless to do anything but report the theft. El Salmy also makes the key argument that these militants are highly trained to notice which pipes have oil as opposed to water, thus raising the question if the government is involved in the selling of weapons to these militants and supplying them with technical information. Latin America is also essential to understanding the use of oil as a means of patronage. In the article “PDVSA as an Instrument of Patronage and Geopolitics” by Mustafa El Sayyed, the author traces the development of the oil industry in Venezuela through Petróleos de Venezuela, S.A. (PDVSA) and its nationalization. El Sayyed explores how oil can be a powerful tool in the hands of authoritarian regimes that use companies such as PDVSA as a method of patronage.
With concerns to the highest exporting region of oil in the world, the article “Exxon’s Role in Iraq-Kurdistan Relations”, by Kate Leuba explores how oil companies such as Exxon play a role in the Iraqi-Kurd conflict.The aurthor also argues that the signing of several deals with the Kurdish Regional Government by Exxon further escalates the Iraqi-Kurd tension. This ultimately calls into question the legitimacy of the Iraqi government and its ability to control its oil resources. Qatar is also very important when it comes to the issue of oil.Yasmine El-Demerdash discusses how the revenues from Qatar’s oil industry have gone towards furthering its foreign policy objectives. In her article “How Effectively Do Qatar’s Oil and LNG Revenues Accumulate Political Influence in the Middle East?” El-Demerdash also highlights how the Arab Spring has caused problems in Qatar due to the fact that it abandoned its neutral stance and taken a supporting role for certain groups such as the Muslim Brotherhood in Egypt. Also, with regards to the Middle East, Ahmed Hossam Mohamed discusses how Saudi Arabia uses OPEC in order to maintain its influence of oil prices in his article “OPEC in the Light of U.S-GCC Partnership”. The author also highlights how this status is maintained with the backing of the United States and other GCC countries.

In the article “Regime (Not) Changed: Bahrain, the Arab Spring and Energy Security” author Omar Ocampo discusses how Bahrain is an exception when it comes to the events of the Arab Spring. He also illustrates how it is in the best interest of the monarchies in the Gulf and the United States government to suppress dissent in Bahrain.The aim being the prevention of other protests in oil rich countries for fear of the effect it would have on oil prices and production. Finally,Alexander Rifaat’s article “Shale Oil: Potential and Problems” assesses how shale oil is becoming a viable alternative to oil. He also explores the different arguments made in favor of and against the production of shale oil by different groups such as environmentalist and industrialists.

We do hope you enjoy this issue of Khamasin and look forward to comments and contributions from our readers in future volumes. Last, but not least, I would like to thank the Khamasin team: Sylvia,Hatem, Heba, Mona, Anis and Nada, without whom this volume would not have been possible. We dedicate this issue to Clement Henry Moore –thanks for everything.

Maye Kassem,
May 2014
Editor-in-Chief

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CHINESE OIL ACQUISITIONS IN NIGERIA AND ANGOLA

Sam Quigley
Jun 01, 2014

As China's economy grows, so too does its demand for energy, particularly oil. These exploding energy needs are largely being met by Middle East oil producers, but significant growth and huge future requirements means that China has to give much attention to other areas with large oil reserves, particularly sub-Saharan Africa. Although lacking the Middle East's giant reserves, many sub-Saharan African states, most notably Nigeria and Angola, have large untapped fields of oil and natural gas. Once almost solely controlled by colonial powers and the IOC's, Angola and Nigeria are rapidly developing ties with both Chinese oil companies and the Chinese government. As Chinese oil giants such as CNOOC, CNPC, and Sinopec expand their reserves by purchasing shares in Angolan and Nigerian oil fields, the Chinese government reinforces its position in these countries by assisting in infrastructure projects, forgiving debts, and giving loans and grants.

The size of China's economy, along with its explosive growth combine lead to it needing huge amounts of oil to sustain itself, in addition to requiring serious investment in future sources of oil to address future consumption. Even though most Chinese energy demands are met by coal, oil still factors heavily into Chinese energy plans. China is currently the second largest oil importer in the world following the United States, and is predicted to pass the U.S. at some point in the future. The Chinese demand for oil is increasing rapidly, with a 0.8 million-bbl/d growth in just the past two years. This dramatic growth is being met by Middle Eastern oil, but the Chinese have also invested heavily in many African states and their oil fields, particularly Angola and Nigeria.Both countries represent Chinese focus on oil in the region, but on different ends of the bilateral trade spectrum. China imports more from Angola than from any other country in Africa, while Nigeria is the second largest destination for Chinese exports behind South Africa. Angola figures to be a major source of Chinese oil for the foreseeable future, while Nigeria, which also exports large amounts of oil to China, seems to be seen also as a prime destination for Chinese exports.

Nigerian oil production, while currently not high when comparing to other major oil-producing countries, sitting at 2.4 million barrels per day, has a great deal of potential due to large offshore reserves. The Chinese have increased their relations with Nigeria following the reservations of many Western companies in working in the West African country. Oil theft is a large and systematic problem, as there are currently over $6 billion in oil thefts every year. The theft-related losses combine with high production costs and corruption concerns to form an unfavorable and unprofitable environment. In addition to such issues, the Nigerian government is currently debating a Petroleum Industries Bill, which if passed in its current form, would mean higher taxes and production costs for oil companies operating in Nigeria. This potential problem means that although there are significant offshore reserves in Nigeria, few companies are willing to spend on investment and exploration due to the instability of the situation.

Although many IOC's prefer to avoid dealing with the uncertainty of Nigeria, Chinese oil companies have begun to invest heavily in the country. For instance, the Chinese oil giant CNOOC has owned a stake in deepwater block OML 130 for many years. Furthermore, while the much-publicized purchase of Nexen by CNOOC focused largely on the Chinese company's acquisition of Canadian oil sands, the purchase also included significant offshore oil reserves in Nigeria. In addition to CNOOC, the Chinese company CNPC has purchased claims in Nigeria, buying rights to blocks OPL 298, 471, 721, and 732 from the Nigerian government in 2006. This purchase was recently followed by a 2012 purchase of the rights to blocks OML 64 and OML 66. The Chinese oil giant Sinopec also has made inroads in Nigeria, recently finalizing a deal with Total to pay $2.5 billion for a 20% share in block OML 138. This purchase from Total comes on top of the 90,000 barrels per day that are currently being produced for Sinopec by their client company Addax. Almost all of these investments by Chinese companies are in buying shares in blocks, not sole control, so the Chinese often rely on their IOC partners to do most of the actual production work for them, releasing them from the technological demands that come with offshore drilling. While there are a number of onshore fields that Chinese companies have stakes in, most of the oil-rich fields are offshore, so they are not quite as vulnerable to the population of the areas hurting their production.

In addition to the oil companies purchasing shares in oil fields in Nigeria, the Chinese government itself is trying to build a positive relationship withits Nigerian counterparts. The Chinese government has expressed a great deal of interest in investing heavily in Nigeria and developing positive trade relations between the two countries, both with oil and in reference to other types of trade. The Chinese Ministry of Commerce released a plan declaring the four main Chinese economic goals in Nigeria, which include expanding the Nigerian market for Chinese goods, increasing Chinese multinational companies' presence and market share in the country, increase China's influence in the Nigerian oil and gas sector, and to use its presence and investments in Nigeria to further expand into other markets in the region. While Chinese oil investments make

up a significant amount of China-Nigeria trade, it is far from the only good being exchanged between the two countries. An extremely large trade balance exists in the ever-increasing bilateral trade between the two countries, which in 2010 reached over $17.7 billion. Of this amount, 87.3% of the trade is made up by Chinese exports, accounting for 11.3% of China's exports to Africa. The imbalance of the economic exchanges between these two countries is further highlighted by looking at Nigerian and Chinese exports. Chinese exports include relatively diverse groups, including textile products, vehicles, industrial machinery, electrical equipment, telecom equipment, and other manufactured products. Nigerian exports, on the other hand, consist of 87% petroleum and gas, and in total only 4% ofNigerian exports to China are not raw materials. This trade imbalance is substantial, but the official numbers are likely lacking, as a large amount of Chinese goods are smuggled illegally into Nigeria from bordering countries, so the Chinese export amount is likely significantly higher. These numbers show that while the Chinese government puts emphasis on the oil and gas industry in import-related matters, developing an African market to increase Chinese exports is also a major priority.
China also has increased its influence by investing heavily in Nigerian companies, and most commonly, in infrastructure projects. Part of the Chinese plan to help Chinese multinationals gain more market share in Nigeria is to offer them large lines of credit and insurance in order to allow the multinationals to win most of the contacts they bid for. While there is apparent corruption in the system, most of the contracts won by Chinese companies are won because they are able to beat out other prices due to their backing by the Chinese government. Most investments and bids involve offers for multi-billion dollar infrastructure projects, such as building housing, roads, or hospitals. For instance, the Chinese company China Geo-Engineering Corporation, a major construction company, has had contracts for building an airport, a water supply system, a dam, and a road. Additionally, the Nigerian national utility company, recently under fire for frequent blackouts and energy shortages, privatized, and in the ensuing sale the China Machinery Engineering Corp. placed a successful bid for control of part of the country's utility services, setting the stage for increased Nigerian dependence on Chinese expertise.

However, despite the growing partnership between the two nations, some Nigerians remain concerned. Many Nigerians are critical of the dependence on Chinese manufacturing, specifically in textiles, as many manufacturing jobs have been lost due to cheaper Chinese goods flooding the market. The Chinese argue with the idea that they are putting Nigerians to work, saying that Chinese companies employ over 30,000 Nigerians, but this ignores the fact that over 350,000 textile workers have lost their jobs due to the influx of cheap Chinese textiles. Additionally, labor leaders complain about working conditions, saying pay is poor, there is blatant discrimination against native Nigerians, and labor laws are routinely ignored. In reflection of the issues the Nigerian public has with Chinese influence, Nigerian officials also are skeptical of the net benefit of having the Chinese operate in their country. This was exposed in cables drawn from the Wikileaks release, which document Nigerians taking issue with Chinese business practices and their future together. The Nigerians say that they are very aware of the bad reputation the Chinese and their oil companies have, and that the Nigerians do not wish to be another Sudan for the Chinese. They address their problems with the Chinese's lack of respect for the Nigerian laws and customs, their willingness to deal in corruption and bribery, and a complete lack of accountability. Although there seem to be some reservations, the amount of money and expertise the Chinese are sending in seems to suggest it will be hard for the Nigerians to turn them away.

The Angolan experience with the Chinese government and the Chinese oil companies is very similar to the Nigerian situation, except more developed. In a sense, Angola could be looked at as a model for a potential future for Nigeria. Angolan oil production is steadily growing, as it produced around 1.75 million barrels per day in 2012, hopes to produce around 1.8 million barrels per day in 2013, and plans to increase all the way to 2 million barrels per day in 2014. Of this, nearly half of the oil is being sold to China now that the US, Angola's previous largest oil buyer, has begun to rely more heavily on shale oil. This number means that Angolan oil accounts for nearly 16 percent of all Chinese hydrocarbon imports, making it China's largest African trading partner. While China relies heavily on Angolan oil, it wishes to keep from being reliant on one supplier, and has made a large amount of diversified oil investments in previous years, spending over $92 billion between 2009 and 2012 in joint ventures and energy acquisitions. Despite these investments, Angolan oil is incredibly important for China, and will continue to be into the future.

As inNigeria, Chinese oil companies have invested a great deal in purchasing shares in the country. Sinopec and CNOOC are the two Chinese oil giants operating in the country. Sinopec currently has a 50% interest in block 18 in Angola, which is divided into two halves. One half is currently in development, and the other half is in production, producing over 240,000 barrels per day. In addition to Sinopec's stake in block 18, Sinopec and CNOOC, in its first investment in Angola, recently went in on a joint venture to purchase a 20% share in block 32 for $1.3 billion. While China is Angola's largest oil importer, the Chinese state oil giants have a great deal of competition within the country. In fact, most of the oil that is produced in Angola is produced through contracts between Sonangol, the Angolan state oil company, and IOCs such as Marathon, Total, Chevron, Exxon, and BP.

In addition to the Chinese companies' interest in the country, the Chinese government has built extremely close ties with the Angolan government through infrastructure development, loans and credit lines. There are currently tens of thousands of Chinese workers living and working in Angola, mostly working on infrastructure projects, particularly building roads and buildings. The government in recent years has admitted over 250,000 Chinese workers on work visas. Many of the projects they work on are directly funded by the Chinese government, but many are also performed through the China International Fund, a technically private organization, but one that still has close ties with the Chinese government.

Although these infrastructure projects are well received by the Angolan government, there are problems, as the projects are often marked by corruption and poor planning, leading to buildings that collapse and roads that fall apart within months. This has led to some level of resistance to China's increased influence in the country, as most Angolans are well aware of the problems resulting from Chinese infrastructure projects. Stories of freshly paved roads washing away after the first rainy season are common in Angola, along with houses and hospitals that are quickly falling apart. The recently built General Hospital in Luanda had to be shut down after bricks started falling out of the walls, showing that it was in imminent danger of completely collapsing. Additionally, a large amount of Chinese funding and energy has not gone towards projects that would help normal Angolans. In fact, despite promises by the Angolan president to build housing for the poor, the Chinese have been helping the Angolan government build apartment complexes with apartments selling for hundreds of thousands of dollars, incredibly far out of the price range of the normal Angolan.

However, along with these infrastructure projects, the Chinese government has gained a large amount of power in Angola through its use of loans, credit lines, and debt forgiveness. Most notably, the China Development Bank gave a $1.3 billion loan to the Angolan national oil company Sonangol, along with a $7.5 billion line of credit from China's Eximbank. These, along with other financial incentives, continue to strengthen China and Angola's relationship. However, Chinese loans, while helpful for Angola, indirectly allow corruption in the country to remain. With Chinese loans, the government of Angola has little need to apply for IMF loans, which come with disclosure agreements, something not conducive to a government as corrupt as Angola. China's financial offers have strength beyond their monetary amount for many leaders, especially in Africa, as they do not come with any of the preconditions that Western aid or investment comes with. Western governments and IOCs are concerned with human rights and transparency due to their vulnerability to pressure from media and NGOs, but the Chinese face none of these concerns. The willingness of the Chinese to ignore ethical issues means they make a very tempting partner for many governments, such as Angola, which have corruption or human rights problems that Western partners would force them to deal with. Human Rights Watch argues that tens of billions of dollars of oil revenues have disappeared in Angola, a situation that would not be possible if Angola were forced to be more transparent.

As China's economy expands rapidly, and especially as the Chinese population embraces driving automobiles, it will require more oil to meet its needs. In order to secure a future oil supply, along with building reliable trade partners in the region, the Chinese government has reached out to African states, particularly Angola and Nigeria, to secure their oil reserves. China has used a multi-pronged approach, with its state oil companies buying shares in oil fields across the two countries, and the Chinese government both supporting these oil investments and making investments of its own in areas such as infrastructure, along with forgiving debts and offering large loans and grants to the governments and state oil companies

of Angola and Nigeria. Although there are some concerns by locals about the pressure and corruption the Chinese bring with them, their authority and sway continue to grow due to a strategy that maximizes their influence within the region.

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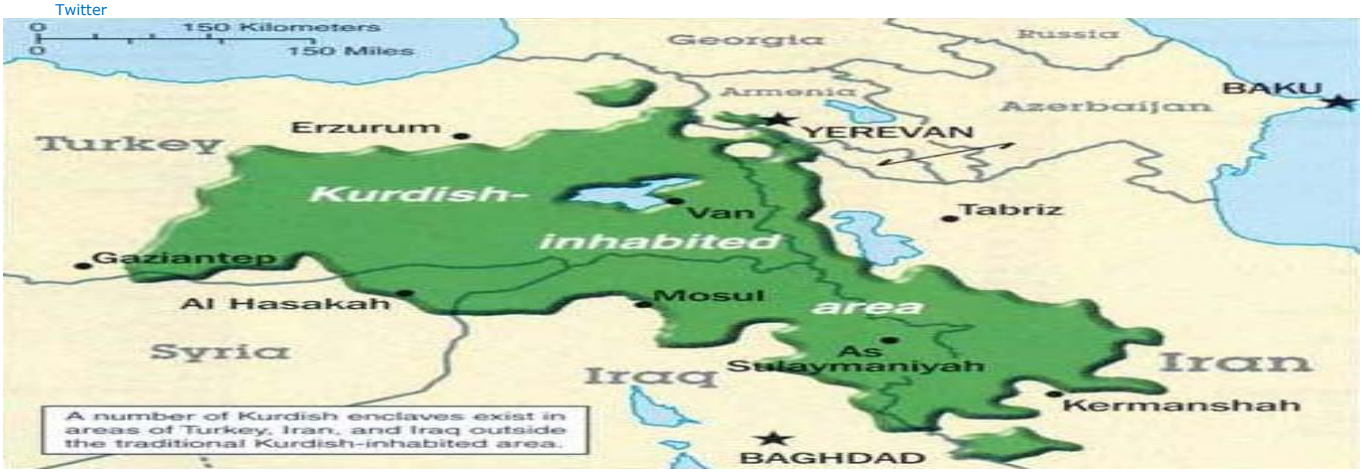

EXXON'S ROLE IN IRAQ-KURDISTAN RELATIONS

Kate Leuba
Jun 11, 2014

The Arab-Kurdish conflict has long been at the root of Iraqi regional tensions, as ethnic clashing is compounded by disagreements over oil control. With over 95% of government wealth coming from oil revenue, control of the region's major oil reserves is definite point of contention. Over the past couple of decades, Iraq and Kurdistan have struggled to reach an agreement; but with oil as a significant factor in Kurdish independence, the conflict will not be resolved easily. Oil not only fueled the expansion of the Kurdish economy, but also has become a bargaining chip in the fight for Kurdish independence. As Kurdistan witnesses mounting oil revenue, the KRG has increasingly used its natural resources to shape its foreign policy toward neighboring countries, especially Iraq. As major oil companies with existing contracts with the Iraqi Central Government have begun to look north for new drilling sites, Iraqi-Kurdish relations are near a breaking point. Multinational oil companies like ExxonMobil have accepted KRG legitimacy through independent contracts, infuriating Iraq by crediting regional relations over federal power. But despite Iraq's ultimatum to ExxonMobil, it has yet to act. By entering into a production sharing agreement promoting Kurdistan, ExxonMobil bravely intends to apply commercial pressure on Iraq's uncompromising oil ministry.
As Kurdistan continues to bolster itself as a semi-autonomous region, Iraq becomes increasingly threatened. Over the past two decades, Kurdistan has made huge gains socially, economically, and politically, giving hope for Iraqi progress. Yet, as Kurdistan continues to develop, oil legislation issues stemming from territorial disputes unsettle the region. While the Southern Iraqi government works to consolidate power and centralize the government, its efforts are weakened by Kurdish calls for autonomy. Iraq has fought back on Kurdish attempts, such as Article 140, that attempted to restore Kurdish political power in Kirkuk. This past March, the Iraqi budget underrepresented Kurdistan by a margin equivalent to 250,000 bpd's revenue. Moreover, after the Iraqi cabinet ratified a motion to include the KRG in its oil revenue at the beginning of 2011, Iraq has only made two payments since May 2011. Curiously enough, the first KRG oil contract with a major oil company—ExxonMobil—came only a few months later.

Divergence between the Kurdistan regional government and the Iraqi central government dates back to 2004 when the KRG independently signed a contract with a Norwegian Oil Company. In response, Iraq warned that if any company were to sign a contract with a regional government, the company's national contracts would be canceled. Kurdistan has made many oil contracts without Baghdad's approval, but needs their help with exportation. In April 2012, the KRG suspended oil exports through the national Iraqi pipeline because it claimed Iraq did not pay all its operating costs (Knights). Disagreement over oil control has long been a point of contention between Iraq and Kurdistan. The KRG has consistently pushed for more representation in Iraq's national budget, claiming Kurdish natural resources are under compensated. Kurdistan lobbied Iraqi officials and US representatives involved in the Iraqi constitution process for more control of pipelines and oilrigs, but saw no success. Currently, Baghdad legally manages all oil related policy and Kurdish resources are technically under Iraqi jurisdiction. The KRG has protested these policies by exporting crude independently and refusing to disclose its actions with the Central Iraqi government. Iraq has repeatedly attempted to fight back, but has remained relatively un-aggressive toward its North. As of 2013, Iraq has even stopped including Kurdistan in its EITI transparency reports.

As the conflict over oil continues alongside the withdrawal of US peacekeeping forces in the region, something will need to fill the vacuum. The global economy will remain vulnerable as "commercial tensions" mount with the troops exiting. With the decision to choose between regional and central government being left up the oil companies, these multinational companies have acquired increasing political power in the region. Yet, it must be taken into consideration that the initial interest shown in Kurdish oil came from small, independent companies like Norway's DNO. These companies, however, did not enter the KRG without expert advice. Peter Galbraith, former US ambassador and advisor to Kurdistan throughout Iraqi constitution writing, is responsible for DNO's obtaining of an oil license in the KRG. In compensation for his bold advocacy of Kurdistan, the KRG awarded Galbraith with rights to a sizable Kurdish oil field that Galbraith previously agreed to get DNO to develop. Galbraith now faces numerous lawsuits with the purpose of determining whether Galbraith acted as a US citizen with private interests in the KRG or as a US government official. Galbraith rendered the distinction between US national interest and personal economic interest unclear, making the US government's role in developing the Kurdish oil bureaucracy harder to decipher.

Since the agreements over the Kor Mor blocks with the KRG a few years later in 2007, oil investment in the Kurdish region has exceeded $1.04 Billion. The KRG has fewer than 12 open oil blocks that together produce about 300,000 barrels per day. There have been large expansions in exploration and investment, resulting in increased Kurdish employment and political progression. This expansion can largely be attributed to the small oil companies that were first drawn in by the North. Whether it was the KRG's long-term industry plan or the independent companies' decision, there is no doubt that small oil company entrance in the Kurdish oil market paved the way for the larger companies. Small companies—willing to chance the political risk—piloted working conditions, output production, etc., saving the larger companies much of the risk in entering a

new territory.

Only after the KRG has established over 50 contracts with various oil companies, ExxonMobil became the first company to sign both a contract with Southern Iraq and Kurdistan. In the past year alone, Exxon has spent over quarter billion dollars in exploration of oil rigging in the Kurdish region. Although it has faced extreme backlash from Iraq, it has twisted the oil law and used differing interpretations to make its contracts with the KRG legal. This winter, ExxonMobil CEO Rex Tillerson made an unprecedented visit to Iraq to discuss with Prime Minister Maliki the Iraqi Central Government's response to Exxon's recent partnership with Kurdistan. Iraq gave an ultimatum (January 30) to Exxon in which it declared Exxon must give up its Kurdish plots or the contact to the West Qurna-1 field in the South will be dissolved. According to Article 112 of the Iraqi constitution, oil management is strictly a function of the federal government. Kurdish officials have weakly defended KRG actions by claiming that IOC involvement in Kurdistan reaffirms the constitution since the oil fields being bid on are technically under Central Iraqi jurisdiction. Military action was also threatened as means of backing up the ultimatum as Iraqi officials were quoted saying that Iraq would go to war for "oil and Iraqi sovereignty." In order for Iraqi troops to reach ExxonMobil headquarters, however, they would inevitably confront KRG forces. The question of regional versus federal autonomy is highlighted as Kurdistan proceeds with its oil dealings independently of Iraq.

After Exxon bid with the Central Iraqi Government for the West Qurna-1 oil field—the second largest reserve in Iraq and first in maximum production rate—the company realized that it would be more profitable to deal with the KRG. Unlike Iraq, Kurdistan has been open to production sharing agreements, giving the companies a weighty advantage despite nationalized production. Despite heavy pressure from the US and UK, the Southern Iraqi public has vehemently opposed the idea of multinational corporations controlling its oil through PSAs. If Iraq were to engage in the desired PSAs, it would endure an estimated 75-119% loss in capital alone. Moreover, PSAs do not exist in countries similar to Iraq where companies enjoy low extraction costs and little risk in exploration. The loss would mostly be a result of privatizing and transferring nationalized assets to private hands. Iraq's well-established, high functioning oil industry would be disassembled and reoriented to fit company—not national—objectives, a threatening thought to a country whose government functioning depends so heavily on oil revenue.
Although the IOCs think Iraq has been far too stingy with its oil business, most unbiased experts agree long-term contract PSAs will destroy the fledgling Iraqi government and further cripple US strategy in the region. Exxon thus effectively defied the Obama Administration to make the deal with the KRG, calling into question the relationship between the US government and its major companies. Obama has been put under extreme pressure from al-Maliki, especially after Chevron followed Exxon into Kurdistan, causing the State Department to respond with repeated warnings to US oil companies of the political implications they are presenting.

Recently, Exxon hired former American ambassador to Iraq James Jefferies as a consultant, a manifestation of the company's acceptance that its presence in Kurdistan will alter regional politics. The Kurdish federalists have undoubtedly gained political ground because of their new ally Exxon while Exxon itself believes it will equally, if not exponentially, benefit from the contract. Exxon likes to think that a contract with the progressing Kurdish region is more likely to bring about a smooth, long-term partnership than relying on the Iraqi Central Government who wants to hold its own against international oil companies. Exxon's entrance into the Kurdish oil market could very well be viewed as a bold tactic aimed at luring Baghdad to renegotiate existing contracts to give oil companies a better deal. Al-Maliki and the Southern Iraqi Oil Ministry have been put in the precarious position of either taking a hard-line approach against companies like Exxon, furthering a sense of solidarity amongst the oil companies in Iraq, or refraining from action, tacitly submitting to the KRG's independent oil developments. However, with the Exxon contract more than a year old, Iraq's window of effective reaction time is dwindling. With a rising number of these dual contracts, inaction on Iraq's part seems less and less efficient, heightening the severity of negative economic and political consequences that Southern Iraq will endure if its major oil partners move North.

In January 2013, nine months after Exxon entered the Kurdish plot, the KRG awarded Chevron 80% of two other major oil blocks. Quickly after that, Total joined the bunch. The companies currently in Iraq initially accepted contracts with low fixed earnings in hopes that they would eventually modify the contracts to be more profitable. After years of staunch oil policy on Iraq's part and national resistance to privatization, his hope is dwindling. The rapid succession of major companies moving north can be hypothesized to represent an "oil company rebellion," or last attempt to wrestle power from the Iraqi government. Logically, the largest, most established oil company—Exxon—set the precedent. If an "oil company rebellion" were to succeed, Exxon's leadership would certainly generate credibility and grab Iraq's attention. As the companies apply political pressure to an already unstable Iraq, there is a chance they could shift the previous agreements to their favor. The timing of the move has noticeably coincided with the exit of American troops. Perhaps oil companies saw US military presence as a vehicle for American companies to gain influence in oil dealings. Now, with the troops' departure and mounting corporate frustration, companies are willing to take a risk and move north, especially if they had a previous agreement to move north together. In this sense, the US government enforcement could have been seen as the last bargaining chip to sway the oil production in favor of the companies. Without any proxy governmental source to relay pressure, the oil companies will have a deeper engagement in regional politics. As US attention to Iraq lessens as Bush's grand plans of institution building are abandoned, the oil companies will emerge as key political actors. Although the US government is still involved with both Iraq and its major oil companies, decision-making will inevitably be less intertwined as US foreign policy concentrates elsewhere. Exxon's hiring of ex-ambassador James Jefferies certainly indicates its realization of this opening.

The rapidity of this so-called "oil company rebellion" and lack of repercussions from Baghdad, has left the Iraqi Central Government with little bargaining power. As the pioneer companies remain unpunished, the competition for holds in Kurdistan has heightened and the opportunity for Iraq to fight back is diminishing. Moreover, after the fourth round auction in 2012, Iraq's unwillingness to compromise was taken with more firmness than past years. If Iraq had worked to win the favor of other major oil companies after Exxon's bold move, it could have potentially persuaded them from following Exxon while simultaneously seizing Exxon's holdings in West Qurna to find a quick replacement. In other words, Iraq could have beat the "oil company rebellion" by materializing the risk of signing with the KRG. In this case, Exxon, the world's leading oil company, would have been isolated and Iraq would theoretically gain leverage in the process instead of losing it. Instead, Iraq's inaction has left it in a position with few policy options, the strongest of which seems to be engagement with China and Russia.

A second potential explanation to Exxon's seemingly risky move stems from opposite logic to the "oil company rebellion." In past years, Exxon has increasingly become a gas-based company, shifting its proven reserves to 53% natural gas and 47% oil. As Iraq continues to disappoint oil companies, Exxon might take its business elsewhere. The market rests heavily on state owned enterprises for oil production, but the natural gas industry might prove to be more flexible. One primary reason for US cooperation with the KRG is the Nabucco Pipeline Project that will move Kurdish natural gas into Europe. With an influx of Kurdish natural gas, Russia will finally have a competitor to its natural gas monopoly in Europe. This also ties into the line of thought that the US government is relying on its major oil companies to further its political goals in the region. Obama's advocacy of improved Turkish-Israeli relations has encouraged Turkey to accept its Kurdish minority and open natural gas pipelines in Kurdistan itself. Obama has pushed hard for Turkey to ameliorate its relations to Israel. In following, the KRG began exporting crude oil directly to Turkey at the outset of 2013, bypassing the Iraq-Turkey pipeline and decreasing its dependency on Baghdad authority. With Turkey and potentially Israel's help, the KRG can grab for more autonomy through its new natural gas pipelines that avoid Southern Iraqi territory. As Turkey jeopardizes its relations with Baghdad, they could be replaced by budding commercial and political relations to Israel. Turkey would trade allies in the region to decrease its looming deficit by importing the cheaper Kurdish oil. With energy costs and a high level of imports destabilizing Turkey's economy, this change will cut energy costs and Turkey's import tally.

Yet, Exxon recently invested in a multi-billion dollar water injection process in Southern Iraq to increase its oil profits, suggesting it has not abandoned all hope to remain an oil-based company. The decision to move north, however, could satisfy both goals by gaining Exxon a natural gas supplier while forcing Iraq to be more generous in its oil dealings. As the oil market power transferred to state owned enterprises in the late 1970s, oil companies have been largely overpowered by the tide of nationalization. Iraq's recent ascension to second most powerful member in

OPEC and political vulnerability make it a prime target for oil companies.

As one Chevron representative was quoted, the "KRG is attractive because of its potential and business friendly approach." Although the Exxon deal came as a huge shock to company analysts, statements from a number of oil companies, like Chevron, hinted the companies were ready to make riskier moves in Iraq. In any case, there are multiple lenses with which to look at this shocking chain of events. Whether Barzani is trying to use oil to gain national momentum in Kurdistan or Exxon is leading the oil companies into a rebellion against Iraq, symbolizing a fight for pre-OPEC management, a variety of factors will further complicate an already complex situation. Regardless of the motives, it appears as if both the companies and the KRG have little faith in Iraq and may be jointly or independently building resistance to a resented political system that is still being built. The mutual trust needed to save the KRG-Iraqi atrophying relationship has been marred by recent years' disputes over oil policy. For a while, the KRG used diplomacy as a means to an end, but is now pursuing a divergent path fueled forward by the quest for autarky. Although it is hard to predict what Iraqi state of affairs will look like in the coming months and years, it is certain that oil will continue to play a crucial role in its progression.

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HOW EFFECTIVELY DO QATAR'S OIL AND LNG REVENUES ACCUMULATE POLITICAL INFLUENCE IN THE MIDDLE EAST?

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May 28, 2014

INTRODUCTION

Originally part of the Ottoman Empire, Qatar became a British protectorate in 1916 following the former superpower's breakup. The British were the first to recognize Muhammad Bin Thani as leader of Qatar, and their interference in Qatari affairs was actually welcomed by the Qatari ruling family since they offered advisory service and military protection against the Saudis, who were interested in taking over Qatar (Fromherz 2012). More interestingly, unlike other colonized Arab nations, the Qataris were not pleased with the departure of the British, for the crucial services their presence had offered them, such as balancing rival interests in the tiny Gulf state (Fromherz 2012).

The Qatari economy was primarily based on pearls and fishing. However, the pearl industry started to decline in the 1920s, and Qataris had suffered from severe poverty. It was not until the late 1940s when the Qatari economy had started to improve, owing to oil and natural discoveries, and subsequent concessions with the Anglo-Persian Oil Company (APOC).

The state was declared independent in 1971 by Sheikh Khalifa bin Hamad Al-Thani who had mounted a coup against the ruler Sheikh Ahmad, and had become the ruler in 1972.

GEOGRAPHY AND POPULATION

To understand Qatari policies from the 1900s until today, one must look at the geography of Qatar. Stretching across an area of 11,437 km, Qatar is small in stature compared to its neighbour Saudi Arabia, which is nearly 150 times larger.

A tiny state engulfed by much larger states, not only geographically but presumably also militarily, Qatar lies in a midpoint of a triangle of rising empires such as Saudi Arabia, Oman, and Iran (Fromherz 2012). The threats of being usurped posed by these states date back to the 19th century, and have been continuing ever since. In addition to this, it faces the danger of the more densely inhabited Bahrain, which has always had aspirations of controlling Qatar (Fromherz 2012). This perhaps explains why Qataris were favoring, and still favor, protection by larger, and more established powers against their ferocious neighbors.

To make matters worse, the total estimate of indigenous Qataris has amounted only to around 225,000. The rest of the population, which is about 1.8 million, is composed of foreigners (Blanchard 2012). This places Qatar at the end of the most-populated list among its neighbors.

One other factor that needs to be taken into account is the Qatari landscape. Qatar stretches over a land which is not fit for cultivation, is poor with regards to fresh water resources, and has no permanent crops. Therefore it needs to ensure current and future maintenance of food security (Cordesman and Al-Rodhan 2006).

These factors combined have axiomatically induced the survival strategy embraced by Qatari rulers over time. Therefore after becoming the Emir, Hamad bin Khalifa Al-Thani, the son who had mounted a coup against his father in 1995, had the intention of elevating the status of Qatar in the region and the world. He had launched a number of political reforms, focused on the development of the Qatari economy and education, and launched Al-Jazeera (Fromherz 2012).

One indispensable tool to achieve these Qatari aspirations is its Foreign policy. The Qatari Foreign policy has been diagnosed with certain prominent drivers. One of which is the need to enhance and reinforce the Qatari profile in the international arena. One reason behind this is the fear of the perils derived from being an unknown small state. Another foreign policy driver is, perhaps, the need to keep conflicts as far away from home as possible (Khatib 2013). Therefore, one crucial objective driving the Qatari foreign policy is rising as a "benevolent mediator" in regional and international politics. (Khatib 2013)

However, this foreign policy has also been diagnosed with one important feature; incoherence. The contradiction between the image Qatar aims to carve for it, and the actual actions taken to attain it, jeopardizes the very core of Qatari national policies, which is maintaining stability (Khatib 2013).

In my opinion, Qatari political influence, particularly in the Middle East, has consequently been adversely affected. Therefore, I aim to study previous and recent Qatari mediation initiatives, facilitated by LNG and oil revenues, to assess whether Qatari political influence has been adversely affected or, on the contrary, has been positively affected. I will also pay special attention to the recent Qatari intervention in the Arab Spring.

OIL AND GAS IN QATAR

In a matter of two decades since Hamad bin Khalifa has assumed power, how could such rapid development occur and how did Qatar establish its diplomacy and negotiation skills? The primary answer lies in two words: natural resources. The first major oil shipment had occurred in 1949, but it took more than a decade for significant changes to be felt in the Qatari economy and living standards. By exploiting its natural gas reserves, which rank the third largest in the world, following Russia and Iran, the industry had been dubbed as "the corner-stone of Qatar’s ambitious foreign-policy initiative" (Dargin 2007). Nowadays, oil and gas revenues account for 87% of the government's revenues (Fromherz 2012).

NATURAL GAS

According to the British Petroleum Statistical Review of World Energy for the year 2012, the total world proven reserves of natural gas by the end of 2011 was 7360.9 Trillion Cubic feet, of which Qatar owns 884.5 trillion cubic feet. As for production, total world production has amounted to 3276.2 trillion cubic feet, of which Qatar has contributed up to 4.5%. In 2011, Qatar's natural gas production had risen by 25%. However, the U.S. remains the leading producer of natural gas followed by Russia, UK, and Qatar. As for world natural gas consumption, it has grown by 2.2% in 2011 (BP 2012).

What is of more relevance to Qatar though is Liquefied Natural Gas (LNG), the sector of the industry where Qatar is the leading exporter. The sector itself is the fastest growing sector of the gas industry (BP). In 2011, "LNG shipments grew by 10.1% with Qatar (+34.8%) accounting for virtually all (87.7%) of the increase"(BP 2012).

OIL

According to the OPEC's Annual Statistical Bulletin for 2011, Qatar owns 25 billion barrels of crude oil proven reserves, and produces 734,000 barrels per day. Its petroleum products' exports have amounted to 509,000 barrels per day. Taking this into consideration, the Qatari economy is almost exclusively dependent on oil and gas revenues. About 85% of export earnings and 70% of government revenues are made up of oil and gas revenues (Cordesman and Al-Rodhan 2006).

QATAR INVESTMENT AUTHORITY

One of the main channels through which LNG and oil revenues are translated into far-reaching tangible global Qatari influence is the Qatar Investment Authority (QIA). Founded by the state itself in 2005, QIA has acted as a means of diversifying sources of income through investment. QIA is in charge of investing funds inside as well as outside Qatar. Abroad, QIA has invested in "assets classes such as equities and fixed income and private equity, as well as through direct investment" (QIA). For example, in May 2010, QIA has acquired the famous London department store Harrods for $2.2 billion. Furthermore, it has bought "26% of Sainsbury's, a 20% stake in the London Stock Exchange, the Chelsea Barracks site and the US embassy building in Grosvenor Square" (Eaton 2012). In France for example, the QIA had acquired the French football club Paris St. Germain, in addition to other acquisitions in Asian countries like Malaysia and China.

AL-JAZEERA

Dubbed as the first TV channel based on Arab ground, which is openly "critical of Arab regimes and governments and even dares insult them occasionally" (Bahry 2001), Al-Jazeera was founded in 1996, shortly after Sheikh Hamad Bin Khalifa Al-Thani has assumed power. While it claims

to be independent, $137 million was pumped into the channel by the Emir to support and allow the station to be financially independent later on (Bahry 2001).

Al-Jazeera was perhaps one of the earliest channels through which Qatar was to secure a place for itself and project a popular self-created image on the international front. In a matter of four years, Al-Jazeera had managed to attract a wide audience from all over the Arab world, especially since it offered alternative news to the otherwise state-owned media in their countries (Bahry 2001). Furthermore, programs in the channel that are highly critical of Arab regimes', such as "In the opposite direction," have threatened Qatari relations with Jordan, Libya, Tunisia, Morocco, Kuwait, and Bahrain; to the point where some of these countries withdrew their ambassadors temporarily in protest (Bahry 2001).

However, Al Jazeera's popularity was on the rise despite these incidents, especially as a result of breakthrough stories such as the broadcasting videos of Osama Bin Laden, or exposing the American Abu Gharib prison in Iraq in 2003. Its audience has amounted to 250 million viewers in almost 120 countries in 2011 (Gustin 2011).

Although the TV station had been criticized occasionally for not addressing the Qatari government or scrutinizing the Qatar regime asit did with other Arab states, or for being one of the Qatari state's tools of public diplomacy and foreign policy, it was not until the Arab Spring when these accusations had started to flourish and garner wider support.

Al-Jazeera had long been charged with being driven by Sunni sectarianism and a dominant enmity toward Iran (Kessler 2012). For example, while the network has been hailed for its excellent live coverage of uprisings in Tunisia, Egypt, and Libya, it was hardly doing the same for Bahrain, where a majority of Shiite were protesting against the scant rights they have in the Sunni-led kingdom (Kessler 2012). Although it's hasty to follow the claim propagated by the media that the case in Bahrain is a sectarian issue, the end result is the same. Al-Jazeera did not pay any remarkable attention to the Bahraini protests compared to the uprisings in Tunisia or Egypt.

FOREIGN POLICY OF QATAR

Given its small size and limited resources, Qatar needs to adopt three main strategies to survive its predicament. According to Peterson, these strategies are: reaching a “modus Vivendi” with neighbouring countries, forging strong ties with a powerful protector against larger neighbours, and finally, supplying the neighbours or the world with a unique and indispensable commodity or service. Of the three strategies, Qatar has allocated much weight to the third strategy, through taking on the task of nation branding (Peterson 2006). The measures taken by Qatar to distinguish and create for itself a “brand” include: hosting “major international conferences and enhancing its involvement with international organizations”, in addition to oil, gas, and sports (Peterson 2006).

Despite this, Qatar has not completely neglected the first two strategies. In reference to the first strategy, for example, Qatar has sought to stabilize its relation with neighbouring countries such as the UAE and Bahrain where there had been previous tension (Peterson 2006).

As for the second strategy, Qatar has an American military base on its soil, Al-Udeid air force base. On a cultural level, it has established the Education City where a number of foreign universities have local branches, such as Texas A&M University, Cornell University and Carnegie Mellon University (Peterson 2006).

ROLE OF QATAR AS A MEDIATOR

As of 2000, Qatar has demonstrated notable and continuous activity in the field of conflict mediation, part of its nation-branding strategy. With vast amounts of money at their disposal, it has managed to bring the ends at conflict to its negotiation table, at the expense of important regional players, such as Egypt. This had particularly happened in the case of Darfur crisis (Kamrava 2011). Another incident where Qatar has provoked another regional player a lot closer to home, Saudi Arabia, is the intervention to end the Houthi rebellion in Yemen (Kamrava 2011). Other mediation efforts include intervening to end conflict in Palestine, and Lebanon.

What is more important however, is how successful these negotiation and peace talks were. In other words, Kamrava emphasizes that holding peace talks does not necessarily or automatically translate in conflict resolution, which is the case with Qatar. Qatar has succeeded in conflict mediation, but not conflict resolution.

ROLE OF QATAR IN ARAB SPRING

However, in the recent uprisings of the Arab world, Qatar seems to have abandoned the neutral attitude and forsaken, whether a calculated move or not, the image of an impartial peace broker it has so meticulously worked on propagating. For example, in Libya, Qatar has controversially lobbied for military intervention and “the provision of weapons, Mirage jets and ground troops to rebel and ally forces” (Barakat 2012). Furthermore, Qatar’s support to the Islamists in Libya, Tunisia, and Egypt clashes with Saudi Arabia’s antagonism towards the same group. In Syria, Qatar was the first Arab country to withdraw its ambassador from Damascus, and has been sending weapons to Syrian rebels (Colombo 2013).

According to Silvia Colombo, the Arab spring has handed Qatar a chance to promote its international image and change from being confined to a peace broker to an active participant in the NATO-led mission that supported anti-Gadhafi rebels in Libya (Colombo 2013).

But how this has affected the situation at home has not quite been assessed. There’s a contradiction in regards to the Qatari regime supporting and funding uprisings outside its borders, yet being ultra conservative when it comes to its domestic affairs, which might cause trouble at home to the ruling family, endangering the very stability of the regime.

CONCLUSION

Vast LNG and oil revenues have definitely assisted Qatar in achieving its state-branding and foreign policy objectives. They have invested in numerous entities abroad and thus diversified the sources of income for the government. These revenues have also made it possible for Qatar to hold peace talks and offer monetary incentives for parties involved, as well as funding rebels in Arab countries where uprisings have taken place to bring the favourable parties to power and keep dangers at bay.

However, the recent shift in Qatari policy, where it has chosen to take sides instead of preserving its image as a “neutral” player, has provoked an anti-Qatar sentiment in neighbouring Arab countries. As for the Arab streets, unofficial reports have stated that Al-Jazeera’s viewership had declined in both Tunisia and Egypt.

More importantly, taking sides in the events of the Arab spring has positioned Qatar in a situation where it seems to be competing with Saudi Arabia – a competition that Qatar may not want to engage in. Being a small state with vast financial resources will not assist against any kind of intervention by one of its great neighbours, namely Saudi Arabia. Qatar seems to have kicked the hornet's nest by pursuing its incoherent foreign policy, blinded by the need to ensure survival and promote its profile. Whether this has affected its political influence in the Middle East negatively or positively leaves us with the question of how influential the tiny state already was in the first place. Taking into consideration previously mentioned initiatives in fields of politics, economics, and culture; I have come to believe that Qatar's influence in the region is overestimated and will always be restricted by its size, location, limited resources (other than hydrocarbons), and indigenous population size.

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OIL THEFT IN NIGERIA

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Jun 01, 2014

THE PRACTICE OF BUNKERING

As of March 30th 2013, Shell Nigeria, one of the largest oil companies in operation in the Niger Delta in Nigeria, has decided to shut down a major oil pipeline. The Nembe Creek Trunkline transports 150,000 oil barrels per day, and with plans to shut it down for the entirety of April, the estimated losses stand at close to half a billion U.S. dollars, provided oil is trading at 105 $USD. While Shell only owns a 30 percent share of that oil, it declared force majeure and opted to close the pipeline. It still stands to lose $5m every single week. This has already happened in February this year – three times in three days – and is very costly to all those involved. But why would Shell do that?
The aforementioned actions are simply the last step possible for oil companies to combat the rising tide of oil theft, or bunkering, as it is locally known. And it is quite rampant; a report by the Joint Task Force (JTF) mentioned twenty-two different leakage points that included illegal hose connections. Mr. Jurgen Jansen, a pipelines asset manager for Shell Petroleum Development Co. reported that there were “at least 90 [illegal tappings] still in the system now that we are aware of." He also said that Shell was losing up to 60,000 barrels a day.

Bunkering, in essence, is tapping into oil pipelines, transporting the crude in barrels or open barges, and then processing it locally in makeshift refineries. Kerosene and petrol are produced for the local market and traders take diesel away on barges, or inland on trucks. Next to each homemade refinery are pits full of bitumen that is sold to road construction companies. The unrefined crude can also be shipped internationally. It is a dangerous, illegal and unsavory process. The gas waste product is highly flammable; if ignited it can cause an inferno. Bunkerers also complain of diseases and rashes on their bodies.

REASONS FOR ITS ESTABLISHMENT

Nigeria has not met its OPEC quotas for the better part of seven years. This is due to militant unrest in the Niger Delta, where most of the production is concentrated. Since 2009, however, the late president Umaru Yar'Adua introduced an amnesty for combatants and brought about an uneasy end to hostilities. About 26,000 people draw $400 each in allowance money, every month. Last year, the government paid about $400m to maintain the peace, and the sustainability of this is questionable. Oil production was low, mostly due to the instability, intentional sabotage of facilities and occasional theft of oil. It may be the case that the long-standing grievances that led to the unrest (lack of resource control, violent crack downs on dissidents, endemic regional poverty), coupled with the resulting damage to the local economies and societies is to blame for bunkering.

The high quality of Nigerian "light" crude means that oil from such leaks can be processed in primitive, "back yard" refineries into a product which can be used in domestic generators or sold to filling stations, mixed with refined petroleum products, and used for powering vehicles and vessels. It is worth noting that Nigeria’s legal refineries have been left largely defunct by decades of mismanagement and corruption, with the result that fuel stations in the world’s 12th largest oil producing country often run out of supplies. So there is an apparent need for bunkering to exist, and there is no shortage of Nigerians who find no better option than it.

STAKEHOLDERS AND ACTORS

OIL COMPANIES

While it might seem that there are obvious winners and losers, every stakeholder wins something from bunkering. First of all, there are the oil companies. On paper, they have the least control over affairs and the most to lose. They do not have the power to arrest anyone; they merely report incidents of theft to the government. They also stand to lose their resources. However, they do have control over oil operations and can stop flows if they suspect theft. They have also historically received strong support from Nigeria’s governments, either by legal or illicit means. That has translated into swift military assistance whenever needed.

There is also the question of accountability for environmental damage that has blighted oil extraction operations. Relaxed governmental

supervision and the lack of disincentives have historically meant that a massive amount of oil is spilled each year, with little to no cost borne by the oil companies responsible. However, rising international awareness and outrage has forced these corporations to clean up their act. It has become extremely convenient to blame oil thieves and refiners on the pollution in Niger delta. By some accounts, 70% of oil in refineries is wasted and disposed off poorly. These are two reasons why low-level theft might be something that the oil companies wouldn't mind having, as long as they stave off further trouble down the road. Further proof of tacit acceptance if not collusion on a lower level is the claims that some oil company employees are in on the process. There are claims that they lower the pressure on pipeline so that they won't explode when punctured.

"Bunkerers"

This brings us to the second and principal actor – the bunkerers themselves. They are simply a product of a decades-long oil curse, where they enjoy none of the natural wealth below their feet, but are actually poorer off from it. Nigeria's troubles with oil spills, gas flaring and explosions are well documented. The residents of one of the world's most energy-rich countries face huge lines daily in order to buy cooking oil. They suffer from an unemployment rate of 23.9%. Most of the people in the region of the Niger delta, where most oil activity is concentrated, have been perpetrators or victims of militant violence that started around 2005 and ended in 2009. Most of the "workers" in this industry are young, disaffected males, who have no other alternative. Some have received basic education; others received training as part of government post-conflict rehabilitation efforts. They have diverse skill-sets, from diving to welding to degrees in geology. And they carry out most of the dirty, hazardous work. Yet for them, they see their working in such a business as something that is out of their own hands.
For the bunkerers, they feel a sense of ownership to the oil, and that they are simply tapping into their wealth. This illicit trade props up the local economy; a bunkerer can make up to $60 a day; much more than other jobs in the market. Some actually justify working in this, believing it far better to other forms of crime. But it would be foolish to assume that bunkering exists solely because of them. It takes organization, capital, and authority to not just turn a blind eye, but also transport the crude on barges throughout creeks for hours on end, plus for ships to be moved globally. This suggests bigger forces at play.

GOVERNMENT

Article 44, section (3) of the Nigerian constitution explicitly states that
"the entire property in and control of all minerals, mineral oils and natural gas in under or upon any land in Nigeria or in, under or upon the territorial waters and the Exclusive Economic Zone of Nigeria shall vest in the Government of the Federation and shall be managed in such manner as may be prescribed by the National Assembly"

The practice of bunkering is clearly illegal. As mentioned before, the question remains of the degree of collusion and protection afforded by the different authority figures. These are principally local tribal chiefs, provincial governors, local and JTF security personnel, but also more importantly the federal government itself, the army and navy, and finally even the office of the President.

The controversial whistleblower website, Wikileaks, published a set of diplomatic cables sent from the U.S. mission to Nigeria. They were titled Niger Delta: Guns and Thugs Rule the Land, Captain Crusader vs. The Bunkering Bandits, and Fundamentals of Illegal Oil Bunkering in Nigeria. While in essence investigations undergone by the representatives of the U.S. government, they offer rare insight and facts about a murky industry. The first cable suggested a former First Lady of Nigeria, the late Stella Obasanjo as having a hand in these oil deals. It also mentioned that militant youths from Ijaw and Itsekiri tribes purchase weapons directly from the Nigerian army.
The second cable was an extensive interview, by US military officers, of the local JTF commanding officer at the time, Captain Olufemi Ogunjimi. He mentioned the government's successful efforts to bring down the amount of oil bunkered from 300,000 b/p/d to as low as 40,000 b/p/d. He also said how his goal was not simply to pursue the villagers who tap into the pipelines and transport the oil. He was after the ""powerful men from Abuja (the capital)"they have easy access to pipelines often with the complicity of oil company employees, and the security forces are told – or paid – to look the other way". Captain Ogunjimi also claimed that the oil companies are directly complicit; how else would men from simple backgrounds know which pipelines were carrying water, gas, or oil?

An important part of the cable described how the Captain would often face local pressure in the form of bribes and threats, or sometimes direct orders from his superiors to release certain ships that he seized for not being on his weekly list of authorized ships. In order to lessen the intimidation, he would move the seized ships as quickly as possible to Lagos. The third and final cable has further claims of complicity of those in power. Sources from Exxon said that senior military officers "forced their employees at gunpoint to pump oil into illegal barges or tankers".

Looking at the different actors, the scale of the problem becomes apparent. While constrained to different regions, there are countrywide and even international interests in maintaining this illegal practice. Tackling the most obvious and weakest link, the young male villagers who carry out the dirty work, wouldn't eradicate the problem, when those in power all seem to be accepting of keeping sustaining the status quo. The problem is that these illegal interests come at the expense of many others, as will be elaborated on below.

EFFECTS

LOSS OF REVENUE

Nigeria has had a long-standing problem with keeping track of the amount of oil it produces. Different government agencies report different numbers of b/p/d. As such, with the varying price of oil, it is somewhat difficult to obtain a precise figure of the cost of oil theft. That is not to say there are not reliable estimates. Ngozi Okonjo-Iweala, the Nigerian finance minister, said that for April 2011, with about a seventeen percent drop in official oil sales (400,000 b/p/d), and an average trading price of $121 per barrel, this amounted to about $1.2 billion. Nigeria typically relies on oil trade for 75 percent of its foreign currency earnings, and it accounts for over 90 percent of state revenues.
There are also costs involved with cleaning up any oil spills. A recent United Nations Environmental Program (UNEP) report found that cleaning up Ogoniland in the Delta, would initially require $1 billion in the first five years and all in all, 30 years to complete.

A CULTURE OF CORRUPTION AND LAWLESSNESS

As outlined before, there are different actors that are interested in preserving the status quo. For those on the ground where bunkering occurs, it is very important to look at criminal gangs with access to arms that demand and receive protection money, or actively carry out bunkering. Their presence is and of itself a security threat, an obstacle to development, and a recurrent political time bomb. In a sense, they are emblematic of the problems that ordinary Nigerians have faced since the discovery of oil in their land.
On the other hand, it is safe to say that bunkering compromises a multifaceted institution with many benefactors and sponsors. Moreover, this includes people in the highest corridors of power. Having such rampant corruption robs Nigeria of the chance to achieve prosperity, both economic and political, when there is an understandable lack of trust in the government.

SOLUTIONS & OBSTACLES
LEGISLATION

Passing legislation pertaining to the oil industry in Nigeria was seen as a solution to create a tight grip on oil theft. This however is easier said than done. Due to the highly unstable nature of the Nigerian political scene and the far-reaching levels of corruption within the government itself that

allows for the situation to remain unchanged, it is almost naïve to think that the drafting of legal material preventing such illegal activities from occurring will ever take place. Even if by force or miracle, legislation aimed at controlling the aforementioned activities passes, it will be very difficult to implement. This is a result of the difficulty to unify actions of all the political actors present on the Nigerian political scene. For instance, if the government decides to implement rebel forces and militias will be an obstacle and vice versa. Another reason is the obvious lack of will or intention by government officials to take any actions to correct the situation on the ground, as it is lucrative to keep the status quo, as mentioned earlier. The deep ties between the government and multinational corporations such as Royal-Dutch Shell and the impunity granted to them makes the situation devoid of hope.

TECHNICAL SAFEGUARDS

The installment of technical safe guards, in the form of pipe covers, or burying them under the ground against oil thefts could be an alternative solution. However it is expensive and not foolproof, all it does is the delay the bunkerer's access to oil. Moreover, this application would only be dealing with a symptom of the issue and neglecting the root of the problem.

INVESTMENT IN DEVELOPMENT

As mentioned earlier, due to the dire situation in the country and the lack of employment opportunities, many young men turn to bunkering for lack of alternative. A comprehensive solution that would greatly limit the illegal activities concerning the oil industry in Nigeria by addressing the root of the problem is to invest in development projects that utilize the skills of the bunkerers. By providing legal alternatives in the form of job opportunities compatible with their skill-sets, illegal activities will decrease. For instance, investment in local refineries would create a job pool for the bunkerers as well as limiting the country's need to import fuel. This however requires a serious commitment from the government as well as a political will to correct to the situation on the ground.

CONCLUSION

Oil Bunkering in Nigeria is a long-standing problem that threatens the social, economic, and political development of one of Africa's most resource-rich countries. It is somewhat sobering to realize that even Iraq at the peak of conflict post-2003 did not face such a huge drain on its resource wealth. What makes this a grave issue is that it is no stretch to say that Nigeria's livelihood depends on its oil. Any mismanagement or theft affects every sector of the state. However, on a local level, bunkering has created an alternative economy that subsists the disaffected population. Would removing it re-create the instability of the last decade? That is a definite possibility. And while this is mostly a Nigerian problem, there are reports that there are Russian and Lebanese nationals involved who direct oil money into criminal and terrorist activities worldwide. Oil theft in Nigeria is an old problem with new effects that requires committed and long-term solutions. A strategic approach to invest in regions where bunkering takes place (especially in the realm of oil refineries) would strike several birds with one stone; it would remove local bunkerer's incentives to do such dangerous and harmful work, it would reduce the state's recurrent problems with supplying fuel, and it would hopefully reduce political tensions in the region.

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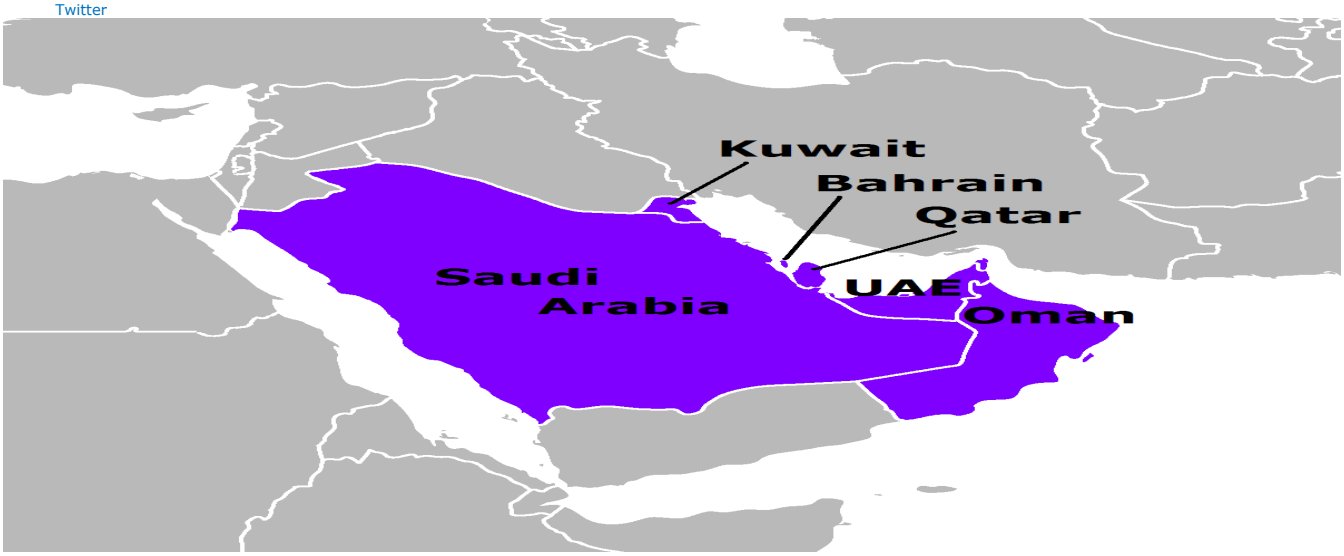

OPEC IN THE LIGHT OF U.S-GCC PARTNERSHIP

Ahmed Hossam Maati
May 28, 2014

The organization of oil exporting countries' impact on international oil prices is a contentiously debated issue in international energy politics; the capacity of OPEC to adjust international oil prices is contested on the basis of several dynamics. First, the increase in production capacity of non OPEC producers such as Russia puts OPEC's price setting ability in question (Morse and Richard 2002, 16). Second, the extent of the lack of adherence to production quotas within the organization jeopardizes its credibility as a price setting firm. Finally, the Gulfs Cooperation Council's role, especially that of Saudi Arabia, in influencing not only OPEC's quotas, but also international oil supply, is instrumental in contesting OPEC's ability to set oil prices.

This paper will examine the centrality of Saudi Arabia, supported by its Gulf sisters, in influencing international oil price. In so doing, it will illustrate the instrumentality of OPEC for Saudi Arabia in maintaining its influence on oil prices. That is to say that OPEC in itself is not a price setter, rather, it is utilized by Saudi Arabia (backed by the U.S and GCC countries) in order to enhance its market power. In addition, this paper will illustrate the impact of regional historical rivalries and security configuration on the outcome of Saudi oil policy. Saudi, an ardent strategic ally of the United States since the Second World War, has been critical in securing U.S oil interest in the region. On the other hand, the U.S was crucial for providing Saudi Arabia and the gulf countries with security, especially from their neighbors (namely Iran and Iraq). In this context, OPEC becomes instrumental in maintaining U.S- friendly control over oil prices, a control that is economically and politically advantageous to the U.S. Accordingly, the U.S subtle support to Saudi oil policies (and of course it's role in OPEC) can be understood in the light o f U.S concern of securing its own energy and political interest in the region. The peculiarity of the Saudi capacity to impact oil pricing is clearly illustrated in this paper; the Saudis influence in OPEC is facilitated by both its oil related capacities (in terms of production and the like), as well as by its strategic disposition in relation to U.S economic and political interest. However, and for the argument to be clear, I should start by presenting a brief historical background for a better understanding of historical contingencies that left Saudi in need of U.S security, the U.S in need of Saudi oil policies as well as its political regional balancing role, and finally, Saudi- U.S overlapping interest both in terms of energy and in the power configuration of the region

A HISTORICAL ANALYSIS

The Second World War, and the bipolar international power setting that existed in its after math, marks the beginning of U.S controversial involvement in the Middle East. Since the founding of the republic, the U.S main interests in the Middle East during the 19th and the first half of the 20th centuries revolved around trade and missionary activities (Hudson, 309). In the aftermath of the First World War, the U.S was regarded as a power that refuses to take place in European colonial activity in the region. Coupled with Wilson's "Fourteen Points," in which he asserted the right of peoples of the world to "self-determination," the U.S image in the Middle East enjoyed a great deal of respect; indeed, many nationalistic movements in the aftermath of the First World War preferred to be governed by the U.S (as opposed to Britain and other European powers) had they been unable to fulfill complete independence (Ibid). Nevertheless, and with the heightening of the Soviet threat in the post 1945 world order, the United States, under the initiative of Secretary of state Marshall "was already contemplating an eventual leadership role for the United States in the region" (310). A decade later, the 1958 Defense of the Middle East published by the Council on Foreign Affairs, marked the official increasing U.S concern with the Middle East as a geostrategic position essential in American policy of "containment" of the Soviet threat (Ibid). Starting the 50s, the U.S has repeatedly sought to establish military alliances in the region; the Middle East Command proposal, the Middle East Defense Organization, and the Baghdad Pact 1955, all serve as examples of U.S sponsorship of military alliances that are essentially Anti-Communist in purpose (Ibid). In addition to their ideological outlook, those military alliances were all utilizing the Gulf monarchies who are already at odds with the Nasserite project in securing a U.S- friendly zone in the Middle East. Moreover, the U.S concern with Middle East affairs is heightened after the Soviet's presence in the Middle East was made clear by its 1954-56 arms deals with Egypt and Syria, pushing the U.S to take its strategic assets (Saudi, GCC, and Israel) more seriously (311). By the 1967 Six Days War humiliating Arab defeat, the Nasserite ethos had

already started to weaken as a result of increasing domestic economic grievances as well as a result of the devastating psychological and economic war toll (an account on internal Arab security and energy concerns is discussed below).

The decade of the 70s, however, marked a pivotal emphasis of Middle East economic importance for U.S interest. U.S interest in energy security in the region was emphasized and reassured after the 1973 OAPEC partial oil embargo directed against Western countries that supported Israeli war efforts, specifically the United States (313). By the end of the decade, the Iranian revolution gave birth to a new “Islamic State” that was hostile to the U.S since its insurgence. The Iranian seizure of the American embassy 1979 and the captivating of U.S hostages for a year constituted a shock for the U.S administration; the sudden strategic loss of Persia as an ardent strategic asset and a friendly energy supplier in the region and the hostilities that the new Iran expresses towards the U.S, consolidated U.S-Saudi partnership. Similarly, the Soviet invasion in Afghanistan 1979, the U.S reaction funding Jihadi Islamic movements to fight communism, the 1980s Iran-Iraq war, and finally the 1990s Iraqi aggression on Kuwait motivated the U.S to lean towards moderate Islamic monarchies in the Gulf (316). During the earlier Gulf war, Saudi Arabia and the GCC were instrumental in U.S support for Iraqi troops against a common threat in the region: Iran. The 1990 Iraqi aggression on Kuwait, however, initiated a policy of “Dual Containment” of Iraq and Iran; securing the GCC and especially Saudi was, thus, instrumental in maintaining a balance to the increasingly radical Iran and Iraq. The energy dimension is central to the understanding of U.S-GCC partnership. The Saudi’s readiness to increase its oil production to stabilize the oil price during the 1979 and 86 crises was of national interest importance to the United States, the world’s largest oil consumer (312). The Iraqi invasion of Kuwait and the 2005-present Iranian nuclear ambitions increasingly consolidate U.S GCC relations despite recent friction. Having illustrated the importance of Saudi and the GCC for U.S energy and political interest, the following section will articulate the importance of U.S strategic and military support to the GCC, especially Saudi Arabia.

In the context of the Cold War, the Nasserite project showed significant tilt toward the Soviets. At the same time, the Nasserite dream of a unified state for the Arabs constituted a national threat to Arab monarchs who were concerned with their future autonomy vis-à-vis Nasser. This, in turn, motivated the conservative monarchs of the Gulf to accept, and in fact, seek regional military alliances sponsored by the U.S (Plaut 1981, 22). After the 1967 defeat that signaled the decline of the Nasserite ethos, the political scene was open to the Gulf monarchs to assert their regional influence; in fact, by the 1973 Arab-Israeli war, Saudi Arabia utilized its GCC sisters and other Arab oil producing countries in OAPEC to implement a partial boycott to their exports to the U.S and some of the Western European countries. The result was an unprecedented rise in fuel prices as well as the fear spread among the citizens of the Western nations as to the extent of vulnerability their countries are vis-à-vis Middle Eastern oil resources (Gawdat 2003, 447-8). As a consequence, the GCC responded by a successful attempt to further consolidate their U.S partnership. Klare (2001) elaborates that “the royal family has always provided U.S interest a privileged position with respect to Saudi oil supplies, in terms of both the access to oil and the pricing of oil” (22). The Iraqi aggression on Kuwait was another pivotal point for the U.S-GCC partnership; the explicit materialization of the security threat that Iraq and Iran pose on the Gulf was well understood by the Gulf monarchs. Coupled with the increasing radicalization of Iranian nuclear ambition, the leadership of the GCC increasingly seeks the enhancement of such partnership.

OPEC INTERNAL DYNAMIC

The OPEC formation in the sixties marked an attempt by both consumers and producers to arrive at a mechanism through which they can regulate oil production and pricing. This also marks the gradually increasing incapability of the seven sisters and the Texas commission to successfully regulate a sustainable oil pricing dynamic. However, it was not until the 70s that OPEC started to take a serious part in influencing oil market prices. As early as the first half of the 1970s, Texas Railroad Commission eliminated all restrictions on its production as a response to the increasing demand for oil; this growing demand was the result of a period of constant economic growth since WWII (El Gammal and Jaffy 2010, 6-7). Moreover, The 1973 oil crisis crystallized the importance of Arab producing countries (primarily Saudi and gulf countries); it also added to the centrality of the Arab gulf cooperation to OPEC's internal power balance (Adelman 2004, 16- 21). With the increasing centrality of Saudi in the international oil market, comes a greater U.S administration emphasis on the importance of the gulf, and specially Saudi Arabia. Saudi's instrumental role in moderating the effects of the eighties oil crisis in the aftermath of the Iranian revolution added to both the centrality of OPEC as a firm dominated by gulf countries, and to the growing U.S energy security in the Middle East. The anti- U.S policy that the Iranian new "Islamic" state promises constituted a threat to the U.S especially after the immediate hostility towards the American embassy in Tehran. At the same time, a growing concern regarding Iran's capability of posing a territorial threat to neighboring countries alarmed the Saudis; this explains the increasing U.S- Saudi interdependence by virtue of their common energy and regional interest (Plaut, 18-19). Whilst both countries' energy interest maintains the same dynamic currently, the polarization of regional politics with the Arab spring and the escalation of the Iranian nuclear program increase fluctuations in recent U.S- Gulf relations.

Both economic and geopolitical factors can account for internal production trends within the Organization. The organization could generally be divided in two categories. The first is the core countries (Saudi Arabia, Kuwait, and UAE) which are characterized by abundant resources and a spare capacity of production; the second are countries characterized by higher population and a relatively lower capacity to produce (Iran, Venezuela, and Iraq), let alone a spare capacity capability (Dermot 2004, 89). The latter group of countries, by virtue of their demographic and production restraints, are interested in a relatively high oil price that secures a substantial marginal profit both to fund domestic projects, and to secure a good share in market power (its influence on oil pricing) (89-90). In contrast, “Price Doves” are seeking a policy of “strong hands,” if I am allowed to use the analogy of the earlier Seven Sister’s corporations that were similarly seeking moderate prices, first to make sure that the international oil price does not motivate entrepreneurship interest in new energy sources . Second, to utilize their production capabilities (spare production capability and the like) in acquiring a tighter grip on the world’s oil price (El Gammal et al, 7-8).

THE CASE OF SAUDI ARABIA

Saudi Arabia’s influence on international oil prices are traced back to a twofold dynamic. The fact that Saudi Arabia has one fifth of the proven oil reserves leaves it in a position in which constant moderate prices for oil are favorable (Mann 2012, 282). The other is that Saudi-U.S historic alliance grants the former a freer margin of maneuver vis-a-vis other oil producers in terms of production attitudes. This alliance, moreover, grants Saudi a prestigious position within OPEC through which it can influence quotas and production ceiling. That is not to say that the U.S affects directly the conduct of Saudi in OPEC; rather, it is to illustrate the importance of U.S security for Saudi (having been a reliable state for U.S energy security) in granting Saudi an advantageous position in OPEC. For example, since Saudi enjoy a spare capacity of production (the largest in the world), it should, economically speaking, be able to influence oil prices more than other producers in the world. However, the fragile nature of the Saudi state in terms of its limited population (compared to a country like Iran) leaves it at a threat from its historical rivals (Iran and Iraq); this threat crystallized especially after the Iraqi aggression on Kuwait 1990 (Klare 2001, 22). Accordingly, the U.S backing of the GCC is a cornerstone of Saudi’s (as well as other GCC) ability to maneuver in OPEC without fearing a security breach from the “radical” Iran and Iraq.

Saudi's advantageous world position in regards to oil does not rely solely on its abundant oil reserves, but it also lies in Saudi’s spare capacity production capability. That is to say that Saudi does not only have the reserves that secure its consistent oil production, but it also has the ability to produce more than its daily production of crude oil (285-87). Gawdat Bahgat, the director of the Center of Middle Eastern Studies at Indiana University of Pennsylvania, (2003) argues that “[w]hile Russia has been producing at full capacity in recent years, Riyadh is deliberately keeping a substantial proportion of Saudi production capacity idle in order to prevent the global market from being saturated” (450). Indeed, Saudi’s spare

capacity had been as high as 3 (mbd) by 2002, with a production level of 7.4 mbd (Morse and Richard 2002,19). In 2012, this figure remains in a relatively close condition of 10 (mbd) productions and a 2.7 (mbd) spare capacity (Saudis Have 2.5m Barrels Spare Oil Capacity, PFC Says). Other OPEC members such as Iran and Venezuela, conversely, either do not enjoy technical qualifications to over produce, or are hurt by international sanctions. This peculiar characteristic of Saudi Arabia also leaves her at an advantageous position to the U.S; having been the world's largest oil consumer, the U.S is the most vulnerable of world nations to fluctuations in oil prices, especially that of high prices. Consequently, Saudi Arabia constitutes to the U.S the principal producer country which shares the U.S objective of securing moderate oil pricing (Klare 2001, 22). Fortunate enough, Saudi pricing interest is to a great extent parallel to that of the U.S; coupled with the common regional setting that both the Saudis and the world's superpower are in favor of, the U.S friendly pricing policy serves as a security brick on which the Saudi regime strengthens its position vis-a-vis other members in OPEC

The Saudi regime's interest of setting a moderate oil market price that balances between the need of adequate revenues to consolidate domestic rule and a market pricing that is western, namely U. S friendly, motivates policy representatives in OPEC to seek an oil policy that antagonizes Iran. Having consistently benefitted from high market prices of oil, Iran regards Saudi oil policies of flooding the market with adequate oil supply that instigates moderate prices threatening to its most needed domestic funding (FOCUS: Saudi Arabia to raise production despite OPEC misgiving 2011). Saudi's spare capacity production (and, as discussed its alliance with the U.S) allows it to seek a policy of "cheating" in OPEC (Oil Daily 2012). Despite the fact that most of OPEC members cheat on production quotas for the lack of internal penalizing dynamic to ignoring production ceiling, Saudi Arabia is the country with the capability to overproduce the most to cheat (Mann, 389). These dynamics remains since the 70s up to the post spring setting; for example, the 2011 IES's suggestion for OPEC to increase its production ceiling was warmheartedly welcomed by the gulf countries. On the other hand, Iran and Venezuela were ardently opposing an increased production ceiling that would jeopardize oil prices (Focus).

The political significance of the GCC to the U.S has been emphasized as early as 1945. However, the increasing centrality of energy in the making of both U.S and GCC national interest amalgamated the GC-U.S relationship to form a strategic alliance. This alliance, having its root motivation in the historical circumstances in which both partners realized the criticality of the other to his security (and in the case of the U.S its energy interest), the aforementioned alliance's impact on Saudi's conduct in OPEC is exactly logical. Having secured itself from territorial as well as domestic threats by virtue U.S military support, Saudi was both able to assume a greater margin of maneuverability in OPEC (thus more influence on oil prices) as well as assert its strategic importance to the U.S. On the other hand, the U.S administration's concern for an oil supplier with Saudi's production capacity and its strategic importance as a counterweight to Iran and Iraq motivated it to seek the protection of the GCC, especially Saudi.

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PDVSA AS AN INSTRUMENT OF PATRONAGE AND GEOPOLITICS

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Jun 01, 2014

INTRODUCTION

In the most recent development in the political arena, presidential elections in Venezuela are taking place after the passing away of the very famous President Hugo Chavez. A general perception of a rentier state that lives off its national resources, is the nourishment of infrastructure and the usage of such non industrial revenues to finance nation building. Venezuela; a country that has been ruled and dominated ever-since 1999 with president Chavez's socialist views, provides a very different example to that perception. Although one may look at a petro state as one that will nourish through its exploitation of its resources, Venezuela was not the case. Hugo Chaves has emerged as a leader dominating the decision making process, and identifying boundaries in which oil companies could act. Controlling the rising Venezuelan oil industry that was born in early 20th century would have implications that would affect the national citizens and stretch beyond their borders. Here I aim to present the development of the oil industry in Venezuela, mainly Petróleos de Venezuela, S.A. (PDVSA), through its nationalization; and consequently, how Hugo Chavez used PDVSA as a piggy bank to finance a process of nation building.

BACKGROUND AND HISTORY OF PDVSA

There are many highlights in the history of Venezuela that have affected the oil industry and how it stands today. The USA had drafted a Hydrocarbon Law that would be put in place by Venezuela to avoid what had happened in the Mexican Nationalization; nationalization in Mexico had caused an international boycott to Mexican production and rising discontent among the oil companies. Venezuelan Hydrocarbon law that was passed in 2001 had raised royalties to 16.6 percent, and moreover requiring that more than 15% of Venezuela crude oil production had to be refined inside the country. PDVSA is the dominant Venezuelan national oil and natural gas company that was nationalized in 1976. The start of the government intervention and the use of PDVSA as a piggy bank would be seen in the decision taken by oil minister Perez Alfonzo, when he boosted the government share of PDVSA company profits to about 67%. Such a move was of course frowned upon by oil companies. From 1960's onwards, the government would move towards controlling all aspects of the oil industry, with the revision of concessionaires and heavy government supervision, bringing the oil industry under control by the 1970's. Such concessionaries might be seen as a similar idea to production sharing agreements that would later evolve. The oil boom in 1973, with the embargo posed by the Arab states had a huge effect on the polity and economy of Venezuela. Although the state had instantly expanded its power to control over oil, consequences would appear later. "Government officials at the time believed that they had the opportunity to develop the country. "as $800 million poured into the treasury each month, the aim of constructing La Gran Venezuela replaced a more modern attempt at political and economic reorientation" (Karl, 118). With a trend of nationalization sweeping the OPEC countries, the nationalization of PDVSA was put into effect in 1976 (Boue, 13).

When looking at Venezuela recently, numbers seem to be promising, as it stands as the fourth largest oil exporter to USA, and the world's largest proven oil reserves that have surpassed Saudi Arabia in the past couple of years. OPEC as an organization reflects an increase in Venezuelan oil production, contributing 12.1 percent in 2010 (1.19 trillion barrels). OPEC's growth in oil reserves was mainly due to Venezuela (OPEC: Venezuela). There is huge potential in Venezuela's oil sector if major oil sites such as the Maracaibo Basin and the Orinoco heavy belt are to be exploited. In real life, those numbers mean little due to the inability to exploit and efficiently use such resources. With this dynamic past in mind, I will attempt to analyze the evolving of the oil industry in Venezuela through PDVSA, and the emergence of Chavez. I will also attempt to analyze the possible future implications that this will have in this very young post Chavez era. The nationalization of PDVSA would have major implications both internally, and on the USA.

POST NATIONALIZATION

Luis Giusti, PDVSA head from 1994-1999, had a major impact on PDVSA as a company, and other subsidiaries under it including Shell. Foreign companies were still able to strongly influence the strategy of PDVSA, which was a strong international player operating for production and profits

to plow back into the industry. They were interested in production more than the actual revenues. The problem as Bernard Mommer – an oil analyst at PDVSA – described it was no longer a matter of price, but rather sheer volumes (Kozloff, 11). “By 1998, PDVSA was producing about 800,000 barrels over its OPEC quota” (Kozloff, 11). The emergence of President Hugo Chavez to power was indeed a very important event that would alter the future of oil in Venezuela. President Chavez sought to bring PDVSA under more state control. His radical views were opposing to those of the United States, viewing it as an imperial power, which was a complete opposite of the previous regimes. Chavez was seen as the leader of the people, his mission was to secure the oil for the Venezuelan people, not other state interests. With the nationalization of PDVSA in 1976 and change of management and commercial strategies that followed, the Venezuelans had received a feel of national pride, this national pride and hope for regaining their oil to their benefit, President Chavez came to power with promises to the poor, firing Giusti, and restructuring the PDVSA and the energy ministry. Chavez policy had turned completely anti western. He attempted to become more integrated within the OPEC cartel, advocating closer interrelation and lower supply in order to keep prices high. This caused problems among the European population and the USA. In further opposing the USA, “Venezuela agreed to ship 53,000 barrels of oil per day to Cuba under preferential rates” (Kozloff, 25).

Chavez would later in 2001 issue a Hydrocarbon law that would raise the royalties from the previous 16.6 percent back in 1975 to 30%. This would indeed cause a blow off to oil companies that were present, and more importantly precipitate huge disagreement within PDVSA. With its decline and halting of operations, huge strikes would take place in opposition. Decline in production had dropped from 1.4 million to 879 thousand bbl/d (Political risks). Nearly removed from power, Chavez then consolidated his power through reforms targeting the infrastructure, but more importantly filling important positions within PDVSA with people loyal to him. In 2006, it was required that PDVSA would have 60% majority share in any project or agreement that would take place.

2001 HYDROCARBON LAW, 2002 STRIKE

The 2001 hydrocarbon law and the raising of royalties would have major implications to follow in the few weeks ahead. It is important to keep in mind that the company’s only shareholder was the central government; and that there was a need to produce more profit, i.e. the need to increase the efficiency of the oil revenue collection process. While opposition mourned the doubling of royalties, foreshadowing an escape of foreign oil companies and investment, the government saw it as a tool to increase their source of profit. This was mainly because it was much easier to track down the extraction levels rather than that of tax. Companies would deduct expenses from their profit, and then calculate tax; a process that might witness manipulation, which would decrease the value of the tax received by the government. Responding to an uproar by business leaders, Chavez argued that the “state must maintain control over its petroleum reserves because they are of strategic importance” (Sanchez). Moreover “Oil Minister Alvaro Silva denied that the Hydrocarbons Law imposes excessive state control over the industry. He argues that the steeper royalty payments will be offset by lower income tax rates, which the new legislation slashes from 67.7 percent to 50 percent” (Sanchez).
This uproar however was not ignited until a later stage in the following year. President Chavez saw it crucial to restructure PDVSA, inducing some change in its leaders. This would in turn make the company more loyal, or more under state control. “Chávez replaced Lameda with Gaston Parra, a leftist economist and former president of the Central Bank of Venezuela. Also, he appointed five new members to PDVSA’s board of directors” (Wilpert). According to Wilpert, this action was seen as a maneuver attempted at politicizing PDVSA. Higher board positions were always granted by merit, and granted to those with a history with PDVSA. Such action would kill the trend of merit, giving a rise to government loyalty. Another largely unmentioned reason that would bring about major strikes among the population and a clash between pro and anti Chavez protests was vested in the change of taxation method mentioned earlier that would drastically cut PDVSA’s overheads.“Since it was already quite overstaffed in the administrative offices in Caracas, due to the recent merger of three of PDVSA’s subsidiaries, the staff reductions were going to be even more severe. Already, PDVSA had reduced its payroll by 26%, between 1995 and 2000” (Wilpert). It was clear that overstaffing remained a problem, becoming more severe with the new tax law that had been put into place.
The tax law seemed to be a widespread problem and saw calls for general strike ever since December 2001. With the turn of the year, and the increasing unhappiness of the PDVSA internal bureaucracy, PDVSA workers arrange a general strike with aid from the CTV, the country's main trade union, along with “striking oil trade-union leaders, with representatives of Fedecámaras (the Venezuelan Chamber of Commerce, representing the political ambitions of the organization’s leadership)” (The Sabotage). The nationwide strike would bring the complete oil industry to a standstill. As the article titled “The sabotage against the national industry” published on the PDVSA website states that there were major interruptions and halting of oil production on a domestic and exporting level. Plants were coming to a standstill with the refusal of people to work, or resignations (The Sabotage). On April 13th, bloody protests removing Chavez from office would take place. (Kozloff, 96). It only took 48 hours for both the army and the people to consolidate Chavez’s position returning him back to the presidential palace.

Bolivarian circles, inspired by the Simon Bolivar spirit, would play a huge role in the years to follow, consolidating the power of Chavez and the rise of the anti-western perspective Venezuela would adopt. In an attempt to guarantee loyalty to the army, Chavez “removed 400 mostly senior officers, replacing them with more radical soldiers. As Kozloff puts it “the Bolivarian circles provided crucial assistance. They provided volunteer labor, defended oil installations and contracted former oil workers and technicians” (Kozloff, 97). Consolidating his power, and involving the military yet again he returned with the intention to take advantage and protect the bleeding oil industry. Carneiro, the defense minister would now announce “the armed forces would…closely monitor the oil industry so as to deter alleged CIA infiltration. In a dramatic move called Operation Black Gold, Carneiro dispatched 1,000 soldiers to western Venezuela. Chavez said he was carrying out the move to catch those responsible for a recent decline in oil production” (Kozloff, 98).
CHAVEZ - THE USA AND CHINA

Chavez, known for his socialist policy, would now direct his policy on an internal and external level in a direction that was opposed to that of the USA. At the height of his power, Chavez “declared that he was implanting 21st-century socialism" (Venezuela after Chavez). Cooperation with the USA has always been a policy that Chavez has rejected. “Mr Chávez delighted in embracing the world’s autocrats and dictators. He forged an alliance with Iran, which offered opaque technical co-operation. He agreed to buy arms worth some $15 billion, mainly from Vladimir Putin’s Russia. He made friends with Saddam Hussein, Robert Mugabe, Muammar Qaddafi and Bashar Assad” (Venezuela after Chavez). Moreover Chavez has consolidated his Iranian ties with over 100 bilateral agreements, and more importantly faced US sanctions because of a decision to send “two cargoes of gasoline additive worth $50 million to Iran from December 2010 to March 2011” (Chavez buys).
The article by John Daly expresses key points in relation to oil production targets set by Venezuela. Late last year, when the socialist president was diagnosed with cancer, Washington’s wish list to a post Chavez era “would include two primary elements – an end to Venezuelan radical rhetoric and ties to such states as Cuba and Iran, and increased U.S. access to those oil reserves” (Daly). According to the U.S. Energy Administration, Venezuela still provides 930,000 bpd of the United States total crude oil imports of 9.033 million barrels per day (Daly). It is important to understand however if this number is to be sustained or not. The bleeding energy sector inside Venezuela might not be able to resist the need for opening up and exploration. But this opening up might not necessarily involve the USA. John Daly mentions, “China agreed to provide more than $32 billion in assistance to Chavez’s government, with the loans to be repaid in oil, in increasing amounts during the next decade. Venezuela is now exporting to China about 460,000 barrels a day, about 20 percent of its oil exports, according to official figures” (Daly). To what extent do China and Venezuela cooperate?

The article titled “As Chavez’ oil alliance with China gets serious, Beijing holds PDVSA to its word” provides useful insights on the possible future relationship between the two countries. China has granted Venezuela huge loans to develop its oil industry that are to be paid back in the form of oil exports to China and therefore establishing cross boarder integration. According to The Global Barrel, China has started to build oil tankers, pipelines and refineries in China in order to import and process Venezuelan heavy crude” (As Chavez). Such integration amounts to billions of investments and employment of a large number of people internally in China. The new obligations to China might suggest the cutting off of US exports, redirecting them to China. It is important to note that two-to-three years from now, merely redirecting shipments is not a sustainable option. “To continue meeting its growing obligations to China, PDVSA must fairly soon begin to register a significant, absolute increase in Faja

production" (As Chavez). Decreasing production to China might cause internal problems domestically due to the setting-off of labor and decrease in the oil sector employment rate. The author here aims to conclude that the future of the Oil industry in Venezuela in the post Chavez era will remain connected and oriented towards Asia, and mainly China due to the agreements that have been made. The author foreshadows an increase in Faja exploitation methods that will account for the growing Chinese demand. Such long term bilateral agreements do not look promising to the US even if a socialist ideology is removed from Venezuela. The author concludes that although there might be a geostrategic partnership between China and Venezuela oriented around oil, "The Chinese did not come to Venezuela for reasons of solidarity", much less "social-economic development; they came for oil" (As Chavez).

Venezuela's facts and figures seem to be appealing and promising. Others might argue that the lack of exploitation and the socialist domination of Chavez have been at the expense of the Venezuelan people. As Helman puts it, "Shortages, inflation, and debt along with several other downturns, highlight the leave of Chavez" (Helman). The history of PDVSA might suggest that oil in this case is a curse. If we assume an open market in Venezuela would lead to the nourishment of its people, then indeed oil in Chavez's era was a curse. It was a tool used at times to suppress the population, granting power to institutions such as the army. The anti US policy has emerged from the everlasting socialist perspective of Chavez. Oil might remain a curse to the Venezuelan people if production is used as a piggy bank to feed into the government, and not redirected into infrastructure. With the coming of President Nicolás Maduro, it is somewhat unlikely that we are to witness a change in the policies directed towards PDVSA and opening up of the oil market for major international oil companies. Unfortunately, with the current political policies, oil will remain a curse to the Venezuelan people, or at least a tool that is unused at the expense of just maintaining an anti US socialist approach.

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REGIME (NOT) CHANGED: BAHRAIN, THE ARAB SPRING AND ENERGY SECURITY

Omar Ocampo
May 28, 2014

Unlike the North African republics, the Arab monarchies of the Persian Gulf have relatively succeeded in evading the flurry of outraged demonstrations characteristic of the Arab Spring. The distribution of rent-based petroleum wealth and the promise of reform, however limited, have thus far secured the acquiescence of its citizens; yet Bahrain remains an outlier. It is therefore necessary to ask the following question: what makes Bahrain susceptible to incessant civil unrest and sporadic anti-government violence? To search for an answer requires a closer examination of the country's political culture within the context of ethnic-based conflict. The legacy of al-Khalifa family rule and the societal relations constructed between the two predominant religious sects - the Sunni and Shi'ah - has fueled political tensions, engendered social movements and rendered political co-optation an ineffective mechanism for establishing control.

A successful revolution in Bahrain has the potential to have widespread implications in the Persian Gulf since "Saudi Arabia views Bahrain as an existential issue" (International Crisis Group, 2011: 21). In other words, Saudi's stability is interlinked with Bahrain's. The perceived allegiance of the country's Baharnah and Shi'ah inhabitants to Iran and the fear of a spillover effect has compelled Saudi Arabia and the United States to not only keep an attentive eye on developments inside the archipelago, but has obligated them to adopt a defensive strategy to repress popular power. As a result, what emerges, at least on the surface, is a profound contradiction in the course of international action: material and political support for pro-democracy demonstrators in Libya and Syria while violently suppressing a pro-democracy movement in Bahrain. However, resistance to or the mitigation of change remains a central tenant of American foreign policy towards the region because of the purported consequences change has on the pillars of stability, particularly the negative effects instability may have on the free flow of energy from the Persian Gulf to international markets.

It is misleading, however, to attribute the current uprising in Bahrain as an isolated event or strictly as an outcome of the Arab Spring; it is in fact linked to the history of ethnic formation combined with the political and socioeconomic grievances attached to that ethnic struggle. The article therefore begins by capturing the profound ethno-religious divide at the time of independence in 1971. The lack of participation in the political process laid the basis for conflict between the ruling family and a number of distinct groups that encompassed the opposition. The operationalization of social exclusion in conjunction with the success of the 1979 Iranian Revolution delivers an understanding of how other actors in the Gulf and the West interpret events inside Bahrain. The article then argues that the multilateral inaction by the United States and its European allies in Bahrain is based on a calculus of realpolitik. Oil interests (and its impact on energy markets) function as an underlying factor that either facilitates or hinders state behavior. As a result, the absence of a humanitarian intervention - through the auspices of the responsibility to protect doctrine (hereafter referred to as R2P) - in Manama highlights the political relationship between the United States and Saudi Arabia; a rapport founded on the latter's possession of one-fifth of the world's proven oil reserves.

BAHRAIN'S CONUNDRUM: THE DYSFUNCTIONAL PETROSTATE

The opening article of the 1973 Constitution of the State of Bahrain declared that the Arab Islamic administration will have - in addition to the formation of a system of primogeniture for the ruling al-Khalifa family - a system of government that is "democratic, under which sovereignty lies with the people, the source of all powers." The document was the result of decades of popular struggle for greater participation and integration in the political process. The establishment of the national assembly represented a fulfillment of these aspirations and prepared the way for cooperation between the legislative body and the emir of the country, Sheikh 'Isa bin Salman al-Khalifa. However, this legal framework was almost immediately brought to an end when a power struggle arose between the government and the national assembly. Al-Khalifa's intention was to limit the authority of the elected assembly in an effort to manage and control it. The assembly, on the other hand, wanted the autonomy to exercise full administrative and legislative powers. The failure of the emir's efforts to assert control over the assembly, and their perpetual resistance, led him to not only disband the legislature but to institute its indefinite suspension. The result is the origins of unrest in Bahrain with the "restoration of the national assembly and the constitution of 1973" as the "focal point of the opposition movement" (Bahry, 2000: 130).

Owen (2012: 135) writes that the suspension of the 1973 Constitution granted the emir the power to rule by royal decree and the authority to appoint members of his royal family to occupy important governmental ministries. Contemporary opposition to al-Khalifa is a direct response to this structural exclusion of the majority of the population from the levers of state power, often expressed through the distribution of literature critical of the monarch and other forms of civil resistance. However, the character of popular struggle changed with the success of the Islamic Revolution of Iran in 1979. It introduced in Bahrain the use of religious discourse (Shi'ah in composition) as a political tool and as an instrument for mobilization. It had three immediate observable effects. First, it transformed the dynamics of the opposition. Traditional and secular opponents of the regime were seemingly marginalized through the articulation of Shi'ah identity politics.

Second, the development of a collective Shi'ah identity deliberately engineered a diverging narrative of the country's history. The myth of a golden age had been constructed and advanced in order to lend credibility to specific political positions. As noted by both Gengler (2011: 55) and Louër (2008: 12), there is a scarcity of accurate sources on the history of Bahrain, thus rendering the accounts of a pre-Khalifa Bahrain to be the subject of much speculation and scrutiny. Nevertheless, the Shi'ah has successfully developed a nativist discourse by identifying themselves as the original inhabitants of the island. An important outcome of this course of action, as Gengler (2011: 56) additionally notes, is the collective use of the Baharnah demonym, a clear "reference to their status as the 'original' inhabitants of Bahrain." The term Bahraini as a form of classification is therefore a modern creation articulated by al-Khalifa and other Sunni Bedouins. This interplay of ethnicity and religious sect has gained currency amongst the Shi'ah inhabitants residing in the Eastern Province of Saudi Arabia, who speak the same dialect of Arabic and share a similar history to their coreligionists in Bahrain. They too adopt the Baharnah demonym for the purposes of self-identification and as a mechanism to differentiate themselves from their Sunni counterparts (Louër 2008: 12). This redefinition of identity has led the al-Khalifa family, the Saudi royal families and their Sunni supporters to question the loyalty of the Baharnah, or Shi'ah Islam as a whole, by linking them to Iran.

Lastly and closely related to the previous point, the formation of ethnicity has revealed the limitations of rentierism. The inability of the royal family to politically co-opt or restrict the autonomy of ethnic political mobilization through the redistribution of wealth and other material benefits has forced the state to pursue a number of controversial strategies to artificially alter the demographic composition of the island in its favor; for example, the selective naturalization of Sunni foreign migrants (Gengler, 2011: 59-66). In contrast to Libya, both King Sanusi and Qadhafi were able to successfully secure the loyalty or the political acquiescence of key groups and tribes thanks to the distribution of the country's newly acquired petroleum wealth. The failure of the monarchy in Bahrain to establish patronage networks is connected to the exclusion of the country's inhabitants from positions of power. This fact is best illustrated by the insistence of political reform demanded by demonstrators on March 2011 despite the disbursement of monetary concessions in an attempt to assuage civil unrest. This led a protestor to remark, "[the demonstrations are] about dignity and freedom" with the core of the grievances being "political, not financial" (Fuller, 2011).

The popular uprising that began in 1994 is a perfect example, according to Bahry (2000: 131-132), of the unification of the Shi'ah as a political force when they sponsored a petition drive to protest a charity marathon. The uprising initially began as a response to increasing unemployment, but then escalated to demand the restoration of the constitution and the national assembly along with political rights for women. Resistance to al-Khalifa's rule by royal decree was marked by Shi'ah collaboration with other sectors of society. As a consequence, repression from the government was fierce. Furthermore, the state dismissed the uprising as part of an Iranian effort to spread unrest in the archipelago (Stork, 1997; Human Rights Watch, 1997). The crisis was brought to an end in 1999 following the unexpected death of Sheikh 'Isa al-Khalifa. The arrival of a new and relatively young emir, Sheikh Hamid bin 'Isa al-Khalifa, produced optimism across Bahrain since many considered him to possess the capacity to introduce stability and political reform. In addition to releasing political prisoners upon his ascension to power, he reinstated the constitution on the fourteenth of February 2002 but with an amendment converting the national assembly into a bicameral body comprising of an elected lower house, the Council of Deputies, and an appointed upper body, the Consultative Council.

The amendment to the national assembly, together with other modifications, accentuates the continuous struggle for constitutionalism in Bahrain. It appears that the primary purpose of the constitutional amendments was to limit the principle of greater openness, integration and power sharing. As a result, the following eight years was afflicted with election boycotts from large political parties, sporadic anti-government demonstrations and violence, and persistent Shi'ah unrest. The government, for its part, jailed activists and maintains a system of exclusion, preferring to employ foreigners in the state's security apparatus over local Shi'ah inhabitants since they are deemed untrustworthy. Democratization from below poses the greatest threat to the ruling monarchy. Under these circumstances, as noted by Dunne (2011), the protests that began on February of 2011 were not a surprise to observers of the political affairs of Bahrain. They were very much a continuation of past social struggles as it was a product of the Arab Spring. However, the context of the Arab Spring ensured that demonstrations would not only be potent, but that they would be regime-threatening.

REBELLION RETURNS TO PEARL SQUARE

In 2011, perhaps no public space represented popular rebellion better than Tahrir Square in Cairo. It is therefore not surprising that protestors in Bahrain demonstrated a keen interest in occupying Pearl Square, a roundabout located in Manama, with the intent of converting its own public space into a symbol of popular resistance. Indeed, the date chosen for the commencement of demonstrations carried much symbolic weight. It was selected in order to commemorate the ninth anniversary of the country's reinstatement of the constitution. But, most importantly, it was meant to bring international attention to the lethargic pace of political reform. Demands for a constitution that devolves power to the national assembly is promoted and associated with resolving the island's social and political problems.

On February 14, 2011, when small crowds began to gather across the country, security forces responded with remarkable repression. Tear gas and rubber bullets were fired in an attempt to disperse demonstrators, but the use of force only spurred them as thousands continued to occupy Pearl Square. By the beginning of the fourth day, the police were ordered to regain complete control of the square and to "clear the area of all demonstrators" (Bassiouni et al, 2011: 73). They acted forcefully and without restraint. As demonstrators were shot and killed, a political crisis in the country was visually unfolding. On February 18, al-Wefaq, the largest opposition party in Bahrain, withdrew its elected members from parliament. Perhaps sensing the dangers of intense polarization and a further escalation of violence, King Hamid decided to retract his armed units and called for national dialogue in order to advance reconciliation and unity. The withdrawal of the state's security apparatus allowed protestors to return to Pearl Square and they vowed to continue to occupy the square until their popular demands were met.

For the next few days, beginning on February 22nd, the country experienced the largest demonstrations in its history with over a hundred thousand participants (Katzman, 2013: 7). This initially granted prominent opposition leaders enormous leverage in consultative meetings with the ruling monarch who, in a sign of good gesture, pardoned over three hundred political prisoners. More importantly, al-Wefaq stressed the importance of rejecting the sectarian narrative advanced by the government. There is an interest by al-Khalifa to characterize the uprising as Shi'ah in nature. It functions for two purposes here. First, it simplifies the conflict to merely encompass a religious struggle rather than one that is deeply rooted in civil rights. It serves to polarize society into two distinct groups for the purpose of obstructing the creation of a unified front that has the capacity to challenge the legitimacy and/or authority of the ruling family. This lens informs us to the second point: the sectarian narrative insinuates a horizontal link between protestors and the Islamic Republic of Iran. The latter's alleged malign influence in Bahrain discredits the opposition's demands, thereby denying the agency of demonstrators through their classification as Iranian proxies working to expand the geopolitical influence of Iran in Bahrain and throughout the region. The social struggle for political inclusion and protestor demands are disappeared at the accusation of Iranian meddling.

According to this view, it is critical for the dynastic monarchies of the Gulf and the United States to repress dissent in Bahrain for fear of copycat demonstrations in petroleum rich areas or countries with strong Shi'ah minorities. The Eastern Province of Saudi Arabia, whose inhabitants self-

identify in solidarity with the Baharnah of Bahrain, is a case in point. As a result, the House of Saud and other Sunni monarchs have used the Arab Spring as a pretext to propagate anti-Iranian sentiment in the Arab world (Escobar, 2011b). It is further used as a tool to combat their increasing anxiety towards an ever-expanding "Shi'ah Crescent," a term coined by King Abdullah II of Jordan to describe the transnational cooperation between Shi'ahs in a handful of countries in the Middle East. As noted by Louër (2008: 244), the concept of the "Shi'ah Crescent" has the power to shape the perceptions of Sunnis towards their Shi'ah compatriots by characterizing them as a "people united by a corporate solidarity beyond national borders and subservient to Iranian expansionism." Therefore, in brief, their democratic aspirations must be denied because it represents a threat to the very existence of the monarchical Gulf states and, indirectly, to the international oil market. Consequently, on March 14th, troops from the sub-regional organization, the Gulf Cooperation Council (hereafter referred to as the GCC), were deployed into Bahrain in an effort to bring to an end to the demonstrations.

A PILLAR OF STABILITY: AMERICAN SECURITY INTERESTS

What follows is an analysis of the converging interests between the United States and Saudi Arabia in relation to Bahrain - the former seeks to maintain its security relationship with the archipelago since it ensures the stability of other loyal oil producers in the Persian Gulf while the latter seeks to protect itself from the ostensible geostrategic and ideological threat posed by Iran. Moreover, a destabilized Bahrain has petroleum-related consequences. The GCC intervention not only shored up the regimes of the Arab monarchies, but it guaranteed that the region's natural resources remained in the hands of North Atlantic allies. Therefore what resulted was a quid pro quo: Arab support for NATO military intervention in Libya in return for Western acquiescence in the Saudi-led intervention in Bahrain.

The U.S. motivation for establishing diplomatic relations with Bahrain is based on its geographic position in the Persian Gulf. It is adjacent to both Iran and Saudi Arabia, two regional superpowers, thus rendering the archipelago a vital location important for strategic planning. The raison d'être between both nations is therefore based on defense and security (Katzman, 2013: 21). Bahrain has granted the U.S. access to assets and collaborated with Washington on a myriad of operations. This includes counterterrorism, both military campaigns in Iraq (1990-91 and 2003) and the invasion of Afghanistan (2001). In return, the U.S. provides Bahrain with foreign military financing and arms transfers to bolster the country's relatively small security apparatus.

Furthermore, Bahrain is especially important to the United States due to the 1995 establishment of U.S. Naval Headquarters, the Fifth Fleet, in Manama. The military base permits Washington to operate within its area of responsibility - West Asia and East Africa - rather efficiently and functions as a convenient launching pad against regional threats to the Strait of Hormuz. According to Yergin (2012: 304), about thirty-five percent of the global oil trade passes through this waterway. The failure to protect the security of ships and the flow of supplies would very likely cause markets to panic and "cause prices to spike." The notion exists that a successful popular revolution would demand both the withdrawal of American troops and the liquidation of the naval base (Prashad, 2012: 82). This is a source of considerable anxiety for the U.S. However, the General Secretary of the al-Wefaq party, 'Ali Salman, has articulated his support for continuing the security relationship (Katzman, 2013: 22). It is unknown for sure, however, whether the opposition is genuine about maintaining a significant U.S. presence in Bahrain. It may see the U.S. as an indispensable partner in the maintenance of its security or perhaps it may seek to replace the U.S. with Iran as its protector. If the latter is true, then 'Ali Salman's proclamation is simply a tactical move. However, the supposed assurance of the base provides the opposition with the necessary leverage in negotiations so the U.S. can apply pressure on the royal family to yield to certain concessions.

Moreover, Bahrain is an important actor in the international oil market. Even though the United States does not purchase or import oil from the island (Ibid: 34), Bahrain cooperates with other Gulf states in keeping production relatively high in order to preserve or encourage reasonable oil prices. As Iran attempts to expand its regional influence (with the prospect of dominating or manipulating its neighbors' petroleum sector), there are fears that a democratic Bahrain will inevitably curry favor with Tehran; thus eliminating Manama as a useful counterbalance as a price moderate. However, it should be noted that, in comparison to the other petroleum-rich Gulf states, Bahrain does have the lowest oil and gas reserves. If it maintains production at its current rate, forty-eight thousand barrels of total oil production per day as of 2012, it is estimated that its onshore reserves will be depleted within fifteen years (Ibid). The government of Bahrain, accordingly, has taken the following two measures to counteract the possibility of peak oil. First, it has made efforts to diversify its economy by gradually developing into an international financial center. London currently has close connections to the offshore banking industry in Manama (Kinninmont, 2011: 32). The development of banking and financial services is set to lower the country's reliance on its petroleum sector for economic growth. Second, the al-Khalifa royal family has increased its dependence on Saudi financial assistance, which includes a joint effort in the development of the Abu Safa oil field in Qatif in order for Bahrain to earn surplus revenues through the sale of additional oil in the global market. The economic stability of Bahrain is necessary to secure the loyalty of Sunni constituents and businessmen.

Therefore, as it stands, the continued development of American interests in Bahrain is founded on the stability of the al-Khalifa royal family as a buffer to regional threats, as a guardian of a U.S. naval base and, as explained below, part of Washington's desire to not alienate an essential ally, Saudi Arabia – due to latter's possession of gargantuan petroleum reserves and their importance not only as a loyal oil producer, but as a guarantor to the stability of energy markets. American foreign policy towards Bahrain thereby demands a bilateral effort with the House of Saud, especially within the context of the Arab Spring. Despite the initial hesitation demonstrated by the United States in both Tunisia and Egypt, the Obama administration did eventually embrace the ostensible tide of democracy across North Africa (including Libya). However, this American support for democratic change in the Middle East would have to stop in Bahrain for the following reason: from Riyadh's perspective, a democratic Bahrain poses a threat to Saudi's very own existence which in turn threatens to upset the integrity of oil markets.

THE PRETEXT: A BATTLEGROUND AGAINST IRAN

As observed by Downs (2012: 204), the rivalry between the Kingdom of Saudi Arabia and Iran "has long been a staple in the Middle East" with varying degrees of intensification over the years. A form of interstate conflict began to profoundly materialize after the success of the Islamic Revolution of 1979 as both countries competed for regional dominance. The elites in Riyadh and Tehran have thus far avoided direct confrontation, preferring to work through proxies to undermine each other's influence. Saudi Arabia's support for Iraq during the Iran-Iraq Gulf war and the 1981 Iranian-backed coup attempt in Bahrain are just two examples of conflicts by proxy. However, ideological competition between both states slowly waned during the course of the past two decades, but has increased in strength with the advent of the Arab Spring, thus rendering "the slightest semblance of an Iranian threat" reason "enough to affect the behavior" of the Gulf monarchies, particularly Saudi Arabia (Ibid: 230), with Bahrain having the unfortunate reality of being one of the many theatres of interstate struggle between these two regional rivals.

Of particular importance to the Saudi-Iranian rivalry is the internal structure of the Bahraini state. As discussed above, the systematic exclusion of the majority of the country's Shi'ah inhabitants from participating or exercising substantive power in the state's apparatus is the primary source of Bahrain's deep-seated problems. While the opposition demands meaningful political reform, the al-Khalifa family perceives the integration of the Shi'ah as a threat to its own survival. Bahrain's geostrategic importance causes it to be highly susceptible to foreign interference. And taking into account the archipelago's small size, international actors do play a significant role in guaranteeing the political and economic security of the state. As a result, the government of Bahrain has selected the Saudi-led GCC and the United States to be the guarantors of its security primarily on the

basis of their converging interests, which is revulsion at the prospect of unchecked Iranian expansionism ostensibly through its Shi'ah clients in the country and the petroleum-related consequences this situation engenders.

From the perspective of Saudi Arabia, a Shi'ah takeover of Bahrain's government "would destabilize the [Saudi] state and potentially energize the Eastern Province's Shi'ah population into a revolt" (Ibid: 229). For that reason, Saudi Arabia is unconditionally committed in their support for al-Khalifa and is absolutely resistant to the spread of any semblance of Iranian influence (since the latter represents the anti-status quo). Saudi diplomacy is further predicated on obstructing any conceivable rapprochement between the U.S. and Iran. Cordial relations between the two actors have the potential to be detrimental to the current state of affairs in the Gulf for two reasons. First, as noted by Downs (231), the withdrawal of Iran as a threat loosens Saudi's grip over other Gulf monarchies previously dependent on the Saudi government for security. And second, it would force Bahrain to abandon its anti-Iranian rhetoric since it will no longer be able to blame Manama's internal problems on foreign meddling. This would force al-Khalifa to give meaningful concessions to and empowering the Shi'ah community in Bahrain, a scenario completely unacceptable to Saudi Arabia.

Therefore, in the midst of an Arab revolutionary movement, divergent views on Bahrain would have sorely damaged the special relationship between Washington and Riyadh. In order to prevent disruptive relations, both countries successfully brokered a deal that gained the support of their political establishments. The negotiated deal sanctioned the GCC to suppress the popular uprising in Bahrain in exchange for Arab support on the imposition of a no-fly zone in Libya by NATO (Escobar, 2011a; Hilsum, 2012: 207; Prashad, 2012: 164; al-Rantawi, 2011). For this reason, when GCC forces were deployed into Manama - with the assignment of dispersing anti-government demonstrators - at the request of King Hamid on March 14th, citing concerns of significant meddling from Tehran, the U.S. complied. Washington did not express concerns over the human security of demonstrators or even the protection of civilians in face of a foreign intervention. Instead the oil for security motif triumphed, and it coalesced around the ostensible threat from Iran.

THE SAUDI-LED COUNTERREVOLUTION

Shortly after the violent crackdown of anti-government demonstrators, Mutter (2011) wrote that the monarchies of Bahrain and Saudi Arabia "announced the engagement of a Saudi princess to a Bahraini prince." Their subsequent marriage the following month best symbolized the extensive security relationship between the dynastic monarchies as their linkage was now extended into the realm of family. The announcement was preceded by the indefinite stay of Gulf troops to ensure the stability of the regime and to safeguard it from the perceived threat from Iran (Surk, 2011). Moreover, on March 18th, four days after the GCC intervention, authorities began to demolish the monument at Pearl Square. The purpose was to purge and disassociate the square as a symbol of protest, but the government insisted that its demolition and subsequent remodeling was intended to improve traffic congestion in the area (Bassiouni et al, 2011: 150). Once the reconstruction was completed, the square was renamed the GCC Roundabout. In response, Smoltcyk and Windfuhr (2011) remarked with irony that "now even the Arab counterrevolution has its [own] heroic square." The square is emblematic of Saudi Arabia's commitment to protect the status quo.

The posture of the United States towards the uprising has been tepid at best. The Obama administration urged for restraint on repressive behaviors and supported dialogue between the government and the opposition (Katzman, 2013: 16-18). However, in contrast to Libya and Syria, the U.S. fell far short of insisting the resignation of the ruling family. Therefore the declarations advanced by Washington are hollowed out by the absence of any meaningful exertion of political pressure. The statements give the impression of mediation and diplomacy, but fundamentally pursue the protection of al-Khalifa's regime through the overvaluation of initiatives put forth by the monarchy. Iran, for its part, condemned the intervention. While there was no evidence of any form of instigation of disturbances by the Islamic Republic (Bassiouni et al, 2011: 387), the success of a popular uprising in Bahrain is perceived to have the potential to destabilize neighboring monarchies. This, as a result, has the potential to upset energy markets. With Libya's petroleum production already disrupted, further threats to the flow of oil supplies placed in jeopardy the integrity of oil markets and the global economy. From Riyadh's perspective, Tehran could then exploit this to their geopolitical advantage. It is here where the interests of Saudi Arabia and the United States converge. Washington's desire to avert a significant increase in price compelled it to accept Riyadh's metanarrative of offsetting the influence of Tehran in the region.

THE CALCULUS OF REALPOLITIK: ENERGY SECURITY

Few writers noted the thicket of contradictions that surrounded the selective application of the responsibility to protect doctrine in Libya. As resources were being deployed by the North Atlantic powers to halt an impending humanitarian crisis in Benghazi, foreign military financing to other Arab governments experiencing similar protest movements continued. While certain members of U.S. Congress - like Representative James McGovern of Massachusetts - urged and attained a temporary halt of arms sales to Bahrain, the military transactions resumed unabated months later despite persistent human rights concerns (Quinn, 2012). Additionally, support from the Arab League for humanitarian intervention against Qadhafi's regime appeared even more peculiar as tanks from the GCC crossed King Fahid Causeway in order to suppress anti-government demonstrators in Manama just days before NATO's operation in Libya commenced. If we take seriously Washington's commitment in upholding the principles of human rights and democracy in Libya, then what explains their inaction in Bahrain? Surely, the Fifth Fleet can either be protected or recuperated through diplomatic channels with the incoming government. Why not halt an impending humanitarian crisis?

From Washington's perspective, there are both material and practical reasons to prioritize diplomacy rather than to advocate for regime change in Bahrain. The first is to ensure that energy supplies from the Persian Gulf are delivered and made available to international markets. Yergin (2006: 79) asserts that "markets need to be recognized as a source of security in themselves." As a result, the United States effectively assumes the role of protector of the international oil market with the intention of mitigating the volatility of the commodity's price. This has meant the U.S. focuses its efforts in ensuring that sea-lanes are secure and that markets continue to function efficiently by encouraging its allies in moments of emergency to simply augment supply in accordance to demand in order to keep prices relatively stable. The failure to do so triggers an increase in costs; thereby hindering the production of goods and the delivery of services in the world economy.

Second, as mentioned above, the collapse of the royal family in Manama would negatively impact Saudi Arabia's interests in the country and any American support for democratic elements would meaningfully disrupt the "special relationship" between the U.S. and Saudi Arabia. For clarification, Barnes et al (2003) identifies the special relationship between Washington and Riyadh as "a strategic quid pro quo under which the United States… guarantee[s] the security of Saudi Arabia in return for Riyadh's cooperation in keeping a reliable flow of moderately priced oil to international petroleum markets." Riyadh has alleviated fears of a supply crisis in the past by offsetting shortages "in times of war and/or market emergency." As the largest exporter of the commodity, Saudi Arabia has a decisive role in determining the price of oil. In return, Washington has made the commitment of protecting the Kingdom if it is threatened, as exemplified by the Gulf War in 1990-91.

Such formulations are crucial for understanding U.S. state behavior and the humanitarian tradeoff in relation to Bahrain and the Arab Spring. A successful revolution in Manama would have had an immediate ripple-effect throughout the Eastern Province of Saudi Arabia and, given the proximity of critical GCC oil infrastructure, political instability would have harmed international markets and prompted a significant price increase

due to potential disruptions of supply in the Gulf. These anxieties would have been too overwhelming for Western policymakers since it would have halted world economic recovery - which was very fragile at the time - and constrained Western economies (Muttitt, 2012: 313; Yergin, 2012: 275). And here we can begin to see how energy security, a core interest for the United States, trumps other principled and moral interests in the region, i.e. the defense of human rights and the promotion of democracy. Put simply, oil influenced the U.S. to not take forceful action in Bahrain. The lack of a humanitarian endeavor through the auspices of R2P was a calculated decision by the United States based on considerations of realpolitik since upsetting the oil-rich region would have had catastrophic economic consequences. The policy here is to prioritize oil in order to avoid petroleum-related consequences even at the expense of political struggles that resist autocratic rule and state repression.

The logic of oil causation, however, manifested itself a bit differently in Libya. Given the size of Libya's global market share, a modest two percent, the prospect of supply disruptions did not function as a disincentive for Western military intervention. While there were short – and medium-term concerns with respect to pricing, Libya's oil production - within that timeframe - was practically considered dispensable. To offset significant shortages and stabilize oil prices, member states of the International Energy Agency deployed its emergency stockpiles and Saudi Arabia boosted its production. It is essential to highlight the importance of Riyadh's role here. Their ability to unilaterally increase production not only provides global markets with energy security, but allows the United States to take forceful action on the international stage in times of crises. As a result, the protection of civilians emerged as a principled concern in Libya, but it was evaluated "through the lens of oil" security (Muttitt, 2012: 313), thereby rendering the intervention as a simple double-standard when compared to Bahrain. However, when not viewed from a humanitarian perspective, U.S. behavior can be adjudicated as rational. Its decision to not intervene for humanitarian purposes in Bahrain avoided costly petro-geopolitical repercussions.

CONCLUSION

At the time of independence, Bahrain was confronted with the difficult task of attempting to achieve national integration. A constitution was drafted establishing a constitutional monarchy, but a power struggle between the emir of the state and the national assembly quickly impeded any hopes for progress. The quarrel prompted decades of civil unrest. The restoration of the constitution in 2002 momentarily solved the crisis, but the amendments levied by King Hamid on the document removed any significant legislative powers granted to the national assembly. This unresolved antagonism continues to fuel civil unrest in Bahrain.

As I have argued, an effective approach to understanding U.S.-Saudi behavior in Bahrain is to interpret it through the lens of oil (for the former) and impeding the regional aspirations of Iran (for the latter). As the democratic wave that started in Tunisia began to spread across the Arab world, Saudi Arabia's security concerns became pronounced, compelling the Kingdom to pursue policies that appeared, at first glance, contradictory but entirely consistent with its pursuit to salvage its own regime. In Bahrain, the Shi'ah inhabitants - particularly Shi'ah dissidents and, most notably, the Baharnah - are perceived to fulfill the role of agents for the Islamic Republic of Iran and are seen to be subservient to their regional ambitions strictly on the basis of religious association. Therefore, from this perspective, a democratic Bahrain would naturally align itself with Tehran. This is a source of considerable anxiety for Riyadh who fear not only an encroachment of Tehran in Manama, but in the Kingdom's own Eastern Province, threatening its very existence.

On the other hand, Washington frets over the stability of Bahrain because of the purported negative impact it will have on energy markets and the politics of international oil. The maintenance of the status quo necessitates bolstering the security of the monarchical state of Bahrain which additionally enables U.S. access to assets in Manama and permission for the Fifth Fleet to remain in the country. Most importantly, it does not alienate Saudi Arabia as an ally, thereby ensuring the endurance of their special relationship. The desire to counter Iranian influence was the impetus for the Saudi-led military intervention in Bahrain with the complicity of the United States for the sake of ensuring the stability of the GCC states who are loyal oil producers. In this manner, the responsibility to protect doctrine was not applicable to the demonstrators gathered in Pearl Square.

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RUSSIA ON ITS STRIFE FOR DOMINANCE: PUTIN'S AGENDA WITH HIS RESOURCE GIANT

Yannik Schneider
Jun 01, 2014

As the origin of the name Ukraine (borderland) indicates, the area has always had the function of a frontier between continental Europe and Russia Even after the breakdown of the Soviet Union and its independence, Ukraine remained in the role of an intermediary between Europe in the West and Russia in the East. The recent unrest and internal struggles illustrate the tension this role of transition between two extremes imposes on the country and its population. Both Europe and Russia have their own interest to bind the country as close as possible in terms of economic- and political decision-making. One of the connecting and probably most stabilizing features for both sides is the significant amounts of gas transported through the major pipelines in the Ukraine, which are crucial for the energy production in Europe and in return create a stable inflow of foreign currency to Russia Crimea on the other hand may be identified as a destabilizing factor. The peninsula bears great strategic importance for Russia, because one of Russia's few ice free harbors is situated there. Seizing control over the harbor and the rest of the peninsula ensures Russia's sphere of influence on the black sea. This is from particular interest given the significant gas reserves and potential pipeline connection in the area around the black sea. The current and future developments in Ukraine were and will be at the center of world politics. The focus will particularly be on the degree of involvement of Europe as the affiliated power to the government in Western Ukraine on the one side and Russia as the supporter and potential protector of the independence movements in eastern Ukraine on the other side. As of now, the conflict illustrates the reemergence of Russia as a powerful international player who has to be recognized.

The forecasts and expectations on how the Russian-European conflict will unfold are ambiguous by nature and due to the complexity of interests; it will be difficult to assess whether further escalation will occur. The existing information asymmetry between the informed decision makers and outside observers stems not only from the more detailed access to information, but also from the fact that decision makers are aware of their agendas and these may differ from the ones officially announced. A relatively safe assumption and basis for analysis is that decision makers follow a certain doctrine of rational analysis and evaluations of costs and benefits of their actions. This assumption is at the heart of several frameworks and game theory models referring to the involved consideration and discussing this set up of power relations. Keeping in mind the major threat imposed on peace, stability and the subsequent economic implications through a military conflict, a worst-case scenario – war can be identified.

Rosecrance in his book "The rise of the trading state: commerce and conquest in the modern world" argues that global trade has diminished the profitability of conquest and focuses particularly on the tradeoff between benefits from territory expansions and trade reduction based on a deterioration of foreign relations. A deviation and more up-to-date approach is provided by Brooks, who makes the argument that trade is no longer the primary means of organizing international economic transactions, but rather where and how multinational corporations (MNCs) organize their projects and investments. Even though Russia sustained an economy with a relatively low involvement of foreign MNCs, Foreign Direct Investment (FDI) contributed significantly to the investment volume leading to the high economic growth years over the past few years. Also, Russia's domestic MNCs, particularly those engaged in fossil fuels rely heavily on their presence in the European markets. In the book Economics and Modern Warfare The Invisible Fist of the Market, Taillard provides a comprehensive summary and analysis of economic policies which might substitute for military acts to pressure countries. As the conflict currently unfolds a military intervention by Europe and the US to confront Russia seems highly unlikely Substituting military intervention with economic actions such as sanctions, freezing of cash flows and bank accounts have been the tools to pressure Russia from the European perspective.

The models concur in the prediction that war and therefore end of economic relations is unlikely to be in the best interest of players, which are as economically related and interdependent as Russia and Europe currently are. However most of the models build on the assumption that democracies are transparent to a degree that information asymmetries for both sides are minimal. Looking at Russia's score of 60 out of a 100 in the Open Budget Index as benchmark for transparency, casts reasonable doubt on the zero information asymmetry assumption. Therefore less than Pareto optimal solutions (developments leading to significant trade reduction cannot be entirely dismissed.

RUSSIAN-EUROPEAN ECONOMIC INTERDEPENDENCE

Fossil fuel trade between Russia and Europe can be identified as the single most important trade relation between the two of them. Russia supplies up to 30% of Europe's Natural Gas consumption and the European states are the major recipients of Russian gas. They consume up to 65% of Russian gas exports through a well developed and continuously developing transport infrastructure. Figure 1 below illustrates Russia's export portfolio in 2010. With the size of the purple squares representing the percentage of exports to the European States, the scheme illustrates the substantial amounts of exports going to Europe. Although petroleum is less significant due to its more flexible supply infrastructure, Europe also

imports 286.5 million tons of petroleum per year (mt/y) from Russia. This exchanges ranks as the single biggest inter regional petroleum trade worldwide. It can therefore reasonably be assumed that the economic interdependence in terms of demand and supply of fossil fuels will greatly influence Russia's & Europe's behavior in the unfolding crisis.

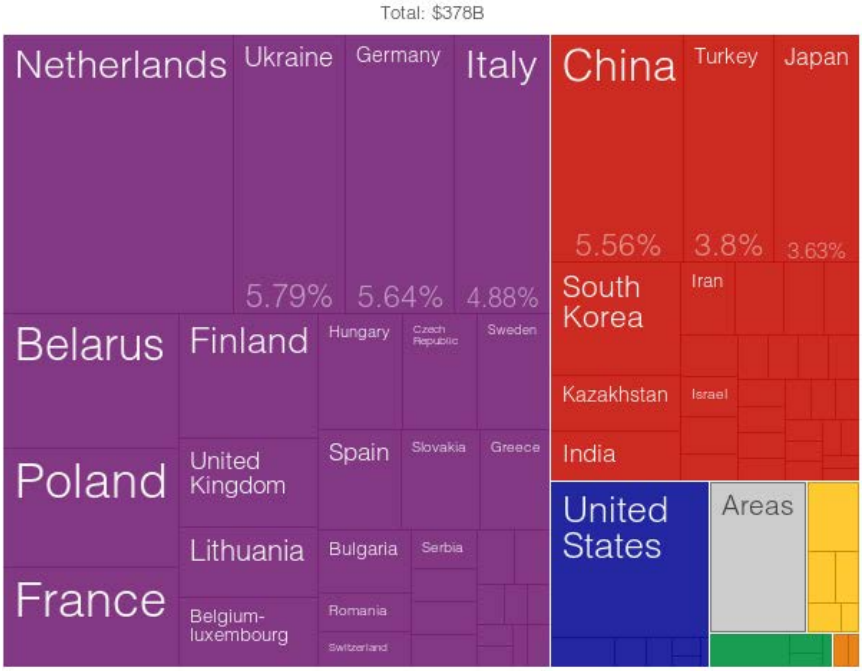


Figure 1 (unspecified color codes: Yellow – Africa; Green – South America; Orange – Oceania, Grey – Unspecified)

Synthesizing the mentioned frameworks with further data on the demand and supply situation of fossil fuels should provide a basis to predict what kind of economic costs would result from the termination of trade relationships due to a military conflict. Under the premise of rational decision-making by European and Russian executives the potential gain in political and economic influence in Ukraine for both parties should outweigh the economic and financial costs of war. That the analysis focuses on economic interrelations and on a cost-benefit approach serves the purpose of avoiding the information asymmetry, which would be encountered if one refers to political agendas. Economic and financial information is more accessible and the quantitative nature provides a better statistical basis to infer conclusions, than purely qualitative statements in political agendas.

The paper will attempt to provide a comprehensive basis for the assessment of economic and financial costs to Russia if military conflict were to end economic relations with Europe.

The final conclusion will be built on two main pillars of discussion:
Russia's and particularly Putin's agenda for fossil fuels as a strategic asset owned and used by the Russian state through its MNC's
The supply of Gas and Petroleum and how the infrastructure increases the interdependence

ON TOP OF PUTIN'S AGENDA: REAWAKENING THE RESOURCE GIANT

Russia's strong supply position leads back to the times of the Soviet Union and originates in its tremendous resource wealth. Russia ranks first in terms of proven natural gas, second in terms of coal and seventh in terms of oil reserves worldwide. Throughout the 60s, 70s and 80s the export of energy resources and abundance of cheap energy inputs were one of the most important factors, which kept the Soviet economy liquid and competitive. In the end, the severe beneficial effects of rent income were not sufficient to prevent the economic breakdown of the Soviet Union. Relating the low oil prices of the 80s to the increasing financial deficit and economic problems of the Soviet Union towards its end, academics such as Yergin or Klare argue that it was actually the "resource curse", which was breaking the Soviet Union's economic neck. The dependency on energy resource rent income led to an undiversified economy affected by Dutch Disease symptoms with the strong vulnerability to oil price fluctuations destabilizing the Soviet states. Or, to put it in Yergin's words: "High oil prices were not a dependable foundation for preserving the last empire [Soviet Union]."

The following decade of liberalizing and modernizing Russia's oil and gas production resulted in an oligopoly setup in 2000. With the election of Vladimir Putin as the new president, a man was put into power, who wrote his dissertation on the significance of Russia's "mineral" resources (coal, gas and oil) as a strategic asset. Martha B. Olcott of the Carnegie Endowment for International Peace in 2003 summarized Putin's dissertation conclusion with the words, "Russia's resource base will not only secure the country's economic development but will also serve as the guarantor of the country's international position." Looking at Russia's policy making in retrospective it shows how relevant this analysis should become and how committed Putin remained to his initial thesis, while achieving his agenda step by step. In the early years of his reign he regained the control over energy related assets by directly confronting the influential oligopolists, who were either bought out or imprisoned as their companies were nationalized.

RUSSIA'S STATE CAPITALISM

The assets were primarily integrated into the state owned companies Rosneft and Gazprom. Thereby Russia, similar to China, introduced an alternative to the conventional liberal market capitalism referred to as state capitalism. This alternative refers to the government having a relatively lose grip on the economy. At the same time the state focuses its control and support on the significant, big impact cooperation in the economy. These companies are almost exclusively Multinational Corporations (MNCs) and are structured similar to private companies. Business decisions on a micro level are made on the basis of efficiency and profit considerations, while the supranational strategy decisions are ultimately respond to an agenda set by state officials, ultimately accounting for the state interests. This hybrid setup supposedly ensures an alignment of incentives between the state and the corporation. In terms of their international position this proves highly beneficial for both the companies and the state. This is exemplified by the case of Russia and Gazprom. The Russian state always supported the extension of Gazprom's sphere of influence and international (particularly European) market share, while at the same time the decision makers of Gazprom are composed of people trusted by Putin. Nevertheless state capitalism is often accompanied by an environment where corruption and nepotism flourish. The inter linkages between state and private business the umbrella of state capitalism, therefore lead to inefficiencies and higher costs. Ultimately these must be compensated with continuous high profit margins, which eventually put a high pressure on the company's performance.

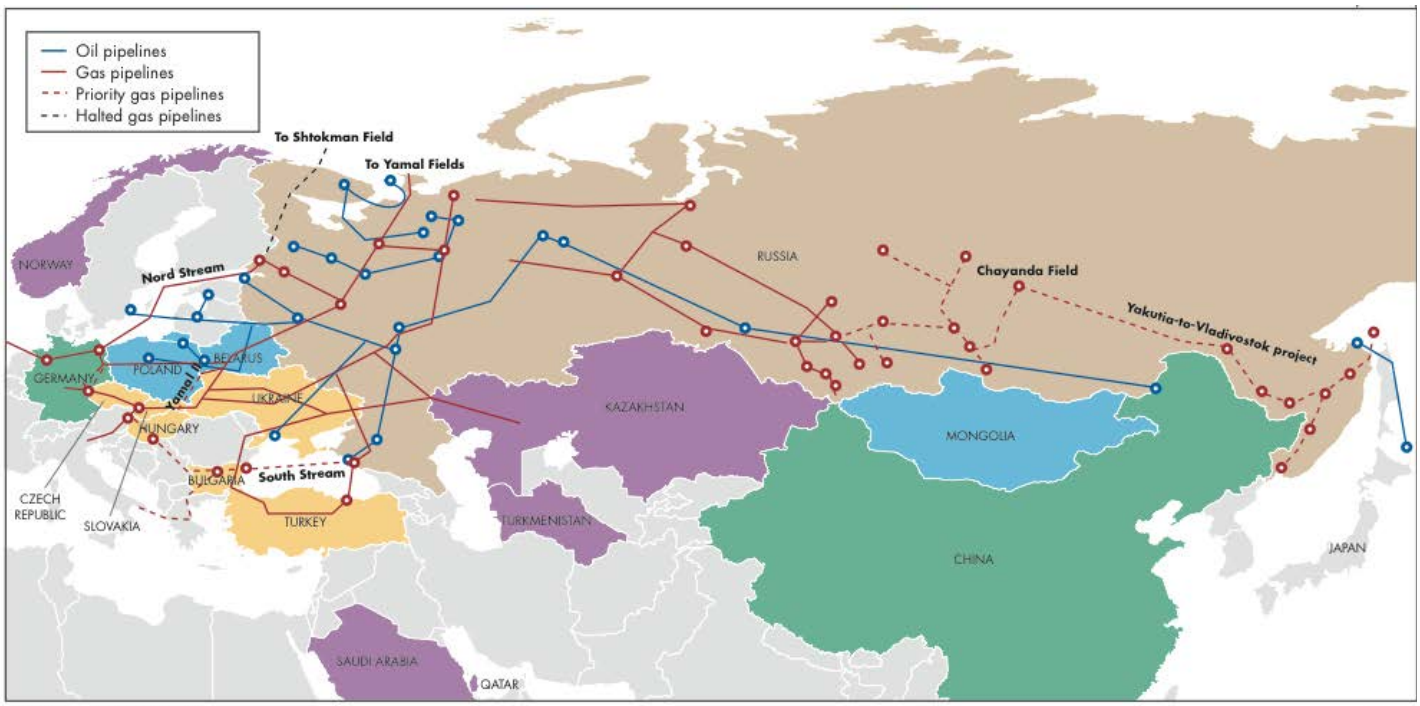
The North European Gas Pipeline (NGEP) is a prime example of such integrated multi-party negotiations between states, private companies and state owned companies. The pipeline directly connects Russia with Germany through the Baltic Sea and thereby entirely bypasses other states. The initia negotiations took off on a political level and resulted in the formation of the Nordstream AG to build and own the pipeline. 51% of Nordstream AG belongs to Gazprom, while Wintershall and EON Ruhrgas represent private German companies with 31%, the rest is distributed between N.V Nederlandse Gasunie and GDF Suez. Achieving an agreement is mainly contributed to the support and friendship of Gerhard Schroeder the forme German chancellor from 1998 until 2004 with Putin. The strong interrelation between business and states is further indicated by the fact tha Schroeder shortly after the end of his reign took over the position of the Chairman of the Board in the Nordstream AG.
As Putin predicted in his dissertation, Russian Energy Resources proved to be a highly useful tool to extend and improve Russia's internationa strategic position. Gazprom and its gas supply now prove a significant asset to Russia's position in the Ukrainian crisis. On the other hand, Gazpron and therefore Russia are also dependent on the revenue streams. For example, in Gazprom's financial reports it is stated that "as at 31 Decembe 2012, 2011 and 2010, the long-term loan from Gazprom International S.A. amounting to 12,508,993; 18,837,878 and 22,747,073, respectively, are secured by export revenues from gas sales to Western Europe."

THE STRUCTURAL WEAKNESSES OF THE RUSSIAN GAS & PETROL STATE

But as in the times of the Soviet Union, Russia's strategic energy assets could once again prove to be a blessing and a curse at the same time Putin's emphasis on the oil and gas sector, although achieving significant GDP growth rates, left Russia's economy highly undiversified. In 2011 67% of Russian export revenues consisted out of petroleum and gas products and resource rents are responsible for up to 21% of Russia's GDP. This income greatly benefits from the current high oil prices ranging around 110$ per barrel, thereby a drop down to 60 $ per barrel would throw the Russian economy in a recession.
The Ukrainian Crisis fostered a variable set of cold war comparisons sometimes even accompanied by referring to the old and slightly outdated dialectic and propaganda. Nevertheless looking at the economic relation and numbers introduced above and relating it to the fact that the Sovie Union throughout the Cold War did trade oil and gas for foreign currency and food with Europe, the comparison does indeed not seem that far off. This ultimately raises the question whether Russia's strong international strategic position might crumble similarly as the Soviet Union's did when oil and gas prices decreased. Beside the vulnerability to oil prices, Russia's status as a petrol state with its heavy reliance on gas and oil rent income creates a similar vulnerability to a decrease in demand and consumption. With around two thirds of Russian petroleum exports and 80% of Russian Gas exports being sold to Europe or Ukraine, it seems highly unlikely that Russia would take the risk or could even afford to lose the income from selling the oil and gas to Europe. An interesting anecdote related to this is that Gazprom in its financial statement always refers to non-domestic revenue accounts as "Europe and other countries."

SUPPLY AND DEMAND INFRASTRUCTURE OF RUSSIAN GAS

It is true that throughout the last two decades the world experienced the emergence of a new set of energy hungry players such as China and India which Russia could reroute its supply to. Yet this change in supply pattern is restricted to existing infrastructure connections. Petroleum being much more flexible in terms of transport can to a certain degree be rerouted, but natural gas due to its low energy output per volume has to be transported through pipelines or liquefied and then transported via ships.
Liquefied Natural Gas (LNG) facilities to conduct the liquefaction process are rare in Russia and their capacity only covers 10% of Russia's natura gas exports. The 10% are fixed in supplying Japanese markets based on long-term contracts. The facilities are very costly and their construction requires at least two years, which makes them an expensive and risky investment.

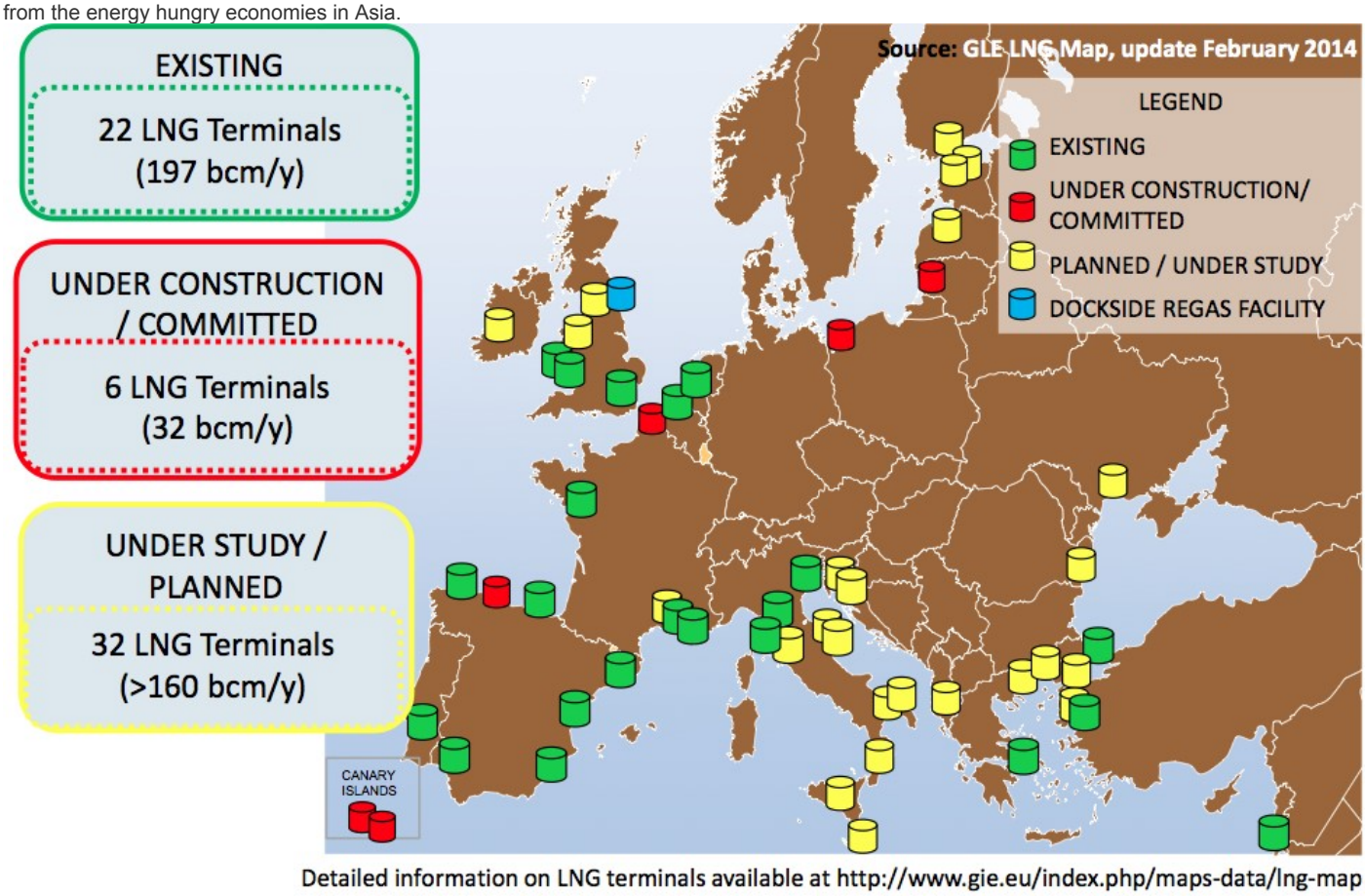


Map 1

In terms of pipeline supply routes, Map 1 shows that the existing pipeline grid is significantly schemed towards supplying Europe. Further there are ongoing projects such as the South Stream with a capacity of 63 billion cubic meters per year (bcm/y) and the addition of second line in the Nord Stream, which would increase the capacity to the full capacity of 55 bcm/y. These two projects alone would cover over 20% of Europe's yearly's natural gas consumption 534.17 bcm/y.

Looking at Europe's overall infrastructure it actually shows that in the context of gas disputes between Russia and the Ukraine in 2009 the supply network already has been significantly diversified. Although the Nord Stream as well as the South Stream can be considered significant components of the diversification, Europe also greatly extended its LNG capacities. Map 2 provides an overview of the 22 already existing plants with a combined regasification volume of 197 bcm /y together with the several terminals under construction. The existing facilities are currently at around 25% of their full capacity, which provides Europe with flexibility in terms of its supply sources. Previous experiences with supply disruption from Russian gas also provides evidence for a strong solidarity among the European states in terms of sharing the LNG supply of western countries to bridge temporary shortages in the eastern countries, which have to rely more on Russian gas. Nevertheless LNG is usually the more expensive choice making Russian gas under normal circumstances more competitive. Another problematic related to LNG is the afore-mentioned strong demand competition stemming

from the energy hungry economies in Asia.



Map 2

The Asian demand also bears the potential to become Russia's supply alternative. In the case that Russia decides to diversify the energy rent income away from Europe in the west there is a significant demand waiting on its southern and eastern borders. Nevertheless the pipelines to China and other Asian markets are merely under construction and negotiations for further promotion of infrastructure expansion to increase trade volumes are expected to conclude in the next months. Overall in the short term the Asian markets cannot be considered a significant potential supply alternative for Russian gas.

Even in the long term perspective a reorientation of Russia towards its eastern borders will not only decrease the trade in energy resources between Russia and Europe, but also discourage mutually beneficial cooperation in industrial and service sectors. Forward and backward linkages in these sectors are paramount for Russia's diversification, while the eastern markets provide little substitutable alternatives to the well developed European service and industry sectors. Hence the opportunity cost of a worsening Russian-European relationship also includes significant indirect economic costs.

PERSPECTIVE

The Ukrainian crisis reintroduced Russia as an emancipated player in international politics, who is ready to confront the West. Russia's reemergence originates in strong economic growth as well as Europe's dependence on Russian energy resources. This achievement can be contributed to Putin's political agenda, which stipulated the nationalization of strategic resources, the establishment of state capitalism and utilization of its energy resources to improve Russia's international strategic position. How steadfast this position actually is can be put into question, especially considering that a significant portion of Russia's economy is directly related to oil and gas prices. The heavy reliance on natural gas rents, which are based on an inflexible supply infrastructure, did make Russia economically and financially equally dependent on European demand, as Europe is dependent on Russian gas supply. The availability of unused LNG capacities in Europe might actually establish an advantageous position to Europe. In the short term, both Europe and Russia would face significant risk of either energy shortages or income losses, which cannot be compensated for. The related costs substantially exceed any potential gains in the Ukrainian conflict for both sides. In this context the political maneuvering of both sides in Ukraine can considered a political game of poker with no party being able to afford to go all in. Nevertheless the conflict is likely to have a significant impact on policymaking and global gas trade in the future. While Europe is likely to diversify its supplier portfolio away from Russia towards more LNG and potentially pipelines through Turkey, Russia on the other hand is likely to tap the Asian markets to decrease Russia's dependence on European rent payments.

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SHALE OIL: PROBLEMS AND POTENTIALS

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May 28, 2014

INTRODUCTION

With estimated reserves at roughly 1.5 trillion barrels in the United States alone, shale oil is quickly becoming a viable alternative to conventional oil. Many of the world's top energy companies have invested heavily in the exploration and production of shale oil, taking them all across the globe, from Estonia to North Dakota. However, the vast potential of shale oil has not come without reservations. The extraction process, known as fracking, has created controversy for its unusual techniques that, as some scientists and environmental groups claim, can have negative environmental and health effects. Many environmental advocacy groups, such as Greenpeace, have argued that fracking leads to water contamination and emits a high amount of greenhouse gases. In addition, scientists such as Holland, Smith and Thomas have found that in certain cases, those living near shale oil deposits can develop blackened lungs and other respiratory problems. Edwin Dobb brings many of these environment and human welfare issues up in his National Geographic article on shale oil boom in North Dakota. Dobb argues that while there may be economic benefits, they are heavily outweighed by the social and environmental costs.

Irrespective of these claims, what is the reality of the situation? Is fracking as hazardous as environmentalists and some scientists will have us believe or is it being blown out of proportion? Many experts in the field agree that the concerns over shale oil are, for the most part, hype. Bob Tippe, editor of the Oil and Gas Journal, recently stated at a conference that the controversy of fracking is overstated and is in many ways a result of certain fringe media outlets, labeling them as "obstructionists." Additionally, Susan Brantley and Anna Meyandorff of The New York Times have expressed similar sentiments, explaining that while shale oil is not the cleanest energy source it definitely beats coal. To further alley fears, studies have been done in various shale oil producing countries, such as Estonia, which show that extraction techniques are being constantly refined to meet environmental standards. There has even been research conducted by Norwegian and Estonian scientists that show the ash emitted by shale oil can actually improve the soil in the ground. Given this, despite the concerns of environmental groups, it seems reasonable to suggest that the issues raised against shale oil are disproportionate to the reality of the situation. While there certainly can be better clarification about the side effects of shale oil production, oil companies have shown a willingness to meet environmental standards and, in some cases, improve them.

WHAT'S ALL THE FRACKING ABOUT?

Before delving into the debate, it is important to first look at the shale oil production process itself. As Galojan describes, oil shale is a "sedimentary rock containing significant amounts of organic matter called kerogen from which liquid hydrocarbons can be thermally extracted." In order to release a significant amount of liquid from the rock, it must be broken up, or fractured. This is done by horizontal drilling, which injects millions of gallons of high-pressure water directly into layers of shale, which creates the fractures that release the gas. Furthermore, as Brantley and Meyandorff explain, "chemicals added to the water dissolve minerals; kill bacteria that might plug up the well, and insert sand to prop open the fractures." The organic matter, once condensed, turns into roughly two-thirds oil and one-third liquefied natural gas. Additionally, as Vinegar points out, the amount of shale available to extract is high. Therefore, it is no wonder shale oil has become an attractive alternative to conventional oil in recent years.

Despite the economic benefits, environmental groups are quick to point out the potential fallacies in the production process. Many of those who oppose fracking complain about the chemicals that are added to the water. The "fracking cocktail," as Brantley and Meyandorff dub it, contains "acids, detergents and poisons that are not regulated by federal laws but can be problematic if they seep into drinking water." While it is extremely rare for the chemicals to seep into drinking water, the threat of it effecting even the smallest of communities is worrisome nonetheless. In addition, the methane gas that is released through the extraction process contains high levels of greenhouse gases, which environmental groups claim severely effects global climate change. Taking these various negative side effects into account, it is crucial to ask two questions: how accurate are these claims by environmental groups and how do the suspected environmental costs compare to the proposed economic benefits of shale oil production? I will first examine the concerns made by the various environmental groups then explore the case in favor of shale oil, which includes industry experts, academia and scientists. As stated earlier, the results lead me to believe that while there are legitimate concerns over shale oil production, the damage is exaggerated and varies from region to region. What is certain is the potential economic benefits of shale oil, benefits that are too great to cast aside.

THE CASE AGAINST FRACKING

If the confrontation over fracking is turning into war, then Western Pennsylvania is certainly its battleground. The area is home to the Marcellus Shale basin, the largest sedimentary rock formation in the eastern United States. While oil companies have touted its potential to be the focal point of American shale oil production, local residents, alongside environmental groups, have been skeptical if not outright against fracking. Their opposition was recently voiced at a Pittsburgh City Council meeting that looked to tackle the question of shale oil production in the region. Among their concerns discussed was the claim that fracking can cause underground leaks which affect wells and thus contaminates drinking water. Furthermore, Kent Moors, a professor at Duquesne University and part of its Energy Policy Research Group, warned that the impact of drilling in the region would have dire consequences. Moors pointed out to the council that by "trucking millions of gallons of water to each drilling site, adding hundreds of chemicals, and pumping it a mile deep…the infrastructure damage to local townships and counties is going to be devastating." Residents of these townships have not sat idly by either. In the past decade, lawsuits against fracking have picked up in Pennsylvania and while there have not been any significant settlements; the huge defense costs are providing headaches for oil companies. As Michael Bradford comments, many of lawsuits pursued by property owners have included "failed well casings, chemical spills above ground, and negligent use of drilling equipment." These concerns have led many insurance companies to develop policies for energy companies that include coverage for fracking lawsuits.

In addition to the environmental concerns, there are the human health concerns as well. While the issue of water contamination has already been mentioned, there have been studies that highlight the other potentially harmful effects fracking can have on humans. One such study was conducted by L.M. Holland, D.M. Smith and R.G. Thomas. Using hamsters, Holland, Smith and Thomas examined what the effects of raw particles of shale have on the respiratory system. The results found that while the hamsters had relatively little change in their white and red blood cell count, there was significant reaction to macrophage cells. Macrophage cells act as a defense against any foreign particles that enter the

body. Those who were exposed to heavy amounts of the shale dust suffered severe reactions to the macrophage cells while those who did not have any exposure had no reaction. What this study infers is that particles of shale rock that are released during fracking can have a significant impact on anyone within the vicinity of the production site. This can include oil company workers, local framers and property owners.

An area that sheds light on such negative side effects is the Bakken shale basin in North Dakota. Residents living in the Bakken formation, unlike those around the Marcellus basin in Pennsylvania, are sparsely populated and thus did not have the same level of resistance to shale oil production. While tough negotiation and discussion is taking place in Pittsburgh, fracking is well under way in North Dakota. This has led to dramatic socio-economic changes with the main town Watford City increasing its population from 1,700 in the 2010 census to estimates of at least 6,000 in the past two years and in the Williston ("the heart of the oil patch" as Dobb puts it) the unemployment rate is less than one percent. However, with all of the seemingly positive effects this has brought to a once remote place, there are serious challenges being faced. For one, many of the farmers in the area (who moved to North Dakota for the serenity and isolation of the prairie life) find it hard to cope with the massive influx of people and machines. Dobb highlights how many farmers have to deal with loud, 12-inch gas conduits being installed throughout their land and with little compensation. As he explains, in North Dakota landowners are allowed to separate "surface rights" from "mineral rights," therefore "during hard times some have been tempted to sell or trade the latter-for say, needed equipment, like a new tractor." In other words, farmers have very little say when it comes to the expansion of fracking. Similar to Western Pennsylvania, North Dakota also has to tackle the issue of water contamination. As stated before, fracking involves high-pressure water that is mixed with various chemicals. Dobb points to the 'Halliburton loophole' as a main contributor to the mess. He explains that this loophole "exempts the oil and gas industry from the requirements of the Safe Drinking Water Act." Essentially, the risk for contamination will be high as long as fracking is not properly regulated. While the economic prospects for North Dakota looks bright, the environmental and human outlook appears gloomy.

THE CASE FOR FRACKING

On the surface, the argument against fracking seems compelling. In Europe, France and Bulgaria, which have the two largest shale gas reserves on the continent, have subsequently banned fracking due to environmental concerns. However, if we dig deeper, there appears to be a lack of perspective on the part of those opposed to shale oil production. Brantley and Meyendorff state that while the extraction process does occasionally have negative consequences, "fracking should be evaluated relative to other available energy sources." While Europe continues to increase its reliance on coal, most of these countries fail to recognize that shale gas emits half the carbon dioxide per unit of energy as coal does. Furthermore, Brantley and Meyendorff point out "coal burning also emits metals such as mercury into the atmosphere that eventually settle back into our soils and waters." In other words, of all the bad options we have, fracking is actually the least harmful. While there is no disputing that energy sources such as solar or wind are more eco-friendly, they are not as viable as oil or coal at the moment. As for the issue of water contamination, studies seem to show that concerns are disproportionate to statistics. In a study of 200 private water wells in Western Pennsylvania, only one had a change of quality after the fracking started. Ironically, many of the wells had failed drinking water regulations even before drilling started.

Interestingly enough, there have even been cases that show how fracking can improve the environment. Estonia, which is one of the biggest producers of shale oil in Europe, has refined its fracking technique over the years to not only meet environmental standards, but to even improve the ecosystem around it. In a study conducted by Dr. S. Sabanov and K. Sokaman of Tallinn University of Technology, the levels of acidification (acid rain) and terrestrial eutrophication (high level of nutrients in the soil) were examined in areas where fracking takes place. Sabanov and Sokaman found that the new techniques being used in Estonia, in particular the introduction of more environmentally friendly machinery has resulted in lower levels of acidification and terrestrial eutrophication on the environment. Furthermore, another study conducted jointly by the National Institute of Chemical Physics and Biophysics in Tamllin and the Norwegian University of Science and Technology found that ash emitted by shale oil actually improves the soil in the ground. When the researchers applied the oil shale ash to soil, it increased the concentration of soluble salts and nickel within the soil, which essentially makes the soil more arable.

Given the evidence, why do environmental groups consistently choose to ignore them? As fracking has been going on for over 60 years, why has it only just recently begun to come under scrutiny? Unfortunately, a large part of the problem is the media. Not only do media outlets and environmental groups fail to properly explain the environmental advantage shale oil has over coal, they also fail to recognize the improvements the industry has made in the fracking process over the years. These "obstructionists" as Bob Tippee, editor of the Oil & Gas Journal, calls, seem to simply be opposed to "anything that is related to oil and gas." As a result, Tippee continues, these groups have put skepticism into the minds of those who have little way of knowing the facts on hydraulic fracturing. The hysteria has even gotten to the point where the EPA, which had once declared fracking safe and well regulated by states, now takes a tougher stance and in some cases halts production. For an energy source that is in the trillions in terms of reserves and could significantly reduce the US's dependence on foreign oil, it is proving to be a hard sell.

CONCLUSION

Despite concerns over shale oil, it seems reasonable to suggest that these concerns are disproportionate to the reality of the situation. While there certainly can be better clarification about the side effects of shale oil production, oil companies have shown a willingness to meet environmental standards and, in some cases, improve them. And even though it is not the cleanest of energy sources, it has proven to be less hazardous than coal or conventional oil. The economic, social and political implications of shale oil are as vast as the reserves themselves. Could we see the US become dominant oil producer once again? Could countries such as Estonia, Jordan and Israel turn from energy importers to energy exporters? For now, the debate continues. However, if the price of conventional oil continues to increase, we may see shale oil take an even more prominent role on the world energy market.

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