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An analysis of international security issues compiled by security professionals for business leaders and those who advise them

This issue of *Janusian Thinking* considers the emerging paradigms of "resource wars" and "war zone economies". With a US invasion of Iraq only weeks away, it seems an appropriate time to consider the driving forces and likely outcomes of the struggle over Iraq's future. We ask whether the Iraq conflict is entirely a dispute over resources, and what its impact may be. We also consider the broader lessons of post-cold war disputes, and the business challenges posed by operating in environments where natural resources are the drivers for conflict. For companies considering operations in Iraq in the future, the resource war paradigm is a striking lesson.

The New Resource Wars

The Iraq crisis and turmoil in Venezuela have sharpened the focus upon the potential for conflict to impact upon oil markets and diminish access to critical resources. It is hard to imagine a set of conditions that have greater potential to engender long term instability than international conflict over vital energy assets. This is reflected by new paradigms in international relations in the post-Cold War period that emphasise the recent trend towards "resource wars", fought over access to environmental assets and exacerbating existing local disputes, but driven by global demand for those resources.

The conflict in Southern Sudan, for example, is inextricably related to oil, just as Sierra Leone's woes are in large part a consequence of a dispute over control of the diamond mines. The significance of the mineral coltan, used in the manufacture of electronic devices, cannot be understated in the long war in the Democratic Republic of Congo. In Cambodia, Indonesia and Myanmar, it is timber that has fuelled conflict. These "resource wars" draw global corporations into contact with local disputes, and realign Western national interests along fault lines relating to access to natural resources. Although nothing new in historical terms, as the global population increases conflicts over energy sources, minerals, water and other natural resources are bound to proliferate and escalate.

The prevalence of resource wars will ultimately affect how businesses develop risk assessments and methodologies for the protection of critical assets in some of the world's most difficult environments. There is a growing need for business to understand the dynamics of "war zone economies" and how these will affect commercial activities in the future. When conflict arises because of the need to protect a commodity rather than a national border or an ideology, existing models of security and safety will need to be refined, or even redefined.

The Ultimate Resource War?

Uncertainty over military build-up in the Gulf has raised the spectre of disrupted supplies from Iraq's oilfields. Iraq has the world's third largest reserve, after Saudi Arabia and Russia. Its role in supplying the global market is considerable. An attack on the country would lead to volatility in oil prices and threaten strategic reserves. Should Saddam, in a final destructive act, decide to torch the oilfields as he did in Kuwait in 1990, there would unquestionably be global economic ramifications.

There is almost certainly capacity in the global oil market to absorb partial or significant loss of output from Iraq, but there is bound to be pain along the way. In September 2002, Ali Al Naimi, the Saudi oil minister, stated that Saudi Arabia would move quickly to cover any shortages in case of war with Iraq, but this would not occur without cost. Oil traders, who already operate with a "fear premium" of $5-$6 per barrel, are looking at the state of strategic reserves in Russia, America, the Caspian and Africa, but further price elasticity is a certainty.

However, it is important to remember that the oil industry as a whole has significant investment in the Gulf and is motivated to secure the long-term productivity of the Iraqi oilfields. The industry, in its global and regional manifestations, will focus on protecting its assets. In the main, these assets are tangible ones: equipment, installations, open transport routes and access to the markets, reliable supplies and pricing policies, and resilient relationships with governments. More subtly, multinationals or corporations project "presence" into an area, allow subtle forms of diplomacy and negotiation to be carried out, function as players in perceptions of regional events, and may even be the target for military or paramilitary activities. It can take years to develop productive oil assets, and they are worth protecting.

It is unthinkable that any future Iraqi regime could forgo the benefits of oil revenue and the attached assets. In any post-conflict scenario it is important that oil resources be seen as an Iraqi asset under Iraqi control, rather than the preserve of the US or Saudi Arabia. How the US government and the global oil industry will facilitate this fine balancing act remains to be seen, but considerable effort is likely to expended in delivering market stability. The most probable outcome is price spikes and periodic readjustments rather than a catastrophic implosion of the oil markets.

An undercurrent in the diplomacy of an invasion of Iraq has been the fate of numerous contracts signed between Baghdad and other countries. France's TotalElfFina has long standing agreements with Iraq to develop its fields; Russian companies have numerous oil and gas development contracts and Ireland's Petrel has been actively seeking a more favourable presence for Iraqi oil interests. These contracts, thwarted either by UN sanctions or Washington, will be crucial to the reconstruction of Iraq. It seems probable that the deciding factor in whether these contracts are honoured will be the level of support that each shows for the US pro-war stance. Given the current position of France and Russia, the contracts may be placed under severe strain.

While the immediate motivation for the coming war may have been provided by 11 September and the fear of proliferation of Iraq's weapons of mass destruction into the hands of terrorists, unquestionably oil provides the impetus for the campaign. Whilst the cynical may argue that oil is the sole motivation, the relationship between oil wealth and war is more complex. Certainly, the US oil corporations will be looking to exploit their position in relation to the likes of TotalFinaElf, but oil is also seen as the key to post-war reconstruction. Without it the US would almost be unwilling to shoulder the inevitable long-term costs of rebuilding Iraq after Saddam is gone. In some quarters of the Bush administration there is even talk of paying for the war with oil revenues.

Thus Iraqi oil is viewed by the US as a panacea: compensation for removing Saddam, a means of securing immediate vital US security and economic interests and as a driver for democratising and reconstructing Iraq. It certainly serves US economic interests to control the resource, but it must be wary of unleashing forces that may escalate the immediate conflict into a prolonged resource war in Iraq. The potential for civil war is real, as is the fear that international terrorists will seek to exploit the general disarray of post-conflict Iraq to their advantage.

War Zone Economies

Dominant development paradigms suggest that oil facilitates progress in poor countries. Better management of state fuel production, the introduction of competition and privatisation, and the raising of prices to reflect international levels are all elements of the World Bank's strategy for development. The belief is that reduced bureaucracy and streamlined resource management will draw in foreign investment and help build-up local capacity. This would lead eventually to strengthened state reserves and equitable distribution of wealth. Elegant as the models are, they tend to fall apart when confronted by the realities of Africa's complex political and economic systems.

Africa is rich in natural resources, from diamonds in Sierra Leone and copper and gold in the Congo to timber and precious metals in Liberia: all national treasures that have yet to bring either fortune or peace to the people of these countries. Angola is Africa's best-known example of protracted civil war, squandered resources and horrific human suffering. It is a country that enjoys natural resources that include oil, diamonds, marine products, and precious metals, but endured 25 years of civil war until the death of Jonas Savimbi, leader of UNITA last year. In Angola, as in Colombia, rebels still use the threat of kidnap to exhort millions of dollars from oil companies and other multi-nationals.

Aside from the immediate costs of security, there are consequential costs in terms of increased insurance premiums, security provision for businesses and their key employees, and higher costs arising from the logistics of doing business with the international markets in hostile locations. Sudan, torn apart by civil conflict and warlordism, has driven American, British, and Canadian oil companies out of the region despite having rich reserves and access to the Red Sea. The collapse of the Machakos peace process coupled with the presence of Swedish and Austrian oil companies inside Western Upper Nile will no doubt lead to increasing levels of violence inside Sudan in the future. Pro-Khartoum militias, working with the Sudanese army, continue to drive local populations from land ahead of oil exploration.

The Sudanese example highlights the role resources play in fuelling conflict in war zone economies. Rich mineral or oil deposits can serve either to incite grievances, especially when the government is perceived as having sold resources to foreigners or as a source of looting, common in African wars. More pragmatically, rebel movements utilise rich natural assets to fund war. A riot or limited outbreak of fighting can occur within a society without requiring an infrastructure but once a rebellion or political movement exists beyond the short term it requires finances to sustain operations and personnel.

Post-cold war guerrilla movements can no longer rely upon superpower sponsorship, and so have had to find ways to become self-sufficient. The key is control of local resources and access to global markets. Where once a feature of guerrilla warfare was the winning of "hearts and minds", now it is more likely to involve winning control of territory with attractive benefits like diamonds or access to sea routes. Rebel victories are less about taking over the reins of the state and more about capturing locations that are rich in mineral or oil assets, timber, or copper. The current focus on minerals and oil in assessments of the "fatal transactions" should not blind analysts to the fact that any commodity that commands a price on the international market can function the same way. Anything from columbite-tantalium ("coltan") from the Democratic Republic of Congo, necessary for the semi-conductor niobium, to plants in the Amazon or sub-Saharan Africa that form part of the new generation of pharmaceuticals and cosmetics can become a commodity is a resource war.

Nor is this phenomenon confined to Africa, although it can seem more visible in that continent's many wars. In Afghanistan, Shah Massoud sold emeralds to a Polish company, Intercommerce, for many years. Sections of the Taliban leadership were actively involved in timber and arms trading through Pakistan. In Cambodia, the Khmer Rouge sold logging rights and gemstones to fund arms purchases.

War redefines the public sphere in unexpected ways - one consequence of which is that the "rules of the game" no longer apply, corruption may become an asset rather than a liability, and unexpected redistributions of wealth and resources may arise out of local survival strategies. Parallel economies develop causing the existing financial system to become unworkable or anaemic. Power resides elsewhere – less in the administrative units and bureaucracies familiar to western business and more in informal networks and patronage systems. For companies attempting to do business in the multi-layered war zone economies, the conventional wisdom that conflict signals the breakdown of systems may be too limited.

Conflict represents the emergence of new systems, and with them opportunities. Whether companies operating in these conditions can survive the transition will depend on the clarity of their understanding of the changing nature of conflict and their ability to adapt. Businesses considering their options for doing business in a post-conflict Iraq would do well to consider how they will assess and manage the risks of operating in the aftermath of a resource war.

Further information: Janusian Security Risk Management is the specialist political risk and security subsidiary of The Risk Advisory Group Ltd. For further information please visit www.janusian.com.

CORPORATE SECURITY PROFESSIONALS
Please take the time to complete our terrorism risk survey at www.janusian.com/survey.htm. The survey is a joint venture with RAND Europe to help us better understand corporate attitudes to critical risk issues. We will be presenting our findings at a free conference in London on 1st April 2003. Details of the conference will be released to you soon. In the meantime, we would appreciate your assistance with the survey.

David Claridge
Managing Director