

Paper: Resource Nationalism as a Characteristic of the Křare's New Energy and Foreign Policy Paradigm

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Motto:

Resource nationalism is a legitimate right for sovereign nations – what matters is how it is applied. Might, market, and geographic territorial integrity will continue to carry the day.

Joseph A. Stanislaw (Stanislaw 2008:11)

List of Abbreviations:

BRIC	Brazil, Russia, India, China
EU	European Union
IOC	international oil corporation
NOC	state-dominated oil corporation
SCSC	The Saudi-Caspian-Siberia-Canada Corridor

Paper:

1. Introduction to the Paper

1.1. Introducing the Topic:

The world is in the midst of a fundamental transition of oil and gas industry that will have inevitable economic, societal and geo-politic impacts. Moving factors of this transition are, among others, results of rising demand for energy combined with hardly-matching-the-pace of supply. On a demand side we have to mention soaring demand for oil from the BRIC countries (predominantly China and India) combined with relatively inelastic demand from traditional oil-consuming nations (such as the United States and EU member countries). On the supply side, critical factor represents decline in production rates of some traditional producers

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due to underinvestment, conflicts or civil unrest (such as Venezuela, Iran and Iraq) or because of natural catastrophes (e.g. the 2005 hurricanes in the Gulf of Mexico) and recent low discovery rates (referred to as “peak oil”).

Increasing global imbalance between supply of and demand for oil is further intensified by geo-political uncertainties, such as renewed resource nationalism of oil-exporting nations combined with limited access by international oil companies (IOCs) to oil resources in the Middle East, Russia and the Commonwealth of Independent States and also in some African and Latin American states. Further threats to secure and stable supply of oil (and other energy sources) come from various terrorist groups, political movements and also pirates and their attacks on energy infrastructure (in case of oil widely known are bomb attacks on oil drilling facilities and pipelines or kidnapping of oil-transporting tankers) which not only causes increased costs of generation, but sometimes also forces IOCs to abandon oil drilling in respective territories.

Another relatively new aspect of energy security arises from the attempts to mitigate climate change (and post-Kyoto negotiations) and has impacts both on higher prices of energy and also on changing energy mixes of some countries (predominantly EU member states).

All these factors result in what Stark (2007) refers to as the “Age of Energy Supply Anxiety”. Daniel Yergin (2006) also concludes that “We are living in a different world now”.¹ Michael Klare in his book *Rising Powers, Shrinking Planet* (2008) suggests that scarce energy is creating a new world order. His **new energy paradigm** can be characterised by three main characteristics/trends:

- i. *the rise of energy nationalism* (in this paper the term “resource nationalism” will be used instead);
- ii. *accumulation of ill will between the Sino-Russian and U.S.-Japanese proto-blocks,*
- iii. *the zero-sum aspect of major energy disputes.* (Klare 2008:236)

1.2. Research questions

The paper addresses one trend of the Klare’s definition of new energy paradigm, e.g. resource nationalism. The aim of the paper is to define, what can actually be understood under the term “resource nationalism” at the beginning of the 21st

¹ He illustrates changes in international relations cause by oil on re-orientation foreign policies of China, Russia and Saudi Arabia. First of all, Yergin mentions that after his visit to Washington, the Chinese president's next stop was Saudi Arabia. And the first state visit made by Saudi Arabia's King Abdullah took him to Beijing. Furthermore, the Russians are turning east to the Chinese. He claims that the relationship between Russia and China would shift from being based in Marx and Lenin to being based in oil and gas. (Yergin 2006)

century and whether there is any difference between the old (1970s) resource nationalism and its current form. And last but not least, the paper addresses impacts of the renewed resource nationalism on current international relations.

In order to find answers to the stated research questions a combination of two methods is used –discourse analysis and case studies.

Discourse analysis will be used to study proclamations of politicians, businessmen and key opinion-makers (social and political scientists, journalists, etc.) in order to find out how these formulate and use the term “(new) resource nationalism” and hence, how the current energy security paradigm is created.

Case studies will be used to illustrate examples (both historic and current) of the resource nationalism appearance and their impacts on international relations.

2. New Energy Paradigm Postulates by Klare

Changes in energy chessboard combined with the upcoming peak oil led Michael Klare - in his book *Rising Powers, Shrinking Planet* (2008) - suggest that scarce energy is creating a new world energy order. In the emerging power system as Klare claims the struggle over energy will override all other considerations and national leaders – as he expects- will go to extreme lengths to ensure energy sufficiency for their countries with state authority expanding over both domestic and foreign energy affairs (Klare 2008:7). As he further *states* “*Oil will cease to be primarily a trade commodity, to be bought and sold on the international market, becoming instead the preeminent strategic resource on the planet, whose acquisition, production, and distribution will increasingly absorb the time, effort, and focus of senior government and military officials*” (Klare 2008:7).

In the new international energy order the ranking of states in global hierarchy will not be based on their nuclear warheads but rather on the “vastness of their oil and gas reserves or on their ability to mobilize other sources of wealth in order to purchase (or otherwise acquire) the resources of the energy-rich countries” (Klare 2008:14). This will naturally have economic and geo-political implications on international relations. From the economic point of view, oil-rich and oil-exporting countries will get richer and from geopolitical point of view, they will become more powerful and influential (even with lesser military might).

The new alignment of power would, according to Klare, lead to formation of opportunistic associations – exporters’ associations (OPEC and the proposed natural gas OPEC), importers’ associations (International Energy Agency) and new proto-alliances or power blocks among selected exporters and importers, such as strategic energy alliance between Russia and China. (Klare 2008:17) Klare also mentions that IOCs are increasingly overshadowed by the NOCs. They

even form strategic alliances with one another to advance their foreign policy objectives of their state owners and magnify their combined power vis-à-vis the Western oil giants (Klare 2008:19).

Thus, to sum it up, Klare's new energy paradigm – in his own words “new international energy order” - can be characterised by three main characteristics/trends:

- i. *the rise of energy nationalism* (in this paper the term “resource nationalism” will be used instead);
- ii. *accumulation of ill will between the Sino-Russian and U.S-Japanese proto-blocks,*
- iii. *the zero-sum aspect of major energy disputes.* (Klare 2008:236)

Besides Klare, there are other international relations and security studies dealing with the new energy paradigm and the role of resource nationalism in it. For example Stanislaw (2008) identifies **five forces shaping the new Game**:

1. *State dominance of energy resources* – today national or state-dominated oil companies (NOC) control access to about three-quarters of the worlds' proven conventional reserves², which has undisputable impacts on the relationship between states and private companies (IOC).
2. *The use of resource nationalism* – exporting countries use their control of oil reserves to advance their own geopolitical and economic goals while importing nations resource nationalism (promotion of domestic energy sources and nation-flag companies) to minimize risks of their dependency on energy imports (see separate chapter dealing with resource nationalism in the 21st century) Stanislaw concludes that “The balance of economic might is tilting towards the companies and economies of the resource-rich nations and the newly emerging markets of Asia, the Middle East, and South America”. (Stanislaw 2008:4).
3. *The market and the might of China and India.*
4. *The convergence of energy security and climate change* – the understanding of the term “energy security” has been broadened; besides traditional security of energy supplies it nowadays covers also energy poverty, sustainable development and climate change aspects. (see Appendix 1)
5. *The end of the era of “easy oil”.* (see chapter dealing with the peak oil)

² In the 1970s the ratio was reverse, 70 % of oil reserves controlled by international oil companies (IOC) and 20 % by NOC.

The reflection of these five forces shaping the Game as defined by Stanislaw many be well observed in the new Putin and Medvedev energy and geopolitical strategy, where we can identify four clear objectives:

- wrest control of domestic energy resources (see the Chapter dealing with the main players);
- create diversity of transit routes to Europe (mainly due to repeating disputes with its direct neighbours and key transit providers to Russian fossil fuel supplies to European markets – Ukraine, Belarus and Georgia);
- use transit routes to secure energy supplies from Central Asia and the Caspian;
- seek a secure downstream distribution in European retail markets. (Stanislaw 2008: 9)

However, Russia is not the only nation seemingly resorting to resource nationalism. Its biggest and most outspoken proponent in Latin America is Venezuela (controlling 56 % Latin American oil reserves) under the rule of President Hugo Chavez. In his renationalisation policy the energy sector was first on the run. Besides nationalising the assets of energy companies, he is also nationalising their project and continues in their development with corporations of other – more regime friendly – nations. He calls it his *revenge on “colonial production scheme”*. (Stanislaw 2008:10) Brazil, too, set off to resource nationalisation road when it announced (September 2009) new rules governing deep-sea oil deposits off the Brazilian coast. On the occasion of announcing these new rules³, President Lula called it an *“Independence Day for Brazil”*. (Roubini 2009)

3. Renewed Resource Nationalism ruling Foreign Policies?

Perceived threat of the upcoming peak oil combined with the rising prices of energy (we abstract from the short-term decrease in energy prices caused by the world financial and economic crisis), numerous leaders of the oil (and natural gas) exporting countries (such as Russia and more recently Ecuador) and also oil importing countries (such as the US, China, India) seem to restore to resource nationalism. Resource nationalism - or “resource sovereignty” (The Background & Future Of Resource Nationalism, 2007) - is generally understood as the tendency of political elites and government to assert control over natural resources located on their territories or at least by using or supporting national-flag firms for winning and transporting the black gold.

³ Petrobras, the publicly traded but state-run oil company, was to gain a majority stake in any new developments of the deep-sea oil. Proposed was also a creation of a new social fund, channelling some of the country's profits into social and infrastructure spending.

The core idea behind the resource nationalism according to Mares is that the natural resources are a '*national patrimony*' and consequently should be used for the benefit of the nation rather than for private gain. Plus, the commodity (oil) itself has an intrinsic value, not one determined by the market, and *this value belongs to the nation*. (Mares 2010:3)

Yet, not all the state actions attributed to resource nationalism or performed under the flag of resource nationalism are in reality of this nature and may be misleading to the readers. That is why the first part of the chapter defines the term resource nationalism as used in the reality of the 21st century and also its alternatives that might be by mistake wrongly considered as resource nationalism.

The second part of the chapter compares the 21st century resource nationalism and its alternatives with the resource nationalism as perceived and performed mainly after the oil shocks in 1970s.

3.1. Defining Resource Nationalism and its Alternatives in the 21st Century

Stanislaw (2008:8) defines the term "resource nationalism" as "*state control or dominance of energy resources, and the resultant potential to use this power for political purposes*". Lifton (2006) defines it as "*the control, by the nation state in which they are located, of in-the-ground resources and the means of extracting and refining them into forms normal for use and international trade*". Besides this narrower understanding, resource nationalism is also often used to describe policies of oil-exporting and also oil-importing states aimed at increasing domestic production of crude (where applicable) and its substitutes, or supporting nation-flag firms, in the name of energy independence. (Hughes – Kreyling, 2010) Moreover, the term is often used in conjunction with the decreased influence of multinational corporations.

Resort to resource nationalism by politicians is frequently explained as their response to national security and foreign policy risks posed by dependency on oil imports. In these state-centric explanations, the state widely perceived as a unitary body - insulated from the demands of firms or other socioeconomic groups - seeking to maximize national security goals. Thus, resort to resource nationalism may be understood as "a function of states' desires to insure against the risk of oil supply disruptions". (Hughes – Kreyling, 2010)

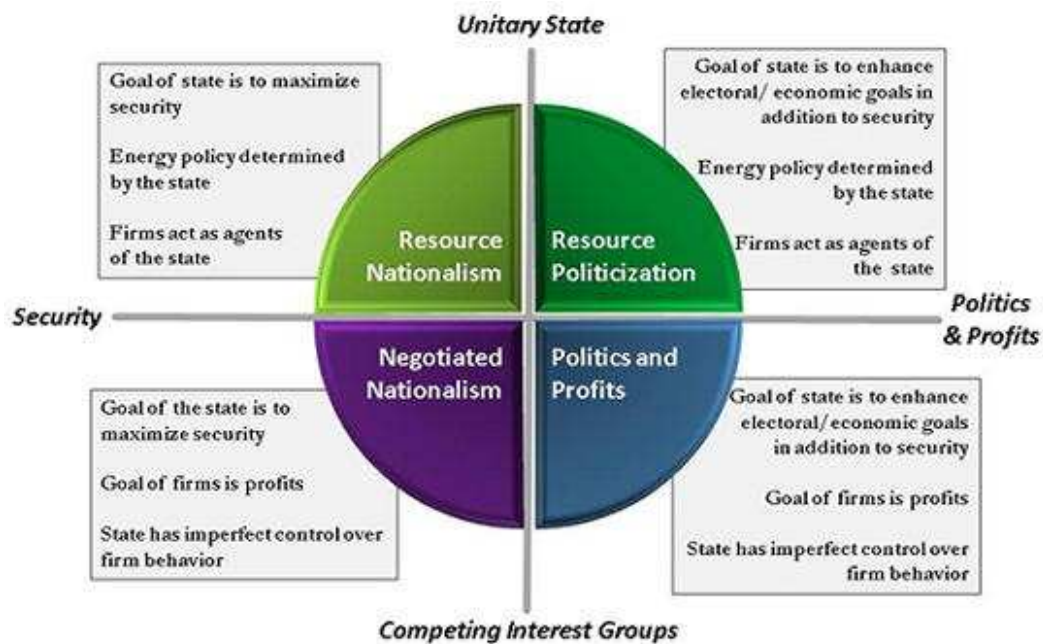
Yet, as Hughes and Kreyling (2010) note, this traditional "national security explanation" by itself is inadequate as "it ignores the complexity of business-government relations and the diversity in preferences held by political and corporate decision-makers". In order to overcome this simplification, they use

political economy of trade studies to demonstrate that government intervention is not only driven by public policy goals, but also by the interest of domestic constituents. Hence, they refuse the concept of a state as a unitary actor and view state “rather an aggregation of various actors, including industry and non-governmental organizations, with the constellation of relevant actors varying widely, depending on the issue”. Their alternative explanation of resource nationalism operates with following working assumptions:

- policies are the result of bargaining between states and firms
- firms drive policies through a process of regulatory capture
- policy-makers do not always seek to maximize national security-related goals, but rather seek to maximize budgetary or electoral goal.

Thus, by applying various validity of these assumptions Hughes and Kreyling (2010) derive four possible explanations for understanding resource nationalism in oil importing states – resource nationalism, resource politicization, negotiated nationalism and politics and profits (Figure 1)

Figure 1. Resource Nationalism and its Alternatives in Oil Importing States



Source: Hughes – Kreyling, 2010

Their *resource nationalism* represented by a unitary state enhancing national security with firms acting as the agents of policymakers (the state) who are able to control them may well suit to the Russian Federation, Venezuela, Algeria, Libya, Nigeria or Kazakhstan. *Resource politicization*, where policymakers may – besides enhancement of national security – seek also other goals, such as

maximizing their campaign contributions, etc. , may be well suited for the US, but, as Hughes and Kreyling illustrate, also for China⁴. In *Negotiated nationalism*, policymakers try to maximize national security goals, however, they are forced to negotiate with firms (imperfect agents pursuing their own goals) to achieve their preferred outcome. States, as the principals, can only imperfectly monitor firm behaviour. And last but not least, in *Politics and profits*, where states negotiate implementation of policies with firms and may be pursuing various goals (enhancement of national security, re-election, employment, etc.), policies are a bargained outcome between policymakers and firms. In this group, the majority of the EU oil importing countries would fit.

Resource nationalism may be performed in various ways ranging from governments taking outright control of oil and gas fields (such as Russia, Venezuela and Bolivia), to increasing taxes (Britain) or giving highly preferential treatment to state companies – NOCs (as was the case in Nigeria or Kazakhstan). (Mouawad 2006)

3.2. Any Difference between the “old” and the “new” Resource Nationalism

Daniel Yergin, the chairman of Cambridge Energy Research Associates, admits that “*We have seen a return to a 1970s style of resource nationalism riding along the crest of high prices*” while “in times of low prices, governments are keen to open up”. (Mouawad 2006) This tendency confirms also Leonadro Maugeri, a senior executive for strategy at Eni, by stating that “*It is quite natural that during a period of high prices the phenomenon of resource nationalism returns. It is a by-product of high prices.*” (Mouawad 2006)

As Vivoda (2009) suggests, bargaining and negotiation determine the division of large economic rents generated by the oil industry and, historically, there has been cyclical change in the relative balance of power between host states and their NOCs and major IOCs. In his point of view, period of the 1970s and early 1980s can be classified as “*conflictual*” due to a high degree of disharmony between actors with incompatible interests and host states and NOCs were dominant. On the contrary, period of the late 1980s and 1990s, according to him, can be marked as “*cooperative*” because of relatively harmonious relationships and compatible interests between actors in the international oil industry. In this period, IOCs were in a dominant position vis-à-vis the host states and (especially in the early 1990s) resource nationalism has also disappeared from the discourse of international relations. And currently, according to Vivoda, the oil industry

⁴ The authors support this thesis by the fact that Chinese firms make investment decisions independently from the government and that; the Chinese state itself is not a unified actor but is rather made up of a number of different bureaucratic agencies with different capacities and policy preferences.

has shifted back to a “conflictual” period where high oil prices increased bargaining powers of oil-exporting states, which has been the main driver behind the resurgence in resource nationalism.

This cyclical evolution of resource nationalism uses also Bailey (2007b) with the help of the IEA arguments, e.g., resource nationalism in the 1970s according to the IEA spawned high oil prices which, reduced demand and encouraged exploration for new supplies. Eventually, reduced demand and increased supplies combined to dramatically lower prices and which then cut the revenues flowing to oil state regimes. Thus, Bailey concludes, the cycle continued as cash-strapped oil state regimes in the 1980s anxiously sought to boost their flagging revenues by inviting international oil companies to come back. (Bailey 2007b)

While in 1970s the majority of the energy deals were concluded on a state-to-state basis, nowadays, deals are predominantly concluded by corporations. Even though the corporation on the SCSC (Saudi-Caspian-Siberia-Canada Corridor) border are mainly owned or controlled by the state.

Yet, despite many similarities, the 21st century resource nationalism has also its specific features with impact different to that of the 1970s. One of the reasons is a relative depletion of world oil reserves, respectively the ratio of newly discovered resources enabling economically viable oil drilling. As, for example, Hoyos (2007) notes, in 1975 Gulf, one of the original seven sisters and now part of Chevron and BP, shifted all its movable investment dollars out of the developing world and back to North America and the North Sea. This time international oil companies are finding no new fields to escape to. In fact, they have discovered nowhere capable of pumping more than 1m b/d since 2000, when Kazakhstan's Kashagan field became the biggest find in 30 years.

Another difference between the 1970s and 21st century resource nationalism, tightly connected to limited field-substitution of IOCs, lies in its impact on the global balance of power between the IOCs and NOCs. Empowerment of oil-exporting states and their NOCs in the 1970s seemed to be only temporary. Nowadays, increasing power of NOCs and their international influence seem to stay longer. As Hoyos (2007) puts it, even IOCs executives are more willing to make various concessions as they believe today's power balance is unlikely to change any time soon. This has a lot to do with perception of NOCs and their future influence worldwide. As Christophe de Margerie, chief executive of Total, says: “... new world will stay even if the price of oil drops a little bit. People will keep in their soul that they [NOCs] have this power – it will take time before they change.” (Hoyos 2007) This has also a lot to do with the fact, that the discovery rate of new oil reserves is diminishing majority of the newly discovered oil fields are technically and commercially of little attractiveness for now. Hence,

the IOCs have only a very limited space to manoeuvre in territories without resource nationalism.

4. Resource Nationalism Impact on International Relations

The upper described rise of resource nationalism combined with the fear of peak oil and with a global strive of nations to secure stable inflow of energy resources for their economies forces states to rethink their foreign policies and might reshape established alliances.

One of the most outspoken recent manifestations of resource nationalism was the August 2007 Russia's placement of the national flag on the seabed of the Arctic⁵ claiming Russia's possession of relevant fossil fuel reserves. Arctic shelf has an enormous potential for resources - it is said to contain up to 500bn barrels of oil, huge gas reserves and significant deposits of diamonds, nickel, tin and gold. (Solozobov 2009) This action arouse firstly negative (which could hold up to one fourth of the Earth's fossil fuels) reactions of international community and predominantly of the other Arctic shelf bordering nations⁶ – Canada, the US, Denmark/Greenland and Norway (see Figure 2). For now, the competition over these resources is only in preparatory phase when all the nations are preparing their navy, yet, the real impact will be visible once the melting of the ice will enable exploration of oil. All these bordering states will be trying to maintain their sovereignty control over the shelf and oil resources hidden in it.

Figure 2: Hunt for Arctic Shelf Oil Deposits

⁵ According to the comprehensive five-year study conducted by Donald Gautier of the US Geological Survey study, the Arctic holds 30 % of the world's undiscovered gas and about 13 % of oil. Most of the oil reserves lie within the state of Alaska, in the United States, while the gas is concentrated in Russian territory. The study also revealed that most fossil fuel deposits are likely to be found under shallow water (less than 500m deep), which means oil and gas deposits will soon be accessible for drilling and extraction. (Solozobov 2009)

⁶ The Arctic nations are the US, Canada, Russia, Denmark (Greenland) and Norway. Three other polar states – Iceland, Sweden and Finland – have no marine borders with the Arctic, yet could also make claims. The United Kingdom, Germany, Japan, India and China are also increasingly interested in the Arctic reserves. (Solozobov 2009)



Source: Solozobov 2009

Especially Russia seems very clear of its intentions to protect its share of the Arctic shelf riches. In May 2009, President Medvedev approved the Russian National Security Strategy until 2020 highlighting the Arctic as a new area for potential armed conflict. The strategy stipulates that Russia will deploy special troops in the area to protect Russia's interests and security in any military and political environment. Furthermore, Nikolai Makarov, first deputy defence minister and chief of the general staff, proclaimed: "Russia will have to work hard to protect its interests in the Arctic." And finally, Konstantin Simonov, director of the National Energy Security Fund, put it even more bluntly when respect to NATO countries and their aggressively expanding their military presence in the region, he believed a military clash in the Arctic is only 20 years away. (Solozobov 2009) Simonov's idea is very probably shared by other Arctic shelf bordering countries, as increasing military activity in the region might be observed both by the US, Canada and Denmark.

As the best example of oil end game impacts on foreign policies and established alliances may serve the EU and its energy relations with Russia. Even though, based on official politics, EU is developing its Common External Energy Politics so that it can speak with "one voice" with fossil fuel suppliers and transit countries; Russia has been playing a very successful "divide-and-rule" politics. One of the examples is the Nord Stream pipeline, passing-by the Baltic states and Poland, originally a result of a bilateral deal between Germany and Russia that was clearly breaching the energy security interests of both Poland and the Baltic states. Only after a series of further negotiations and concessions with respect to further pipeline infrastructure concurring the North Stream, did these countries agree to the project and it even got the status of a European priority

project. The same game is Russia trying to play with the states (and their companies – Italy, Greece, Hungary, Serbia) across whose territory the EU-flag Nabucco pipeline transporting natural gas from the Caucasus by-passing Russia should lead. They are talked into the competing project the South Stream that is under Russian control. We have to mention that without alleviating EU's sanctions towards Iran, both pipelines would not have sufficient sources of natural gas and hence will be economically unfeasible. For now on, Russia seems to be prevailing the game.

5. Conclusions - Do We Really face New Resource Nationalism as a part of New Energy Paradigm

There are obviously many parallels between the current situation and the situation after the two oil shocks of the 1970s among others skyrocketing oil prices (except for the short-term decline due to global economic crisis), raising fears of the upcoming depletion of fossil fuel reserves (peak oil), renewed interest of elites in the energy security debate and increasingly active role of the states in promotion of energy security. This could evoke that the current situation is only a recap of the 1970s.

Yet, Stanislaw (2008) expresses his doubts about the parallel with the 1970s. Besides historical similarities between the beginning of the 21st century and the 1970s (high energy prices, state intervention into energy security affairs, peak oil fears), he sees also several crucial differences. (see App. 2) One of them is the fact that despite growing oil prices the total oil demand is rising (again excluding short-term decrease due to economic crisis) while in the 1970s the demand declined leading to anti-oil shocks in the 1980s.

The second crucial difference according to Stanislaw represents alternative and renewable technologies and their expansion into practice. While in the 1970s these technologies were in their infancy stage, currently they are widely and generously supported by states, their effectiveness has been improving and production costs have been decreasing. Yet, it is questionable whether their expansion would be sustainable and commercially viable without these generous subsidies by states. The last difference that Stanislaw mentions is dramatic change in global environmental awareness.

From all this evidence we can conclude, that renewed resource nationalism is definitely one of the defining features of the current energy paradigm and contemporary international relations. Despite many parallels common with the 1970s wave of resource nationalism, the newly arisen wave of resource nationalism seems for now to have also many new features, e.g. increasing role of NOCs worldwide and their international expansion, lack of technically and

economically feasible alternatives for oil drilling for IOCs and definitely declining rate of discovery of new oil reserves. Yet, only time will show whether we really face new durable resource nationalism or whether we experience only another repeating phase international relations and energy paradigm.

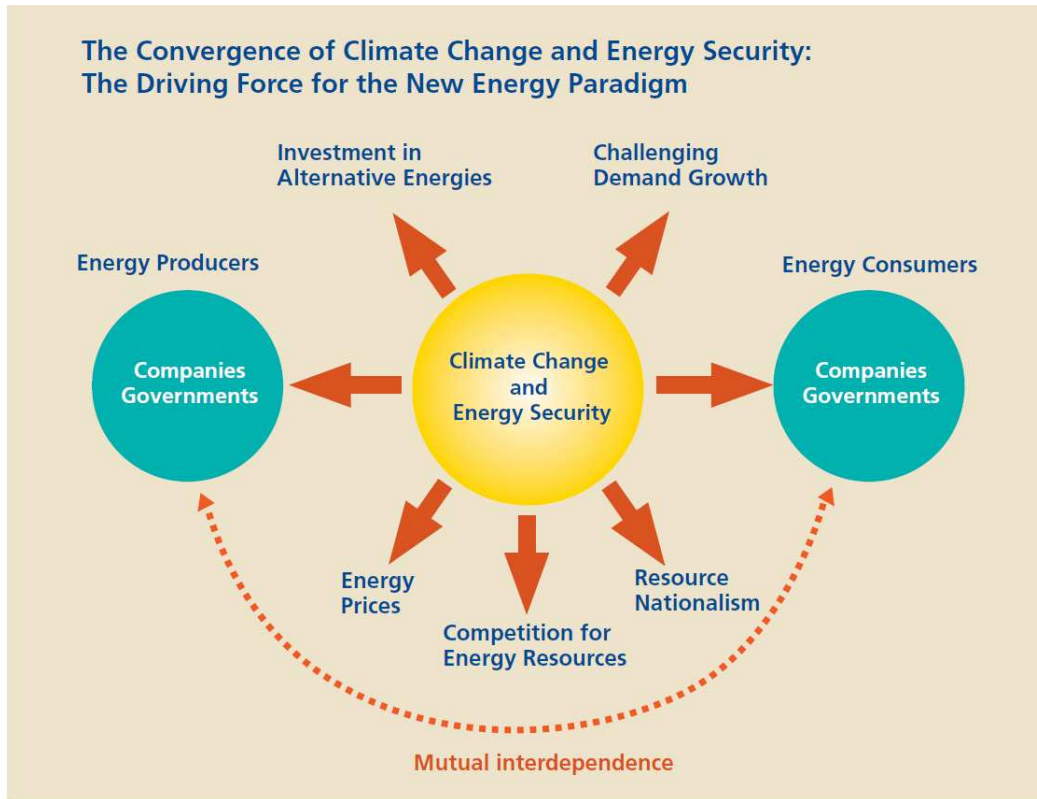
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Appendixes:

Appendix 1: The Convergence of Climate Change and Energy Security



Source: The JAStanislav Group LLC (Stanislav 2008:5)

Appendix 2: Parallels and differences between the 1970s and the beginning of the 21st century

2008: Like the 1970s All Over Again ... And Then Some?	
1970s	2008
High oil/energy prices	High oil/energy prices
Resource nationalization	Rampant resource <i>nationalism</i>
Fears of running out of oil	Peak oil threatens
Energy security a prime focus	Energy security on the rise, becoming more and more the issue
Demand began a decade-and-a-half long decline	Demand on the rise despite the high prices, resource nationalism, energy security concerns
New and renewables in the wilderness	Technologies are at a breakthrough point where costs are coming down such that economic breakeven is coming closer to reality. Technology enablers both on the demand and supply side could bring disruptive technologies into the marketplace.
	<p><i>Climate change concerns</i></p> <p><i>Local production has stronger support both technologically and politically because it is a security issue as well as a climate change issue.</i></p>

Source: The JAStanislav Group LLC (Stanislav 2008:7)