

Whither Natural Gas – Gazing into a Geopolitical Crystal Ball

Ever since the industrial revolution ineluctably linked economic prosperity to energy consumption, energy and geopolitics have been two sides of the same coin. Effective control over energy supplies has since been the key to not just economic growth, but also to political legitimacy and stability. This is true as much of democracies as of authoritarian regimes. Suppliers and importers both follow geopolitical objectives, albeit divergent. For suppliers, playing the geopolitical game opens up immense possibilities of expanding their market power beyond their national GDP to claim centre-stage as a global political power center. For importers, geopolitics entails getting on to the right side of suppliers and staying there, whatever the costs.

Political leaderships in energy supplying countries have effectively used the instrument of resource nationalism to consolidate control over energy and steer the country towards centralization. In 2006, Bolivian President Evo Morales sensationally nationalized Bolivia's oil and gas assets. Soon after, Hugo Chavez of Venezuela rode on a wave of domestic popularity to rein in international oil companies operating in his country, forcing them to renegotiate contracts and revising the country's tax regimes. Ecuador joined its continental neighbours when it seized Occidental's oil field. Kazakhstan revised its sub-soil law to allow greater control for the state. In Angola, Nigeria, Sudan and elsewhere, popular protests for a greater share in the nation's mineral wealth have disrupted production frequently. In virtually every oil-exporting country, national oil companies (NOC) that had reluctantly ceded ground to IOCs in the wake of globalisation, seem to be reclaiming lost ground.

Nowhere is this tendency more apparent than in Russia, which unlike many other energy exporters, has a fairly diversified economy and hence should have a diminished interest in using energy geopolitics as an instrument of state policy. Yet, Russia's emergence as a formidable petrostate has been the single most

important development of the new millennium. Rapidly ramping up oil and gas production in the last few years, today it is a serious challenge to Saudi and indeed OPEC supremacy in global energy markets. Revenues from energy sales generate a quarter of Russia's GDP, a third of its government revenues and two-thirds of the country's export income. In fact, Russia today is at the centre of global energy geopolitics. Europe imports a third of its oil and a quarter of its gas needs from Russia and has thus developed a degree of energy dependence on the latter that would be difficult to reverse.

While suppliers have almost invariably veered towards dictatorships, energy importers, whether democracies or not, have had to make (often unsavory) deals with suppliers and settle for compromises that they would not otherwise make. The EU may behave as one common market for all intents and purposes, but when it comes to energy security, its individual members will not hesitate to break ranks to cut individual deals as Germany and Greece did with Russia and now Berlusconi is trying to do. Germany, and to a lesser extent France, have fought moves to create a transparent, liberalised single European market for gas, which would do more than anything else to curb Russia's ability to use gas to divide and rule. Even as they make indignant noises about Russia's unreliability as a supplier (manifest in the repeated disruption of supplies caused by its price and payment squabbles with Ukraine, the transit state) EU members are championing the construction of multiple gas pipelines from Russia – Nordstream, South Stream and Nabucco – that are of questionable viability.

The US may profess its support for democratic governments, but when its own energy security warrants it, American foreign policy does not flinch of doing business with the most unsavory dictatorial regimes. Even as President Bush swore by markets, his government did not hesitate to back an oil pipeline (BTC) built purely for strategic reasons, bypassing both Russia and Iran. In fact, US geopolitical games have frustrated optimal energy production levels in Iran and Iraq and have created a precarious demand-supply balance. President Obama indicated in his acceptance speech, his intention to steer America away from excessive import dependence by harnessing 'the sun, wind and soil'. It remains to

be seen how far he will succeed and what his policies towards exporting countries would be.

China, the second largest oil consumer in the world is frantically pursuing a no-holds-barred policy to secure its energy interests. In this endeavour, it often finds itself in conflict with governments that fancy themselves to be champions of human rights. It also finds itself confronted by movements like Extractive Industries Transparency Initiative and Publish What You Pay campaign that target both investors and governments that host them. India, despite being a late-comer to the geopolitical game, often gets unfairly clubbed with China.

Climate change is the latest entrant into the geopolitical game. The latest IPCC report confirming the role of anthropological emissions in global warming foretells significant geopolitical realignments in which gas will inevitably play a decisive role. Gazing into the crystal ball, one can visualize Russia, the gas supergiant playing an even more aggressive role. Putin's suggestion of a Gas-OPEC is an indicator of this trend, although such a concept seems difficult to visualize considering the lack of fungibility of natural gas. Russia will also benefit significantly from the arctic ice-melt since that would open up the northern sea route through which it can transport liquefied natural gas as well as oil to Europe and the rest of the world.

The future energy map will also see the rise of smaller players – Trinidad & Tobago, Bolivia, Algeria, Myanmar, Uzbekistan, Australia, all playing a more prominent role in energy geopolitics. LNG, more than pipelines, will perhaps play a decisive role in enhancing the share of gas in global energy basket. New LNG terminals currently on hold will now materialize, especially after the drop in crude prices to which LNG is indexed. With gas suppliers scattered more evenly across the globe than oil suppliers, security of supply will have to be renegotiated. Globalization has perhaps already paved the way for such negotiations, having rewritten the rules of international trade. New sea lanes of communication will acquire salience in energy security calculations.

My paper will be set against this backdrop and will address, inter alia, the following issues:

1. Who will be the winners and losers of the realignment of the global energy map in favour of gas ? What are their relative strengths and weaknesses in shaping the geopolitical discourse?
2. What are the geopolitical contours of an emerging climate -stressed world where natural gas will play an increasingly important role?
3. How can gas importers ensure sustainability of gas supply and gas suppliers, sustainability of gas trade?
4. What, if at all, can gas importers do to combat resource nationalism?
5. What role will LNG play in the future energy map? What are the factors that will shape the share of LNG in global gas basket ? Will the rules of international trade have a bearing on the prospects for LNG?