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# From Scarcity to Plenty: The Geopolitics of a World Awash in Oil

By Barry Desker

A decade ago, there were fears that the United States would be increasingly dependent on an unstable Middle East and a hostile Venezuela for oil imports. There were worries that US natural gas prices would be determined by the price of imported LNG. Today, there is growing attention to the prospects of the United States as a LNG exporter influencing prices in Asia and Europe. The shift occurred because of the unexpected emergence of unconventional oil and gas production in North America, especially as Saudi Arabia did not reduce its oil production to stabilise prices at relatively high levels.

This development, together with renewed supply from Iraq and Libya which had previously declined because of domestic political instability as well as reduced demand arising from the economic slowdown in China and the recession in Europe and the US following the global financial crisis of 2008, resulted in a sharp fall in the oil price. Earlier projections of continued increases in demand were based on continued healthy economic growth and tighter supply. The assumption was that a lack of new sources of production would lead to rising prices for oil and natural gas and a growing emphasis on energy security as consumers tried to lock-in supplies even as alternative sources of energy were promoted. It is now recognised that the majority of these alternative sources are not commercially viable unless subsidies are provided.

**Impact on global markets and power balance**

For oil and natural gas importers like Singapore, the cost of domestic utilities and transportation will be reduced while lower fuel costs for the important maritime and air services sectors will have a positive impact on their financial performance. Shipyards building offshore platforms and offshore supply vessels will have a dwindling order book. The building of LNG terminals in Singapore will enable Singapore to benefit from price differentials in the Asian, European and North American gas markets. When the first LNG terminal began operations in 2013, Singapore was no longer dependent only on piped natural gas from Indonesia and Malaysia.

Two major uncertainties affect global markets. First, whether the three natural gas regional markets will merge into a single market. Currently, the natural gas price is US$2.7 per million British Thermal Units (MMBTU) in North America, $7.4per MMBTU in Europe and $7.8 per MMBTU for re-gasified LNG sold in Northeast Asia. Secondly, whether the price differential between oil and gas continues in international markets. From a thermal energy value perspective, one barrel of oil is approximately equivalent to 6 MMBTU. With oil currently at around $65 per barrel, the oil equivalent price of gas should be approximately $11 per MMBTU. However, in all the major markets, gas is trading at a discount to its oil equivalent price.

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The effect of the downturn in oil prices is that the power balance has shifted from the holders of resources to consumers. It will be a period of belt tightening for oil producers, although most of them have accumulated significant dollar reserves. This explains the rise in opposition to the Maduro administration in Venezuela which cannot dispense the largesse offered under previous president Hugo Chavez. It has made Iran more ready to talk to the West to remove the effect of crippling sanctions resulting from its development of indigenous nuclear technology, including enrichment, and limited Saudi Arabia's capacity to buy off domestic opposition through larger social welfare hand-outs.

Grangemouth Oil Refinery by night. Photo courtesy of the Flickr account of Bryan Burke and used under a creative commons license. Copyright Bryan Burke.

# Expert Talk: WTO @ 20: Challenges, prospects and the way forward

This year marks the 20th anniversary of the establishment of the World Trade Organization. The WTO provides a rules-based framework covering international trade among nations. Over the years, the predictability afforded by WTO rules has led to freer movement of goods and services across national borders. According to WTO Director General Roberto Azevedo, WTO helped to boost trade growth, resolve numerous trade disputes and support developing countries to integrate into the trading system. However, there are concerns that rules created when WTO was established are no longer enough to respond adequately to new dynamics of the current global trading regime.

Over the last 20 years, globalisation has altered trade patterns significantly. For example, trade in intermediate goods via production networks, as opposed to trade in final goods, have become a prominent feature of contemporary international trade. Globally, trade in intermediate goods and services that are incorporated at various stages in the production process of goods for final consumption reached to about 60% of global trade in 2013. There has also been a move away from the multilateral trading system brought by frustration over deadlocks in WTO trade negotiations. This has led to the rise in a number of bilateral trade agreements and even mega free trade agreements in various regions. To a certain extent, these developments have diluted WTO's position as an important component of the global trading architecture regime.

Against this backdrop, how can the WTO remain relevant over the next decades? What are the challenges facing the institution and how can these be surpassed?


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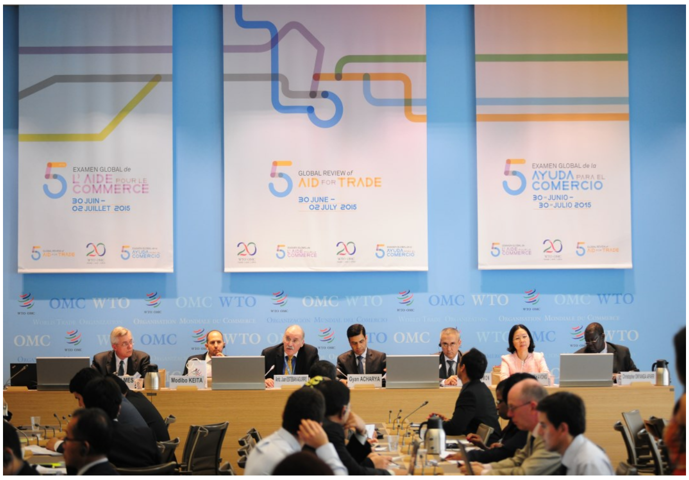
Twenty years period is a significant time in the history of any organization to determine whether it is going in its intended direction. The relevance of the WTO could be understood from the fact that the WTO has significantly helped in raising the voice of developing and least developed countries in the international trade arena and thus been successful in its image makeover from its predecessor GATT, which was perceived as *'Rich Men's Club'*. Had the WTO not been there, who can even think that a tiny country Antigua and Barbuda can win trade dispute against giant USA? Nonetheless, an important challenge before the WTO is to give more consideration to the LDCs and therefore, the WTO needs to ensure that special treatment for LDCs, as envisaged by it from other WTO Members, is realized not only in letter but also in spirit.




Fifth Global Review of Aid for Trade. Courtesy of Flickr account of WTO and used under a creative commons license. Copyright WTO.


WTO Director-General Roberto Azevêdo delivering his keynote address during the RSIS-WTO Parliamentarian Workshop.

Successive rounds of failure will diminish WTO's credibility and make it fall short of emerging mega agreements which are dynamic in nature. On many issues, the WTO needs to prove itself a dynamic entity and not an old and static institution living in its own silos. New realities, rules and models of business, such as digital trade, e-commerce etc., need to be incorporated while framing trade rules.

Overall, it has been said many times that the WTO has lost relevance and many economists almost declared an obituary of the WTO. However, in spite of all such incidences and challenges, WTO is still standing tall guiding international trade rules. Whether one support or criticize the WTO, the starting point of almost all major trade agreements, be it bilateral or mega FTAs, is the WTO and hence these are often called as WTO plus agreements.

**Michael Ewing Chow**
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## WTO - Reports of Death Greatly Exaggerated – Towards Another 20 Years

Over the past two decades, WTO trade negotiations have faced significant difficulties. Many WTO members, including Singapore, have turned to Free Trade Agreements (FTAs) to deepen trade relations with bilateral and regional partners. However, until recently, no major WTO economy was engaged in negotiating an FTA with another. This changed with the inclusion of Japan into the TPP process that already included the US. The proposed TTIP between the US and EU could also be another. These Mega FTAs are significant because unlike the bilateral and smaller regional FTAs, they cover a majority of global trade and will potentially be deeper in their commitments. Now, the WTO faces an existential challenge. If it cannot function as an effective trade negotiation forum, it could be abandoned in favour of second best but comparatively more efficient alternatives.

This has led many scholars to predict the demise of the WTO. Such predictions are premature.

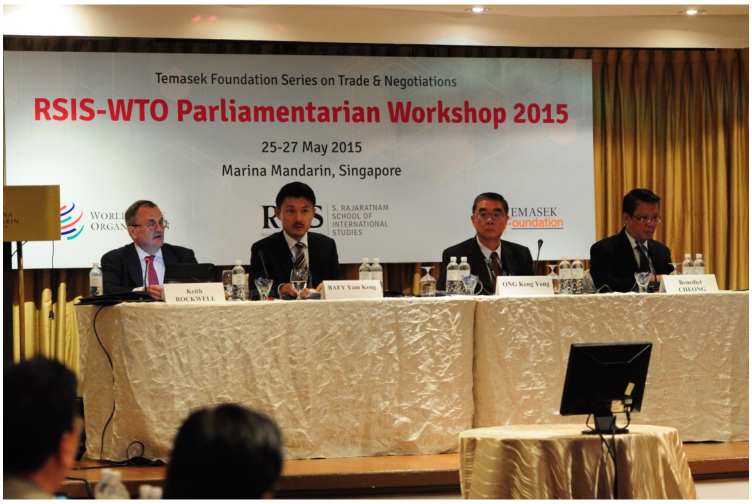
First, the WTO is more than a trade negotiation forum. Trade negotiations are a major pillar of the WTO but there are two other significant and no less important pillars. The WTO plays an important capacity building and monitoring function in the global economy and this ensures that rules are not just agreed upon but implemented. The WTO also has what most scholars agree is the most effective international law dispute settlement mechanism in the world so that failures to implement or simply disputes arising from differing interpretations can be resolved pursuant to the rule of law. Under the WTO, the US, EU, Japan and China have all been regularly held accountable to smaller WTO economies and either through institutional pressure or in extremis sanctions been obligated to comply with the WTO dispute settlement awards.

Second, the suggestion that the WTO is no longer a negotiating forum is just wrong. In Dec 2013, the WTO managed to negotiate and agree upon the Bali Package which provides for disciplines on trade facilitation, food security, cotton subsidies and special treatment for Least Developed Countries. However, in 2014 the WTO faced an unanticipated hurdle implementing the Package when the new government of India suggested that it was not willing to implement the Package which was agreed on by the previous government. Fortunately, after significant diplomatic efforts by the US and other APEC leaders, India eventually agreed to implement the Package. Just recently, in July 2015, a coalition of about one-third of the WTO members successfully negotiated to build on the original Information Technology Agreement (ITA) so as to eliminate import tariffs on 201 new electronics products, such as high-end semiconductors, medical equipment and game consoles on an MFN basis. It is estimated that this ITA II deal could save over US$13 billion a year in tariffs.

The main problem with the WTO as a negotiating forum has been perhaps largely of its own making. It may have been overly ambitious in setting the negotiating agenda in Doha and it has included many new members since then. As the Doha Development Agenda (DDA) was envisaged to be a Single Undertaking requiring the consensus of all the WTO members, this created a significant "convoy effect" and slowed the pace of negotiations to match the pace of the "slowest" WTO member in the most contentious area - Agriculture. However, as seen from the Bali and the ITA II experience, if more narrow and specific issues are on the table and a variable geometry is employed based on willing participants rather than requiring the consensus of all WTO members, relatively quick progress can be made. Nevertheless, it is true that the DDA was designed prior to the rapid growth of production networks and that many MNCs are less interested in the WTO's DDA than in the newer "designed to encourage production networks" disciplines on investments, intellectual property, regulatory coherence and trade facilitation such as those which may be found in the proposed TPP texts.

The next 20 years for the WTO will be challenging. As a negotiating forum, it needs to find some way to conclude at least a significant proportion of the DDA, manage the expectations of very different members, identify strategic areas for new negotiations and bring together coalitions willing to work on those areas. It needs to do this in an increasingly multipolar world where no one economy can set and drive the agenda in the way the US did during the Uruguay Round. And it needs to do this in the face of competition from the Mega FTAs. If there is enough political will amongst the WTO members, it can be done. If not, at least we have the WTO dispute settlement mechanism. What cannot be legislated will eventually be litigated.

## RSIS-WTO Parliamentarian Workshop



Opening Ceremony of the RSIS-WTO Parliamentarian Workshop.

RSIS organised in coordination with the World Trade Organization (WTO) and the Temasek Foundation, the sixth edition of the RSIS-WTO Parliamentarian Workshop on 25-27 May 2015 at Marina Mandarin Singapore. The workshop was part of the newly-established Temasek Foundation Series on Trade & Negotiations under the Centre for Multilateralism Studies.

The workshop brought together 15 speakers and more than 60 parliamentarians from 18 countries in the Asia Pacific region to discuss new trends and topics confronting the multilateral trading regime. Lectures were also organised on the important roles that lawmakers play in ensuring that domestic economies fully capture the benefits of participating in the WTO. WTO Director-General Roberto Azevêdo delivered the keynote address where he examined the challenges for the future of the WTO.

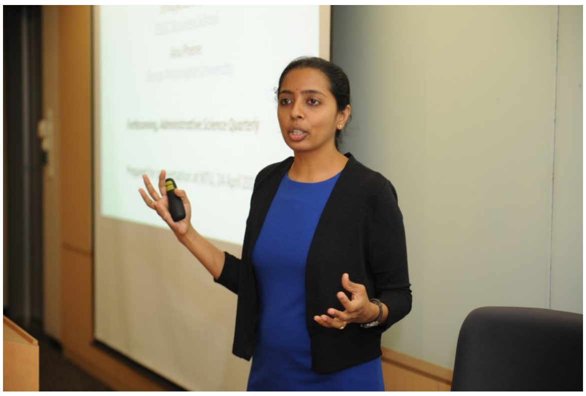
According to Director-General Azevêdo, the passage of the Bali Agreement including the Trade Facilitation Agreement in 2013 represents an important milestone in WTO's 20-year history. With the agreement, he notes that costs of trading could be reduced by 10 per cent for developed countries, and up to 15 per cent for developing countries. Total benefits have been estimated at up to US$1 trillion a year while also creating about 21 million new jobs worldwide. One feature of the trade facilitation agreement is the mandatory requirement to provide technical assistance for member-economies that lack the capacity to implement the agreement. Such provision would allow developing countries to fully capture the benefits of the trade facilitation agreement.

However, for the agreement to come into effect, two-thirds of WTO members should ratify it. This is where parliamentarians play an important role. The main challenge now is for countries to ratify the agreement and deposit their instrument of acceptance with the WTO. In many countries, ratifying international agreements would involve a legislative action. In this regard, parliamentarians are at the forefront in ensuring that domestic processes are completed in a timely and orderly manner.

The parliamentarians were also given ample opportunities to network and share best practices and experiences. The parliamentarians visited the Port of Singapore on a study tour to get a glimpse of Singapore's measures and infrastructures in the area of trade facilitation and customs procedure.■

## Inter-Governmental Organizations and Innovation Seminar

Assistant Professor of Management Srividya Jandhyala of ESSEC Business School Singapore delivered a lecture on Inter-Governmental Organizations and Innovation as part of the Seminar Series on IPE Issues last 24 April 2015. The presentation was based on a paper written by Dr Jandhyala examining the role of international institutions and governance of international business transactions. In particular, the lecture focused on examining whether a country's participation in learning-oriented inter-governmental organizations (IGO) increase national innovation.


Dr Srividya Jandhyala delivering her lecture.

Using the case of the Carbon Sequestration Leadership Forum as a case study and an empirical analysis spanning 83 countries over the time period 1996-2006, , Dr Jandhyala showed that the extent of connectedness to the learning-oriented IGO network enables national innovation. However, countries differ in the extent to which they can leverage external knowledge for innovation. In addition, Dr Jandhyala was also able to show that IGOs play an important role as coordinating mechanisms where countries are able to access high-quality knowledge from far-off sources and improve their ability to assimilate knowledge.■

***From Scarcity to Plenty: The Geopolitics of a World Awash in Oil***
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United action by OPEC to increase oil prices by restricting supply is unlikely. Saudi Arabia has a greater motive in maintaining the current price to squeeze Iran, its political rival in the Middle East, as the Saudis are concerned about the ongoing turmoil in the region and the risk of unfriendly political realignments in neighbours such as Yemen. Nearer to Singapore, Malaysia faces increasing pressure to meet the income shortfall through cutting oil and gas subsidies as a budget deficit looms. Declining oil prices offer Indonesia an opportunity to cut back on oil subsidies now that it is a net oil importer. Importers like South Korea and Japan will also benefit from lower oil prices.

**Changes in trade patterns and perspectives**

Significant changes in trade patterns are likely. Russia will export more to China and East Asia, with Europe now more wary of increasing dependence on Russian oil and gas after the turmoil in Ukraine. Global markets will be affected by the declining US reliance on imported oil and the expectation that the US Congress will adopt legislation allowing an export of the American surplus. If this occurs, the US oil and gas markets will become increasingly integrated and the global integration of gas markets is likely to occur. However, it is uncertain whether the US will allow oil and gas exports.

The decline in US dependence on Middle Eastern oil is likely to make the United States see instability in the Middle East and North Africa increasingly as a European problem. After the long and inconclusive wars in Afghanistan and Iraq, there will be a reluctance to expend American manpower and resources on the rising threat of the Islamic State and unstable regimes in the Middle East. While policy rhetoric about a re-balancing to Asia will be heard, US defence budgets cuts will occur and there is unlikely to be a significant increase in US military deployments in Asia. Although there will be wariness about rising Chinese economic and military capabilities, the United States will remain the paramount global military power in the decade ahead.

While attention has been focused on the shale gas revolution in the United States, future potential unconventional oil and gas producers include Argentina, China and Ukraine. Governments of these energy importers will want to exploit their resources but will be constrained by their infrastructure, water access and industry expertise. A key difference is that in the United States, underground resources are owned by the owners of the surface land. Elsewhere, the state owns these resources, giving individual land owners no incentive to exploit the reserves. They are likely to emerge as opponents of hydraulic fracking because of the perceived risks of stimulating earthquakes, the negative impact of methane leakage and concern with water management issues.

Nevertheless, the critical point is that the presence of increasing sources of supply is likely to result in energy prices stabilising at lower levels for the next decade compared to the last ten years, provided there is no major political upheaval which disrupts energy markets.■

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## Selected Publications

- Nepal Earthquake: Could a Stronger and more Scenic Country Emerge? ,
  Pradumna B. Rana, RSIS Commentaries, 11 May 2015.
- Economic Policy Reforms in South Asia: An Overview and the Remaining Agenda ,
  Pradumna B. Rana and Wai-Mun Chia, The RSIS Working Paper Series, 18 March 2015.

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The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in the Asia Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

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