

Full Length Research

Northern Politics of Oil and the Intensification of Dependency

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The developed nations in the Northern hemisphere had close to an absolute control over the developing nations in the South in the economic and political fronts sometime for over a century. The relation of the South to the North for this considerable long period of time was therefore subordinate-super-ordinate, and was a relationship the North not only jealously guided but which was programmed to be a permanent feature in international relations. One can however assert that the power of oil gave the South a considerable leverage against the North and actions as well as the effort of the North at reducing the power indicated how much of a dilemma the oil issue had become to the developed nations. It can infact be asserted that a Northern reliance on a Southern power was at variance with the existing economic relations, one that is of immense benefit and advantage to the North and of almost a total disadvantage to the South. The Northern discomfort to the power that oil gave to the South is an illustration of how much of dilemma oil is to the North. This therefore explains efforts by the North, not only at various times but both collectively and individually to maintain the status quo. Certain steps have been identified by this work, not only as strategies by the North to considerably reduce if not totally eliminate the power of oil to Southern oil producers but as clear evidence of the dilemma that oil dependency represents to the North. It may be necessary to affirm at this stage that consistent efforts at checking the Southern control testifies to the very important fact that the North not only realises but equally appreciates the potential that oil is to the Southern developing nations. This therefore totally debunks impressions and positions in certain quarters that oil can hardly be used or utilised as a weapon against the North as efforts at maintaining the status quo are enough to indicate that the North is undoubtedly not comfortable with such a position.

Key words: Oil, Global Economy, Dependency, Great Power, Small Power.

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INTRODUCTION

The North has taken different steps at various times and at different periods of global history to reduce or completely eliminate the strategic importance of oil to the global community, thereby maintaining the status-quo. The very first step by the North which is multi-dimensional and which can be classified as internal strategies came not too long after the 1973 oil embargo. There was for instance an effort at realizing additional energy or finding alternatives to oil as a critical source of energy. The North believes that with alternative sources, whatever power oil producing Southern nations then possessed and presently possess would have been eliminated. This however establishes the dilemma that oil dependency has become to the Western consuming nations. This is particularly so because each of the alternatives indicates an option against oil dependence. There is for instances an option between choosing an alternative that is limiting and costly and a continued dependence on the South for oil (Offiong, 1980).

This represents a dilemma in the dependent state of the North in oil reserves and production. The second was to work on demand restraint. Having met a brick wall on these, at least so far, the North has advanced into other areas (O'Conner, 1971).

There has been an effort to balkanise OPEC by working extensively towards destroying the unity and cohesion within it. It is believed that a very important if not fundamental factor that has effectively worked in OPEC's favour has been the united front by which its members approach issues. It is therefore strongly believed that if such cohesion were broken, whatever power Southern oil producing nations may possess would reduce considerably. There are three major actions that are taken in this line. First is to create division within OPEC. Second is to discourage new entrants into the organisation and third is to create more leverage for non-OPEC supplies over and above OPEC (Leys, 1981).

The third effort is destroying or at least reducing the Southern potential in oil by creating its own source of oil power. This has come from two major areas. First have been strategies at discovering oil supplies within the North such as the North Sea oil and the Caspian Sea. The second has been amassing reserves of oil through a strategic petroleum reserve policy that would enable the North meet at an immediate level, any sudden disruption of oil supplies (Kugler, and Arbetman 1989)

The fourth major effort has been interfering in domestic affairs of oil producing nations with a view to controlling activities within such nations at a level to having direct access to oil. Cases of this include the US intervention in the Iraq-Iran war of 1980s as well as the Iraqi-Kuwait imbroglio of 1991, the 2003 US-Iraqi face-off and the US

involvement in Afghanistan (Kremenyuk, 1991). This represents another dilemma. There is the option of a continued dependence on oil or intervention in domestic affairs of oil producers despite the high risk of condemnation. Equally is picking an option between costly wars like the 2003 US-Iraqi conflict and allowing for dependence on oil to continue. There is also the option of a continued dependence on Southern oil or engaging in a war with its assurance of a loss of hundreds of lives. It is worth knowing that each of these efforts is in a different phase from the others and therefore may have served as advancement one over the other (Kegley and Wittkopt, 2001). For instance the futility of alternative sources may have introduced the internal strategy, while the not too appreciable success of that measure may have introduced the desperate move as exemplified by the various interventions in oil producing nations' internal affairs. Each represents a dilemma and would therefore be critically examined.

OBJECTIVES

The objectives of the study are;

- To indicate the importance of oil to the international community
- To critically analyse factors responsible for Northern aggressive approach to oil matters
- To identify steps taken at checking Northern dependence on oil,
- To affirm the effectiveness of Northern efforts at checking vulnerability

METHODOLOGY

The methodology for the analysis of the data collected is the interpretative methodology. This implies noting the geographical accident that places reserves in the Southern developing nations and the great need, demand and consumption in the Northern developed countries. It also explains how that may have reversed a kind of dependency to the developed states. The descriptive analysis helps in understanding the disadvantaged position of the Third World nations and also refers to an expository analysis of the unresolved question of why, in spite of the critical nature of oil to the international community, it has not become a formidable instrument of the South. The analysis therefore explains the politics the North employs at checking vulnerability and employs a descriptive approach to indicating the specific steps taken at eliminating dependency.

Alternative Sources of Energy

Large price increases in natural crude have automatically provoked substantial investments in research and technology for alternative sources of energy as well as additional exploration expenditures outside the OPEC area. New sources of energy are expected to take over completely from oil and as such cancel the power that the South presently has over the North.

The alternative sources are numerous ranging from nuclear power to coal, gas, wind power, hydropower and solar power. Nuclear power has been perceived as an opportunity to diversify outside petroleum and thereby enhance the security of energy supplies and the autonomy of consumer nations. Nuclear power provided about 6 percent of the globe's energy between 1997 and 1998 through 438 nuclear reactions, with an additional 33 new reactors under construction (Kegley and Wittkopt 2001).

Even though, nuclear power was once viewed as the leading alternative to fossil fuel dependence, this is no longer so, due to a number of reasons each of which represents the dilemma that oil dependence represents to the Western World. In the first place, there are serious technical and financial problems, which have inadvertently forced some countries to either reduce or abandon their programs ((Kegley and Wittkopt 2001). There is therefore the option of continued dependence or picking an alternative in nuclear power with its attendant financial problems. Secondly, the political climate has turned markedly against nuclear power, with safety a principal point of contention. There have been well-publicized nuclear accidents that have glaringly indicated the danger that a reliance on nuclear power portends. In the United States, there was an accident at the Three Mile Island nuclear power plant in Pennsylvania in 1979, while there was another at Chernobyl in Ukraine in 1986. There have been not less than five major accidents between 1995 and 1999 at Japan's fifty-two nuclear power plants (which supply about a third of Japan's electricity) (Kegley and Wittkopt 2001).

Vital Signs could not but therefore agree that a while "a few governments still support nuclear power ...the number is dwindling with each passing year." Invariably, oil has continued to represent a dilemma to the Northern developed nations as dependency has not reduced through intensive efforts at applying nuclear power as an alternative. This is equally true of other alternatives that have been discovered by the North to reduce the oil power of the Southern oil producing nations.

Another very big and fundamental problem of nuclear power is how and where to dispose highly radioactive nuclear wastes. In spite of the fact that some radioactive nuclear wastes remain dangerous for hundreds of thousands of years, no safe procedure for handling the

wastes has yet been devised¹. All these have made nuclear power a very poor alternative to oil, which although poses its own threat to the environment, is still safer and undoubtedly cheaper, relatively to nuclear power. It also emphasizes the dilemma of dependence as the option lies in choosing between a continued dependence on oil or disposing highly radioactive nuclear wastes, especially as such wastes potent great danger for hundreds of thousands of years.

Kegley and Wittkopt identify coal, natural gas, hydropower and nuclear power as the principal alternatives to oil. While coal is viewed as the chief fossil fuel alternative to oil, especially since most of it is consumed where it is produced thus making it less susceptible to supply disruptions, it is a major pollutant of the atmosphere (Kegley and Wittkopt 2001). Infact, it is described by Dunn as "the releasing of 29 percent more carbon per unit of energy than oil and 80 percent more than natural gas. It actually accounts for 43 percent of annual global carbon emissions." Invariably Kegley and Wittkopt could not but conclude, "as a result of environmental concerns and tighter regulations, coal is a poor alternative to oil worldwide"

In the case of natural gas, there is a general consensus that it is cleaner and more convenient to use than either coal or oil. It is however difficult getting gas from the wellhead to consumers. This is because pipelines, which are the preferred method of transport, are massive and expensive engineering projects that also pose environmental dangers and thus encounter resistance(Kegley and Wittkopt 2001). In addition to the concern of transportation, there are cost considerations, which have all limited the development of natural gas as an alternative source of energy to oil.

Hydropower, which harnesses water to generate electricity and supplied one-fifth of the World's electricity as at 2001, has no serious pollution problems. It however has negative environmental consequences. Unfortunately again, hydropower supplies about 3 percent of the United States' energy needs and the equivalent of oil would be slightly more than one million barrels. It is also a renewable energy source based on one of the cheapest commodities, water, and is highly efficient. The problem is that virtually every damnable stream and river in the United States has been dammed for power. Hydroelectric dams are restricted to areas of high rainfall and many of these areas are remote from centres of population. Invariably, it is projected that gradually, the United States is approaching the limits of the potential of this source of electricity and that by the first five years of this century, even if the capacity is doubled, hydro electric power will probably account for no more than 1 to 2 percent of the nation's energy needs. Kegley and Wittkopt have therefore identified three major limitations of hydropower.

The first is limited water availability; the second problem is prohibitive financial costs, while the third is the controversy about land management and soil loss due to dam construction. Invariably therefore, hydropower is a poor alternative to oil. The dilemma here lies in picking an option of a continued dependence on oil or a dependence on hydropower in spite of its large limitations.

Photo Voltaic (PV) cells have many useful small power applications. Most important it can provide electricity in small amounts to many households in the World that lacks it. All these will however only make a small dent in the global energy scene (Kegley and Wittkopt 2001).

Much promise has been credited to hydrogen as a source of energy in the future. President George W. Bush pledged in his 2003 State of the Union Address "the first car driven by a child born today could be powered by hydrogen and pollution-free." This has however been found to be most unrealistic and unjustified. The most ambitious use of hydrogen is in a car powered by a fuel cell, a battery like device that turns hydrogen into electricity while emitting only heat and water vapour. Hydrogen can also be burned directly in engines much like those that run on gasoline, but the goal is fuel cells because they get twice as much work out of a pound of hydrogen (Kegley and Wittkopt 2001).

The problem with hydrogen is its source. The main source of hydrogen is natural gas, which is not only in short supply, but which is equally cumbersome to convert and may have better use. Waiting in the wings is coal, burned in old power plants around the World that are already the focus of a dispute over their emissions (Kegley and Wittkopt 2001).

The long-term hope is to make hydrogen from emission-free "renewable" technologies, like windmills or solar cells. In fact, hydrogen may be an essential step to translate the energy of wind or sunlight to power to turn a car's wheels. However, electricity from renewable technologies is costly. In the US, hydrogen is five times more expensive than gasoline when produced from wind and 17 times when produced from solar.

A likely source of hydrogen is from a machine called an electrolyser, which is like a fuel cell in reverse. The fuel cell combines oxygen from the air with hydrogen to produce an electric current, with water as a by-product, while an electrolyser runs an electric current through water to split the water molecule into its constituent hydrogen and oxygen atoms. The problem is that if the electricity came off the national power grid to run an electrolyser, about half of it, on average, would be generated by coal.

Another problem is emissions, according to the US DOE, an ordinary gasoline powered car emits 374 grams of carbon dioxide per mile, or 1.6 kilometres, when driven, counting the energy used to make the gasoline and deliver it. The same car powered by a fuel cell would emit nothing, but if the energy required to make the

hydrogen came from the electric grid, the emissions would be 436 grams per mile. Similarly, the car would not emit nitrogen oxides, a precursor of smog, but the power plant would. Al-Khatib, the Vice-Chairman of the World Energy Council had to declare in July 2004 "correspondingly an energy future, with hydrogen as its main fuel source, has to be viewed (at least now) with scepticism. It is not likely to come, if it comes before the middle of this century". All of these represent the dilemma in the alternative of hydrogen. With all its limitations there is the need to pick an option between a continued dependence on oil or a reliance on an highly limited alternative in hydrogen (Kegley and Wittkopt 2001).

Wind power on the other hand, which was the fastest growing energy source in the 1990s and which is expanding by 25 percent yearly, however generates less than 1 percent of the globe's electricity, at least by 2001 as noted by Kegley and Wittkopt. Wind power is intermittent and correspondingly cannot be relied on as a permanent electricity supply without adequate storage. This storage will make it uncompetitive. Wind power can still be competitive and useful in countries with proper wind regimes, only as a limited source of electricity to augment existing electricity sources and save on use of fossil fuels. Its presence will add to energy security and energy independence in many countries, but only to a modest extent (Kegley and Wittkopt 2001).

This represents the dilemma that lies in this option.

Solar Power comes in several forms, and there are three major and conventional types of solar power that can be identified; the collection of sun rays to heat and cool buildings; the generation of elective power from photovoltaic or solar cells made of thin waters of silicon; and the use of wind and tide to generate electricity. The source of solar power, which is the sun, is abundant and it neither degrades the landscape as dose the mining of coal or the drilling for oil, nor does it pollute the rivers, streams or the air. Unlike nuclear power, it threatens no great disasters and needs no pipelines to transport it, as does natural gas. Its greatest shortcoming however, is that unlike oil, it is not useful in all areas, as some areas are more favoured by sunlight than others. It therefore becomes clear that solar power cannot be a good alternative to oil. This again indicates an option of continued oil dependence or a reliance on solar power with its numerous limitations.

During 2002, the EU Commission proposed that there would be a 20% use of substitute fuels in road transport by the year 2020. The short-term target is to reach 2% by 2005 and 5.7% by 2010. The Commission proposed that alcohol (ethanol) will be blended into petrol and that diesel oil will be partly replaced by vegetable oil derivatives. Looking at EU Commission's proposal, Al-

Khatib views the solution from two approaches; the use of pure vegetable oils and bio-diesel (transesterified vegetable oil or animal fat). He then declares that:

“Bio energy in the form of ethanol and similar fuels (from corn or other agricultural products) are unlikely to provide an alternative to oil. Cultivation of crops for use as fuel requires substantial land that otherwise is available for food, or other uses. With present technologies, ethanol is more expensive than gasoline. It also requires substantial inputs of fossil energy for production and conversion into fuel. ...of course, ethanol production does provide a measure of energy security but at a price”(Kegley and Wittkopt, 2001).

Slesser, King and Crane investigates the possible outcome of a fraction of fossil energy consumption being directed to building a renewable sourced energy supply, initially by replacing fossil and fissile generated electricity, and then when that has been achieved, by expanding the investment and using the electricity to make hydrogen as the basis of a new fuel source.

In 1992, globally, just less than 1 percent of fossil fuel consumption was used to maintain and expand the World's electricity production system (not the fuel to run it, but the fuel to build it). Scientists then explored 1 percent, 2 percent, 4 percent, 8 percent, and 16 percent as the fractions (“royalties”) of energy diverted to building the renewable alternatives. They used a mix of 51 percent photovoltaic, 9 percent wind and 40 percent nuclear to replace the fossil sources. The Scientists found that the higher the royalty, the more rapid the move towards a physically sustainable energy supply. Royalties of 8 percent and 16 percent even manage a full substitution by hydrogen in the developed world within the time frame of their study (105 years), but at a huge cost to the material standard of living.

In concluding therefore, the Scientists state that ‘to answer questions posed at the outset, can renewable energy fuel the world? The answer is probably yes, but the time horizon is of the order of a century or more. In the meantime, we shall need all the oil and gas we can lay our hands on to keep the system going and build the renewable or replacements.’ Prospects for the rise of new energy sources in the years to come are not promising, mainly because existing energy resources (particularly fossil fuels) are abundant, highly concentrated, cheap and tradable. On the other hand, the alternatives, particularly new and renewable energy are disbursed, intermittent and correspondingly expensive. No doubt some of the new energy sources like wind power are becoming competitive and certain applications of solar energy for water heating in sunny countries and for small electricity production by PV Cells are becoming common.

However this is a small niche in a very large market (Kegley and Wittkopt, 2001).

None of these sources of power that can therefore be used to generate electricity however hold the answer for transpositions as all cars, trucks, buses, diesel locomotives and ships in the United States and the whole of the North, are for the immediate future dependent on oil. No other energy commodity offers quite the same qualities of transformability and transportability as oil is the largest single source of energy in the world and together with gas it supplies more than half of the world's energy requirements. In spite of the introduction of various alternatives, oil is forecast to remain the single most important source of energy well into the 21st century. This might explain why there was the need for the employment of restraining demand as a strategy of undermining the Southern oil power.

Demand Restraint

By 1980, Governments in the developed nations were at considerable pains to change the pattern of energy use and consumption. This therefore prompted the industrial nations' enforcement of demand constraint by considerable reduction of citizens' consumption, which paid off in 1986 when demand for oil fell. It should however be emphasized that the price of oil which at that point was astronomical, assisted in reducing the consumption. While this could be viewed as an external method and strategy at reducing or even totally eliminating the oil power, the North also worked on what can be perceived as an internal strategy; that of reducing its demand on oil.

The internal strategy was put into play in the early 80s and successfully worked at reducing the demand of the North for oil between 1980 and 1984. Total oil consumption in the industrial countries fell by an estimated 10 percent between 1980 and 1984, after having risen continuously for decades. Three major and fundamental factors brought about the change in this demand.

The first was that there was a worldwide economic recession that affected in a rather considerable manner, the financial strength of oil consuming nations and thus reduced demands of such nations. Second was a slow rate of growth in the major consuming nations, and since such countries could not grow at a rate expected, demand could not move at the anticipated and expected rate. The third, which suggests that the North intentionally intends to move away from the control that oil gave to the South, was a structural change in the consumption patterns of the North.

Oil consumption in the developed countries fell in 1990 and 1991 from its 1979 level by substantial amounts. EEC oil consumption fell by 8.7 percent to 506mm tones

of oil equivalent, while US oil consumption fell 9.7 percent to 791mm tones of oil equivalent². World oil demand also fell by 3.9 percent in 1980 and there was consequently a decline of oil's share of World energy consumption to below its 1970 level. In 1980, oil constituted 43.5% of world energy consumption, after a share of 45.7 percent in 1975 and 44.1 percent in 1970. By 1981, its share had further declined to 42.4 percent. In OPEC, this development meant a 14.2 percent fall in oil output (to 24.7m b/d in 1980). Also, in the six years after the 1979 oil shock, Americans improved gas mileage in new vehicles by seven miles per gallon, cut oil use by 15 percent and Persian Gulf imports by 87 percent, all in an effort, to break the dependence on oil that makes the country and those in Europe as well as Japan vulnerable to the South (Woosley, 2003) Increased demand, especially from 2001 has indicated very clearly, that not much has been achieved in demand restraint. This also shows their inadequacy of the option of demand restraint over oil dependence.

Additional energy and reduction in demand have therefore proven to be ineffective and highly unreliable solution to the oil problem in developed nations. It is in view of this that there has been the need by the North to move beyond this strategy into balkanising OPEC, which is understandably viewed as the major pivot of the oil power (OPEC, 1980).

The Strategic Petroleum Reserves

The Strategic Petroleum Reserve is one of the main and principal strategies of the United States, not only at reducing the potency of oil, but especially at assisting other oil consuming nations at getting out of any Southern oil control. It also represents a dilemma as it involves another option over the Northern dependence on Southern oil. The Reserve policy ensures that enough oil is stored in the deep, cone-shaped salt caverns along the Gulf of Mexico, to replace months' worth of imports from Saudi Arabia (Woosley, 2003). The idea was originally conceived as a response to the oil crisis of the 1970s, and is meant as the United States and the whole of the North's 'first line of defence' against disruptions in energy supplies.

The United States' Strategic Petroleum Reserves (SPR) which is the nation's emergency of stockpile, held by early 2003, more crude oil than at any time in its 25-year history. The US energy Secretary, Spencer Abraham, announced that the most recent oil deliveries to the reserve had increased the inventory to 592 million barrels, surpassing the largest volume of Crude oil ever stored since the US government began stockpiling in

1977. He declared "at a time when America's energy security is one of our highest national priorities, this milestone is especially timely", claiming that "every barrel of oil in the SPR provides added energy insurance that helps protect Americans against oil disruptions"(Woosley, 2003).

Dobbs is of the opinion that in case there is a US-Iraqi war over the disarmament issue, and if such makes for a disruption in oil supplies, especially if Saddam Hussein succeeds in torching Iraqi oil fields or hit oil facilities in neighbouring Kuwait or Saudi Arabia, the reserves would assume huge strategic importance. In Louisiana and Texas, there are not less than 50 caverns, which are known to be enough to replace 53 days of lost imports. It is in view of this fact that an Energy Department Official describes the Strategic Petroleum Reserve as "a powerful instrument", and why Porter, an economist at the American Petroleum Institute believes that the reserve might end up playing "a much more central role" in a new Gulf war than it did in 1991(Woosley, 2003). Dobbs claims that the main reason why the United States introduced the Reserve Policy was to ensure that it is not held hostage by "a potential unstable Arab Country (Saudi Arabia) rife with anti-Americanism that has previously used oil as a weapon against the United States". To Morse, who was responsible for international energy policy at the State Department during the Reagan administration "the Strategic Petroleum reserve allows the US government to put much more oil into the market (in the short term) than we can get from the Saudis."

With the reserve therefore, and the many substitutes and alternatives that the North has introduced, it is hoped that the Northern vulnerability to the South would either be considerably minimized, or better still, is fully eliminated. The Strategic Petroleum Reserve policy is determined to free the United States, and by extension, other consuming nations, from the threat that the oil power poses to the North. The strategy is best illustrated in Woosley's assertion that

We could substantially free ourselves from this threat if, in a crisis, we had the ability to sell steadily from the Strategic Petroleum Reserves. We should add substantially to our reserves ... and try to persuade other oil consuming countries to do the same (Woosley, 2003).

The issue of the Reserve however raises some fundamental questions. In the first place, how enthusiastic is the United States to use out of the Reserves, secondly, how long can the Reserves last, thirdly, what is the consumption level of the United States and invariably what is the domestic demand for oil in relation to the reserves, and lastly, to what extent can the United States assist other consuming nations from the reserves?

Answering the first question, experience indicates that the United States would be reluctant to draw out of the reserves. Two examples abound on the reluctant and far from eager attitude of the United States to draw from the oil reserves. During the Gulf war of 1991, in spite of numerous calls and pressure on the Bush administration to tap into the underground storage sites in Texas and Louisiana, the President was obviously hesitant in taking the decision. In fact, President Bush was criticized for not acting after the Iraqi invasion of Kuwait in August 1990, when oil prices rose as high as \$40 a barrel. He only ordered a limited draw down of 33.75 million barrels on January 16, 1991, the same day he announced that US warplanes had begun attacking Baghdad. By the time the oil reached the market, prices had fallen sharply and the crisis was largely over.

Again in 2003, as the United States' threat to attack Iraq mounted, and as the price of crude oil rose to \$36 per barrel on the New York Mercantile Exchange – 26 months high, calls for the release of oil from the reserves resumed. In spite of daily pressures that ran to weeks, President Bush showed little or no interest in tapping out of the Reserves. The truth is that well over half of United States' oil consumption is in itself imported, which indicates a high consumption pattern that makes it practically difficult if not absolutely impossible that the nation assist other consuming nations. Between 60 and 70 percent of oil in Japan is imported, while only 5 million out of the 14 million barrels per day of oil consumed in Europe is produced in the country (Woosley, 2003). The United States therefore retains the reserves for emergency situations and would rather increase the reserves, than engage in any reduction through tapping the oil.

Since the reserves are there only as Dobbs (2003) claims to calm an increasingly jittery market, then the United States would more likely than not be more comfortable with the reserves not depleted, thus serving as a continued check to an oil weapon³. This therefore suggests that the oil reserves would only be tapped at the most critical stage, and even then for a short period of time. If, however, the reserves are tapped to the fullest, the consumption pattern of a present day United States will ensure that 50 caverns are totally depleted by within 53 days. In essence after 53 days, the vulnerability of the United States continues, probably worse than before as the United States will afterwards not only depend on oil for its daily use, but to build another reserve.

There is no consensus of opinion on the tapping of the United States oil reserves. Dobbs claims that while calls for the release of oil from the reserves during the 2003 US-Iraqi face off came from airlines hit by soaring fuel costs, refineries suffering from lack of Venezuela oil and

senators worried about the rising price of gasoline for their constituents, oil industry executives consistently opposed the release of oil from the reserves, except in a national emergency. Such lack of consensus has made the tapping of the reserves more difficult to attain (Dobbs, 2003).

Utilising the Southern oil power will however depend on how much the oil producing nations can hold on to and not sell oil for considerable length of time, especially considering the fact that many of them solely depend on oil for their revenues. The cases of Iraq, Iran, Saudi Arabia and of recent Venezuela show that this may not be totally unattainable in the OPEC. While both Iran and Iraq have been engaged in long wars before, that disrupted oil supplies and which made them draw on their foreign reserves throughout the war, the strike action in Venezuela that ran into weeks in the beginning of 2003, show that, while it may be difficult for countries to export oil for some weeks or even months, it is not totally impossible for them to do so. Evidently the high level of consumption in developed nations makes it imperative that they continue to depend on imported oil especially as the reserves of the United States can hardly be enough for her in an emergency. This is because her oil reserves can be depleted in a few months if there is a concerted effort by Southern oil producing nations to employ a politics of scarcity. The Southern oil power is presumed on the premise that the North will continue to depend on Southern oil producing nations, for its oil consumption. This is particularly because majority of Southern oil producers have limited domestic demand and consumption level in relation to reserves. There has therefore been the need by the Northern developed nations to focus more attention on the Caspian Sea as an avenue of further creating a Northern power.

The Caspian Sea as a Counter to Middle East Dependence

The breakdown of the Soviet Union ushered in a wide consensus among scholars that countries of the Caspian region would become important players in the international oil trade. Such nations therefore served as the alternative to oil dependence and thus indicated another dilemma of the Northern dependence. The Caspian Sea for instance represented an option from the continued oil dependence. It is meant to represent a way out of the continued reliance of the developed nations on Southern oil. In fact, international petroleum companies spoke of the region's great "potential" when they announced large-scale investment projects, while independent institutions predicted growing energy production and export volumes for these countries (Dobbs, 2003).

Hirschhausen and Engerer claim that the confidence on

an eventual Caspian Sea oil control was such that the Sea was even described as the "Gulf of the 21st Century". Agreeing with Hirschhausen and Engerer, Davey claims that this enthusiasm could be dated to the 1990s when it was fantasized that the amount of oil available would be a counter to the Middle East.

Optimistic forecasts were also made by Caspian governments as well as by analysts. As far as the analysts were concerned, Caspian oil production would increase from 47 mt (1997) to 69 – 79 mt by 2000 and then to 138 – 194 mt by 2010. Net oil exports were also expected to increase by as much as five-to eight folds, specifically to as much as 29 – 33 mt by 2000 and 75 – 118 mt by 2010. Invariably, therefore, the Caspian region was expected to play an important role in international oil markets by year, 2000.

Much of the Caspian energy optimism is based on the hope that Azerbaijan can resurrect its "glory days" of the early 20th Century, when, for example, the Nobel brothers made it the world's number one oil producer. Expectation in the area was rekindled with the fact that the off shore fields near Baku attracted great interest in the early 1990s. As early as June, 1991, Amoco was negotiating a contract for the development of one field in the area. Other oil companies that worked in the area include BP, Ramco (UK), Exxon, Pennzoil, Unocal (USA), TPAO (Turkey), Lukoil (Russia), Itochu (Japan) and Delta-Nimir (Saudi-Arabia).

A decade after the first major involvement of a foreign company in the region (that is Chevron in the Kasakh Socialist Soviet Republic) and eight years after the end of the Soviet Union, Hirschhausen and Engerer claim that the high hopes for the development of energy in the region have been considerably dampened, a position which scholars like Crow and Gobbler all agree with.

The region's countries have remained small producers of oil, as oil production has hardly recovered from the post –Soviet slump. 52 mt was produced in 1998, which represents no more than about one-tenth of Saudi Arabia's or one – third of Norway's and Great British output.

Even though oil exports have increased steadily to about 18 – 20 mt, they still account for just one per cent of international trade flows, with Kazakhstan being the only relevant exporter. The stagnation in the Caspian energy sector was analyzed by Hirschhausen and Engerer as due to various factors. The first is that little is actually known about the precise amount of reserves that can be exploited economically in and around the Caspian Sea. Resources have not been comprehensively appraised, neither with regard to the criteria applied in a market economy nor according to international technological standards. In essence, discrepancies have remained between national estimates and those of international analysts. As far as international analysts such as Hirschhausen, Engerer, Crow and Gobbler are

concerned, crude oil reserves, classified as "proven", amount to about 2 billion tonnes, and with Kazakhstan laying claim to over half of this, and most of the rest produced by Azerbaijan.

Invariably, the region accounts for only about two percent of global oil. With oil reserves this small and not even as large as those in the North Sea, the persistent belief in the Caspian Sea as the "Gulf of the 21st Century" is becoming unfounded and highly misplaced. The second is that even if reserves were as large as assumed, there would still be the question of the international competitiveness of Caspian oil. While it is true that the production costs of existing Caspian oil fields are, on average modest, at about \$35 per ton, transport and transit costs are higher than those of producers in competing regions. This is due to complex transport schemes and low transport volumes.

Agreeing with Hirschhausen and Engerer on the huge transport and transit costs, Konoplyanik estimates that the price of Caspian oil (excluding taxes) on the European market is between \$60 per ton and \$100 per ton. With regard to the costs of adding extra daily peak crude oil production capacity, the Caspian countries seem to be rather expensive. In Azerbaijan, marginal investment costs for additional capacity are supposed to be about \$12,000 per barrel a day, and that of Kazakhstan, \$13,000 per barrel a day. This puts the total investment costs of potential suppliers in the region above those of comparable countries, such as Venezuela at \$5,000 and Gabon at \$6,000.

The third is the legal question concerning properly rights of the region, Gregory in agreeing with Hirschhausen and Engerer claims that the legal questions further complicate the picture. As far as Hirschhausen and Engerer are concerned, the dissolution of the Soviet Union led to the distribution of the rights to the waterways and the resources beneath the seabed, which became a contentious issue among the Caspian's new littoral states.

The other countries involved, all of which have insisted on an agreement between all Caspian countries, did not endorse an eventual compromise between Russia and Kazakhstan (Hirschhausen, and Engerer, 2003).

The fourth factor that propels the stagnation of the Caspian Sea is the debate over the export routes, which Hirschhausen and Engerer strongly believe has been very intense throughout the last decade of the twentieth century, but which has not yet produced any result. The one – sided reliance on Russia's pipeline network has intensified efforts at developing alternative routes skirting Russia. Concerning oil, the most intensely debated issue is a line between Azerbaijan and the Black Sea and or the Mediterranean. Unfortunately, many of the routes under discussion run through crisis – prone regions such as Chechnya, Dagestan, Georgia, Kurdistan and Afghanistan. Even though major oil companies have

spent billions of dollars drilling for oil they have not yet found a new discovery significant enough to repay the investment (Hirschhausen, and Engerer 2003).

In a report in 2000, the United States' State Department estimated that the Caspian region's possible oil reserves could reach 178 billion barrels, by 2001, however, several independent consulting firms have only placed total probable reserve in the Caspian region at about one tenth the original government estimates at between 15 and 31 billion barrels of crude oil! Unfortunately even though this could have been a good strike, but at the high end of that range, the Caspian would only contribute 3 percent of the world oil supply. By contrast, the Middle East holds about 60 percent of the world's known reserves. The disappointment in the Caspian Sea led the Bush administration in the United States to search around in North America for the last drops that would enable it to weather a strategic crisis. This explains the significance of the steps to develop oil in Alaska, even though it would not provide more than 2 percent of the US' oil needs.

There are also steps to develop oil in the Yellowstone Park, which has led to protests by people like film star, Robert Redford and others. Invariably therefore although there has been, over the last ten years, great hopes put in the Caspian Sea basin as alternative source of oil and gas to counter Middle Eastern downrange, a situation that partly underlies the US energy elites agenda in relation to Afghanistan, the reserves in the Caspian sea basin are really not as large as originally hoped, with some oil companies already pulling out by 2001. This therefore explains the great focus on the North Sea oil as a probable avenue of reducing dependency on the Southern oil power.

The North Sea Oil as a Counter to OPEC Oil

In year 2001, the United Kingdom oil and gas exploration company, Edinburgh Oil and Gas (EOG) announced that its Buzzard oil field in the UK North Sea has significant potential. This indicated the North Sea could again serve as the option over continued Southern oil dependence. This further reveals the dilemma of the Northern oil dependence.

This is because efforts at such alternative sources of supply reveal the determination and desperations of the Northern oil consumers at working on an option that will reduce, if not completely eliminate their dependence on Southern oil (OPEC, 2002). According to a North Sea industry source, "an exploratory well, sidetracked from the original rig, 100 km north east of Aberdeen, established recoverable oil of 200m-300m barrels in this new reservoir" (Hirschhausen, and Engerer 2003). Such new discoveries raised hope that the North Sea could become an alternative source of supply and considerably

reduce Southern oil control. In spite of this hope however, there is enough evidence that production in the North Sea has been on the decline in the last four years. A 2002 report by the United Kingdom-based firm, Mackey consultants, claims that oil production in the British sector of the North Sea would reach its peak in 2002 and that UK oil production would decline by more than 12 per cent over the next three years from 2002 (OPEC, 2002). In fact the International Energy Agency admits that there is a problem with the North Sea, believing however that it can be solved by technological means. There is however more than enough evidence that the new technologies have problems of their own. The average recovery rate of oil taken out of an oil reservoir is around 30-35 percent. Individual optimists think that, with new technologies and techniques, they can get 50-60 percent of the oil from a reservoir to the surface within a decade. This Davey believes is the way out of preventing a decline in the non-OPEC fields (The Economist, 2001).

The advocates of new technologies, to get more out of the reservoirs admit that it will not come cheap. The technology requires investment and a figure mentioned by the International Energy Agency, quoted in the Economist as close to \$1 trillion (The Economist, 2001). \$1 trillion dollars is about one tenth of the United States' GDP in a year, while the UK GDP of \$934.92 billion will have to be multiplied by 1.4 to give a sum of \$1.3 trillion. In essence the figure is equal to 77 percent of the UK's GDP. The only other figures that can be compared with this figure are US expenditure on fixed capital formation on all machinery and equipment in year 200, which was \$1.2 trillion.

Perhaps most relevant of all, however, is to compare this figure with annual capital and exploratory expenditure by the major oil companies taken together. In its Annual Statistical Review, the OPEC statisticians took figures from oil company reports and added them together. The major oil companies covered in this area were the BP Amoco; Exxon Mobil; Total Elf-Fina, Royal Dutch Shell, Chevron and Texaco. The expenditure covered all capital production, transportation, refinery and chemicals, as well as marketing,

In 2000 alone, the total for all those companies in all of these fields was \$43,410 million, which translates to \$43.4 billion. Calculation shows that to meet the \$1 trillion target, the expenditure of all companies will have to be multiplied 23 times over. This is because \$1 trillion is 23 times the current yearly investment sum of all the major existing oil companies put together in all their areas of investments.

In essence, if this investment programme is to happen over the next ten years, it will mean a huge hike in the current rate of capital formation in the oil industry (Adejuge, 1995).

There must be serious doubts whether an investment programme of this magnitude is technically achievable,

as such an investment would presumably involve a very considerable logistical operation and would require huge amounts of additional trained personnel. Several questions come to mind such as, are there personnel in sufficient numbers and has there been a massive increase in training programmes in oil technology to increase the trained labour supply that is coming on stream? \$1 trillion investment programme cannot but therefore be a fantasy solution for a very severe problem. A very interesting aspect of oil dependency however is that it is not limited to the North that has a shortfall in reserves and production. The influence of the structural dependence on the Southern oil producing nations is another testimony and evidence of dependency. This is particularly noticeable in the continued influence of the oil companies in international oil politics.

RECOMMENDATION

The work recommends as follows;

That the Southern developing nations should adequately and effectively utilise the weapon that oil represents at enhancing its relation with the North.

That the Southern developing oil producing nations should close ranks and eliminating the OPEC; non-OPEC factionalisation.

That OPEC should extensively collaborate with virtually every oil producer in the South, with a view to reducing or totally eliminating any Northern strategy at dividing the South.

CONCLUSION

The North has introduced a number of strategies in its desperation to be free from the oil power of the South. This is because the Northern dependence on oil makes it increasingly vulnerable over the past thirty-two years. Unfortunately, however, both the reserves that have been built by the United States, and substitutes developed by the North to reduce the oil power of the South, have not yielded the desired results. Only a disunited front by the South that segments the OPEC into the radicals, and the moderates or the Arab and the non-Arab as well as the continued negative role of Southern non-OPEC nations at destroying the oil power, could negatively affect the continued strength of the oil in the international community.

The vulnerability of the North to oil is quite evident. If the oil power is not as potent as it was in the early days of OPEC and no longer introduces the monumental radical changes of the 1970s that forced the North into

accepting many of the Southern demands, it cannot but be traced to a less than concerted effort of the South in operating the power that the commodity places in their hands. The continued vulnerability of the North will always translate to a magnificent power of the South, at least until substitutes are fully developed to replace oil. This may not be achieved for some time to come. Invariably therefore, two very important facts need be clearly stated; the first is that the geographical accident that places substantial reserves of oil in the South undoubtedly establishes an element of power on the South. The second is that in spite of numerous and extensive efforts of the North at curbing the oil influence, little has been achieved. This therefore suggests that oil should have been fully exploited by the South at ensuring a better North-South relation.

Since there is however no remarkable improvement in the master-servant relationship of the North and the South, it is obvious that certain inherent deficiencies may be at force in the perception and approach of the South to the oil issue. The Southern attitude to oil therefore needs a critical analysis and forms discussions in the next chapter.

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