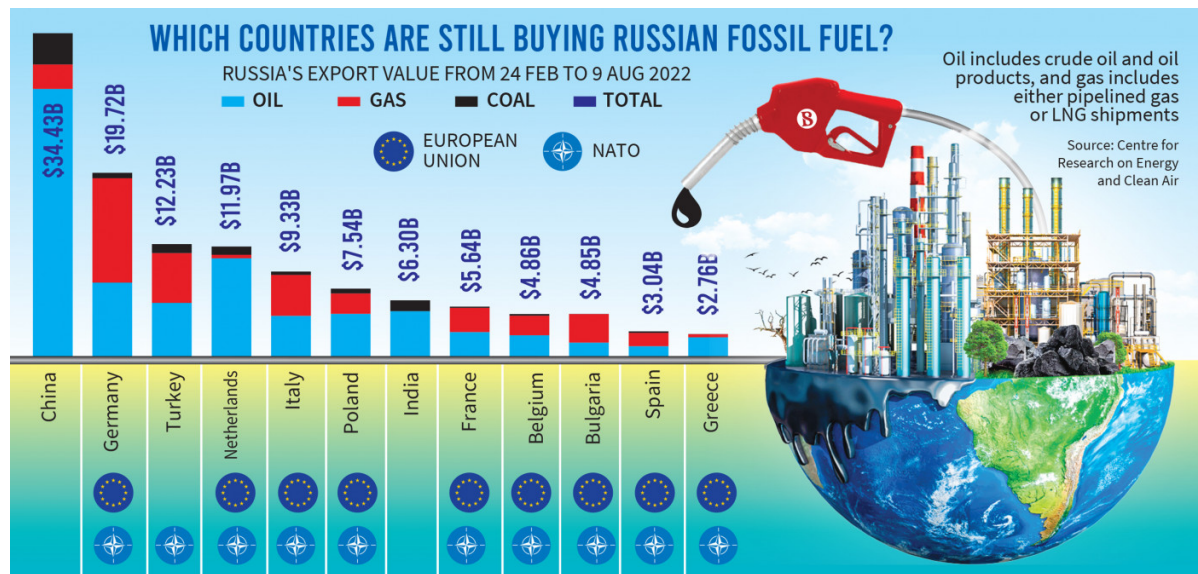


Geopolitics of Oil and Gas – Bangladesh Perspective

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Introduction

Oil and gas (i.e, energy) are the primary drivers of economic activity, global politics, and international relations; today, as they have been for the past century. From Moscow to Kyiv, Europe to North America, and the Middle East to Asia, recent dissensions show that local and regional conflicts that would have been possibly managed by regional powers have now intricately involved some of the most powerful countries in the world and caused global attention and interest. From local to regional to global, the recent Ukrainian crisis is a classic example of when, how, and why energy is a fundamental indicator of the global geopolitical matrix and how it continues to control national power, security, and stability. For the energy importing country, the availability of oil and gas and price fluctuation significantly control international security, political stability, and economic growth prospects. For the energy exporting country, the rate of production, supply, and pricing is not an independent issue but instead controlled by the international organizations (e.g, OPEC, OAPEC, GECF, IEA, UN), and influential countries (e.g. US, Russia)

through the use of subsidies, tariffs/additional taxes, and embargoes/sanctions, Presently most advanced and developed economies are desperately working to harness renewable energy as an alternative source. But still, the developing countries (eg, Bangladesh) are continuing to rely heavily on relatively cheaper fossil-fuel-based energy sources (i.e, oil and gas) to increase their prospects of economic growth, at least for another decade to come. As economies and standards of living in both developed and emerging countries continue to grow, by 2035, global energy demand is expected to rise by one-third. Until now, the architecture of global energy security has been designed to satisfy the necessities of the European and North American markets. However, as nearly half of the world's urban population will be hosted by Asia in the near future, with a concomitant increase in energy consumption, the architecture of energy security will gradually shift to this region and have many significant geopolitical implications.

Oil and Gas Pricing

The domestic and international energy prices are determined by a complex interplay of the rate of production, demand, supply networks, economics, subsidies, tariffs, embargoes, geopolitics, and technological development. It is also believed that global energy prices are vital economic indicators for a country as they heavily affect industry production costs, purchasing power and inflation, international security, political stability, and geopolitics. The energy dependence of the world economy has become a matter of international politics, security, and global economic importance. Since the 1960s, oil-exporting countries (i.e, Organization of the Petroleum Exporting Countries, OPEC) set crude oil prices. Crude oil and natural gas futures joined the New York Mercantile Exchange (NYMEX) in 1983 and 1990 and were traded like other commodities. In general, the slide in energy prices depends on many factors, like slowing economic growth globally, increased production, decreased demands for goods, and disagreement and refusal of OPEC countries to help stabilize the price by cutting production. During the COVID pandemic in April 2020, the oil price dropped below zero to -\$37 per barrel for the first time in oil price history. It happened due to the depletion of consumer demand, increased supply, and drove up demand for oil storage due to disagreement of the OPEC countries, specifically Saudi Arabia and Russia, on oil production reduction. Based on the quality and locations of oil and gas, price benchmarks are used in the energy industry to give buyers a way to value this commodity. The main benchmarks used in the energy industry are Brent Blend, West Texas Intermediate (WTI), Dubai/Oman, and Henry Hub. A few countries and international organizations also influence the domestic and international prices of oil

and gas through the selective use of subsidies, tariffs, and embargoes.

Since the Russia-Ukraine conflict from February 2022, the global geopolitics of oil and gas changed abruptly. Although Russia has been sanctioned by many western countries and condemned the military operation in Ukraine, many European countries remain deeply dependent on Russian energy. As Russia started to reduce supply to the European market, oil and gas prices soared significantly in the global market amidst fears around energy security. Higher energy prices have started to cripple the world economy and create a looming recession, specifically in developing countries.

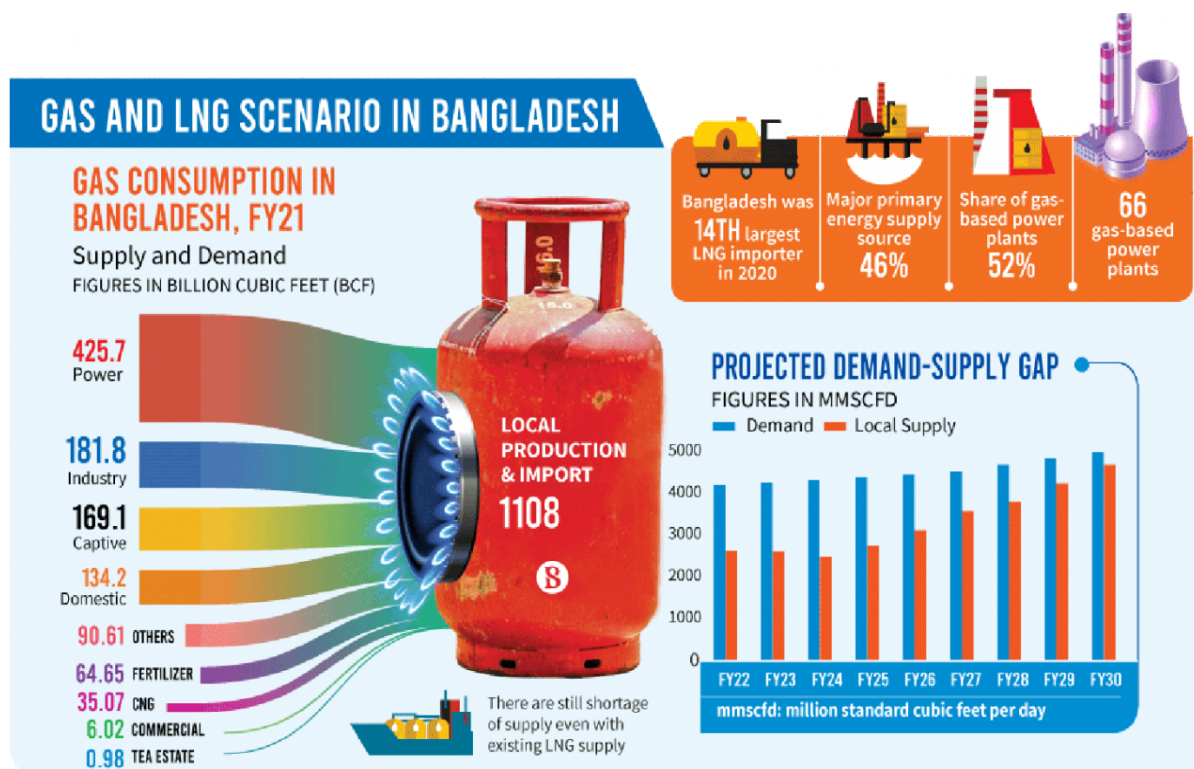
Bangladesh depends heavily on gas for electricity generation, running the industry, transportation, and domestic cooking. 75% of this gas comes from local gas fields, and the remaining 25% is imported as LNG. The imported LNG is purchased from two different sources: (i) At an agreed-upon price under long-term contracts from the Qatargas and Oman Trading International (OQ), and ii) at a highly fluctuating price from the spot market. The price of the per unit gas (million British thermal units, MMBTU) produced locally, imported under long-term contract, and spot market is about 2, 11, and 30 USD, respectively. Although LNG purchased from the spot market is a small amount compared to the total imported LNG, its cost is still significantly higher. Considering the current situation of Bangladesh's economy, Petrobangla tries to avoid purchasing LNG from the spot market to reduce the financial burden and opt for procuring it under long-term contracts. But the Qatargas and OQ cannot reciprocate at this moment due to their tight long-term commitments with other buyers worldwide. Therefore, the only viable options remain to increase the

local production through enhancing production from the existing wells, working over the old and abandoned wells, and drilling new wells. Similarly, Bangladesh imports around 91-92% of oil under the long-term government-to-government agreements from Saudi Aramco and the United Arab Emirates. The remaining 8-9% is sourced from the locally produced condensate as a bi-product of gas.

Geopolitics of Oil and Gas

For decades, the geopolitics of oil and gas

what policy and strategic choices the exporting, transit, and importing countries make. Recent happenings have made it clear that U.S, China, Russia, and European Union (EU) foreign policy are significantly influenced by energy security. Therefore, the energy policies of the Bangladesh Government will be critical to the country's national security, political stability, international geopolitics, and economic development. With increasing economic activity and diversification of export-oriented industrialization in



have profoundly shaped global politics. It can be regarded as resulting from the energy balance and power dynamics among energy exporters and importers, supply networks (e.g., pipeline), energy security, territorial influence and power, geographical framework in the regional context, political stability, future-orientated political insights, and the military powers. It is a well-established fact that, as in the past, the western IOCs may continue to significantly influence geopolitics and foreign policy in their home and host countries soon. The dynamic global energy picture will continue to determine

Bangladesh, energy demand has been burgeoning, and Bangladesh has become increasingly dependent on imported hydrocarbon.

Bangladesh's oil and gas have come entirely from the Middle East region, specifically from Saudi Arabia, United Arab Emirates, Qatar, and Oman. Investments in the local gas fields will only marginalize Bangladesh's overall oil dependency on the Middle East. In the foreseeable future, Bangladesh will have to continue to rely on the Middle East's oil and gas. Although Russia offered much

cheaper oil to Bangladesh to diversify its oil export market amid western sanctions, Bangladesh needs to consider this offer for two main reasons. First, the Eastern Refinery, the state-run sole refinery, can only process light crude oil imported from the Middle East countries but not the Russian crude oil, which is comparatively heavier. The refinery also has a limited annual capacity to refine crude oil, and hence possible additional imports of Russian oil could not refine there. Secondly and most importantly, if Bangladesh now purchases cheaper Russian crude oil, following the examples of China and India, the relationship with long-term suppliers Saudi Arabia and the United Arab Emirates will be jeopardized. However, for stability in the economy and to ensure energy security, Bangladesh may consider this offer delicately as Russia is offering to sell finished oil, The government is also scrutinizing the Russian offer carefully.

The presence of hundreds of thousands of unskilled Bangladeshi expatriates in the Middle East region is an additional factor that makes this region important as these expatriates' earnings significantly contribute to the country's GDP. Bangladesh, thus, needs to give much greater attention to the Middle East countries in its energy geopolitics and foreign policy priorities. Bangladesh has to be cautious regarding any geopolitical

relations with the Middle East countries that may be in a position to deny them exporting energy to Bangladesh. Bangladesh needs to establish its strong economic and military relationship in the Middle East region in consultation with the concerned countries. During this turbulent time, Bangladesh needs to make a delicate and complex balance between importing oil at a high price by maintaining the long-term bilateral relationship and taking austerity measures to reduce energy consumption without hampering economic development. However, for countries like Nepal, Bhutan, Myanmar, and the northeast part of India, Bangladesh is a strategic country that can play a significant role in the geopolitics of oil and gas. Given its location and access to the sea, its economic strength and potential, and its position as a burgeoning energy consumer, Bangladesh can be a part of the global geopolitics of oil and gas shortly. By attaining a position as a responsible and reliable transit country (through land and water), Bangladesh can also become a critical global player in dynamic energy geopolitics and get many economic, security, and political benefits.

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