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GCSP Policy Brief Series

The GCSP policy brief series publishes papers in order to assess policy challenges, dilemmas, and policy recommendations in *all aspects* of transnational security and globalization. The series was created and is edited by Dr. Nayef R.F. Al-Rodhan, Senior Scholar in Geostrategy and Director of the Program on the Geopolitical Implications of Globalization and Transnational Security.

Editorial of GCSP Policy Brief No. 8 Energy Security, Globalization, and Global Security

Dr. Nayef R.F. Al-Rodhan
Senior Scholar in Geostrategy and
Director of the Program on the
Geopolitical Implications of Globalization
and Transnational Security
Geneva Centre for Security Policy

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To comment, please email Bethany Webster at b.webster@gcsp.ch.

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Review and Critique

The war in Iraq and the global dependence on oil and other sources of energy has led security of these resources towards an entirely new era. Now, more than ever, energy security rests on the cooperation of governments and multinational corporations to protect the transportation of these goods as well as the employees who work in the field. As we have seen in the recent past with the kidnapped workers in Nigeria,¹ the security of pipelines and individuals has been compromised by groups wishing to disrupt the flow of oil out of these countries. In the modern world of trade and communication that has resulted in the continual globalization of markets and economic trends, energy reliability and pricing has also been affected. Consequently, the acquisition and maintenance of global energy supplies have taken their places once again on the lists of security priorities and geopolitical agendas.² There are a number of challenges facing oil-producing areas including: stability of oil exporting nations; terrorism; regional conflicts; the security of oil facilities; natural disasters; and ethnic conflicts and strife.³ Each of these dilemmas affects the political and economic dimensions of globalization and has a far-reaching impact in our globalized world. Therefore, the connections between energy security and globalization become critical for any serious examination of global security and stability. Dr. Liam Fox recently noted the importance of this connection: "In the years ahead energy security, economic security and national security will be inextricably linked."⁴ Therefore, these elements must be collectively understood and addressed.

As John Gault argues in his policy brief,⁵ globalization, which has played a role in the energy industry since the 19th century,⁶ has put new stresses on the international system; these new stresses have affected the global energy supply in important ways. Dr. Gault outlines a number of pertinent reasons, including increase in concern about the ability to ensure uninterrupted flows of oil via secure pipelines. He also points out that the distances over which these resources are transported are increasing and therefore the investment requirements for countries and companies is also rising, in order to meet the growing demand. All of these trends will continue, consequently forcing governments to respond in a number of ways. The creation of the International Energy Agency (IEA) was one such response in the 1970s; the current drive towards diversifying funds was also an important response mechanism mentioned by Dr. Gault.

Despite these responses, however, there are a limited number of options that are open to both oil importing and exporting countries, especially as the increase in attacks makes it more difficult and more expensive for energy suppliers to protect their networks. In describing how to combat these weaknesses, Dr. Fox emphasizes that "such a strategy will need to have three components: diversity in the type of fuels we use; diversity in the geographical sources of those fuels and the security structures that will guarantee the safe transport of these fuels."⁷

Dr. Gault argues that there are a number of urgent requirements for all governments, including timely and transparent data on energy supply, demand, and production. However, governments are mostly trying to deal with the global implications of potential disruption in energy supplies, especially as producing areas are threatened with closure as a result of potential environmental concerns.⁸ In the emerging economies of India and China,⁹ ensuring secure supply lines in order to meet global demands has reached a new level of importance. While each of these countries are still consuming less than, for example, the US, the strain that this growing demand puts on the system in addition to current levels makes experts question the longevity of current global energy supplies.

The trends and trajectories related to global energy security are mostly fixated on the future including a world beyond oil as the single, dominant energy source. Countries and governments will need to work on diversifying their own energy sources as well as work on their own domestic production in order to secure vital flows of energy. The capacity of oil production will increase as the global market continues to invest in and demand the levels at which the world currently operates. The fluctuations in global demand which is increasing in countries such as India and China put pressure on the international system to resolve current and potential policy dilemmas. Dr. Gault's brief deals with these issues and makes strong recommendations on what governments need to do in order to minimize the security risks in the near-term future.

Dilemmas and Recommendations

Guaranteeing the flow of various forms of energy in and out of countries is a major security question for many states in the current debates about security. While it is true that globalization has created a new challenge for states, it has also created new opportunities for furthering global cooperation and for furthering state stability within the markets. For instance, improving the way in which governments coordinate their efforts in the energy industry will also assist in the cooperative measures which are developing or need to be further developed in other sectors. Concrete dilemmas and recommendations, therefore, present themselves in terms of the energy sector; we present those which we feel are the most important below.



While it is not necessary to describe in detail every dilemma and recommendation appearing above, it is important to note some general trends and trajectories. States are currently facing a financial investment dilemma to some degree when discussing the investment and development of renewable versus non-renewable energy sources.

Questions remain at the state level as to how to deal with the supply and demand aspect of energy security which quite often results in a disconnect between projections made by exporting states and importing states not having adequate or correct information. This also has implications for the resulting demand for increased production capacity and the potential need for states to make further investments into energy infrastructures. States must work towards better coordination and transparency of the relevant data which would lead to an energy “road map” for both producers and consumers. This would reduce the vulnerability of both types of states and therefore build trust and faith in the negotiation process. When trust

and faith in negotiations and communications are compromised, instability and fears of interrupted energy flows are created.

The environmental aspect of energy security is important and must not be left off any comprehensive list of dilemmas and subsequent recommendations. High taxes are often used as a tool in which to prevent increasing environmental damage. However, this will not sustain over the long term. Governments are in control of the taxing levels when it comes to dealing with import tariffs, contrary to the not uncommon popular belief that prices at the pump are mainly controlled by Organization of the Petroleum Exporting Countries (OPEC). This misconception about the role of taxation in final consumer prices not only creates scapegoats but also promotes animosity and cultural suspicion towards OPEC countries and encourages insecurity in the general public. To promote the diversification of energy resources and move investments toward natural gas rather than continue the promotion of further coal investments and subsidies, taxes should be coupled with CO² emissions.

Politically and economically, states quite often face a dilemma when dealing with the question of limiting CO² emissions and multinational companies are sometimes reluctant to impose better emission standards themselves due to the costs involved. These types of sanctions must come from the top down and states must find a balance between economic, political and environmental prosperity. A reduction in taxes on imported oil by importing governments, a sharing of technology for producers to produce oil at a cheaper rate, and ample taxes, where appropriate, will help to eliminate this problem. Additionally, a comprehensive and inclusive Kyoto Protocol, which should be adopted by all major importers and exporters of energy, would help to level the playing field.

Finally, the issue of state-owned oil companies must be addressed. Currently, the balance between state-owned oil companies and international oil company participation is creating a political dilemma for the global system. The agenda for both types of companies is naturally rooted in different goals and therefore largely affects those countries that depend heavily on oil and other exported energy supplies. There must be encouragement, both at the state and international level, for transnational investments, because of the large amount of funds required. A balance must be found between state and internationally run companies in order to minimize the national political and economic power as well as the influence in the international system as the demand for energy increases.

Conclusion

The concerns surrounding the security of energy flows both in its capacity to be produced effectively as well as the security guarantee for the transportation lines are vital issues for states in the near to long-term future. Political and economic incentives for investment as well as security measures must be at the top of the agenda for states. The international system is

moving in the right direction in terms of energy security, but there are still areas which need to be looked at more thoroughly in order to ensure energy flows into the market for years to come.

References

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- ¹ For more information on the kidnapping of oil workers in Nigeria in February of this year, please see "Oil Workers Kidnapped in Nigeria," *BBC News*, February 18, 2006, <http://news.bbc.co.uk/2/hi/africa/4726680.stm>.
- ² L. Beehner, "Global Oil Trends," *Council on Foreign Relations*, December 30, 2005, http://www.cfr.org/publication/9484/global_oil_trends.html.
- ³ All of these dilemmas appear in A. Cordesman and K. Al-Rodhan, "The Changing Risks in Global Oil Supply and Demand: Crisis or Evolving Solutions?", *Center for Strategic and International Studies*, first working draft, October 3, 2005, at http://www.csis.org/media/csis/pubs/050930_globaloilrisks.pdf.
- ⁴ Speech by Dr. Liam Fox, MP, Shadow Secretary of State for Defense, "Energy Security and Military Structures," given at Chatham House on May 22, 2006, please see <http://www.chathamhouse.org.uk/pdf/research/nis/220506fox.pdf>.
- ⁵ For the brief in its entirety, please see <http://www.gcsp.ch/e/publications/Globalisation/Publications/index.htm>.
- ⁶ *Ibid*, John Gault argues in his opening paragraph, "In December 1861, only two years after the first oil well was drilled in Titusville, Pennsylvania, the brig *Elizabeth Watts* sailed from Philadelphia to London carrying barrels of kerosene." Please see the brief in its entirety for further information.
- ⁷ Fox, *op. cit.*, note 4.
- ⁸ BP has discussed shutting down its operations in Prudhoe Bay Alaska, North America's largest oil field, as a result of a scan that showed potentially serious corrosion on certain sections of the pipelines. Currently this is under discussion, but for a recent review of the topic, please see "BP Closer to Partial Reprieve", *CNN Money*, August 10, 2006, http://money.cnn.com/2006/08/10/news/economy/bp_prudhoe.reut/index.htm.
- ⁹ For a full prediction by the IEA of where energy trends are heading, please see the most recent *World Energy Outlook*, available at <http://www.worldenergyoutlook.org/>.