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Energy: A Reinforced Obstacle to Democracy?

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Richard Youngs

Rising oil and gas prices appear to have helped shore up autocratic producer states across the world. They also seem to have led Western states to dilute their support for democratic reforms in these countries. But while this conventional wisdom correctly restates the problematic relationship between energy and democracy, the overall picture is more complex. The paper reveals that the opaque management of increased oil and gas revenues has sparked pressure for governance reforms from within producer states and has also encouraged new international initiatives linking energy security with good governance.

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Contents

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Since 2001 oil prices have risen from around $20 a barrel to just under $150 a barrel in July 2008. Demand for energy is growing exponentially, while many predict that oil and gas reserves are on the point of peaking. Western dependence on imported supplies is set to increase. It is estimated that the EU's reliance on imported energy supplies will rise from 50 to 70% of energy requirements and the dependence of the US to 60% by 2025.[1] Similarly it is estimated that in 2035 global energy consumption will be double that of 2005, with fast-developing economies such as those of China and India hungry for ever-increasing supplies of oil and gas. Non-democratic producer states are therefore enjoying the succour of increased revenues and greater international leverage.

This new energy panorama raises many questions. The focus in this paper is on one specific issue, namely its impact on democracy. Of the diverse factors affecting democracy's fortunes, energy would appear to present one of the most open-and-shut cases. Oil and democracy have never made a good mix, but the new context is widely seen as a key factor loading the dice even more strongly against democracy. Evidence abounds that the new energy panorama has worked and clearly is working to democracy's disadvantage. This paper digs a little deeper and asks whether the equation is quite as simple, quite as black-and-white as this. Notwithstanding the negative trends associated with international energy markets, 'the return of oil' to international geopolitics has also served as a catalyst for more far-reaching debates over democratisation and governance reform. Full-scale democratic reform may be increasingly 'blocked by oil'; but pressure for some degree of governance reform has itself intensified in response to that same autocratic management of energy resources.

Autocrats Empowered

No developing country whose economy is dominated by oil is a consolidated democracy. Democracies such as Norway, Canada, the Netherlands, the UK and the US produce or have produced significant amounts of oil and gas; but in the developing world the presence of oil and gas is normally seen as having reinforced existing autocratic governments. The presence of oil and gas reserves has generally been associated with weak state structures, the over-centralisation of executive power, higher than average military spending, and a natural resource

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[1] Anthony Cordesman and Khalid Al-Rodhan, *The Geopolitics of Energy: Geostrategic Risks and Economic Uncertainties*, Washington: CSIS, 20 March 2006, p. 18.

export dependency that militates against broader social and economic modernisation.[2] The well-established ‘rentier state’ argument has both a demand and supply side; first, oil means regimes do not need to raise revenues from their citizens; second, it means those citizens can be compensated for their disenfranchisement with oil largesse. Oil hinders democracy, according to one study, by both facilitating repression and choking modernisation.[3]

Since the beginning of this century, many experts argue that the ‘rentier state’ characteristics of key producer countries have increased, militating even further against the prospects for democratisation. With state coffers overflowing, since 2002 autocratic governments have been flush with massive quantities of new funds for patronage-based distribution. One of the more pronounced versions of such a perspective is that recent years have witnessed a flourishing of the ‘first law of petropolitics’. This posits that ‘the price of oil and the pace of freedom always move in opposite directions in oil-rich petrolist states.’ It is suggested that the severe dip in oil prices that occurred in 1998 was the trigger for democratic breakthroughs in Nigeria and Indonesia; and it is pointed out that those Arab states seen as most advanced in terms of political liberalisation, such as Morocco and Jordan, are precisely those with the least oil. Now with energy prices rising and supplies dwindling, the “tide of democratisation that followed the fall of the Berlin Wall seems to have met its match in the black tide of petro-authoritarianism”.[4]

Evidence shows that overall political rights in non-democratic producer states have worsened slightly since 2002:

Table 1. Freedom House score of key producers, 2001-2 to 2007

	2001-2				2007		
	PR	CL	St		PR	CL	st
Algeria	6	5	NF		6	5	NF
Angola	6	6	NF		6	5	NF
Azerbaijan	6	5	PF		6	5	NF
Cameroon	6	6	NF		6	6	NF
Chad	6	5	NF		6	6	NF
Colombia	4	4	PF		3	3	PF
Congo Braz	5	4	PF		6	5	NF
Egypt	6	6	NF		6	5	NF
Eq Guinea	6	6	NF		7	6	NF
Gabon	5	4	PF		6	4	PF
Iran	6	6	NF		6	6	NF
Iraq	7	7	NF		6	6	NF
Kazakhstan	6	5	NF		6	5	NF
Kuwait	4	5	PF		4	4	PF

[2] Macarten Humphreys, Jeffrey Sachs and Joseph Stiglitz, “Introduction: what is the problem with natural resource wealth?”, in Macarten Humphreys, Jeffrey Sachs and Joseph Stiglitz (eds), *Escaping the Resource Curse*, 2007, New York: Colombia University Press, pp. 11-13.

[3] Michael Ross, “Does Oil Hinder Democracy?”, *World Politics*, 53/3, 2001.

[4] Thomas L. Friedman, “The First Law of Petropolitics”, *Foreign Policy*, May/June 2006.

Libya	7	7	NF		7	7	NF
Nigeria	4	5	PF		4	4	PF
Oman	6	5	NF		6	5	NF
Qatar	6	6	NF		6	5	NF
Russia	5	5	PF		6	5	NF
Saudi Arabia	7	7	NF		7	6	NF
Sudan	7	7	NF		7	7	NF
Turkmenistan	7	7	NF		7	7	NF
UAE	6	5	NF		6	5	NF
Uzbekistan	7	6	NF		7	7	NF
Venezuela	3	5	PF		4	4	PF
Averages	5.6	5.2			5.9	5.2	

Source, Freedom House score 2007, PR = political rights, CL = civil liberties, st = status (NF = not free, PF = partly free)

Clear backsliding has occurred in states such as Russia, Iran and Venezuela. In states such as Nigeria and Algeria nominally democratic reforms have unravelled. Reforms promised by regimes in Azerbaijan, Kazakhstan and Angola have not materialised. All these regimes have used state oil funds to distribute patronage-based largesse. Saudi Arabia has enjoyed record surpluses from 2006. By 2007 Russia held the third largest stock of foreign reserves in the world; had paid off most of its debts; and had set aside nearly $150 billion in an oil investment fund, used as a political slush fund. The Azeri State Oil Fund rose to $2.2 billion in 2007 and was predicted to rise to $50 billion by 2010, over which time the state budget was on course to triple.

President Ahmadinejad has placed political supporters at the head of the Iranian oil ministry, compounding his already marked tendency to distribute oil and gas revenues for populist projects. At the same time, the pension funds managed directly by Iran’s Supreme Leader Ayatollah Khamenei have over-flowed.[5] In late 2007 Colonel Qadafi promised to dismantle a number of institutional structures in Libya so that he could distribute oil revenue more directly to the population. Flush with funds, Angola’s Eduardo dos Santos government rejected an IMF liberalisation package and pushed back long-promised elections. In East Africa democracy-weakening rentier dynamics have emerged in response merely to the anticipation of future oil discoveries. And Hugo Chávez has provided perhaps the most explicit example of petro-populism. On the basis of such rent distribution, many of these autocrats enjoy increasing domestic support, even as they dismantle democratic checks and balances.

If increased energy prices have given autocrats greater power vis-à-vis domestic constituencies it has – the standard argument runs – also liberated them from international pressure for democratic reform. One influential study notes a trend away from a ‘markets and institutions storyline’ to a logic of ‘regions and empires’, that places greater stress on strategic alliances; the search for ‘exclusive backyards’; and undercutting between Western governments each in search of the most favourable and secure long term bilateral energy deals.[6] US pressure for

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[5] Ali Gheissari and Vali Nasr, *Democracy in Iran: History and the Quest for Liberty,* Oxford: Oxford University Press, 2006, p. 144.

[6] Clingendael International Energy Programme, *Study on Energy Supply Security and Geopolitics*, January 2004, p. 24, p. 26 and p. 91.

democracy and human rights has been termed an 'outmoded' policy, no longer viable with the demise of slack oil markets.[7] The energy-rich states of the Gulf of Guinea are described by one analyst as 'successful failed states' precisely because their very weaknesses in fact serves both the domestic political elite and international energy interests.[8]

Most notably, the Saudi Arabian regime has manoeuvred to retain its position as indispensable energy ally to the West. After 9/11 Saudi Arabia increased output to reduce oil prices. The Saudi government then promised to temper any upward pressure on oil prices that resulted from the 2003 Iraq invasion. The regime was seen by many as robustly defending the kingdom and its oil facilities from Islamist terrorists. The government spent well over $1 billion to strengthen security at its production facilities after attacks on the latter in 2003. By 2005, Saudi Arabia had provided 30,000 troops to protect oil infrastructure.

Elsewhere in the Middle East there also appear good reasons for Western governments not to endanger alliances with incumbent regimes. Qatar, one of the most closed political regimes in the Middle East, is one of the most open to Foreign Direct Investment (FDI) in the energy sector and increasingly the key player in the development of Liquefied Natural Gas (LNG) exports (Shell signed the world's biggest LNG deal with Qatar in 2006). Similarly, the UAE remains highly authoritarian but has an increasingly outward-oriented economy. In contrast, some political liberalisation has occurred in Kuwait, which continues to block foreign investment in the energy sector; Islamists in Kuwait's increasingly lively parliament have hindered the ruling al Sabah family's proposals to open the oil sector to foreign investment.

Some analysts argue that the US pressure for democratisation has already been too great: as Middle Eastern regimes have begun to liberalise their political systems they have, it is contended, felt more obliged to bend to popular sentiment to prioritise short term revenues and thus move away from support for low oil prices (previously justified in terms of the health and stability of Western economies being in the long term interest of producer countries themselves).[9] Producer states' more aggressive push for higher oil prices is seen by some energy experts as the result of too much political liberalisation already having occurred in leading OPEC states.[10] Some observers suggest that Islamists – likely to emerge as the main beneficiaries of democratisation – argue even more forcefully that production should be kept at a lower level and be more domestically oriented, rather than contributing to a reduction in international prices.

Additionally, of course, the scope for pro-democracy policies is seen as having been seriously undermined by the emergence of competitor purchasers such as China. One expert argues that producer states' move away from market-based solutions and democratic norms has been hastened – even if not directly caused - by the rising demand for energy from China and India, with whom secure deals can now be sown up circumventing 'Western norms'.[11] An emerging

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[7] Strategic Energy Policy Challenges for the 21st Century, Report of an Independent Task Force, by the James A. Baker III Institute for Public Policy of Rice University and the Council on Foreign Relations, 2001, p. 30.

[8] Ricoardo Soares de Oilviera, *Oil and Politics in the Gulf of Guinea*, London: Hurst, 2007.

[9] Joe Barnes and Amy Myers Jaffe, "The Persian Gulf and the Geopolitics of Oil", *Survival*, 48/1, 2006, p. 148.

[10] Amy Myers Jaffe, "The Outlook for Future Oil Supply from the Middle East and Price Implications, speech", Tokyo, 20 July 2005, available from the James Baker III Institute for Public Policy of Rice University, p. 4.

[11] Coby van der Linde, *Energy in a Changing World*, Inaugural Lecture, Clingendael Energy Papers No. 11, December 2005, p. 6 and pp. 13-14.

'Asia-Gulf nexus' is seen as set to 'spawn political dimensions'.[12] Another energy expert laments that the West will have to reverse powerful current trends to ensure that China and India veer towards cooperative solutions, based on international markets and good governance, rather than mercantalism and zero-sum competition.[13] In 2006, China invested €1 billion in Africa and launched a €3.6 billion China-Africa Development Fund. The new 'imperial scramble' for oil is linked by one historian to a longer-term, underlying 'descent of the West' and its political norms.[14]

Energy and the Demise of Democracy Promotion?

Most analyses of the 'new geopolitics of energy' focus on what is widely seen as the Bush administration's far-reaching 'securitisation' of energy. On one side of the coin appears to be a realpolitik approach to energy security from the US and other consumer states. On the other side of the coin is the 'autocracy promotion' that has itself been fuelled by increased oil revenues. Russia has increased subsidies to Central Asian republics, Venezuela to Cuba and Libya to Zimbabwe, to name but a few select examples.

In 2001, the Bush administration set up the National Energy Policy Development Group, which in May 2001 produced a National Energy Policy whose main conclusion was that access to foreign oil and gas would become the over-riding security concern of US foreign policy. On this basis the US military was, in the words of one writer, "converted into a global-oil protection service".[15] New military deployments and partnerships were, it was argued, oriented primarily to guarantee oil supplies. Between 2000-2003 the Bush administration increased military aid to the top 25 oil suppliers in the US by 1800%, with primary increases going to Iraq, Uzbekistan, Kyrgyzstan, Azerbaijan, Colombia, Russia and Oman. While such deployments were justified by the Bush administration in terms of counter-terrorism, in practice they were – it was alleged – more reflective of energy security imperatives. The 2001 Defense Review talked explicitly of deploying US armed forces where energy supplies might be impeded.[16] In February 2007 the Bush administration approved the creation of a new Africa Command for a sizeable relocation of naval forces to protect Nigerian oilfields; indeed, West African oil was defined as a 'strategic national interest', implying that military force could be mobilised in its protection.[17] In Colombia, US military activities increasingly went beyond counter-narcotics to fighting the guerrilla forces that were threatening key oil pipelines. The US expanded its largest base in the Middle East, in gas-rich Qatar, acknowledging a link to the protection of energy supplies.

All this was characterised by one critic as a new, "brazen energy imperialism", while the US talk of democratising the Middle East was likened to "a drug addict asking his pusher to change his criminal activities".[18] The 2006 State of the Union address seemed to signal a modest change

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[12] Richard L. Armitage, Lincoln P. Bloomfield Jr. and James A. Kelly, "Preserving US and Allied Interests in a New Era", in Lincoln P. Bloomfield Jr. (ed.), *Global Market and National Interests: The New Geopolitics of Energy, Capital, and Information*, Centre for Strategic and International Studies, Washington, D.C., 2002, p. 211.

[13] Daniel Yergin, "Ensuring Energy Security", *Foreign Affairs*, 85/2, 2006, pp. 69-82.

[14] Niall Fergusson, *The War of the World*, London: Penguin, 2006, p. 644.

[15] Michael Klare, *Blood and Oil*, London: Penguin, 2004, p. 7.

[16] Ibid, p. 71 and p. 174.

[17] Soeren Kern, "How the Demand for Oil Drives American Foreign Policy", Análisis del Real Instituto Elcano, 23 June 2006.

[18] Lutz Kleveman, *The New Great Game: Blood and Oil in Central Asia*, London: Atlantic Books, 2004, p. xix and p. 263.

of tone, with president Bush now suggesting that the US must wean itself off its "addiction" to oil and declaring the goal of replacing more than 75% of US oil imports from the Middle East by 2025. An Advanced Energy Initiative (AEI) was introduced, following on from the first US National Energy Plan for more than a decade that was signed into law in August 2005. In the opinion of most observers, however, the 'securitisation' of energy policy remains a striking feature of US strategy. One writer claims to have elicited from Bush insiders the assertion that "US military and energy strategy…[are] to be one".[19] One of the most comprehensive studies of US policies laments that US approaches to energy security exhibit the same military flavour as other dimensions of US foreign policy and are bereft of more holistic, socio-economic understanding.[20] Even those who might find such criticisms overstated would be hard pressed to deny the *realpolitik* strand within emerging US energy security policies.

While most European politicians and officials reject this US-style securitisation of energy, their own policies show clear evidence of strategic alliance-building with key producers. Even as European diplomats strenuously reject the 'hard power' link, some European military cooperation and deployments have increased in important producer states – for instance, by Germany in Uzbekistan, France in Algeria and the UK in the Gulf. European diplomats acknowledge that, whatever the criticisms of US policies, even the least Atlanticist of member states have sought to retain some degree of (what is deemed) necessary 'coat-tailing' on US military guarantees in supplier states.

And many see the EU itself showing signs of a lurch away from its fabled normative power towards a more pronounced *realpolitik*. Javier Solana argues that, "The scramble for territory of the past may be replaced by a scramble for energy….We have to take our energy from where we find it….Thus, our energy needs may well limit our ability to push wider foreign policy objectives, not least in the area of conflict resolution, human rights and good governance….The scramble for energy risks being pretty unprincipled."[21] A senior French policy-maker stresses how Paris was concerned to move beyond its image as a 'status quo power' and be more supportive of political reform, with the key *exception* of oil producing states where European interests would suffer from assertive democracy promotion policies and where leverage would in any case be minimal. EU foreign policy officials commonly admit that the changing structure of international politics leaves diminishing scope for issues of democratic governance.

As EU governments have competed fiercely amongst themselves for bilateral gas contracts with Russia, many investors welcomed Vladimir Putin as an antidote to the chaotic and unpredictable government regulations limiting multinationals' interest during the Yelstin years.[22] In the 1990s FDI just to Hungary was greater than to Russia; now Russia receives more than the whole of Central and Eastern Europe.[23] Overall trade between the EU and Russia has increased exponentially, and the EU has consolidated its position as the largest investor in Russia. Putin regularly points out that Russia remains significantly more open to energy investments than Gulf producers. Insiders point out that Putin has been ambivalent over the notion of a 'gas

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[19] William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order*, London: Pluto Press, 2004, p. 248.

[20] Jan Kalicki and David Goldwyn, "Introduction: The Need to Integrate Energy and Foreign Policy", in Jan Kalicki and David Goldwyn, *Energy and Security: Toward a New Foreign Policy Strategy*, Woodrow Wilson Center, Washington, D.C., 2005, p. 14.

[21] Javier Solana, Address to the EU External Energy Policy conference, Brussels, 20 November 2006.

[22] Debra Johnson, "EU-Russia Energy Links", in Debra Johnson and Paul Robinson (eds), *Perspectives on EU-Russia Relations*, London: Routledge, 2005, p. 183.

[23] Charles William Maynes, "A soft power tool-kit for dealing with Russia", *Europe's World*, summer 2006, p. 22.

OPEC' precisely because this would limit his political room for manoeuvre in striking bilateral deals with European states, in which Gazprom commits itself to increasing supplies in return for downstream access.

The EU has signed bilateral energy partnerships with Azerbaijan and Kazakhstan that circumvent the democracy and human rights strictures of the European Neighbourhood Policy (ENP). Kazakh President Nursultan Nazarbayev has been extolled by the US and European governments as a "reliable partner".[24] It is recognised that the tight control exerted by the presidential family over energy contracts in Kazakhstan – Nazarbayev's son-in-law was chairman of state gas monopoly, Kazmunaigaz - has directly facilitated many new investment projects. Nazerbayev's team helped set up the Caspian Pipeline Consortium, using their centralised control over government institutions to overcome resistance.[25] The president is also judged to be pushing forward LNG plans in opposition to significant parts of the political elite. One diplomat summarised: Nazerbayev might be corrupt, vainglorious and unpredictable, but he is surrounded by good, pro-market advisors. The US very openly ceded its talk of democratising Central Asia to a raft of new visits to Nazarbayev and his team to strengthen cooperation.[26] Indeed, as vice president Cheney spoke of his 'good friend' Nazerbayev and political aid efforts in Kazakhstan diminished, this was cited as one of the most dramatic examples of Bush's 'democracy vision' going into reverse.[27]

Western sanctions were imposed against Uzbekistan in response to the November 2005 Andijan massacre. However, the EU's sanctions were extremely limited; after October 2007 only an arms embargo remained in place. Germany, and others, argued that even if many had criticised the European response to Andijan as feeble it had already proved strong enough to push the Karimov regime appreciably closer to Russia, including on energy matters. In the same month that US troops left Uzbekistan, Tashkent and Moscow signed a mutual security pact. Gazprom and Lukoil moved to increase their investments in Uzbekistan.[28] 2006 saw record levels of FDI from Russia, China, Malaysia and South Korea, marking a clear change in the country's foreign policy orientation. Moscow has tried to get its Gazprom-linked man in Uzbekistan lined up as eventual successor to Karimov. With many European countries counting strongly on Uzbekistan's future potential as a gas supplier, they have advocated more positive engagement with rather than in isolation of the brutal Karimov regime.

Reform Pressure Unleashed?

Such are the twin logics – internal and external – that make energy seem such a clear cut case of a 'new obstacle to democracy'. But at both the domestic and international levels, at least some counterveiling trends can be seen. These do not fundamentally change the energy-democracy equation but do reveal more reform-potential aspects to the new energy panorama.

The domestic politics of oil and gas producing states in fact suggest a situation far more complex than that of text-book rentier state dynamics. It is unduly deterministic to posit an

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[24] Commission of the European Communities, The EU's relations with Kazakhstan (http://ec.europa.eu/comm/external_relations/kazakhstan/intro/index.htm, accessed 28 August 2006, p. 2).

[25] Ian Rutledge, *Addicted to Oil: America's Relentless Drive for Energy Security*, London: I.B. Tauris, 2006, p. 62.

[26] Tom Carothers, *US Democracy promotion during and after Bush*, Carnegie Endowment for International Peace, Washington, D.C., 2007, p. 9.

[27] P. Baker, "As democracy falters, Bush feels like a 'dissident'", *Washington Post*, 20 August 2007.

[28] International Crisis Group, "Uzbekistan: Europe's Sanctions Matter", Policy Briefing, November 2006, p. 3.

axiomatic link between a given change in international energy markets and domestic political outcomes in producer states, as if the fate of democratisation were not mediated through the complex agency of political, social and economic actors. It is well-charted that democratisation is often triggered by a *combination* of modernisation-cum-wealth generation parallel to crisis, that is by a mix of positive and negative dynamics. Just such a mix may be building up in some oil and gas producing states.

Some oil wealth has trickled down, arguably inadvertently providing some Lipsetian modernisation precursor to political change. Hugo Chávez spent heavily in his social *misiones*, before being defeated in a referendum over constitutional reform: here, whatever the president's autocratic modus operandi, it would be difficult to argue that 'oil' has had *only* anti-democratic effects on both the positive (redistribution) and negative (mobilisation) sides of the equation.

The Freedom House score reproduced above could be spun inversely: Russia was the only 'partially free' country in 2002 that descended to the status of 'not free' and *semi*-authoritarian oil producers did not slide into absolute autocracy. Moreover, the degree of backsliding registered in oil states was matched by the plight of democracy in many non-oil producing countries, reflecting an apparently general trend besetting 'grey zone' regimes rather than something causally unique to energy dynamics. (The more obvious point might also be mentioned that higher oil prices have not made already-democratic producers such as Norway, the US, Canada, the UK or the Netherlands any less democratic).

Regimes' distribution of the massively increased oil rent accrued since 2002 has clearly not sufficed to 'buy off' popular discontent in, for example, Middle Eastern producer states, where growing numbers of people have agitated for political liberalisation. In countries such as Iran, Venezuela, Nigeria and Algeria, the authoritarian populism engendered by the new oil-wealth has led to unpredictable spurts of public spending that have been the source of growing social instability. If Middle Eastern regimes embarked upon cautious processes of political liberalisation during the 1990s period of low oil prices – eager to 'share' the responsibility of difficult readjustment with their populations – these processes engendered domestic expectations that could not simply or safely be completely quashed once the comfort of expensive oil returned.[29]

Questioning the standard line that the rentier states of the Gulf are well protected from democratic dynamics, some analysts suggest that two different dynamics have come into play. First, in some Gulf States resentment has grown over government failures to deliver adequate wealth distribution and effective economic policy for long-term growth, as well as over the lack of transparency in the allocation of resources. Second, over time an incipient middle class has become more independent of the state than assumed by state rentier theory. At the same time, it is suggested that, with basic wealth provided, political change will probably be less violent and destabilising than in many other regions. The combination of wealth and the legitimacy of the region's royal families it is argued, means that in the Gulf open politics could be ushered in without the complete collapse and discontinuity of the system.[30] In these ways, political opening could be more of a stabilising force rather than a strategic danger. Incipient reform began as a

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[29] Marina Ottaway and Michelle Dunne, *Incumbent Regimes and the King's Dilemma in the Arab World*, Carnegie Endowment Working Paper No. 88, December 2007, p. 13.

[30] All this, Gerd Nonneman, "Political Reform in the Gulf Monarchies: From Liberalisation to Democratisation? A Comparative Perspective", Durham Middle East papers, Sir William Luce Fellowship Paper No. 6, 2006.

means of re-empowering regimes, which now grapple with the question of just how far to enfranchise citizens in the Gulf.[31]

In Saudi Arabia, one source of popular anger is precisely the fact that oil revenues flow directly into the royal coffers, with no accountability; in some senses, the increase in oil prices since 2002 has actually exposed the regime to greater public criticism, even though the budget surplus reached a record high in 2006. Limited reforms in fact commenced at precisely the moment that oil prices began rising. Oil-related calculations indeed conditioned the modest process of political reform initiated by the Saudi royal family after 2001. This reform process allowed the holding of municipal elections, the creation of a National Organisation for Human Rights, an increased deliberative role for the Shura Council and several rounds of a reform-oriented National Dialogue. While change was carefully modulated by the regime, in particular after the succession of King Abdullah in August 2005, political debate became freer and differing positions within the ruling family itself were debated more openly.[32] Observers suggest that the royal family has been concerned to deflect criticism of its management of oil revenues and also that post-2002 oil price increases are insufficient to correct budget constraints of a more structural nature.[33]

In Kuwait, higher oil prices have also been seen as helping to explain more intense political debate, with the regime coming under greater pressure to explain and justify its use of increased revenues. After the death of Shaikh Jabir in January 2006, both members of the ruling family and the opposition in parliament blocked direct succession of the Crown Prince in favour of Sheikh Sabah, demonstrating that succession was no longer an internal family matter. Elections held in 2006 were freer than on previous occasions, and women were allowed to stand as candidates - although none were elected and Islamists emerged as the biggest winners from the poll. The Sabah family retained all key posts in government, including energy and foreign affairs, but a new spirit of open debate had taken root. A combination of the post-election opposition majority in parliament and increased cooperation between Islamists and liberals put the ruling family under meaningful pressure for the first time, especially on the profligate and corrupt use of oil revenues. While Islamists continued to oppose opening energy contracts to international energy companies, opposition platforms were increasingly organised around pressure for the more transparent and efficient use of oil revenues, as a means of assisting stability and moderation. It has been the Kuwaiti parliament that has pressured increasingly for the regime to release more accurate and transparent information on the state of the country's reserves.[34]

In several other cases, it is clear that increased oil revenues have not been a recipe for quiescence but have rather magnified discontent with regimes and even spurred additional opposition activity. Increased gas revenues are widely cited by Egyptians as one factor driving more vibrant oppositional politics in Egypt. Here higher energy prices have not assuaged critics - the traditional dynamic expected of the rentier state – so much as increased pressure on the regime and provided a fillip to opposition groups. In spring 2008 the influential Al Azhar

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[31] Anoushiravan Ehteshami and Steven Wright, "Political Change in the Arab oil monarchies: from liberalisation to enfranchisement", *International Affairs*, 83/5, 2007, p. 916.

[32] Amr Hamzawy, *The Saudi Labyrinth: Evaluating the Current Political Opening*, Carnegie Working Paper No. 68, April 2006, p. 6.

[33] Iris Glosemeyer, "Checks, Balances and Transformation in the Saudi Political System", in Paul Aarts and Gerd Nonneman (eds), *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*, London: Hurst and Company, 2005, p. 224.

[34] Giacomo Luciani, "Arab States: Oil Reserves and Transparency", *Arab Reform Bulletin*, 8/2, Carnegie Endowment for International Peace, March 2008, p. 7.

religious institution issued a fatwa declaring that the Egyptian government should respect the principle of *zakat* (or alms) by transferring 20% of oil and gas revenues to the population. A similar logic can be witnessed in Iran, where some local observers opine that liberal reformers, who lay low after president Ahmadinejad's election, have resuscitated in part through a focus on the regime's hugely wasteful and corrupt management of the gas reserves. With patronage-based subsidies now accounting for 15% of GDP and stoking inflation, increasing discontent was heard from those excluded from such benefits, especially those left outside a rapidly overheating housing market.[35] In general across the Middle East the recent years of oil revenue bonanza have also seen growing inequalities and unravelling social safety nets, potentially putting at risk regimes' strategies of self-preservation.[36]

In Central Asia an incipient middle class has pushed for a stronger rule of law precisely in order to protect their newly acquired oil-related wealth. Azerbaijan recorded the world's fastest rate of economic growth in 2005 and the government confidently announced that the country would free itself from external aid within five years. In practice, the increased revenue flowing into the Azeri State Oil Fund has been used for political patronage, leaving large pockets of increasingly extreme poverty in Azerbaijan and a far more frustrated and brittle society. The president of the Azeri Public Finance Monitoring Centre observes a growing "syndrome of social injustice" sowing popular discontent – the result of immense new wealth (and a rapidly rising military budget) co-existing with an actual decline in the level of public service provision.[37] In Kazakhstan it is notable that local NGO pressure for greater transparency in the management of oil revenue has emerged as the foundation for stronger political opposition to president Nazarbayev. The fact that the oil fund is run by Nazarbayev cronies and used as a patronage fund is increasingly the source of public discontent. Kazakhstan provides a good example of this discontent combining with the 'trickling down' of some oil wealth to an incipient middle class: precisely the combination of negative and positive dynamics, as mentioned above, often associated with advances in political openness.[38]

Due to oil revenues, Angola was by 2006 taking its turn as the world's fastest growing economy. This growth has massively increased wealth disparities and social tension and palpably re-awoken the tensions of the civil war. The state oil firm, Sonangol, functions increasingly as the creature of a small cabal of the political elite. Revenues and deals are sown up by the apocryphal '100 families'. But behind the confident façade, domestic discontent has mushroomed. Sixty per cent of Angola's oil production comes from the Cabinda enclave, where conflict has deepened between separatists and government forces, revolving in large measure around differences over the sharing of oil revenue. Grievances stem from the lack of local democracy in Cabinda, where all officials are appointed by central government. In 2006 the central government distributed additional oil revenues to local leaders in Cabinda in an effort at pacification, but low-level violence remains with many rebel groups rejecting the peace deal. Angola provides one of the best examples of the tension between external and internal energy policy: as increasing quantities of supplies are shipped out of Angola, the majority of the country's population still lacks access to modern energy. After long postponing elections, at the time of writing the dos Santos government has committed itself to holding a poll in September 2008; while the ruling MPLA look set to emerge victorious from these elections, many describe

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[35] *The Economist*, 24 November 2007, p. 47.

[36] Steven Heydermann, *Updrading Authoritarianism in the Arab World*, Brookings Saban Center for Middle East Policy, Analysis paper No. 13, October 2007, pp. 15-16.

[37] FRIDE seminar on 'European Strategy in Central Asia', Madrid, November 2007.

[38] See Marie-Carin von Grumpennberg, *Kazakhstan – Challenges to the Booming Petro-Economy*, Swiss Peace Foundation, Working Paper No. 2/2007, 2007.

the regime as increasingly embattled and obliged to commit to reforming the murky governance of Sonangol.

In Nigeria, the Obasanjo government chose not to embed the rule of law, but rather sought to buy off militants in the Delta with oil contracts and government positions. This merely provided the incentive for a perpetuation of violence and increasing opposition to the central government. Several companies linked to militant groups were granted security contracts. At the 2005 National Political Reform Conference groups from the Delta demanded that 25-50% of oil revenues go direct to local communities in oil producing areas, and that this not be channelled through corrupt federal government bodies. The government offered only a 17% transfer, further enraging local communities. As prices rose, oil companies channelled increased sums in bribes to local governors, which simply inflamed the population more as the distribution of such largesse was erratic and patronage-driven. Local governors stormed out of the forum on political reform, but they themselves were responsible for siphoning off the share that did flow back into the Delta – as the 2007 elections approached, 33 of Nigeria's 36 state governors were under investigation. Nigeria provides perhaps the clearest example of increased oil revenues engendering greater, and even destabilising, pressure for far-reaching governance reform in a country where institutional structures proved unable to manage fairly the post-2002 bonanza. In December 2007 Obasanjo's annointed successor, president Yar'Adua was forced to promise far-reaching governance reforms to the oil sector in reaction to popular protest at the scale of corruption emerging from the Obasanjo era.[39]

Governance and International Energy Security

Another nuance to the apparently open-and-shut argument relates to the international level. Recent trends have rendered increasingly questionable the presumption that Western interests are well served by alliances with autocratic, nominally reliable suppliers.

Many examples demonstrate that non-democracy fails to provide for Western energy security in a predictable and sustainable fashion, even where nominally pro-Western authoritarian regimes present themselves as a bulwark against something much worse. Most producer state regimes have exhibited a combination of unpredictable policy-making, weak technical capacity, a limited prioritisation of long term investment to increase productive capacity and a tendency to target foreign investors as a means of shoring up their weak domestic legitimacy.

In Saudi Arabia the complex politics of the royal family are seen by some critics as breeding increasingly unpredictable and changeable policy-making.[40] Where Middle Eastern regimes have bent to domestic concerns it has often not augured well for Western interests. The Saudi regime scaled back its National Gas Initiative because it feared the political consequences of any significant market opening.[41] Similarly, Saudi Arabia won an exception for the energy sector when it joined the WTO in December 2005, because the government realised that its continuing control over this sector was crucial to its political leverage both domestically and internationally.

In the summer of 2006 the Algerian government reversed a tentative liberalisation of the energy sector as a means for president Bouteflikka to shore up his support with oil clans, amid rumours

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[39] *Africa Confidential*, 48/23, 16 November 2007, p. 6.

[40] Madawi Al-Rasheed, "Circles of Power: Royals and Society in Saudi Arabia", p. 201 and p. 208; Iris Glosemeyer, "Checks, Balances and Transformation in the Saudi Political System", p. 231, both in Arts and Nonneman, op. cit., p. 231.

[41] Rutledge, op. cit., p. 190.

that he might be pushed out of office.[42] Sonatrach was henceforth automatically to be given a controlling stake in investment projects involving foreign companies. In 2007 the effective renationalisation of the energy sector led Sonatrach to break a flagship €5 billion contract signed in 2004 with Repsol and Gas Natural to develop the Gassi Touil gas field in the east of the country. With the exception of Saudi Aramco, no national (producer-state) oil company in the Middle East has a good record in exploration or development, their resources having been dispersed across a wide range of politically-motivated activities and not focused in an efficient way on increasing efficiency and production capacity.[43] National oil companies across the Middle East enjoy preferential fiscal regimes and are expressly used by regimes to further political power rather than investing in additional oil and gas capacity. The International Energy Agency reports that nowhere near the level of investment needed – $1 trillion over the next decade – is finding its way into augmenting productive capacity.

Iran suffers from an increasing shortfall in energy sector investment that many see as related to the nature of its political system. Iran has been unable to meet its own OPEC oil production quotas since prices rose after 2003. Despite sitting on 10% of the world's oil reserves, in March 2007 the Iranian government had to ration domestic petrol use. Even more strikingly, Iran is still a net importer of gas. Under-investment in production capacity is directly linked to the subsidisation of domestic fuel prices, which chokes off revenues for re-investment.[44] This subsidisation is in turn seen as a populist measure offered by an embattled regime seeking means to perpetuate its own survival. Buy-back terms have been toughened, deterring foreign investors, quite apart from any geopolitical disincentives. Iran's energy sector remains well below full capacity. The influence of the Revolutionary Guards has grown significantly, both over the nuclear programme and energy policy; one reason for the limited opening in the energy sector is the Revolutionary Guards' determination to sow up energy contracts for their own operators.[45] Experienced energy technocrats have been replaced by patronage-placed government supporters untrained – and are 'completely incompetent' according to one European government official – in energy questions.

Perhaps most notably, Vladimir Putin's centralisation of power within Russia is of a piece with his attempt to re-establish Russian influence abroad. Experts concur that Russia's assertive energy diplomacy cannot be delinked from the abuse of good governance and market principles internally.[46] Far from breaking up Gazprom, as he originally promised, Putin has come increasingly to rely on and support the latter as a vehicle for projecting Russian influence. The political backing for Gazprom has certainly sufficed to give the latter a striking international self-confidence.

The energy sector is increasingly managed by the Kremlin "as a strategic asset which it can use to assert itself on the world stage".[47] KGB veterans have moved in to take senior positions in Gazprom and key *siloviki* have become generally influential in the energy sphere; one of its

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[42] Aurèlia Mañé Estrada, "Argelia: ¿retorno al nacionalismo energético?", Análisis Real Instituto Elcano, Madrid, September 2006, p. 5.

[43] Amy Myers Jaffe, "The Outlook for Future Oil Supply from the Middle East and Price Implications", speech, Tokyo, 20 July 2005, available from the James Baker III Institute for Public Policy of Rice University, p. 6.

[44] *Energy Economist*, 1 April 2007.

[45] *The Economist*, 21 July 2007, Special Report on Iran, p. 6.

[46] Vladimir Milov, "The use of energy as a political tool", *The EU-Russia Review*, Issue 1, May 2006, EU-Russia Centre, Brussels, p. 20.

[47] Andrew Monaghan and Lucia Montanaro-Jankovski, *EU-Russia energy relations: the need for active engagement*, EPC Issue Paper No. 45, European Policy Centre, Brussels, p. 21.

number, for example, assumed the chairmanship of Rosneft, the largest state oil company.[48] Most dramatically, Shell and then BP in relation to their contracts for the SakhalinII and Kovykta gas fields respectively were forced to cede control to Gazprom and accept more minor operational roles. In December 2006 a new law was introduced requiring a minimum 50% Russian ownership of gas pipelines and 75% for oil pipelines, and placing additional restrictions on foreign ownership.[49] Many observers link the strengthening of the Kremlin's political control to decreases in oil and gas production. An increasing lack of transparency means that Russian reserves and production levels are actually not well known.

In Azerbaijan, the state oil company, Socar, and decisions affecting anything related to oil, remain firmly under the control of the Aliyev family, with often unpredictable consequences for European investors. Diplomats complain of an increasing lack of transparency, for example when a hefty energy price rise in February 2007 was announced out of the blue and without consultation, including with the EU. Fragility is compounded by the prospect of Karabakh refugees ejected by Armenia, and now in Baku, being funded by oil money to reclaim the Nagorno-Karabakh enclave.

In Kazakhstan, corruption is increasingly rampant and the president is known to have requested extravagant personal kickbacks (a personal jet, presents for his daughters) in return for concessions to multinational corporations. Although foreign investment has increased, from 2003 access conditions have been toughened to allow FDI only in Kazakh-controlled joint ventures.[50] Some EU officials express concern that Nazerbayev is increasingly set on emulating Vladimir Putin, using high energy prices as the basis for assertive foreign policy, while attempting to drive wedges between member states. Commission officials in Kazakhstan lament that the effective implementation of laws is increasingly rare, rendering the whole business and economic climate unpredictable. The flawed 2007 elections were followed by Nazerbayev mimicking Putin and taking back greater control over the Kashagan field from the foreign consortium led by Eni. In response to Kazakhstan reopening the Kashagan contract, energy commissioner Andris Piebalgs criticised the lack of "mutual respect, transparency and predictability".[51] Strong complaints followed from the European Business Association, urging stronger European governmental involvement.[52]

In Uzbekistan the Karimov regime has kept the energy sector relatively closed to foreign investment as part of its strategy of self-survival. European investment is negligible, foreign companies often targeted by the regime's arbitrary rules and restriction of private sector activity. Only small independents, such as UK firm Trinity Energy, have been willing to risk much involvement in Uzbekistan. For all the West's kowtowing, Karimov has drifted towards preferential partnership with Gazprom.

In Africa, conflict and autocratic power have combined to work against Western energy interests. In Sudan, Total negotiated a deal in the south with the Khartoum government that was rendered void by the southern administration. Angola cold-shouldered France after the Elf trials in the early 2000s. When a key Total drilling licence came up for renewal it was transferred to a Chinese company. In Equatorial Guinea, the highly repressive president Obiang presides over a crumbling institutional system within which effective implementation of presidential decisions

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48 *The Economist*, 25 August 2007, p. 27.

49 Kristina Kausch, *Europe and Russia, beyond Energy*, FRIDE Working Paper No. 33, March 2007, p. 5.

50 Kleveman, op. cit. p. 85.

51 *The Times of Central Asia*, 25 September 2007.

52 *New Europe*, 22 October 2007.

has become impossible.[53] While BP was awarded the first LNG contract with Equatorial Guinea in 2007 and Spanish interest is increasing,[54] in general European investment in Equatorial Guinea is modest. In Nigeria observers note the same kind of emerging resource nationalism as in other producer states. Obasanjo introduced new quotas on minimum Nigerian participation in oil licenses and in his final months in office in 2007 the president doled out licensing offers for 45 oil blocks to political cronies. Between 2003 and 2007 Nigeria's major new oil contracts went to Asian companies that offered development packages in return.

In short, democracy's absence presents serious and growing problems for Western energy interests. To some degree, recognition of this can increasingly be seen in the design of European policies in particular. For a brief moment an instrumental link between democratic governance and energy security was promoted by some US neo-conservatives – who argued that high oil prices were the result of autocrats needing to whip up popular resentment against the West and that therefore supporting 'regime change' would be beneficial for Western energy interests. While rejecting such logic, the EU's declared approach to energy security is to extend the rules and principles of its own internal market, as part of what might be termed a 'market-governance' nexus. Official policy documents and statements most commonly assert that sustainable energy security requires the EU to maintain pressure for governance reforms and better human rights protection around the world. The rise of 'resource nationalism' is seen as integrally linked to the non-democratic politics of producer states such as Iran, Nigeria and Venezuela. Andris Piebalgs has spoken of his acute "concern that 80 per cent of global oil reserves are in the hands of state-controlled entities".[55]

The internal market's (ostensible) centrality in rooting the Europe's international projection is presented as orienting the EU towards energy strategies based on rules-based governance reform. External relations commissioner, Benita Ferrero-Waldner claims that the EU's 'added value' to external energy policies would be to ensure that rule of law principles prevailed through 'enhanced legal framework[s]'.[56] The series of new energy partnerships - signed with Ukraine, Azerbaijan, and Kazakhstan - represent a familiar EU-style approach of attempting to use contractual agreements to attain adherence to rules-based behaviour on market regulations, transport and safety. Officials lay stress also on the belief that rules-based governance offer the most promising way to approach China's rise as energy consumer: according to one diplomat, an increasingly prominent part of European energy strategy was the effort to convince China 'to trust the market'.

Several European governments have been strong supporters of the Extractives Industry Transparency Initiative (EITI). This aims to gain commitments from multinationals to publish details of their payments in producer states, as a means of reducing the scope for bribery. Some governments are currently supporting proposals for a new 'EITI plus' in response to the limited focus of the current initiative on auditing government income from oil and gas resources (and not on the manner in which that income is spent). Curiously, the new era of energy-based alliances with autocratic regimes has also witnessed a raft of new Western governance initiatives and additional funds committed to support democratic reform. This more political approach has yet to be implemented or adhered to with any consistency, but its promulgation

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[53] Neil Shaxson, *Poisoned Wells: The Dirty Politics of African Oil*, Basingstoke: Palgrave Macmillan, 2007, p. 36, p. 143 and p. 125.

[54] *Global Insight Daily Analysis*, 10 October 2007.

[55] Speech, "Oil and gas geopolitics", Lisbon Energy Forum, 2 October 2007.

[56] Benita Ferrero Waldner, Opening address, External Energy Policy conference, Brussels, 20 November 2006.

does at least once again suggest a more complex picture to that of the supposed 'laws of petropolitics'.

In addition all this, in so far as Western governments have begun to prioritise the development of alternative technologies, the increase in oil prices of recent years might in the long term prove to be more boon than bane for democracy. If demand patterns change sufficiently to force a diversification of oil and gas rentier states, what appears to have been a golden age for the 'petrolist' regime might prove to have been rather more benign for political liberalisation.

Conclusions

The new energy era has helped empower autocratic regimes. Overall the data shows no dramatic decline in political freedoms in energy producing states since 2001, but modest backsliding has occurred in a select number of such states. High energy prices have worked to entrench the absence of democracy in producing states. But claims of a powerful and mechanistic law – 'higher oil prices equals less democracy' – look patently overblown. Energy represents one factor amongst many that have engendered 'new obstacles to democracy', and in the case of most countries has not been the most potent democracy-spoiler.

Many autocratic leaders have skillfully used increased oil and gas revenues to divert some pressure for reform. Some producer states targeted by Western democracy promotion policies in the immediate aftermath of 9/11 have seen critical external pressure subside. And China's search for new energy supplies has been a significant factor tilting the balance of international relations towards alliances not conditioned on democracy-related criteria. Even within Europe, echoes resound of the beggar-thy-neighbour competitive policies of the 1970s – the return to which grates with the whole aim of thirty years of European integration.

At the same time, two countervailing trends have taken shape. First, while the oil bonanza may underpin some leaders' new popularity, their patronage-based distribution of oil revenues has also ignited significant pro-democracy opposition activity, in Africa, Central Asia, Russia, the Middle East and Latin America. Producer governments are under the spotlight from their domestic constituencies to a degree that they were not when international energy markets were far less tight. Successive oil booms have heightened domestic expectations: the repeated frustration of such expectations sows the seeds of potential instability and political rupture.

Second, many consumer governments have begun to press for a set of international governance norms capable of mitigating the pathological effects of resource mismanagement in non-democratic producer states. Again, in a tighter market good governance is seen to matter more, as profligacy becomes more costly. Western governments' and international institutions' 'governance reform' logic remains to be fully implemented, but it does demonstrate that the new energy panorama has engendered debates and initiatives related to good governance. Good governance is not now seen as a mere appendage to development policy but rather as a geostrategically-pertinent framework needed for the better management of scarce energy resources. This might not entail Western pressure for full-scale democratisation but it does bring into sharper focus a narrower range of good governance reform. Neither of these two factors changes the fundamentally problematic relationship between oil and democracy, but they do mean that below the surface of the new autocracy-boosting energy panorama, more positive fires might be kindled.

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