



INTEGRATED APPROACHES TO GEOPOLITICS AND RISKS IN INTERNATIONAL POLITICS

Dr. Sheriff Ghali Ibrahim* & Dr. Iro Uke**

Department of Political Science and International Relations, University of Abuja,
Abuja, Nigeria

Cite This Article: Dr. Sheriff Ghali Ibrahim & Dr. Iro Uke, "Integrated Approaches to Geopolitics and Risks in International Politics", International Journal of Interdisciplinary Research in Arts and Humanities, Page Number 27-32, Volume 1, Issue 1, 2016.

Abstract:

The paper examines the nature and impact of geopolitics on the global oil and gas business. It shows the relationship between politics and what nature provides such as oil and gas and the interplay between and among nations, people and institutions within the framework of geopolitics. The paper adopts the secondary methodology in order to investigate the risks (impact) attached to geopolitics. Findings show that, the concept of geopolitics is so versatile and multidimensional, enveloped by a varying degree of risks. The paper concludes that geopolitics is a reality that all oil companies must face, but most risks are faced in mostly politically and economically instable regions of the world. The paper recommends that, to deal with issues of risks in geopolitics, there has to be constant preparation for emergencies, slowing the growth of demand and increasing supplies among others.

Key Words: Integrated, Approach, Geopolitics, Risks, International & Politics

Introduction:

The term "geopolitics" encompasses a broad range of frequently interconnecting issues, including diplomacy and security, global economics, financial and supplier market uncertainty, commodity constraints and pricing, exchange rate fluctuations, and civil and workforce disruption. Because geopolitics is complex and volatile, with unpredictable players who have conflicting agendas and disparate motivations, it is tempting to see geopolitics as impossible to control or prepare for.

Material and Method:

The material used in this research work is a collection of library materials such as text books, journal articles and reports. The methodology is secondary in nature. It made use of content analysis to analyse the contending issues under study.

Results and Discussion:

Global Geopolitical Trends: In geopolitical terms, Africa fell off the map following the end of the Cold War. As great power rivalry on the continent subsided, Africa's political and economic marginalisation grew. This trend has to a certain extent been reversed over the last few years. Africa is back in the geostrategic calculation of major powers. First, the international security dimension of the continent's multiple challenges has become more pronounced as a result of the war on terrorism. Second, foreign investment is returning, almost all of it related to the development of petroleum resources offshore West Africa. Third, the international community seems increasingly devoted to helping Africa, at least those states that have good leadership and appear to be succeeding. The Bush administration's Millennium Challenge Account is here a case in point.

The role of the United States in West Africa is increasing. This trend is driven by oil imports, investments and military cooperation. Previously, 17 per cent of U.S. oil imports come from sub-Saharan Africa. By 2015, the figure was 25 per cent. U.S. energy companies account for a third of the more than 50 billion USD that was invested in petroleum projects in the Gulf of Guinea in 2010. Increasingly, the U.S. military is training the armed forces of West African countries in counter-terrorism, peacekeeping and border patrol. The influence of the United States, with its superior political, economic and military power projection capabilities, has to some extent grown at the expense of France. This is partly because the countries of francophone West Africa have sought to diversify relations with the outside world in terms of security, trade and investment. It is also because France has revised its approach to Africa, seeking to reduce the financial and military costs of its "neo-colonialist system" by promoting multilateral development assistance and security arrangements (Markowitz, 1959).

France is also widening its horizons in Africa beyond traditional francophone countries. In the past, French oil companies were often used directly as instruments of French foreign policy in Africa. This particular French connection between commercial and state interests has been broken by privatisation and the Elf corruption scandal. No longer at the service of the state, French super major Total, a product of mergers, restructuring and privatisation, behaves much like the competition in West Africa. This means that Total is increasing its investment in promising non-francophone countries like Nigeria and Angola and reducing its commitment to less commercially interesting francophone countries such as Gabon.

Impact of Geopolitics:

Geopolitics has the capacity to exert sudden and disruptive pressure on the operations and security of energy assets across the world, meaning that no country or company is truly exempt from the effect of

geopolitical change. Oil and gas companies frequently engage with national and local governments, local populations, sub national groups and supranational organizations, and consequently they are deeply affected by political change. Recent examples of these impacts include (Markowitz, 1959): (a) in early 2012, relations deteriorated between then Repsol YPF and the Argentine Government, which decided to expropriate Repsol's 51% stake in YPF. In the months following the expropriation, Repsol saw a loss of almost half of its market capitalization (b) In Nigeria, political instability, regional and religious sectarianism have contributed to the ongoing theft of upto 350,000 barrels of crude oil per day, which costs the oil and gas industry approximately US\$1b per month in lost revenues, according to the country's Finance Minister (c) Strikes by oil workers enraged at perceived government corruption reduced Libyan oil production by 88% in 2013.

Geopolitics Framework:

Economic Constraints:

Some of the Economic Constraints that are attached to the issues of geopolitics and risks are: (a) Market forces (b) Commodity prices (c) Trade barriers (d) Interest rates (e) Inflation.

Economic constraints include the market forces that determine the price of oil, which has a direct impact on the tax revenues and royalties received by national governments and individuals, which in turn limits the options available to decision makers. The market will influence the decisions of pirates near the Strait of Malacca, who weigh the risks of hijacking a ship against the potential profits made from selling stolen oil on the black market or from the ransom paid for a kidnapped seaman. Interest rates, inflation levels and trade barriers all affect the appetite of organizations for doing business in any given country. Commodity prices, which can be manipulated by countries or supranational bodies, can also affect the economic viability of an oil or gas project. These prices can be manipulated by groups that are powerful enough to materially alter supply and demand levels of a given commodity. This competition for resources and the consequent effect on prices are important factors when analysing investment cases for oil and gas megaprojects (Modigliani, 1959).

Technological Constraints:

The factors that influence technological constraints are: (a) Reliable, high-speed internet (b) Mobile communications (c) Social media (d) Electricity supply (e) Geo-positioning systems (GPS)

Technology also limits what is possible for political actors. Without fast boats, global positioning systems and high-speed communications technology, the capabilities of pirates and saboteurs would be severely constrained. And without reliable internet and electricity available in-country, it would be wasteful for oil and gas operators to invest in advanced systems for monitoring project performance remotely. Over the past several years the influence of social media has been rising dramatically. Social media has been used effectively by sophisticated pro-democracy protesters in the Arab Spring of 2011 and by the Islamic State of Iraq and al-Sham (a regional separatist group, also known as ISIS or ISIL) as part of their 2014 insurgency in Iraq and Syria (William, 1985). This paradoxical use of the same technology by political actors to achieve very different objectives has contributed to rapid change across the Middle East and North Africa, which has in turn led to both threats and opportunities for oil and gas companies. Much as geographic constraints differ depending on where you are in the world, technology is also unevenly distributed. For example, the US deploys advanced drilling and recovery techniques to tap unconventional sources of oil and gas. This gives political actors, such as oil and gas companies and state legislatures, a competitive advantage over rival companies and jurisdictions, and for NOCs it increases the benefits of joint ventures with Western IOCs who have superior technology (Modigliani, 1959).

Geographical Constraints:

Some of the forces of geographical constraints are: (a) Climate change (b) Topography (c) Rivers (d) Tides (e) Deserts.

Geography limits what is possible in the natural world and helps to reinforce sovereign borders. For example, the Himalayas provide a natural barrier between India and China; the United States is isolated, and therefore protected, from Europe and Asia by the Atlantic and Pacific oceans; and the jungles of Central Africa hinders large-scale movement of people and goods. The environment in which political actors operate will help to define their decisions. The level of air and ground pollution in a country will have an effect on legislation, which will affect companies' decisions to invest (Sharpe, 1964). The various prevailing winds and tides affect the routes ships take to navigate the world's oceans, which can affect the economic viability of a project. It naturally follows that influence, and sometimes tension, flows to countries close to these routes. For example, security threats against the Strait of Hormuz are frequently used as political leverage given how crucial it is to the transportation of oil and gas from the Persian Gulf (Madura, 2006).

Political Actors and Institutions in Geopolitics:

Institutions are integral to any country. They can take the form of a central or local government, the judiciary, the military, schools, hospitals, or even large sports clubs. Strong institutions provide the foundation for a successful and prosperous country, whereas weak institutions can contribute to instability, inequality and crime without punishment. The behaviour of institutions, and the people representing them, can lead to opportunities and risks for businesses. The presence of clean running water and highly trained doctors in a

country is a function of having strong institutions, and these luxuries are often taken for granted in the developed economies. Without the institutions to manage the infrastructure of a modern country, cronyism and inefficiency abound. This can make doing business in that country much more challenging but can occasionally enable foreign businesses to gain significant influence with institutional elites. Discovering oil and gas can be both a blessing and a curse for a country and its people, and the institutional strength and stability of a country helps to determine which it will be. It should not be a surprise that many of the world's largest oil- and gas-producing countries feature at the riskier end of the Fraser Institute's geopolitical risk index (Ross, 1973).

Institutions that are strong enough to regulate business and provide checks and balances for government bodies are better able to maintain national stability. For oil and gas companies, this can be both a risk and an opportunity. Although strong institutions are generally more stable and make doing business in a country less risky, they also mean that host governments are more empowered to regulate the oil and gas industry, which could mean higher taxes on production revenues and exports and more stringent operating and employment laws. However, revenues from oil and gas, as well as other natural resources, could also contribute to institutional corruption and the development of powerful elite that may siphon monies away from public projects that would otherwise improve the well-being of the country at large. The consequent decrease in trust between the local population and state institutions — whether that is the police, judiciary or elected officials — can lead to popular unrest. This can result in a multi-layered, destabilizing effect termed the “resource curse”(Jordan, 2006).

Businesses:

While private business and banking has long been an important consideration in developed and/or democratic countries, it is now seen as an essential driver of economic growth and prosperity in developing and/or autocratic states. As the private sector in the developing world grows, so too does the political influence of the investing businesses. Businesses must interact with state institutions in order to negotiate production sharing agreements (PSAs), joint ventures (JVs) and concessions in order to operate in a given country. They can influence the decisions of lawmakers through leveraging the potential economic benefits of their business to the host country (Beaver and Parker, 2009). Although government lobbying is sometimes frowned upon, it is a crucial aspect of any stakeholder engagement and communications strategy. Lobbying has its risks, though, as local legislation often prevents inappropriate contact between businesses and politicians and local officials. (The subject of combating bribery and corruption is discussed later in this report.) Foreign businesses make profit from extracting sovereign oil and gas resources, which can lead to resentment among local people and legislators. Workers in the current Information Age are better informed and empowered to act either with their feet or with their fists. Business leaders and managers must communicate effectively with workers to mitigate the risk of strike action, which is often made likely by economic constraints (Sauders, 1992; Freeman, 1984).

People:

Businesses and institutions interact through negotiating tax breaks and drilling rights with oil ministries, for example, but it is the CEO that represents the corporation, or the judge who represents the justice system, or the minister representing the government department, who makes the final decision. This human element is where the unpredictability of geopolitics is most apparent. Geopolitical constraints – the structures that define what is possible – provide the platform for individuals to make decisions and influence events. As an example, a political leader, such as the Russian president, might pursue a policy of pipeline brinkmanship in Belarus, Ukraine or Georgia in order to help achieve Russia's foreign policy objective of maintaining and increasing influence around its periphery (Furman, 1992; Mensah, 2009). This catalyst, plus a range of economic, social and political factors, led to regional instability and reactionary national reform by political leaders who felt their power being eroded. People may be drawn to separatist and protest movements along regional or ethnic lines, which can impact oil and gas companies in various ways. This is due partly to a sense of strong shared beliefs and partly due to the desire to belong to *something*. For example, in Nigeria, an anti-corruption and anti-western militant group, the Movement for the Emancipation of the Niger Delta (MEND), has targeted western oil and gas facilities in violent attacks and called for the expropriation of assets owned by western businesses. People are the common factor in all political interactions and as such are a large parts of the inherent complexity and unpredictability of world events, which makes geopolitical risk analysis an art as much as a science.

Identifying Major Risks:

Whenever an investor approaches a new industry, it is good to know what the risks are that a company in that sector must face to be successful. General risks apply to every stock, such as management risk, but there are also more concentrated risks that affect that specific industry. In this article, we'll look at the biggest risks that oil and gas companies face. Some of these major risks are (Apostalaskis, 2003):

Political Risk:

The primary way that politics can affect oil is in the regulatory sense, but it's not necessarily the only way. Typically, an oil and gas company is covered by a range of regulations that limit where, when and how extraction is done. This interpretation of laws and regulations can also differ from state to state. That

said, political risk generally increases when oil and gas companies are working on deposits abroad. Oil and gas companies tend to prefer countries with stable political systems and a history of granting and enforcing long-term leases. However, some companies simply go where the oil and gas is, even if a particular country doesn't quite match their preferences. Numerous issues may arise from this, including sudden nationalization and/or shifting political winds that change the regulatory environment. Depending on what country the oil is being extracted from, the deal a company starts with is not always the deal it ends up with, as the government may change its mind after the capital is invested, in order to take more profit for itself.

Political risk can be obvious, such as developing in countries with an unstable dictatorship and a history of sudden nationalization - or more subtle - as found in nations that adjust foreign ownership rules to guarantee that domestic corporations gain an interest. An important approach that a company takes in mitigating this risk is careful analysis and building sustainable relationships with its international oil and gas partners, if it hopes to remain in there for the long run.

Geological Risk:

Many of the easy-to-get oil and gas is already tapped out, or in the process of being tapped out. Exploration has moved on to areas that involve drilling in less friendly environments - like on a platform in the middle of an undulating ocean. There is a wide variety of unconventional oil and gas extraction techniques that have helped squeeze out resources in areas where it would have otherwise been impossible. Geological risk refers to both the difficulty of extraction and the possibility that the accessible reserves in any deposit will be smaller than estimated. Oil and gas geologists work hard to minimize geological risk by testing frequently, so it is rare that estimates are way off. In fact, they use the terms "proven," "probable" and "possible" before reserve estimates, to express their level of confidence in the findings.

Price Risk:

Beyond the geological risk, the price of oil and gas is the primary factor in deciding whether a reserve is economically feasible. Basically, the higher the geological barriers to easy extraction, the more price risk a given project faces. This is because unconventional extraction usually costs more than a vertical drill down to a deposit. This doesn't mean that oil and gas companies automatically mothball a project that becomes unprofitable due to a price dip. Often, these projects can't be quickly shut down and then restarted. Instead, O&G companies attempt to forecast the likely prices over the term of the project in order to decide whether to begin. Once a project has begun, price risk is a constant companion.

Supply and Demand Risks:

Supply and demand shocks are a very real risk for oil and gas companies. As mentioned, operations take a lot of capital and time to get going, and they are not easy to mothball when prices go south, or ramp up when they go north. The uneven nature of production is part of what makes the price of oil and gas so volatile. Other economic factors also play into this, as financial crises and macroeconomic factors can dry up capital or otherwise affect the industry independently of the usual price risks.

Cost Risks:

All of these preceding risks feed into the biggest of them all - operational costs. The more onerous the regulation and the more difficult the drill, the more expensive a project becomes. Couple this with uncertain prices due to worldwide production beyond any one company's control, and you have some real cost concerns. This is not the end, however, as many oil and gas companies struggle to find and retain the qualified workers that they need during boom times, so payroll can quickly rise to add another cost to the overall picture. These costs, in turn, have made oil and gas a very capital-intensive industry, with fewer and fewer players all the time.

Minimizing geopolitical Risks:

Assessing geopolitics can make for a complex and often confusing maze within which business, political and personal decisions are made. Identifying individual geopolitical interactions and trends will enable a deeper analysis of the multiple, interrelated causes of insurrection, trade embargoes, international cyber-crime and other geopolitical phenomena. But what practical steps can oil and gas companies take to confront the realities of a complex world and improve their corporate planning, decision making and operational capabilities? Several improvements can be made in several areas to help to identify, avoid, mitigate and manage geopolitical risks and capitalize on geopolitical opportunities throughout the whole value chain. Some of the areas of mitigating the risks are:

(a) Making the Right Strategic Decisions:

Given that there are predictable and unpredictable elements of the geopolitical system, oil and gas companies must have sophisticated and flexible strategies and processes and be ready to change course rapidly in the face of uncertain future events. Traditionally, geopolitics is discussed most formally at the corporate or portfolio level. Oil and gas companies often use predefined risk frameworks to help plan investments and make decisions. These frameworks invariably include politics or geopolitics, confirming that it is already a consideration for oil and gas companies. Boards also need to have more exposure to external viewpoints, risk analysts must be more open to differing interpretations of events and trends, and attention must be paid to the optionality value associated with investing in projects in politically risky geographies.

Defining the Scope:

Defining the scope is comprised of the following:

- ✓ Understanding the business model
- ✓ Explore the environment
- ✓ Analysing trends, uncertainties and signposts
- ✓ Build scenario
- ✓ Confirm scenarios and stress test

(b) Developing Local Content:

Local content is about resource-rich countries increasing and developing their indigenous capabilities, and in so doing, developing a competitive supplier base, which stimulates domestic demand and employment opportunities, as well as export potential. Over the last decade there has been a global trend toward increasingly detailed and measurable local content legislation, presenting a significant strategic challenge for oil and gas companies across the world. Local content stipulations developed from an increasing need for governments to get the best out of their natural resources.

Challenges:

- ✓ Local industry and labour may be unable to compete on quality, skills, infrastructure and price
- ✓ Weak legislation and institutional corruption could undermine the business environment
- ✓ There could be a reluctance to accept certain job roles and high staff turnover
- ✓ Governments and business might adopt a “tokenistic” approach to local content development without committing to real knowledge, skills and capacity transfer

Opportunities:

- ✓ Attract the best local talent to reduce reliance on costly expatriate labour
- ✓ Rationalize local supply chains founded on strong commercial relationships
- ✓ Improve operational performance as ease and speed of doing business is increased with more “local-to-local” relationships
- ✓ Build better relationships with governments and local communities to reduce the risk of project disruption.

(c) Combating Bribery and Corruption:

Many oil and gas companies have faced attempted bribery or corruption in one form or another. Designing and maintaining robust processes and controls to protect an organization from these occurrences requires an acute awareness of the geopolitical and psychological drivers and enablers of corrupt behaviours. Oil and gas companies operate in a high-pressure environment, often in emerging markets, where the potential payoffs from successful ventures are considerable. Conversely, delays or downtime in the value chain can significantly erode the bottom line.

This pressure can create an imbalance between compliance and operations and induce activities that may not be aligned with corporate policies. Three areas of particular risk are discussed below. In countries where the government wholly or partially owns the oil and gas industry, it is often necessary to engage government officials, which are frequently done through well-connected in country intermediaries. This exposes oil and gas companies to an increased risk of bribery and corruption. The institutions of developing economies can tend to be excessively bureaucratic. These layers of bureaucracy open up opportunities for underpaid government workers, who each have a designated area of responsibility, to request payoffs from both foreign and local companies in return for quicker completion of tasks. The high number of interactions with government across all levels of the oil and gas industry increases the risk of corrupt practices influencing policy and officials using their positions of power to solicit bribes (Rosa, 2003).

Conclusion:

Geopolitics can be a complex and sometimes overwhelming phenomenon in the context of a rapidly changing world. Many oil and gas companies struggle to analyse geopolitical events and trends adequately and therefore miss opportunities to protect the value tied up in operational assets and the value attached to future projects.

Geopolitics is a reality that all companies must face, but the oil and gas industry is especially susceptible to geopolitical risks due to the exposure to the majority of politically and economically unstable regions of the world. Avoiding geopolitical risk is rarely an option for oil and gas companies, but they can protect the value they create through making the right decisions at strategic, operational and tactical levels based on reliable analysis. This is the new business reality in oil and gas.

Recommendations:

Energy security can be enhanced in several ways:

Preparing for Emergencies:

Countries generally rely on strategic oil inventory holdings to provide a cushion against unexpected surges in demand or possible disruptions in imports. International Energy Agency (IEA) members are required to hold emergency oil stocks equivalent to at least 90 days of net imports. According to some (admittedly

uncertain) estimates, the oil stocks of developing countries amount to 25-55 days of consumption. Another important aspect of emergency preparedness is the physical protection of critical energy infrastructure. September 11, the ensuing war on terrorism and the war in Iraq, have increased the urgency of this task.

Slowing the Growth in Demand:

Demand-side measures aimed at reducing the growth in fossil fuel use include the promotion of conservation, fuel substitution and energy efficiency. The role of research and development is particularly important when it comes to accelerating technological innovation, reducing environmental impact and producing cost savings. Increased R&D spending on renewable energy is often encouraged. While this does little for short-term energy security, it will help create a more sustainable energy system in the long run.

Increasing Supply:

Increasing supply remains the preferred path to enhanced energy security. It entails diversifying international sources of supply and, if possible, producing more energy domestically. Diversification promotes reliability of supply by reducing dependence upon any single exporter. While the world today has more than 80 oil producing countries, a dozen of them alone account for nearly two thirds of global oil production. It is estimated that 60 per cent of new demand over the next two decades will be met by an increase in production by OPEC countries. Diversification is therefore about oil importing countries encouraging the expansion of oil production in the Western Hemisphere, Atlantic basin, Russia and the Caspian region in order to curtail, or at least keep in check, the market power of OPEC and the Persian Gulf producers.

Using Military Force:

The United States is arguably the ultimate guarantor of global energy security. It has on occasion used force to ensure the flow of oil from the Persian Gulf. Kuwaiti tankers received U.S. protection during the Iran-Iraq war and the American military led the effort to drive Iraqi forces out of Kuwait. The United States also patrols and protects world sea lanes. This is of particular benefit to countries with the highest dependence on Middle East oil and the longest energy supply lines, such as Japan, China, India, South Korea, and the nations of the Pacific Rim. To date, America's strong presence on the high seas has probably helped prevent a naval arms race in Asia.

References:

1. Apostolakis, G.E.(2004) "How Useful is Quantitative Assessment" Risk Analysis, Vol.24 No.3, McLean, VA.
2. Beaver, W. And G.Parker; (Ed) (2009); Risk Management Problems and Solutions, New York McGraw-Hill New York.
3. Freeman, R.E. (1984) Strategic Management, A Stakeholder Approach, Boston: Harper Collins.
4. Furman, A and B.Gunter, (1993) Corporate Assessment, Routledge, London.
5. Jordan, D.A., Ross and W. Westerfield, (2006) Fundamentals of Corporate Finance, New York, McGraw-Hill/Irwin.
6. Madura, J. (2006) International Corporate Finance. China, China Translation and Printing Services, Ltd.
7. Markowitz, H. (1959) "Portfolio Selection", New Heaven, Yale university press.
8. Mensah, S.(2008) Securities Markets and Investment. Accra, Smartline Ltd.
9. Modigliani, F. and M. Merton (1959): "The Cost of Capital, Corporation and the Theory of investment", American Economic Review Vol.53, pp 261-297.
10. Rosa, E.A.(2003) "The logical structure of the social amplification of risk framework (SARF): Meta theoretical foundations and policy implications", The Social Amplification of Risk, 47-49.
11. Ross, S.A. (1973); The Economic Theory of Agency; The Principal Problems" American Economic Review Vol.65, pp 134-139.
12. Saunders,R.,(1992) The Safety Audit, Pitman, London.
13. Sharpe, W. (1964) "Capital Asset Prices A Theory of Market Equilibrium under Conditions of Risk" Journal of Finance Vol.19, pp425-442.
14. William, O. E. (1985); The Economic Institutions of Capitalism, New York, the Free Press.