



JEROEN OERLEMANS/PANOS

# ENERGY

## security, climate change and the resource curse

With demand for energy on the increase and natural supplies dwindling, how can competition for scarce resources be balanced with the need for cooperation on climate change? **Yahia Said** looks at the challenges for 2008 and beyond, and explains how LSE's Middle East research is contributing to the global debate.

**C**oncerns about climate change combined with the ongoing energy crisis have triggered a renewed interest in all matters energy, from energy security to the resource curse and from 'peak oil' to alternative energy.

Fundamentally these issues are different aspects of the same phenomenon. They are a result of a degree of dependence on fossil fuels which is environmentally unsustainable and technologically anachronistic. Dependence is reproduced through political and socio-economic dynamics, which act as a barrier preventing new technologies which could break the cycle from taking hold.

Two recently launched research programmes based at the LSE Centre for the Study of Global Governance aim to examine these issues. The Middle East Energy Security programme, carried out jointly with the Revenue Watch Institute, looks at problems of access to energy supplies for individuals and communities worldwide and the link between energy, governance and conflict. The Kuwait programme looks at

development, governance and globalisation in the Gulf States and the way oil windfalls can be managed to build sustainable, diversified economies.

### Energy security

Tight energy markets which led to the doubling of oil prices in four years are expected to persist. According to most scenarios, supply growth will barely keep up with surging demand particularly from China, India and other emerging economies. Projected growth in oil and gas reserves seems inadequate to meet long term global energy needs. Taken to the extreme, such projections lend credibility to 'peak oil' arguments which suggest that oil output is near its historic peak and that production is bound to decline simply because the world is running out of oil. Such arguments are far from mainstream but they are gaining popularity as high oil prices persist.

Even less cataclysmic assessments of the global energy outlook are far from optimistic. As Claude Mandil, the former head of the International Energy



Agency, put it: 'the energy future we are facing today, based on projections of current trends, is dirty, insecure and expensive.'

High oil prices are producing a boom in the use of coal, with China reportedly building a new coal fired power station every week. Remaining oil reserves are concentrated in politically fragile regions like the Middle East and Africa. The largest pool of untapped oil reserves lies beneath war-torn Iraq. Geopolitical competition to secure supplies is likely to exacerbate instability and further undermine energy security.

### Resource curse

Peak oil arguments may turn out to be premature, as has happened more than once before. Concerns over energy security and climate change are much harder to brush aside.

Destabilising zero sum competition to secure energy resources is an aspect of the 'resource curse' which attempts to explain the paradox that most developing resource rich countries seem to have lagged behind their less endowed peers on a range of developmental and governance indicators. They also seem to be particularly prone to conflict, creating a vicious circle of energy insecurity. The explanations for this paradox are diverse and there are those who doubt the very premise.

It may seem inappropriate to speak of a resource curse in the context of a spectacular rise in oil and other minerals prices. Resource rich countries awash with rents are investing in social services and infrastructure. Some are even saving for the benefit of future generations. It is at this very moment, however, that resource windfalls tend to do their damage. They

obscure underlying tensions and reduce incentives for critical but painful reforms. They allow politicians to use patronage to build constituencies and silence opponents at home and abroad.

The most damaging effect of oil windfalls is the way they whet the appetite for more rents and create dependence on a volatile source of income. The competition to capture those windfalls between various actors, private and public, domestic and international, is at the heart of the resource curse. This competition warps the relationship between state and society, among groups and communities within societies and between states. In worst cases it triggers and sustains violent conflict.

*Oil Wars*, a book edited by Mary Kaldor, Terry Karl and myself, which was launched at LSE this summer, looks at the interaction of oil and conflict in six oil dependent regions. The broader enquiry on the relationship between energy and security is going to continue as part of the Middle East Energy Security Project.

The resource curse is similar to financial crises where problems are created on the up-side even if they are only manifested when the bubble bursts. Thus the mismanagement of the oil windfalls from the 1970s boom contributed to the debt crisis in the 1980s. Having squandered the windfalls from the 1980s boom many resource rich countries experienced economic, social and political upheavals in the 1990s which did not spare even the wealthiest ones.

*Escaping the Resource Curse*, a book edited by Macartan Humphreys, Jeffrey Sachs and Joseph Stiglitz, launched at LSE this autumn, provides

**'In order to significantly reduce the world's dependence on fossil fuels, efforts must aim to shrink the carbon economy from start to finish'**

timely pointers to governments and civil society on economic policies and institution building to manage resource windfalls in a transparent, equitable, efficient and ultimately sustainable way.

Policy prescriptions alone, however, are not enough. Without robust institutions including public accountability and oversight, even the best tools can be subverted by irresponsible and corrupt officials.

The experience during the past five years of the current oil boom reveals a mixed picture among oil exporting countries. Gulf States are exhibiting a more prudent approach, saving a significant share of the windfalls (up to 50 per cent in some Gulf countries). Far reaching reforms are underway to improve governance and the effectiveness of public administration. Investment strategies have also improved, in some cases directing resources at home and abroad towards sustainable and higher return investment, including infrastructure, education and social services. Other mineral exporters, notably Venezuela and Iran, are repeating the mistakes of previous booms in using oil windfalls not as a basis for a sustainable, diversified economy but in pursuit of short term political objectives.

The Kuwait and Middle East Energy Security programmes will look at the efforts to 'sow the wind-fall' in the Middle East and the Gulf in particular and at what lessons could be learned from past booms.

Transparency helps the public hold governments to account and supports constituencies and institutions which are essential to underpin good policies. The Energy Security programme will have a particular focus on transparency as one of the best guarantees that tools available to policy makers are implemented and sustained in the long term.

### Climate change

Global energy markets can mitigate supply and demand imbalances. High oil and gas prices suppress demand by moderating economic growth and creating incentives for more efficient energy use. High prices also create incentives for new explorations as well as the development of alternative sources. Energy consumption growth rates have indeed moderated recently, even in the most overheated markets of Asia, and declined in the developed OECD countries. With oil at around US\$80 per barrel, many alternative fuels such as bio-fuel, but also nuclear power and coal, are on the rise.

While global energy elasticity has improved, global carbon intensity has deteriorated, driven by higher growth rates in carbon intensive economies in Asia and elsewhere. With carbon emissions continuing their relentless growth despite record energy prices, there is little doubt today that markets alone are not able to address the challenge of climate change. As the Stern Review points out, climate change 'is the greatest and widest ranging market failure ever seen.' The impact of energy consumption on the climate will need to be addressed through specific policies and regulations which have to be collaborative and transnational to be effective.

The interconnected and transnational nature of climate change, energy security and the resource

curse is best revealed by looking at the carbon economy as a whole from production to consumption, from rent generation to spending and investment. Rents which form the economic basis of the resource curse are both a result and a factor sustaining the cycle. Coursing through the global economy, rents fuel dependence just as much as oil itself. Consequently, one cannot address the world's dependence on oil without addressing the dependence on rents. In order to significantly reduce the world's dependence on fossil fuels, efforts must aim to shrink the carbon economy from start to finish.

The programmes and events examining the various aspects of the energy crisis at LSE aim to engage all stakeholders, including producers and consumers, developed and developing economies, the private sector and civil society, in order to achieve a better understanding of the issues involved and explore global collaborative solutions to those challenges. ■



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*Oil Wars*, edited by Mary Kaldor, Terry Karl and Yahia Said, is published by Pluto Press (2007). *Escaping the Resource Curse*, edited by Macartan Humphreys, Jeffrey Sachs and Joseph Stiglitz, is published by Columbia University Press (2007).

### Ralph Miliband lectures

The 2007-08 Ralph Miliband lectures are on the theme of 'Oil, Energy Security and Global Order'. The series began in October with a lecture by Tarja Halonen, president of Finland, entitled 'Can the Welfare State Work in a Globalising World?' This was followed in November by Lord John Browne, former chief executive, BP and a crossbench member of the House of Lords, speaking on 'The Past, Present and Future of Oil'.

The series will continue next year with a lecture on Wednesday 9 January by Professor Michael Klare, entitled 'Oil, War and Geopolitics – the struggle over what remains'. Michael Klare is Five Colleges Professor of Peace and World Security Studies, Hampshire College, and defence correspondent of *The Nation* magazine.

The Ralph Miliband Programme was set up in 1996 through an anonymous donation by a former PhD student inspired by Ralph Miliband's contribution to social thought. For more information on the programme and current lecture series, see [www.lse.ac.uk/collections/miliband](http://www.lse.ac.uk/collections/miliband)

For podcasts of these and many other LSE lectures, see [www.lse.ac.uk/events](http://www.lse.ac.uk/events)

### Focus on philanthropy

## Kuwait research programme

A new research programme in the Gulf States and a new endowed LSE professorship were announced in June this year, thanks to the support of the Kuwait Foundation for the Advancement of Sciences.

The Kuwait Research Programme on Development, Governance and Globalisation in the Gulf States is a ten year multidisciplinary programme which will focus its research on such topics as globalisation, energy trading, diversification of and challenges facing resource rich economies, economic development, trade relations between the Gulf States and major trading partners, security and migration.



The programme will be hosted in LSE's interdisciplinary Centre for the Study of Global Governance and led by Professor David Held (pictured),

co-director of the Centre. It will also provide support for postdoctoral researchers and PhD students, develop academic networks between LSE and Gulf institutions and host regular seminar series, as well as five major biennial conferences.

The first holder of the Kuwait Endowed Professorship of Economics and Political Science will be Professor Tim Besley (pictured right) of the School's Department of Economics.



The programme is an opportunity for LSE to make a significant contribution to the foundation of knowledge about Kuwait and the Gulf States at a time when the role of this region in world affairs is more prominent and critical than ever before.

Howard Davies, LSE director, said: 'We are very grateful to the Kuwait Foundation for this generous pledge. It is an opportunity for the School, our staff and students to broaden and deepen knowledge about Kuwait and the Gulf States.'

