

EUROPEAN POLICY BRIEF



Competing for Natural Resources: Conflict and Cooperation

An EU-funded research project exploring global challenges in the competition for natural resources and proposing new approaches to collaborative solutions.

Ongoing project

January 2011

INTRODUCTION

The world is in a phase of transition from a period when liberal capitalism was the dominant ideology to one in which state capitalism is more prominent. This transition will have a profound impact on the balance of conflict, competition and collaboration in access to oil, gas and minerals. Consequently, all actors in these sectors can expect to face new challenges.

In order to address these challenges, new strategic and policy approaches will be required on the part of the EU, its member states and industrial enterprises. Long-standing approaches and assumptions concerning the efficacy of markets in the oil, gas and mineral sectors may no longer be valid.

Anticipating these developments, the European Union is collecting consultative input from a variety of scientific disciplines. The EU-funded research project POLINARES is making substantial contributions to this effort. Combining expertise from the fields of international relations, economics, political science, geology, resource evaluation, and technology, the POLINARES consortium has reached the preliminary conclusion that there is no need for “serious concern” over geological exhaustion of non-fossil fuel minerals. However, the researchers warn that political and economic factors (including resource nationalism) are adding to the likely prospect of a “peak” - especially in relation to oil – between now and 2030.

KEY OBSERVATIONS

What does the history of oil, gas and minerals tell us about the present and the future?

At their core, the histories of oil, gas and minerals are about the relations between those who own them (generally states) and the operators (generally companies) who extract and exploit the resources. These relations determine the balance between conflict, collaboration and competition. The principal initial challenge of access to oil, gas and minerals involves a complex set of negotiations between states and companies. But the political challenges of access extend beyond extraction to transportation and the whole process of transforming the natural resources into services for customers.

Historical Regimes

The histories of oil and minerals have been global in scope since the 19th century and fall into clearly defined periods or 'regimes'. These regimes represent fairly stable patterns of economic and political power, where the framework of conflict, collaboration and competition remains relatively constant.

Historically, five broad overarching periods can be identified:

- 1840-1914 Imperial Liberalism
- 1914-1945 Mercantilism and War Economy
- 1945-1980 State Interventionism and Socialism
- 1980-2008 Liberal Capitalism
- 2008- State Capitalism

Currently we are in a period of world-wide economic and political transition which will have a profound effect on the oil, gas and mineral industries.

The nature of the emergent state capitalist regime involves a considerably greater role for the state than was the case during the liberal capitalist regime. In developed countries, this is due to the recognition that a more prudent regulation of financial markets is required to ensure stability. In the developing world, this is driven by the economic dynamism and growth of the emerging countries where the state continues to play a major role in development and internationalization strategies.

Triggers for Changes in Regime

A number of key factors determine the particular mix of conflict, collaboration or competition in relation to oil, gas and minerals. Major changes in these factors can trigger a shift from one regime to another.

Key factors include:

1. The value of the resource (mainly the relative price derived from the resource)
2. The geographic location (for example, how concentrated the resource is in unstable parts of the world)

3. The nature of relations between a) the state and b) the oil and mineral companies (notably the degree to which international oil and mining companies have access to these resources)
4. The nature of relations between resource-exporting states, (mainly developing or emerging economies) and resource-importing states (mainly advanced economies)
5. State capacity (the governance capacity of resource-producing states)
6. Geopolitics and the geo-economic distribution of power (most recently, the relative power of the US and the West in global politics)

The “Peak Debate”

Should we be worried about running out of oil and minerals?

The so-called ‘peak debate’ has contributed to the perception that oil is running out - i.e. that oil production is reaching its geological peak.

This has increased anxiety and indirectly contributed to geopolitical tensions. The same perceptions are also arising in relation to gas and minerals.

The peak debate boils down to two key questions:

1. When will oil or mineral production level off?

In relation to oil and some critical minerals, pessimists (including many geologists) argue that the peak has already occurred or will occur in the next decade or so. Optimists (including many economists) regard that as an exaggerated fear and contend that **a)** there will likely be no serious limitation for minerals, **b)** that the limitations of oil underground will not be a problem in the coming decades and **c)** that any decrease of production will not occur until at least 2030.

2. Once the peak has been reached, will there be a gradual decline or a levelling off (‘undulating plateau’)?

Again, opinion on the subject is divided.

Our analysis suggests that, in relation to non-fossil fuel minerals, there is no cause for serious concern about geological exhaustion. Moreover, we are convinced that extending the ‘peak oil debate’ to minerals is flawed and potentially damaging if it engenders fears of resource scarcity among developing states.

In relation to both oil and minerals, a key weakness of conventional peak theory is that it places too much emphasis on geological exhaustion and does not accord sufficient weight to economic and political factors. An important variable – one which is often ignored in this debate - is the role of technology: technological innovation continually increases the amount of known reserves and can reduce the need for certain minerals.

Recognizing these flaws in the peak debate, however, should not lead to complacency or unwarranted optimism, particularly with respect to oil. There is still a strong prospect that a

combination of factors – not just geological, but economic and political factors as well - are likely to result in a ‘peak’ over the next twenty years. Concerns over the environment and resource nationalism are two critically influential factors.

The peak debate is thus still of critical importance, but the parameters are shifting from the geological to the economic and political. And these parameters need to be redefined and re-focused. The conventional ‘peak oil debate’, if left under-specified and too dependent on geological assumptions, can do more harm than good and needs to be countered.

One of the principal conclusions from the first phase of the POLINARES project is that we need to have a better understanding of the current regime of oil, gas and minerals – a regime which we hypothesise has entered a period of transition from a liberal capitalist to state capitalist regime. Another conclusion drawn is that conflict and cooperation are constantly combined and that each period or regime has different forms of conflict and cooperation.

How to understand conflict and cooperation in access to oil, gas and minerals

Moving forward, the POLINARES project is exploring a broad range of factors associated with conflict and cooperation in access to oil, gas and minerals. These factors are grouped into three broad categories:

- **Triggers for conflict** (or more broadly, the factors which contribute to conflict, competition and collaboration in relation to oil, gas and minerals – enumerated above).
- **Institutions and policies** which help to prevent or mediate conflict. (These institutions and practices, such as the various legal, economic and political instruments in the oil, gas and mineral markets, will be a major focus of subsequent research in the project.)
- **The mix of conflict and cooperation.** (This is the overarching research focus of the project, which seeks to understand the balance of conflict, collaboration and competition at any one time.)

Polinares Analytical Framework

Triggers for Conflict	Institutions and policies which help to mediate conflict	The mix of conflict and cooperation
Value of the resource	Legal norms, regimes and institutions	Balance of conflict, collaboration and competition (which defines the nature of the particular historical regime).
Geographical location of the resource	Economic/financial norms, regimes and institutions	
State-company relations	Political norms, regimes and institutions	
Exporting-Importing states relations	Technological/enviromental norms, regimes and institutions	
State capacity		
Geopolitical and geoeconomic distribution of power		

POLICY IMPLICATIONS

Actors in the oil, gas and minerals sectors face a wide range of uncertainties in two respects:

1. We are in a phase of transition between regimes during which sudden and unpredictable events and behaviours are more probable.
2. The nature of the future regime is unknown.

Hence, policy and strategy makers in the public and the private sector have to plan for a high degree of uncertainty in both the short and the long-term.

Whilst the world is unlikely to run out of geologically accessible supplies of oil, gas and minerals over the next 30 years, a wide range of political or economic behaviours of different actors could cause supply restrictions and/or wild fluctuations of prices of key commodities. These in turn may have significant detrimental impacts on commodity importing countries such as the member states of the EU, as well as on their industrial enterprises.

One of the key factors that will determine and possibly ameliorate the scale and scope of these potential future threats is technological development in relation to the production and use of energy and minerals. An accompanying factor is the (uncertain) willingness of citizens of EU member states to actively seek ways to reduce their consumption of these commodities.

Regardless of how the above factors evolve, the EU will need to address a number of strategic challenges associated with access to oil, gas and minerals. Reaching well beyond policy domains concerned exclusively with energy, minerals and climate change, these challenges include:

- The European Foreign Affairs and Security Policy
- The European Security and Defence Policy
- The European Security Strategy
- The European Enterprise and Industry Policy
- The European Trade Policy
- The European Research and Innovation Policy
- The European Development Policy
- The European Internal Market Policy
- The European External Cooperation Programmes
- The European Enlargement Programme
- The European Competition Policy
- The EUs regional partnerships and dialogues

RESEARCH PARAMETERS

Objectives of the Research

The issue of increased competition and conflict over access to oil, gas and minerals has risen up the political agenda throughout the past decade. The threat of conflict and instability has added urgency to the search for collaborative and cooperative solutions to ensure secure and equitable access to these vital natural resources.

POLINARES has two key goals: first, to identify the main global challenges relating to competition for access to oil, gas and mineral resources; and second, to propose new approaches to collaborative solutions for a range of policy actors in the EU and elsewhere.

The formal objectives of the research are :

1. To develop a better understanding of how global interactions and interdependencies relating to oil, gas and minerals have been changing and are likely to change, and what their implications are for global economic, social, institutional and security relations.
2. To identify principles which can underpin the development of new policies, new policy-making processes, and new networking systems which, in turn, can assist in promoting an appropriate balance between competition and collaboration with respect to access to oil, gas and minerals in a manner which minimises conflict and promotes sustainable economic development.

Scientific approach / methodology

The POLINARES research work plan combines theoretical and empirical analysis to enhance our understanding of the challenges and how they may be addressed. We are examining historical experience going back as far as the 1920s and will look forward to the year 2040. The research is inter-disciplinary, drawing on the fields of international relations, economics, political science, geology, resource evaluation, and technology.

PROJECT IDENTITY**Coordinator****University of Dundee**, Scotland

Principal author of the Policy Brief: Roland Dannreuther, Department of Politics and International Relations, the University of Westminster
e-mail: R.Dannreuther@westminster.ac.uk

Consortium**Clingendael International Energy Programme**, Netherlands**Bundesanstalt für Geowissenschaften und Rohstoffe**, Germany**Centre National de la Recherche Scientifique**, France**ENERDATA**, France**Raw Materials Group**, Sweden**University of Westminster**, United Kingdom**Fondazione Eni Enrico Mattei**, Italy**Gulf Research Center Foundation**, Switzerland**The Hague Centre for Strategic Studies**, Netherlands**Fraunhofer Institute for Systems and Innovation Research**, Germany**Osrodek Studiow Wschodnich**, Poland**European Commission**

Domenico Rossetti di Valdalbero

e-mail: domenico.rossetti-di-valdalbero@ec.europa.eu**Duration**

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Websitewww.polinares.eu**For more information**polinares@dundee.ac.uk