

Resource Rich, Policy Poor

Reviewed by Lauren Williamson, UK Defence Forum Research Associate

Written by Dr. Boyko Nitzov, the Atlantic Council's issue brief on Eurasian energy illustrates well the nuanced complexities in the international trading of crude oil and natural gas. If the West hopes to achieve energy security, leaders must cultivate free, fair and competitive resource markets and transport routes in some of the most politically difficult regions of the world. And many obstacles – from protectionist policies to conflict zones in the Middle East – lie in the way.

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The issue brief "Eurasian Energy: Hot and Cold," caters specifically to the US's interest in achieving energy security, outlining the geopolitical dynamics of the current oil and gas trading and transport environment while noting the regions, particularly Central Eurasia, that would be key in obtaining this goal. The strategies provided rely heavily on collaboration with Western allies in Europe and throughout the Middle East, who have a similar geopolitical agenda and a vested interest in achieving stability in the energy markets. These markets have seen an increase in volatility in recent years as prices skyrocketed before the global recession, plummeted, then quickly bounced back and are approaching the same high level once more.

High prices are good for the producer and supplier, but politically challenging for governments whose manufacturing sector and citizens are often harmed by the price swings. Dr. Boyko Nitzov, an international energy expert and author of the brief, argues for simple solutions: bring more transport routes and distribution pipes on line, increase the number of independent oil and gas market players and make them commit to a homogenous set of rules that govern market ethics and behaviour. This would inject some much needed transparency, predictability and rationality into market transactions.

But when one considers the Eurasian region, and all the varied and diverse countries and cultures it includes, Nitzov's solutions seem more difficult to achieve. In fact, the international cooperation required for Nitzov's solutions to succeed is unprecedented. And, if the strategies are to be led by the US, it is also unlikely such success will be realized until the US is able to regain its international hegemonic position by proving itself in the Afghanistan and Iraq interventions, a prospect that could take years more – if it happens at all.

Nitzov rightly explains that "the most pressing risks are above the ground, not below it." To that end, however, the brief pays little attention to the countries without significant energy deposits, even though part of their economic development and future needs will necessarily rely on increased energy consumption. Additionally these countries stand to profit by the creation of new pipelines that might run through their lands and could help pressure neighboring states to adopt market friendly policies.

However, vast energy potential does lie on the eastern side of the Caspian. There is more exploration to be done in Turkmenistan, Kazakhstan, and Uzbekistan. And this region plays a large role in the exporting of energy into China, a nation whose sheer population size and projected growth gives it incredible influence on the energy market. Unfortunately this east Caspian region is also flanked by states in crisis or substantial turmoil: Pakistan, Afghanistan, and Iran. The long term political and security aspects of the region deter investors, making development here only attractive once current energy sources are no longer viable or energy commodity prices increase so substantially that the profits are worth the risks.

But the political obstacles expand further into other governments throughout the region, such as former Soviet Union states, with autarchic governments, riddled with corruption creating a "mosaic of thorny issues," as Nitzrov so eloquently explains. National oil entities control more than 80% of global reserves. That's a disconcerting fact for Western governments, especially considering that the most significant oil expansion projects on the horizon are concentrated in OPEC and former Soviet Union states.

An important aspect of Nitzrov's assessment, however, is his emphasis on the need for more and better transport routes and methods for oil and gas. The economic downturn in the US coincided with a boost in natural gas drawn from shale reserves, which lowered the price of energy around the world. The lower US prices ultimately pulled down global prices and revenues. Sadly it appears as though the recent global financial downturn has bolstered many national companies to further pursue protectionist behaviour. As these states see it, the inefficient processes of state-controlled energy enterprises are a small price to pay in order to shield the nation's resource industry from another financial shock. Though, as Nitzrov points out, such state-controlled entities will ultimately accrue risks by failing to keep up with international competitors and then facing pricier downstream development costs.

But in taking energy transport issues one step further, Nitzrov gives a compelling argument for multilateral unity supporting an improvement in safety standards, transparency and traffic control monitors, particularly in the Turkish straits. There has so far been unsuccessful effort on this front. For instance Ashgabat has led some proposed international regulations, but these have yet to yield any tangible results. There have also been attempted Energy Charter Treaty negotiations, but most have failed "due to Russian intransigence."

Russia's uncooperative attitude resonates with many nations, particularly those in the Middle East, and it demonstrates how the rational actions of a government dependent on exporting oil to foreign markets like Europe can easily lead to uncompetitive and monopolistic behaviour. Yet the issue brief seemed hesitant to explicitly name and shame the oil and gas companies guilty of such action (aside from Gazprom, Russia's largest gas company).

Equally disappointing is the fact that Nitzrov didn't include the acquisition of renewable energy resources as part of the overall strategy for developing energy policies across Eurasia that are more amenable to the US. Though Nitzrov himself wrote that Central Asia (exact countries not named) has "considerable potential" in this arena, but lacks the money and knowledge to develop the sector. Surely the longer term viability and stability of the international energy market requires more attention to renewable and alternative energy sources, beyond the

traditional and currently more lucrative oil and gas sectors.

For lack of more euphemistic phrasing, what the US really needs, implied by the issue brief, is an overhaul of its public relations strategy in Eurasia so that it can encourage the changes it desires among other nations, companies and external entities. But effective diplomatic persuasion takes a long time to cultivate, and Western governments don't offer much patience when energy security drives much internal political discontent.

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