

\$100 oil would have a big political impact



By Gideon Rachman

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People facing alarming birthdays often say things like: "Forty is just a number." You could say the same about "**\$100 oil**". But such benchmarks concentrate minds. As the oil price threatens to break through \$100, politicians all over the world will think hard about the strategic consequences.

So what is likely to happen? The biggest single effect is obvious. Oil producers become richer and more powerful. The biggest oil consumers – the US, China and the European Union – become increasingly anxious. Beneath that big trend, there are smaller effects that could change the course of some of the most delicate and dangerous problems – Iraq, Iran, China's foreign policy and the resurgence of Russia.

The effects of a rising oil price on the economies of the producing countries are dramatic. The Organisation of the Petroleum Exporting Countries made \$650bn from oil sales in 2006, compared with \$110bn in 1998. Russian oil and gas revenues have quadrupled over the same period.

When bad governments make good money, they become more relaxed at home and more assertive abroad.

Two of the Bush administration's least loved leaders – Hugo Chávez of Venezuela and Mahmoud Ahmadi-Nejad of Iran – will have more money to chuck around. Venezuelan money already subsidises everything from housing in Nicaragua to cheaper bus fares for the poor in London. (A policy that Boris Johnson, the Conservative mayoral candidate in London, has denounced as "completely Caracas".) Iran will have more money to fund its nuclear programme and to support foreign surrogates such as Hamas in Gaza and Hizbollah in Lebanon.

The Russian government will find it easier to buy off impoverished pensioners and to take tough positions on a range of international issues, from the future of Kosovo to America's plans for missile defence in Europe.

Tyrannical governments sitting on oilfields will be more likely to find protection from powerful oil-consuming countries. China, for example, will be even less likely to support bringing pressure to bear on the governments of Burma and Sudan.

A higher oil price also has a direct impact on the two trickiest foreign policy issues facing the US – Iraq and Iran. In both cases, the policy implications are ambiguous. If expensive energy further slows the US economy, then spending billions in Iraq every month will seem even more painful. But retreating from a country with huge oil reserves also becomes a less attractive prospect. When the three leading Democratic candidates for the presidency were recently invited to promise that all US troops would be out of Iraq by 2013, they all refused to make any such pledge.

A higher oil price also probably makes it less likely that the US will bomb Iranian nuclear facilities. New riches might tempt an over-confident Iran to take dangerous risks. But if the US is already struggling with the economic consequences of \$100 oil, then the Bush administration may be loath to risk an attack that could drive oil prices to \$150 or more.

More expensive oil also has dramatic implications for China, which will become the world's largest consumer of energy within three years. The search for oil has already led the Chinese to cut a series of deals with dubious African governments – including Sudan, Chad and Zimbabwe. New oil finds between Uganda and the Democratic Republic of Congo will provoke interest in Beijing.

High oil prices will only increase the EU's anxiety to mould a common policy towards Russia. But that is easier said than done. Some countries such as Germany and the Netherlands seem intent on building as close an energy relationship as possible with the Russians. Others – in particular, Poland and the Baltic states – will continue to argue for EU investment in new gas pipeline routes that bypass Russia, and for tougher restrictions on Russian energy investment in Europe.

Oil importers everywhere will redouble their interest in “alternative” energy. The US's new love affair with biofuels is likely to intensify. President George W. Bush vowed a couple of years ago to end his country's “addiction to oil”. As with many addicts, the words have proved rather more impressive than the follow-up actions.

But everything from climate change to the politics of the Middle East now points to the need to invest heavily in new sources of energy. If \$100 oil finally persuades western governments to act with real determination, some good may come of it, after all.

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