The New Resource Nationalism and Oil Security

By LIM Soo-Ho

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I. The Revival of Resource Nationalism

This report examines the state of contemporary resource nationalism in the oil market to analyze its impact on global supply and demand, and finds that today’s resource nationalism is significantly different in character from previous incarnations. If the resource nationalism of the 20th century was ideologically tinged, today’s resource nationalism is more about pragmatic considerations of national gain. This report accordingly focuses on three aspects of the formalization of the new resource nationalism in current policy, including nationalization of oil production, globalization of nationally owned oil companies (NOCs), and the dilemmas surrounding “weaponization” of oil resources.

This study also offers a novel perspective on the impact of resource nationalism on the global oil supply. The fortunes of the new resource nationalism are closely tied to oil prices, which until recently seemed on the verge of marginalization as oil prices fell. This forecast however, has turned out to be premature, as upward movement in oil prices is likely to continue over the long term. This study thus contends that the revival of resource nationalism is likely to bring higher oil prices on the production, investment and consumption sides, possibly leading to long-term adverse effects on the world oil supply.

Categories of New Resource Nationalism

“Resource nationalism” per se refers to a policy of expanding state intervention in natural resources. It further refers to the phenomenon of “resource weaponization,” i.e. the use of natural resources as leverage to accomplish political aims. The “New Resource Nationalism” can be classified into four categories according to its backgrounds, goals, and means.

The first type of resource nationalism is “revolutionary resource nationalism,” and typically arises from domestic political and social upheavals. This type of resource nationalism presents itself as a new development strategy to replace market centered neo-liberalism. Its main goal is to reclaim control of natural resources obtained by foreign investors after neo-liberal reforms in the 1990s, and favors unilateral nationalization as its preferred method.

The second and third types are “economic resource nationalism” and “soft resource
nationalism,” and are both driven mostly out of a desire to maximize profits from rising oil prices. These forms of resource nationalism aim to increase government revenues from natural resources rather than bringing them under direct government control. Increases in government ownership of resources are more limited in this model, falling well short of outright nationalization.

Lastly, there is “legacy resource nationalism,” where cultural characteristics and national sentiments make foreign investment in natural resources extremely difficult. This is not a new phenomenon, but rather reflects the persistence of 20th century resource nationalism in local sociocultural norms.

Table 1. Categories and Examples of New Resource Nationalism

<table>
<thead>
<tr>
<th>Classification</th>
<th>New Resource Nationalism</th>
<th>Continuation of Old Resource Nationalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origin</td>
<td>Socio-political upheavals and high oil prices</td>
<td>High oil prices</td>
</tr>
<tr>
<td></td>
<td>Control of natural resources and fiscal revenue (weaponization of resources)</td>
<td>Fiscal revenue</td>
</tr>
<tr>
<td>Means</td>
<td>Nationalization, tax increases, intensified regulations, and unilateral changes to original contract terms</td>
<td>Limited increase in government ownership, tax increases, intensified regulations, and unilateral changes to original contract terms</td>
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<td>Major examples</td>
<td>Russia, Venezuela, Bolivia and Ecuador</td>
<td>Kazakhstan and Mongolia</td>
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Historical Development of Resource Nationalism

Resource nationalism spurred by Iran’s oil nationalization in 1951 spread to most third-world oil producing countries in the Middle East, Africa, and Latin America during the 1960s and 1970s. As a result, control of world oil reserves shifted from a handful of large international oil companies (IOCs) to the governments of OPEC member states. Moreover, OPEC legitimized an international petroleum order dominated by oil producing countries through a series of jointly enacted weaponization policies and cartel activities, including cuts in oil production quotas, oil price increases, and oil export embargos.

Such OPEC policies however, resulted in market backlashes. In response to the two oil shocks of the 1970s, oil consuming states like the United States, Europe, and Japan began working to reduce their oil consumption and increase their alternative energy development, while increasing exploration and production activities in non-OPEC oil fields. Consequently, supply eventually far exceeded demand, resulting in a long term oil glut from the mid-80s onwards. The world oil market then shifted 180 degrees from a producer-driven to a consumer-driven market, causing resource nationalism to enter a dormant period. In particular, during the 1990s when a wave of economic neoliberalism swept the globe, the great majority of oil producing countries (excluding Saudi Arabia and Mexico), loosened state control over national petroleum resources and allowed foreign investment in their respective NOCs.

From the 2000s, however, resource nationalism reemerged as surging oil demand in emerging economies brought the return of high-oil-prices. New resource nationalism in the 21st century has been led by Latin American leftist regimes, as exemplified by Venezuela and Bolivia, and also by Putin-era Russia. In these regions resource nationalism has manifested itself in its most dramatic form as renationalization and weaponization. Other measures in other countries, if less radical ones, include hefty increases in taxes and stringent regulations. These re-nationalizing tendencies have been implemented in many oil producing nations, including some members of the OECD.
Figure 1. Annual Demand for Oil and Oil Prices (1996-2011)

Note: Figures based on Brent crude.
Source: Based on figures from the IEA (demand), and BP (prices).

Figure 2. Monthly Trend in Oil Prices (Jan. 1996 – April 2011)

Note: Figures based on Brent crude.
Source: Based on figures from the IEA (demand), and BP (prices).
II. Characteristics of New Resource Nationalism

Pragmatic Nationalization and Limited Openness to Foreign Investment

The first wave of nationalization in the 1970s was achieved through flat expulsion of foreign firms, confiscation of their oil assets, and subsequent prohibition of foreign investment in oil. Such full-scale expropriation of foreign-owned oil assets have become at present a less desirable method for many nations in favor of more pragmatic, piecemeal approaches that allow governments to increase their ownership in national oil resources. These approaches include revision of laws on foreign participation in the oil industry and compulsory renegotiation of existing contracts, as well as the extraction of additional profits through a raft of tax hikes on foreign oil operations. In particular, the participation of both foreign-owned NOCs and IOCs in petroleum exploration and development projects have actually been promoted to the degree the host government maintains control.

Bolivia’s renationalization policy under the Morales government for example is a representative example of “revolutionary resource nationalism,” though even it has been characterized by the pursuit of profit sharing with foreign companies with simultaneous reconfirmation of state ownership of oil resources, and guarantees on managerial rights to private capital. Despite a continuous stream of inflammatory anti-Western rhetoric, the Hugo Chavez administration in Venezuela has also encouraged foreign oil companies to participate in joint investment on the condition that its state-run NOC, “PDVSA,” will hold more than a minimum 51-percent stake in all joint venture projects involving oil exploration, production, transportation, and delivery. In other words, though both Bolivia and Venezuela have shown signs of “revolutionary resource nationalism,” including arbitrary changes in contracts and limited nationalization, they have also employed pragmatic methods to secure both managerial rights and foreign investment.

While “revolutionary resource nationalism” turned to renationalization in the early 2000s, countries that have practiced “legacy resource nationalism” since nationalization in the 1970s have recently opened their doors to foreign investors to a limited extent. Kuwait now allows foreign oil companies to invest in seven or eight oil fields, while Iran’s five oil fields remain open to foreign investment. To put it simply, as the 2000s progressed, the two extremes found within oil producing nations in the 1980s and 1990s: i.e. active recruitment and outright prohibition of foreign investment, have
tended to converge toward the center.

**Internationalization of National Oil Companies**

“Internationalization of NOCs” refers to the increasing number of joint projects where NOCs engage in joint ventures with other NOCs and IOCs. It is a characteristic feature of the new resource nationalism. Among the world’s top 50 oil companies, five NOCs, including Saudi Aramco, NIOC of Iran, PDVSA of Venezuela, CNPC of China, and Gazprom of Russia greatly increased joint ventures at home and abroad, equity alliances, and operation and service contracts from 1997-2007. Despite the resurgence of resource nationalist policies, both joint ventures and equity alliances with IOCs have increased in oil producing countries. This is because resource nationalism has favored foreign investment as long as governments retain control over their natural resources.

Collaboration between NOCs, including in cartel format, has also become a notable characteristic of the new resource nationalism. From 1997-2007, resource projects in which the aforementioned five NOCs engaged in joint ventures with other NOCs increased fivefold. Joint NOC-IOC projects almost doubled during the same period, while “hybrid NOCs (hNOCs),” which split ownership between NOCs, their governments, and private firms have increased more than ten-fold. This indicates that the trend toward resource nationalism and internationalization are both occurring at the same time.

**Figure 3. External Corporate Relations of the Top 5 NOCs for 1997 and 2007 by Ownership Format**

![Bar chart showing external corporate relations of the Top 5 NOCs for 1997 and 2007 by ownership format.](chart.png)

Resource Weaponization and the Dilemmas of Collective Action

Resource weaponization in the form taken by the OPEC cartel in the 1970s has appeared in only a few countries, and only to a limited degree. In the early 2000s, only a few countries like Venezuela, Iran, and Iraq have openly threatened, or carried out, weaponization of oil resources. Such attempts, however, have failed to cause any measurable impact on international oil prices. The main reason that such overt weaponization has had little effect is because major oil producing countries are generally unsympathetic to the aims of those making threats. In particular, whenever any other producer state has made signals that it was considering weaponization, Saudi Arabia has neutralized every attempt by increasing its own oil production.
Table 2. Oil Supply Crises after World War II

<table>
<thead>
<tr>
<th>Causes for Supply Disruptions</th>
<th>Time</th>
<th>Duration (months)</th>
<th>Supply Disruption (1 million barrels/day)</th>
<th>Change in Oil Prices (Brent crude, nominal dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suez Crisis</td>
<td>11/1956-3/1957</td>
<td>4</td>
<td>2.0</td>
<td>—</td>
</tr>
<tr>
<td>Third Middle East war (Embargo on exports of Middle East oil)</td>
<td>6/1967-8/1967</td>
<td>2</td>
<td>2.0</td>
<td>—</td>
</tr>
<tr>
<td>Middle East democracy protests</td>
<td>2/2011-4/2011 (current)</td>
<td>4</td>
<td>0.8</td>
<td>96.78 (1/2011) ➔ 123.26 (4/2011)</td>
</tr>
</tbody>
</table>

Source: IEA (2007). Oil Supply Security. p. 19; figures were restructured using BP price data.
The absence of collective action by oil producing countries is mostly due to the lack of a common ideology between oil producing nations. The collective action of OPEC in the 1970s was based upon an ideology of “North-South justice” (pitting the developed world versus the developing world), as well as a new development model that departed from economic dependency. Such clear ideology no longer exists today.

“Learning effects” from the past also pose a hurdle to any collective action. The current OPEC member states all maintain memories of the 1970s, when their cartel activities produced adverse consequences for themselves. In addition, unlike the 1970s, major oil importers like the United States, Europe, and Japan have prepared countermeasures, including a strategic petroleum reserve system that can provide a cushion against sudden market disruptions. As global climate change spurs the development of renewable energy and nuclear power to replace fossil fuels, it will become increasingly difficult for oil producing countries to engage in collective action because such steps will likely further accelerate alternative energy development.

III. Resource Nationalism in the Age of High Oil Prices

The Arrival of Long-Term High-Oil Prices

Global oil markets entered a phase of long-term high oil prices by the early 2000s. Such changes reflect fundamental changes of fast growing demand and slow growing supplies, and do not reflect temporary fluctuations. High oil prices are here to stay, regardless of short-term volatility arising from speculation, cyclical changes, and geopolitical instability.¹

In fact, the present trend toward long-term high oil prices will likely only intensify. According to the International Energy Agency (IEA), oil prices can remain at current levels only if each nation makes a substantial reduction in its fossil fuel consumption (450 Scenario), in accordance with the Copenhagen Climate Change Agreement (made in December 2009). The IEA predicts price spikes if countries around the world continue the status quo (Current Policies Scenario), or make only slight improvements in their new energy policies (New Policies Scenario), well below that of the 450

Scenario intended to abate greenhouse gas emissions.\(^2\)

**Figure 4. Long term Oil Demand and Price Outlook**

![Graph showing long term oil demand and price outlook](image)


**Impact on Global Oil Supply and Demand**

Resource nationalism is not simple profiteering from high oil prices but constitutes an active attempt to make high oil prices permanent. First, from a global perspective, resource nationalism indicates the growing influence of NOCs on the world oil supply. As oil prices climb, IOCs generally ramp up production to profit from high prices. NOCs, however, tailor their output decisions in accordance with their national government’s long-term strategic calculations. As increased production would drive oil prices down, NOCs attempt to curb output increases to keep prices and profits high over the long run. Conversely, if price hikes continue due to production shortfalls, a phase of long-term low oil prices begins with falling oil demand. OPEC production quotas, therefore, are always being adjusted to maintain “optimum high prices” by keeping an “optimal” balance between supply and demand. However, if the spread of resource nationalism expands the future share of NOCs in the global oil supply at the expense of a declining share of IOCs, price elasticity will decrease and high oil prices will remain. This, in turn, stimulates further resource nationalism.

Secondly, lowering oil prices over the long run requires increased production capacity through expansion of investment in the upstream oil sector. Resource nationalism, however, has been instrumental in restricting investment in IOCs through equity constraints, regulations and tax hikes. Since resource nationalism has been strongest in

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oil-rich countries with low production costs, IOCs have increasingly moved to more costly development and production environments. As a result, over the long run, shrinking global production capacity and rising average unit costs of production have increased the upward pressure on oil prices. High oil prices, moreover, are likely to decrease reliance on foreign investment in resource nationalist countries as they gain access to more revenue. This will in turn further strengthen resource nationalist policy and further legitimize intervention against foreign investors. Of course this creates no issues if NOCs are able to offset declining foreign investment by expanding investment on their own. Nevertheless, profits generated by NOCs in oil producing countries have been used not only to sustain and expand oil production capacity but also to implement government policies. In particular, resource nationalism has intensified pressure for income redistribution, and in practice a significant share of the recent windfalls has been spent on social welfare programs. NOCs are also subject to the profit goals set by their government, which are devised to make maximum use of existing production capacity, rather than expanding capacity for the future. This leaves little incentive for more investments. All these tendencies are strongest in countries where the share of revenue from oil has grown, and where resource nationalism has become more prevalent.
Third, oil prices could actually decline if demand falls. Resource nationalism, however, has complicated the situation by constraining price elasticity for demand, postponing reductions in demand following increased oil prices. Egalitarian pressures in resource nationalist countries also play a role, as social welfare programs, especially fuel subsidies, have been stimulated by resource nationalism. Fuel subsidies granted to domestic industries and citizens that provide fuel at low prices, or even below cost, artificially boost domestic consumption and reduce oil available for export, pushing up prices. If all fuel subsidies in the world are ended by 2020, global demand for oil is projected to decline 5%.

It took nearly three decades for the old resource nationalism, which began with Iran’s nationalization in 1951, to reach its apex in the second oil shock of 1979. The old resource nationalism has only been strong enough to affect the global economy in the last six years, with the past 23 years functioning as a period of maturation. The new resource nationalism is barely 10 years old. High oil prices are spreading and
intensifying resource nationalism, even as resource nationalism prolongs high oil prices by constraining price elasticity for production, investment and consumption. It is thus likely that high oil prices and resource nationalism will continue to reinforce each other going forward, requiring measures that address the oil supply from a long-term point of view.