



DECARBONISATION AND THE NEW GEOPOLITICS

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Contents

About this paper	iii
About the author	iii
1. Introduction	1
2. Sanctions	2
3. BRICS	8
4. Bretton Woods and beyond	8

About this paper

This paper is edited from the transcript of a talk given by Dr Doshi at the House of Lords on 20 March 2023.

About the author

Dr Tilak K. Doshi is managing director at Doshi Consulting. Dr Doshi is an industry expert, with over 30 years of international work experience in leading oil and gas companies and think tanks.

He has been a visiting senior fellow at the Middle East Institute, National University of Singapore; Chief Economist at the Energy Studies Institute, National University of Singapore; a senior fellow and Program Director at the King Abdullah Petroleum Studies and Research Center (Riyadh, Saudi Arabia); Executive Director for Energy at the Dubai Multicommodities Centre (UAE); a specialist consultant for Saudi Aramco (Dhahran, Saudi Arabia); the Chief Asia Economist for Unocal Corporation (Singapore); and Director for Economic and Industry Analysis at Atlantic Richfield Corporation (Los Angeles, USA).

Dr Doshi is the author of many articles, as well as three books on energy economics, the most recent of which was *Singapore Chronicles: Energy* (Straits Times Press, 2016). He is a Forbes contributor. He has published op-eds in the *Straits Times* (Singapore), *Asia Times*, *The Spectator*, *South China Morning Post*, *Jerusalem Post*, *Business Standard* (India), *RealClearEnergy* and elsewhere.

He received his PhD in economics from the University of Hawaii on a scholarship provided by the East-West Centre. He was granted the 1984 Robert S. McNamara Research Fellow award by World Bank, Washington, DC, and received a distinction for his MA in economics at Victoria University of Wellington, New Zealand.





1. Introduction

I'm going to talk about four separate things. They're all related, of course, but we'll start off with the Russia sanctions and what they have done (or haven't). We'll also look at the impact of sanctions on third parties – countries outside Russia – and I'll spend a bit of time talking about BRICS (not the stuff that goes into buildings, but Brazil, Russia, India, China and South Africa). Lastly, I'll finish with the idea that we have crossed a threshold, one from which it's hard to believe that we could return.

I think we have passed a watershed moment with the Ukraine war. As with other such moments in history, you don't know it has occurred until after it has happened. For a military historian during the Second World War, for example, it would only have been apparent afterwards that a particular battle was the turning point. Looking at the Ukraine war, and what it has done to the global economy, it's hard to think that we will be able to say 'That was a blip', and go back to where we were. The future global financial and energy order will be less efficient, we will have more expensive fuels and, as importantly, we will have greater inequalities of access to fuels, as well as whatever those fuels make possible: food, fertiliser and so on. Remember, energy is not just energy, it's the master resource: it makes possible other resources. My final point is about the transition to what we will call a 'multipolar world'. If you believe that the fall of the Berlin Wall in 1989 signified a unipolar moment, where the US and its allies stood supreme after the end of the Cold War and proved the argument that, in the clash of ideologies between capitalism and communism, capitalism stood supreme. It was 'the end of history', as political scientist Fukuyama argued. We all had to realise that there was one way towards progress and improvement in material life, and that was to go towards a liberal democratic order, as shown to the world by the US and its allies. There are arguments that the world was never truly that unipolar, but even if it was, we are now moving towards a multipolar world, in which the US does not stand in a supreme position. This conflict is already becoming vicious.

The battle lines in economics and politics will be drawn in three separate dimensions going forward. The first dimension is the geopolitical and civilisational one, involving the kind of debate that Francis Fukuyama and Samuel Huntington described as 'wars of civilisation', where motivations and behaviour among nations are determined, not only along geopolitical lines, but also along civilisational ones. What do I mean by this? The West is post-modern (by the West I mean primarily Europe and North America). Most of these countries are not Christian in any real sense. On the other hand, we have a more nationalist, more traditionalist East, including China, India and Japan, as well as Latin America, Africa and Asia. The East also includes Eurasia, where Orthodox Christianity is still a real presence in people's lives. The battle lines will also be drawn along class dimensions. The 'political class' would include both parties. For example, if you look at the Tories and Labour in the UK, there's precious little difference in their positions on

some of the great issues of today; for example, the push to Net Zero and the whole green movement. All of them are part of the elite; they are a professional political class, and one could argue that they in fact live in a bubble separate from what matters to ordinary people. Working folk, the normal folk – in the north of England, people working in factories – may not necessarily be highly educated. So, if we look at a map of the Brexit vote, for example, a consistent pattern is seen: of university towns that voted overwhelmingly against, and other areas, not so ‘afflicted by education’, if you pardon the expression, that voted in favour. The last dimension of these battle lines is an ideological one. The ideology of the Cold War has now been overtaken by a Malthusian narrative (although some people might want to go beyond Malthus and say, after Rousseau, that the true problem of our times is that man is out of tune with benign nature). That Malthusian narrative, try to kill it as we might, never dies. It’s a ghost that we’ve never been able to exorcise.

What is the alternative ideology? I would submit that it’s the prosaic ideology of working life; of saying, ‘Hey, I could be a Hindu, I could be a Christian, I just want to get on with life.’ It means ‘I want the government not to tax me too much. I don’t mind whether I get to elect the Chinese Communist Party, but I want it to give me a break and, if I do well, if I work hard, I will prosper and my children will prosper with me.’ It is a much more prosaic approach to life that says: ‘Let me get on.’ That might not be an ideology, but that seems to be the only alternative to the Malthusian outlook.

2. Sanctions

In the ancient world, sanctions meant sieges. The cover image shows the attack on Carthage by the Romans, and you should note that not only were sieges brutal, but it was the normal people who suffered. If you were rich within a besieged town, you could always buy food and have soldiers guarding your house, but if you were a normal person, you couldn’t get food or medicine, and you suffered. Of course, when the gates opened, the invading force could kill everyone, so everyone suffered in the end, but the normal people suffered most, as in most things.

So, the Russia sanctions are intended to be a ‘siege’ of Russia. After the invasion of the Ukraine in February 2022, the US, the UK, the EU and their allies, such as Japan and South Korea, imposed the most comprehensive financial and economic attack on a sovereign nation seen in recent history. They froze the half of the Russian Central Bank’s foreign exchange reserves that were held offshore, amounting to some \$630 billion. Leading Russian banks were also stopped from accessing SWIFT, the international bank payments system, and if you don’t have access to SWIFT, you can’t send inter-bank payments and take receipts. Since Feb-

ruary 2022, multiple sanctions have been placed on Russian individuals and institutions, but the focus has been particularly on its main export earners, oil and gas, which the allies correctly believed made the Russian economy capable of supporting the war. The economic warfare launched on Russia was meant to devastate its economy, collapse the ruble, and possibly even to lead to the ousting of President Putin; he would either be 'bumped off' by the military or, by popular demand, be thrown out of office in favour of an alternative. Figure 1 shows that, after February 2022, Russia is the most sanctioned country in the world, ahead of a list of the usual suspects: Iran, Syria, North Korea, Belarus, Myanmar and Venezuela.

Figure 1: The world's most sanctioned countries.



A couple more things about sanctions should be noted. Firstly, one needs to distinguish between primary and secondary sanctions. Primary sanctions are restrictions on trade with Russia: 'I'm going to cut you off', - 'I' being the United States. How do I cut you off? You might have assets in the US, and I can expropriate them or stop you from using them. Secondary sanctions, on the other hand, are when I can stop you from accessing US financial institutions, even if you don't have assets in the US. So, if you were overseas and you traded with Russia, I could say, 'Okay, you broke my sanctions and I'm imposing a secondary sanction on you.' You would then not be allowed to have relations with Bank of America, even the Bank of America branch in your own country. Secondary sanctions are what many people are particularly concerned about, because they can be affected, even if they do not have assets in the United States. They may not be

able to access the US dollar and find themselves unable to buy dollar-denominated imports, for example. The other thing about sanctions is that companies impose them unilaterally. So, one thousand or so companies left Russia after the invasion of Ukraine, partly because they wanted to show what good corporate citizens they were. Gucci handbags and Apple iPhones then become much harder to come by in Russia, to the chagrin of the upper classes in Moscow. However, these goods have now been re-routed through Turkey, and can be purchased once again, albeit for a higher price and a little less conveniently.

Figure 2 shows the countries that have applied sanctions: North America, Europe, as well as Australia and New Zealand, Japan and South Korea. Most countries did not participate because they felt, for good reason, that they did not want to be pawns in a global geopolitical rivalry. They also wanted to be able to trade with Russia according to their needs. India, in particular, has been a lightning rod in the debate around sanctions, because it is one of the world's largest importers of energy, and has emerged as a very important buyer of Russian oil. When India's foreign minister was asked whose side India was on, he said, 'I am one fifth of the world population, I am today the fifth or sixth largest economy in the world. I feel I'm entitled to have my own side...I am entitled to weigh my own interest and make my own choices...My choices will not be cynical or transactional, they will be a balance of my values and interests...There is no country in the world which disregards its interests.'

One could say, 'They only want to trade with Russia to get a discount' but I don't think that is the case. Discounts are good to have, but telling people who they can trade with would offend the national sensibilities of most countries. A report by the

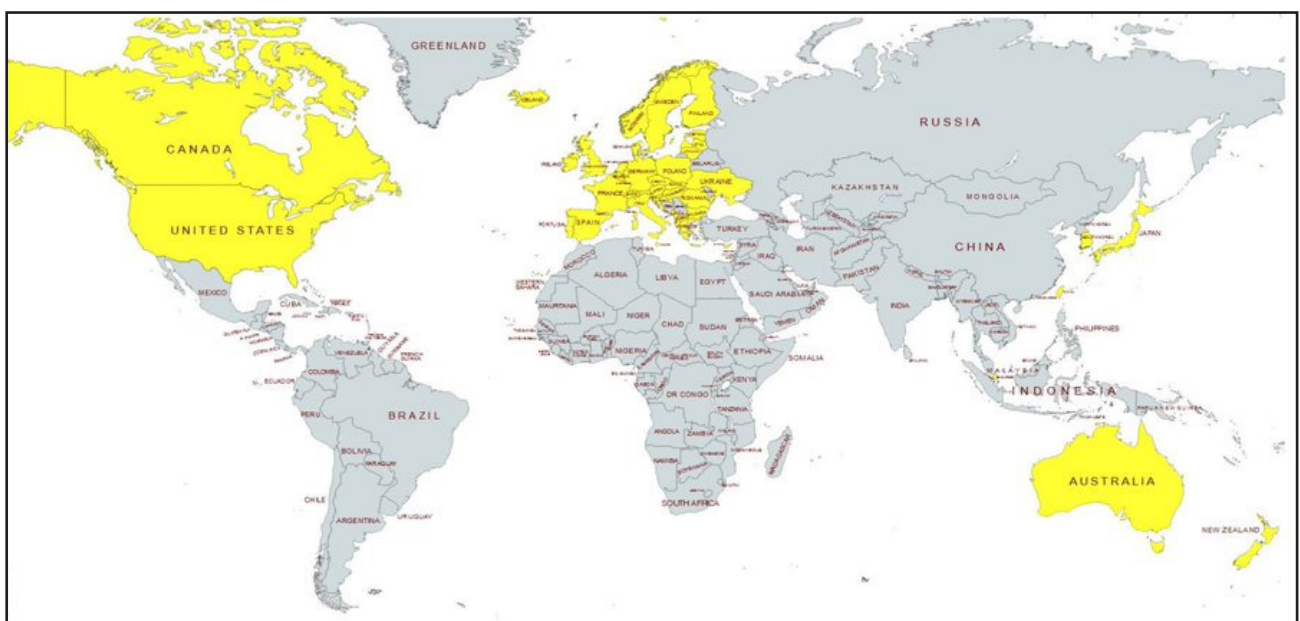
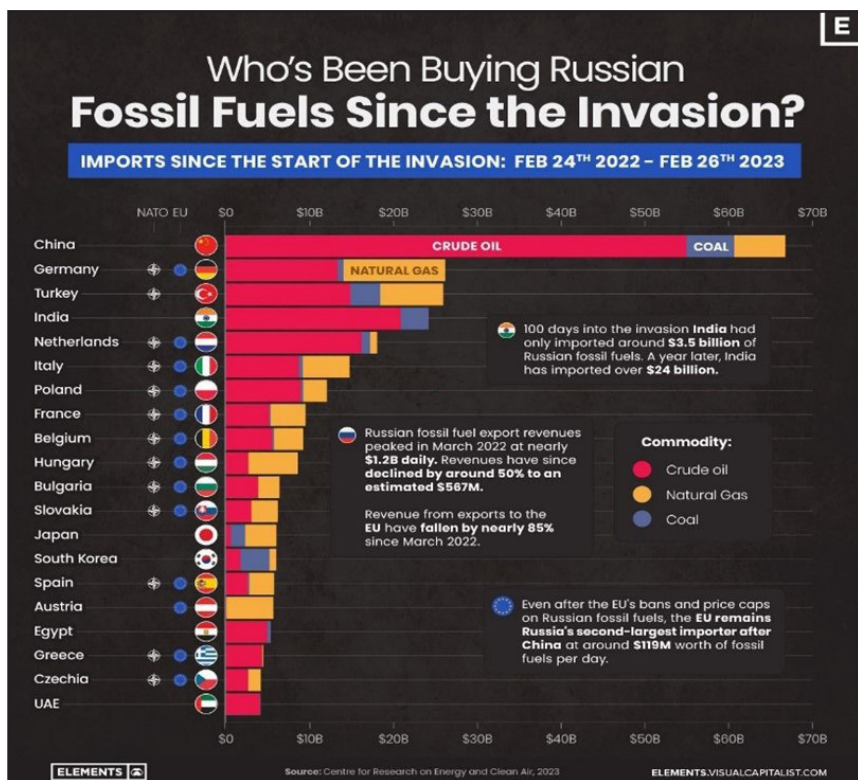


Figure 2: Countries that have applied sanctions to Russia.

Economist Intelligence Unit shows that over the past year many countries have actually moved from being West-leaning – condemning Russia – towards neutrality, or even becoming pro-Russia, as is the case for South Africa, Qatar, Uganda and so on. The countries that are condemning Russia and imposing sanctions represent about 67% of global GDP, because they include the largest economies in the world: Japan, the EU, the US, UK, Canada and so on. However, slicing the world a different way, the neutral or Russia-leaning segment represents about 65% of the global population.

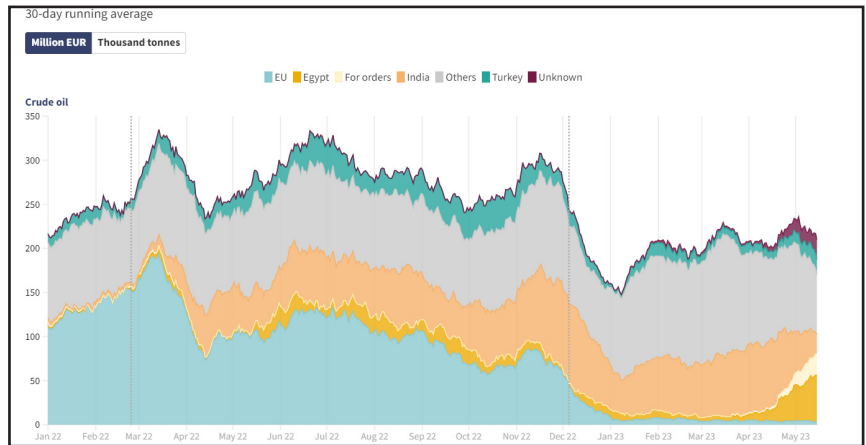
Are the sanctions working? Figure 3 shows who has been buying Russian fossil fuels. China is top, because it is the world’s largest user and importer of fossil fuels. The presence of Germany is surprising because they are fully committed to the sanctions, but it’s not easy to just cut off links at a moment’s notice. So, it has bought significant quantities of gas and oil, and a bit of coal until recently. The non-EU countries on the list include Turkey, India, Japan, South Korea and the UAE.

Figure 3: Countries buying Russian fossil fuels since the invasion.



Looking at the value of fossil fuel shipments from Russia (Figure 4), you can see two dotted vertical lines. The first denotes when Russia invaded Ukraine (February 2022), and the second (December 2022) is when the price cap was attached to Russian fuel exports. The price cap meant that anyone buying Russian oil for more than \$60, and who uses Western ships or insurance, would have sanctions applied to them: they would be barred, and the insurer and the shipping company would also get into trouble. The price cap element acknowledged that, because Rus-

Figure 4: Russian fossil fuel shipments by destination

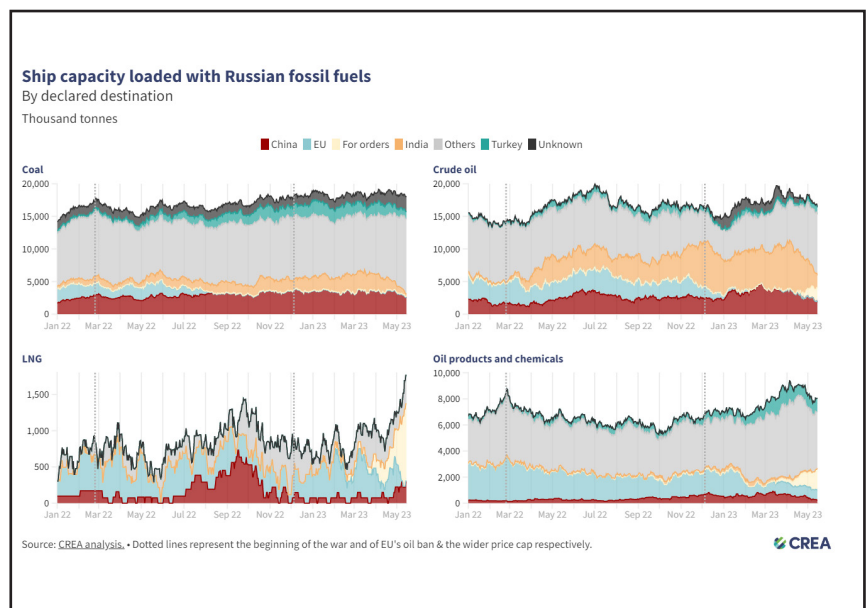


asia is such a large producer of fossil fuels, they could not be cut off altogether. If those fuels failed to reach the market, oil and gas prices would explode and we'd all suffer. Applying the price cap meant that they at least wouldn't make too much money, which they might use to continue the war in Ukraine indefinitely.

Figure 5 shows that, following the introduction of the price cap, crude prices went down, but Russia kept exporting approximately the same volumes. It also shows that Russia's customers came from different countries. In crude oil, India emerged as a major buyer. The EU portion initially became somewhat smaller, and then significantly smaller after December 2022. China and 'Others' remained important, but there was no noticeable difference in Chinese purchases over this period.

The other thing I wanted to point out is the trends for Russian liquefied natural gas (LNG), which is exported by ship. China has emerged as a major buyer, but a lot of its purchases were redirected back to Europe; you can see the decrease of LNG imports into China. Delivering Russian LNG to Europe via China is highly inefficient. Oil is 'fungible'. If you can't sell it in one place, you will sell it in another, and a broker or trader will do this for you. So oil readily finds its way around sanctions. The top five in-

Figure 5: Russian fossil fuel shipments by destination



creases of Russian oil cargo imports over this period were seen in India, China, Turkey, Italy and the UAE. Some of this has been redirected: India did very well out of it by refining Russian oil and reselling diesel and the refined products to the US and to Europe, who did not complain too loudly, because it would have been too embarrassing to highlight the kind of detour the oil was taking.

It's hard to know at what prices Russian crude is being sold. The prices are opaque: traders don't want to say too much, and there's all kinds of under-invoicing that goes on. These are all tricks of the trade. The Russian ruble did not turn to rubble, as President Biden wanted it to. It lost half its value immediately after the invasion, but by May 2022, it was one of the best performing currencies in the world. That year, Russia posted its largest current account surplus, partly due to suppression of imports, but also because the adverse effects on its exports, in particular its energy exports, were minimal; as we have seen, it could substitute other customers. Finally, the IMF upgraded its forecast of Russia's economic growth this year from a 2.3% contraction to a 0.3% expansion – better than forecasts for Germany and the UK.

So are sanctions really wrecking life in Russia? The newspapers have been full of pictures of empty supermarket shelves in the UK. I've had problems getting eggs now and then here in London, but it's not too bad. But there are also plenty of pictures of overflowing supermarket shelves in Russia. There are other factors in play, of course. England gets some of its vegetables from Morocco, which saw frosts and bad weather. Moreover the price of energy has gone up so much that many greenhouses in Europe have been shut down.

Here are some news headlines from just after the Russian invasion in 2022:

Business Insider, March 4th: 'Russia's war against Ukraine could spiral into the world's worst energy crisis since the 1970s, a top economic historian says'

Financial Times, April 21st: 'Worst crisis since the second world war: Germany prepares for a Russian gas embargo'

Sydney Morning Herald, May 17th: "'Apocalyptic" food shortage threatens, says Bank of England governor'

United Nations, May 19th: 'Forty-nine million people in 43 countries one step away from famine, Secretary-General warns in briefing to Security Council on conflict, food security'

So, the Ukraine war has had global ramifications, and, just to focus in on Germany, the epicentre of it all, we've all heard about the government telling its people to save on hot baths and use a wet towel instead. Luckily, the winter wasn't too cold, but Germany is either in the midst of a recession or is facing one. Its energy

prices are very high, and it faces a looming threat of de-industrialisation. We should note that Russia is not an Iran, or a Myanmar, or a Venezuela; it is 'a full spectrum commodity superpower, less vulnerable to sanctions than Europe itself', in the words of Ambrose Evans-Pritchard, a *Daily Telegraph* journalist. Russia is a major food producer and the world's largest meat exporter. Ukraine also happens to be quite important in agriculture, but Russia is the world's largest wheat exporter, the largest fertiliser exporter, the largest aluminium exporter, the fourth or fifth largest iron and steel exporter (depending on whether you consider the EU one country or not), and is also important in a range of other industrial metals, some of which are very important to renewable energy. And most importantly, it is the world's largest gas exporter, the second largest oil exporter, and the third largest coal exporter.

3. BRICS

A word on BRICS. As I've mentioned, this is a bloc of five countries – Brazil, Russia, India, China and South Africa – but other countries have either applied or expressed an interest in joining, the most interesting of which are Saudi Arabia and Iran, both of which are powerhouses in terms of energy exports. Now that these two countries have resumed diplomatic contacts, an arrangement brokered by China, it may well be that they do eventually join up, in which case BRICS will become a major geopolitical group. It is already larger than the G7 in terms of GDP. China is by far the largest member of BRICS, accounting for 70% of the group's total GDP. Trade among the BRICS countries has not been particularly important in the past, but with the outbreak of the Ukraine war, the movement of Russian oil and gas towards Asia has made BRICS very important as a trading bloc. Now, it may start looking at creating its own currency. It has already got its own bank, and it will try to see whether it can create a system that does not use US dollars, or is at least less exposed to them.

4. Bretton Woods and beyond

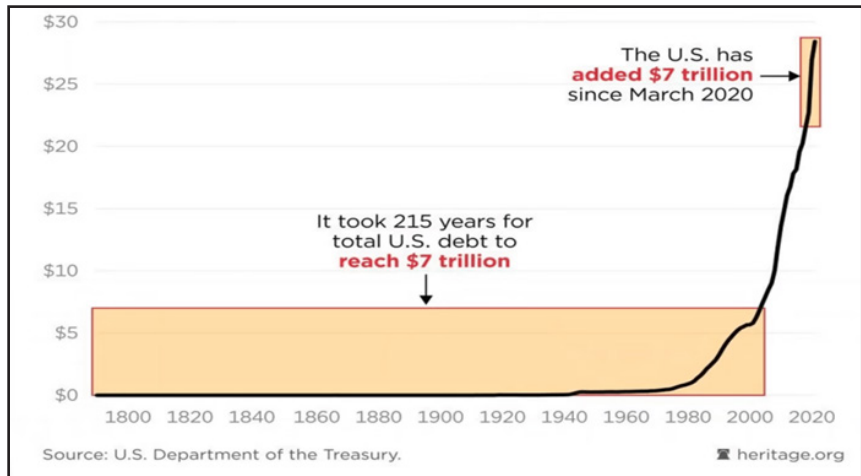
The period since the Second World War to the 1970s was glorious in economic terms – the world prospered. The US dollar was the international currency, and it was backed by gold. It was assumed that the US would protect Saudi Arabia, which in turn would sell its oil to the rest of the world in an open manner and paid for by US dollars. In 1971, President Richard Nixon took the dollar off the gold standard, and it became a fiat currency. In other words, the only thing now stopping the US dollar from being printed to excess is the US Fed itself. It can print more dollars if it wants to.

In 1973, Saudi Arabia agreed to price its oil in dollars, and would only accept payments in that currency. For the rest of the

world, the US dollar offered a store of value, because it allowed purchase of US treasuries, which meant interest payments, and and expectation that the Fed would never default. Of course, there was an unhedgeable risk of expropriation; if the US didn't like you, they could seize your assets. But allies and those who were neutral felt safe, because defaulting would damage the Fed's credibility.

Nowadays, there is a suggestion that we will soon adopt a kind of Bretton Woods III system,* with competing currency blocs, widespread use of non-US currencies backed by commodity exports, and with gold increasingly important in global trade. We will see whether that happens or not. The IMF said that sanctions on Russia could erode the dollar's dominance, meaning that they would hurt those imposing the sanctions more than the intended target. Figure 6 shows the US national debt. It took the US 215 years to reach its first \$7 trillion debt. Since March 2020, it has added another \$7 trillion. The only thing that gives you the promise of dollar value is the US Fed, its 'full faith and credit'.

Figure 6: UN national debt



The US dollar is not going to be replaced anytime soon, but a process of bifurcation is already taking place, and commodity blocs and currency blocs that limit the exposure to US dollars and the US financial system will be increasingly important. A couple of other things should be noted. Firstly, India's purchases of Russian oil have used other currencies, not the US dollar. Secondly, Saudi Arabia has been extensively quoted as saying that they're considering using non-US dollar currencies as payment for their oil. That would be a very aggressive move. We can only wait and see whether they mean it. What is the future going to look like? In Europe, the loss of cheap Russian gas is irreversible because the pipelines are gone. They can be repaired, but repairing the damage to trust and credibility is more difficult. The US has gained a massive competitive advantage over Europe, which can no longer sustain a manufacturing sector given its high energy costs. As

* Bretton Woods I: 1945–71; Bretton Woods II: after 1971.

a result, it has become a vassal of the US in a real sense. Developing countries face more expensive energy, and lower economic growth. The Russia-China axis is always contentious, and we can never predict how things will proceed. They are major powers, but their interests are complementary: Russia has got the natural resources, China has got the finance and the manufacturing base. Will they become an axis that is increasingly united? We don't know; there will always be tensions between them, but they will certainly become a major geopolitical factor. India has non-aligned status and it has its own problems with China with reference to their border disputes. It too will play an important role.

Finally, I'll end by saying the Malthusian ideology remains a determinant of energy policy. It adversely affects our lives and our economies. It also affects relations between a globalising West and an increasingly assertive East in a multipolar world.



For further information about Net Zero Watch and the Global Warming Policy Forum, please visit our website at www.netzerowatch.com.

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