The Oil Wars Myth

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WHY CLASSIC OIL WARS DO NOT PAY

The value of oil has a way of warping human logic.

—Brian Black, Petrolia (2000)

The oil wars myth, like the Mad Max and El Dorado myths, rests on a fundamental assumption: that fighting for resources pays. Aggression can fulfill a country’s resource needs, as depicted by the Mad Max myth. Or it can satisfy a country’s resource greed, as portrayed in the El Dorado myth. Both of these storylines intimate that the payoffs from classic oil wars are high. This assumption makes intuitive sense if we focus on petroleum’s value. Of all natural resources, it is the most important for state survival: vital to national military performance and economic productivity. Oil can also be a source of extraordinary wealth; many countries obtain enormous profits by exploiting their petroleum resources. Accordingly, it seems logical to presume that fighting for oil is worth the effort. Given the resource’s exceptional value, how could it not be?

Contesting this foundational assumption, I argue that classic oil wars do not pay. Although petroleum is an extremely valuable resource, there are numerous, underappreciated obstacles to seizing and exploiting foreign oil. I group these impediments into four categories: invasion obstacles, occupation obstacles, international obstacles, and investment obstacles. Each set of obstacles limits the oil resources and revenue (the petroleum payoffs) that an aggressor can obtain by seizing oil-endowed territories. These obstacles constrict petroleum payoffs in a variety of ways, including by decreasing oil production, interrupting oil transportation, depressing oil sales, and raising the costs of oil exploitation. When all four sets of obstacles are taken into account, the petroleum payoffs of international aggression decline dramatically and, often, disappear entirely.¹
Recognizing these limited payoffs, states are reluctant to fight for oil. Classic oil wars—severe militarized interstate conflicts driven largely by participants’ desire to obtain petroleum resources—are therefore implausible. States may engage in mild sparring to advance their petroleum ambitions. Alternatively, oil aspirations may be a marginal, additional incentive in wars fought predominantly for other reasons. However, states’ overall willingness to trade blood for oil is far more circumscribed than most people have imagined.

In discussing the obstacles to classic oil wars, I draw extensively from liberal contributions to the value of conquest debate, demonstrating that many of these arguments, previously applied primarily to advanced, industrialized countries, are equally relevant for oil-endowed states in the contemporary international system. I also present historical examples of invasion, occupation, international, and investment obstacles from interstate and intrastate conflicts to illustrate how each set of impediments limits the payoffs of fighting for oil.

Together, the chapter’s deductive logic and empirical examples demonstrate that oil war believers, overawed by petroleum’s extraordinary value, have overestimated the utility of fighting for it. Classic oil wars are not an effective way to obtain additional petroleum resources or revenue, either for producer states—those, like Iraq and Russia, that are net exporters of oil—or for consumer states, like France and Japan, that are net importers. Neither type of country can satisfy its oil needs or oil greed by launching a classic oil war. Contrary to popular assumptions, these conflicts do not pay, economically or militarily.

**Obstacles to Classic Oil Wars**

To align my argument with the value of conquest debate, this chapter initially considers a conquest scenario. In it, an aggressor state invades a target state to seize its oil resources. The aggressor therefore violates the target’s territorial sovereignty to gain control over petroleum reservoirs. If the invasion is successful, the aggressor occupies the seized territory and attempts to exploit its oil or natural gas resources. Since conquest scenarios entail the most severe obstacles to classic oil wars, they provide the strongest challenge to the assumption that these conflicts pay. Later in the chapter, I broaden the discussion to consider a dispute scenario, in which two or more countries fight over petroleum resources in contested territories. The obstacles to classic oil wars decline in this scenario, because resource sovereignty is initially ambiguous. However, the impediments are still much greater than oil war believers have acknowledged.

I also recognize that the severity of each of the four types of obstacles fluctuates, temporally and geographically, in both scenarios. Some time periods have
provided more permissive conditions for classic oil wars, with aggression offering more enticing petroleum payoffs. In addition, some prospective aggressors face fewer obstacles to seizing and exploiting foreign oil, making these impediments less of a deterrent. Nonetheless, these variations fail to alter the chapter’s overall conclusion: that classic oil wars are not an appealing enterprise.

Invasion Obstacles

Envisioning the oil industry, we immediately think of infrastructure. A timbered oil derrick pierced by a geyser of black crude. A pumpjack nodding up and down, drawing oil out of a subterranean reservoir. An oil refinery’s massive, steel tangle of pipes and towers, along with its array of giant, gleaming storage tanks. Metal pipelines snaking through the wilderness. Together, these individual facilities create massive networks of petroleum infrastructure, which must remain operational to sustain a country’s oil output.

In a classic oil war, petroleum infrastructure is vulnerable to military attacks. When an aggressor invades oil-endowed territories, it is likely to damage at least a portion of its target’s petroleum installations. Most oil facilities are fixed assets, so they cannot flee in the face of an invasion. Nor can they be easily disguised; their function is obvious, even to casual observers. Some facilities, like storage tanks, are also highly flammable. Moreover, oil infrastructure is widely dispersed; oil fields may be located hundreds of miles from processing centers and export facilities. Thus, regardless of which parts of a territory an aggressor attacks, some of its target’s oil industry is likely to be in the line of fire. In addition, if the aggressor is an oil producer, its own petroleum infrastructure may be damaged during a classic oil war.

Invasion obstacles are therefore the damage to petroleum infrastructure caused by oil conquest. These obstacles reduce the petroleum payoffs of classic oil wars by diminishing the belligerents’ petroleum output. When oil infrastructure is damaged, less crude is extracted from oil fields or processed in refineries. In addition, damage to pipelines, railways, and ports inhibits oil transportation. Because of this destruction, fewer resources are available for domestic consumption and foreign export. Consequently, even if a conqueror successfully seizes foreign oil fields, the resources and revenue that it can immediately capture are limited. Contrary to the expectations of oil war believers, there is no “one-time opportunity for looting” in classic oil wars. An aggressor cannot simply invade an oil-endowed territory, quickly grab its crude, and go home.

This observation flies in the face of previous claims about the value of seizing foreign petroleum resources. Oil war believers have assumed that oil, like other primary commodities, is relatively easy to exploit because, unlike human resources
and capital, it cannot flee following a foreign invasion. As Martin McGuire asserts, “Seizing gold, rubber, minerals, lumber, or other natural resources must surely be less costly than enlisting sufficient cooperation from an enslaved population to produce electronic parts, computer programs, or reliable transportation.” The immediate gains from conquest, they surmise, must therefore be large. However, this assumption ignores the petroleum industry’s complexity and vulnerability. Because of its particular physical and political economic properties, oil is not a highly lootable resource.

There are five ways that invasion can damage oil industry infrastructure, thereby reducing belligerents’ oil output and a classic oil war’s petroleum payoffs. An aggressor can accidentally or deliberately damage its target’s oil infrastructure. A target can accidentally or deliberately damage its attacker’s oil infrastructure. Or a target can deliberately damage its own oil infrastructure.

In the first pathway, an aggressor aims to capture the target’s oil industry intact, in order to maximize the immediate petroleum payoffs of invading. However, during its seizure of oil-endowed territories, the aggressor may accidentally damage its target’s oil installations. Military attacks are unpredictable; bombing and artillery barrages can miss their marks. During World War II, some US bombing campaigns hit their intended objectives only 13 percent of the time. Although targeting technologies have improved dramatically since the 1940s, oil facilities can still be vulnerable if they are located near intended targets. Alternatively, outdated maps may cause an aggressor to inadvertently strike oil installations when it meant to hit something else. Attacks on multiuse facilities, such as roads, railways, and ports, can also reduce petroleum payoffs. Although an aggressor may target those facilities primarily to impede the movements of materiel and military personnel, damaging them will also disrupt oil transportation, causing the aggressor’s petroleum payoffs to decline.

In the second pathway, an aggressor deliberately damages its target’s oil infrastructure. This pathway initially appears counterintuitive. If a state is prosecuting a classic oil war, aimed at grabbing petroleum resources, why would it harm its target’s oil installations? However, for an oil grab to succeed, an aggressor must achieve a military victory. Damaging the target’s oil industry can expedite this goal. By interrupting oil extraction, processing, and transportation, attacks on oil infrastructure reduce a target’s petroleum output and sales, thereby diminishing its resource revenue and the volume of petroleum products that are available for local military and civilian consumption. This resource denial compromises the target’s ability to defend itself, increasing the likelihood of its defeat.

Iraq employed this second tactic in the Iran–Iraq War (1980–1988). In the early days of the conflict, the Iraqi air force attacked Iran’s massive oil refinery at Abadan, destroying much of the facility. The Iraqis also hit Iranian installations
at Bandar-e Khomeini and on Kharg Island, suspending exports from the latter for two months. As a result of these attacks, Iran’s oil output dropped by two-thirds between August and October 1980 and the state’s oil revenue declined significantly. These losses may have increased Iraq’s chances of victory. However, they also meant that, had the Iraqis seized Iranian oil fields in the war’s opening months, their immediate petroleum payoffs would have been small.

The third and fourth pathways entail damage to the aggressor’s oil industry. If the conqueror is an oil producer and its facilities are located within range of the target state’s artillery or air force, then its infrastructure, too, may be damaged during a classic oil war. In the third pathway, this effect is accidental. If the target retaliates indiscriminately for foreign aggression, striking anything that is within range, some of its random barrages may hit the aggressor’s oil installations, thereby reducing the invader’s oil output, consumption, and sales. In the fourth pathway, these retaliatory strikes are deliberate. The target aims to damage its attacker’s oil facilities in order to lessen the aggressor’s chances of victory.

Iran employed the fourth tactic in the Iran–Iraq War. Retaliating against Iraqi attacks, the Iranian air force assaulted pipelines, pumping stations, and refineries at Basra, Kirkuk, and Mosul, as well as Iraq’s oil export terminals in the Persian Gulf. These assaults damaged 30 percent of oil infrastructure in Iraq’s northern and southern fields, halted oil exports through the Gulf, and suspended pipeline-based exports through Turkey and Syria. Because of these attacks, between August and October 1980, Iraq’s oil output dropped by 95 percent. The disruption was so extensive that an Iraqi victory, in the early months of the war, would have been “reverse cumulative”; the state’s total petroleum payoffs, from domestic and Iranian fields, would have been lower than its domestic output before the war. Fighting for oil would initially have resulted in a net loss.

The final, and perhaps most effective, way that petroleum infrastructure can be damaged during an invasion is by the target state deliberately attacking its own oil industry. A target’s goal, in harming its own facilities, is to deny petroleum resources and revenue to its conqueror. Targets resort to self-sabotage when they believe that their defeat is imminent. Historically, this tactic has been a popular response to invasions of oil-rich territories. Romania employed it during World War I. In November 1916, with German forces poised to seize their oil fields, destruction teams blocked oil wells, wrecked equipment, exploded storage tanks, flooded refineries with petroleum products, and set them ablaze. During World War II, Russian forces destroyed oil fields and infrastructure at Maikop, in the Caucasus, before German troops’ arrival. In advance of Japan’s invasion of Borneo in 1942, employees of Royal Dutch Shell blew up oil wells, tanks, and docks and demolished the Balikpapan refinery. In southern Sumatra, Standard–Vacuum Oil Company employees attacked the Soengi Gerong refinery, plugged
oil wells, and destroyed pipelines. More recently, during Operation Desert Storm (1991), retreating Iraqi forces set fire to over seven hundred Kuwaiti oil wells and damaged drilling machinery, oil gathering centers, and refineries.

Self-sabotage is easy to implement. At Balikpapan, 120 men perpetrated all of the damage over the course of a few days. The destruction in Romania in 1916 was similarly rapid. Retreating Iraqi forces damaged Kuwaiti fields and facilities in spite of the US-led coalition’s withering air campaign. In addition, self-sabotage can be quite effective at reducing short-term oil output. During World War I, it took German forces five months to begin extracting oil from damaged Romanian fields. For another six months, output lagged at one-third of its prewar level. In World War II, it took Japan a year to return the Dutch East Indies’ oil production to 60 percent of preinvasion levels, in spite of the deployment of over 70 percent of its trained oil field workers to the region. The last oil well fire in Kuwait was extinguished nine months after Iraq’s withdrawal, and it took more than two years to fully restore the state’s petroleum production.

Invasion obstacles are therefore incurred in a variety of ways. Some of the pathways have greater impact than others in terms of reducing the short-term petroleum payoffs of classic oil wars. Deliberate attacks, for example, are likely to reduce oil output and revenue more than accidental strikes. Moreover, some facilities are easier to damage than others, and some aggressors have greater control over their targeting. Nonetheless, the historical examples suggest that there is significant scope for reducing the immediate payoffs of fighting for oil, especially when multiple pathways operate within the same war.

Invasion obstacles, on their own, can eventually be overcome. Should no other impediments arise, aggressors can repair wartime damage to oil infrastructure, thereby restoring seized territories’ petroleum output to preconflict levels. As the historical examples indicate, this process may take a while. In addition, the costs of rebuilding impinge on an aggressor’s resource revenue, as the state must recoup reconstruction expenses before it can begin to profit from the restored oil industry. Still, invasion obstacles’ transitory nature distinguishes them from the other three types of impediments. Occupation, international, and investment obstacles persist over the long term.

**Occupation Obstacles**

During the night of June 19, 2008, a small group of armed Nigerian militants raced across the waters of the Gulf of Guinea. Their speedboats were heading toward the Shell Oil Company’s Bonga oil platform, seventy-five miles offshore. When they arrived at the facility, the group was unable to access the main control room as planned. However, as a result of the attack, Shell declared force majeure, shutting
in 225,000 barrels per day of oil production. With one strike, the Movement for the Emancipation of the Niger Delta (MEND) had taken 10 percent of Nigeria’s oil output offline.\textsuperscript{17}

The Bonga incident did not occur in the context of a classic oil war. MEND was challenging its own central government, not a foreign country. However, the incident is illustrative of the second set of impediments facing prospective prosecutors of classic oil wars: occupation obstacles. Because of the difficulty of looting oil resources in the immediate aftermath of an invasion, an aggressor that wishes to exploit seized oil fields must be prepared to occupy them for many years, if not decades. During its occupation, the aggressor is likely to face intense local resistance. Hostility toward foreign occupations is intense, and the local population of a conquered territory can channel its opposition into attacks on the petroleum industry. Occupation obstacles are therefore the damage to the oil industry caused by local resistance, as well as the costs an occupier incurs to discourage these attacks. This set of obstacles can significantly reduce the petroleum payoffs of classic oil wars.

Contributors to the value of conquest debate have emphasized local opposition when explaining why conquest no longer pays. They observe that, since the early nineteenth century, nationalism has become an increasingly potent force in domestic and international politics. As individuals’ attachment to their national identities has strengthened, so has their hostility to foreign rule.\textsuperscript{18} As Klaus Knorr states, “The simple fact is that foreign rule by force of arms is no longer tolerable, and is universally regarded as illegitimate.”\textsuperscript{19} To demonstrate their opposition, local populations challenge foreign occupations, often forcefully. Since nationalism is “a potent unifying force,” this resistance can be very effective in reducing the payoffs of conquest.\textsuperscript{20}

Authors have not, however, applied this argument to oil-endowed territories. Some merely observe that nationalism intensifies local resistance in advanced, industrialized societies. Others acknowledge that local resistance also reduces the payoffs of seizing primary commodity-producing countries in general.\textsuperscript{21} Yet this obstacle is ignored when oil war believers claim that fighting for petroleum pays.\textsuperscript{22}

The omission is unjustified. Nationalism is a potent force in oil-producing states, as well as other countries. By the end of World War II, when oil production began to significantly expand worldwide, the principle of national self-determination had been widely embraced. Many major oil-producing countries, including Saudi Arabia, Iran, Mexico, and Venezuela, have been independent for the entire duration of their oil production. Even the smallest Persian Gulf states, including Kuwait and the United Arab Emirates, became independent in the 1960s and 1970s. Once they were free of foreign rule, the populations of these countries were as likely as others to resist foreign occupation.
The oil industry, moreover, has historically been a flashpoint for nationalist resistance. In many oil-producing countries, the industry is associated with a legacy of foreign exploitation. During the early twentieth century, as the global oil industry was developing, it was dominated by companies from the United States and Western Europe. These “majors” established decades-long concessions agreements with local leaders, which gave the companies control over oil resources, exploration, production, pricing, and sales.\(^\text{23}\) Host governments received only a fraction of resource revenue. Over time, resentment of this foreign domination grew and governments began taking action to overturn it. Bolivia nationalized its oil industry in 1937, reclaiming authority over oil resources and production. Mexico followed suit in 1938. In the late 1940s, other producers began to demand a larger share of resource revenue from foreign oil companies. Nationalizations accelerated in the 1960s, and by the mid-1970s, the transition had become a rout; host governments had regained control over their oil.\(^\text{24}\)

Having recovered this authority, producers resist giving it up. Governments and local populations of oil-producing states are very sensitive to any developments that undermine national control over oil resources or production decisions. In 2012, when the Mexican government lifted its seventy-five-year-old ban on foreign investment in the state’s petroleum industry, domestic opposition was intense.\(^\text{25}\) In the wake of the 2015 Iranian nuclear deal (the Joint Comprehensive Plan of Action), the country’s most conservative leaders resisted outside involvement in the national oil industry, even as other officials insisted that foreign capital was required to revive production.\(^\text{26}\) Saudi Arabia’s 2016 proposal for an IPO of 5 percent of its national oil company, Saudi Aramco, also triggered significant domestic opposition.\(^\text{27}\) States are loath to cede too much control over national petroleum policy to outside parties.

Local actors, fighting against a foreign occupation, are likely to attack oil infrastructure for pragmatic reasons, as well as symbolic ones. As noted in the discussion of invasion obstacles, the oil industry consists of vulnerable fixed assets. These facilities are therefore logical targets for local resistance. In addition, the oil industry is exceptionally valuable. When deciding whether to sustain an occupation or withdraw, a conqueror will give substantial weight to expected petroleum payoffs. If occupation obstacles are large enough, the aggressor may conclude that maintaining its hold on seized territory is no longer worth the effort. This rationale led Osama bin Laden to instruct al-Qaida members to target Iraq’s oil industry in the aftermath of the 2003 US invasion. Bin Laden assumed that, if his supporters were able to persistently impede the country’s oil production, the United States would withdraw.\(^\text{28}\)

Local opposition groups can target the oil industry in a number of ways. First, they can attack oil company personnel. This tactic is regularly used by rebel groups
in civil wars and by transnational insurgent groups. According to one data set, between 1980 and 2011, nonstate actors attacked oil company employees over 350 times.\textsuperscript{29} Some of these attacks aim to kill employees, thereby terrorizing the company’s remaining personnel and driving them out of the country. In 2004, members of al-Qaida in the Arabian Peninsula employed this tactic, assaulting residential compounds in Khobar, Saudi Arabia, and the offices of ABB Lummus, a chemical engineering company, in Yanbu. The attacks killed twenty-nine civilians, and in their aftermath, ABB Lummus pulled all of its foreign employees out of the country.\textsuperscript{30}

In other attacks, rebels hold oil industry personnel for ransom. In Colombia, the FARC (Revolutionary Armed Forces of Colombia) and the ELN (National Liberation Movement) began kidnapping and ransoming oil company employees in the 1980s, as the Caño Limon pipeline was being constructed.\textsuperscript{31} Opposition groups in the Niger Delta have also used this tactic extensively since the 1990s, leading some oil companies to shut down operations in the region. Despite the enormous value of the Delta’s oil resources, they decided that exploiting them was not worth the security risks.\textsuperscript{32}

Second, opposition groups can target oil production and transportation infrastructure. Transportation networks, including pipelines and pumping stations, are particularly popular targets because of their accessibility and the ease of attacks.\textsuperscript{33} In Colombia, in 2001 alone, the Caño Limon pipeline was bombed over 170 times.\textsuperscript{34} In the Niger Delta, insurgents regularly tap oil pipelines to siphon off crude. Pipeline attacks also proliferated in Iraq following the 2003 invasion, shutting down oil transportation along the country’s northern export corridor from 2003 to 2007.\textsuperscript{35}

In addition, opposition groups have targeted oil-processing facilities. In 2006, al-Qaida insurgents attacked Saudi Arabia’s Abqaiq stabilization facility with explosive-laden trucks.\textsuperscript{36} From 2014 to 2015, Islamic State militants attempted to seize and hold Iraq’s Baiji oil refinery, which handled one-third of the country’s crude oil. Although the insurgents were eventually forced out of the refinery, their clashes with Iraqi security forces were equally effective at interrupting oil processing. The refinery shut down in 2014 and was largely destroyed by the time the prolonged battled ended in October 2015.\textsuperscript{37}

The impact of infrastructure attacks on an occupied country’s oil output varies. Some types of oil facilities are easier to damage than others. One person armed with simple explosives can render a pipeline inoperable, while a larger, more complex facility can be difficult to disable.\textsuperscript{38} Yet rebels have managed to shut down a number of facilities that were previously thought to be impregnable to local attacks. MEND’s assault on the Bonga oil platform, for example, was a shock to in-
Industry observers, who believed that such a strike was beyond the organization’s capabilities.

Some countries’ oil industries are also more vulnerable than others. If petroleum infrastructure is highly redundant, with multiple facilities performing the same functions, damage to one portion of the network has limited impact on oil output. Most individual attacks on Saudi Arabian oil infrastructure, for example, would not cause much disruption to the system as a whole. In contrast, in less redundant systems, a single attack can create large interruptions. Sudan has the ability to block the entirety of South Sudan’s oil exports simply by shutting down the single pipeline that traverses both states.

Some countries’ industries are also better protected than others. Al-Qaida’s 2006 attack on Abqaiq had limited impact because of Saudi Arabia’s robust defensive systems for its oil installations. Although one truck was able to penetrate the facility’s outer perimeter, it was stopped at a second gate, far from the main stabilization facilities, where its explosion caused little damage. The Saudis also closely monitor their pipeline network, enabling them to restore oil flows quickly following attacks. At the opposite end of the spectrum is Nigeria, a country with weak oil industry defenses, where MEND’s attacks cut national output by up to 28 percent.

Recognizing this variation, an aggressor can limit the impact of local attacks and sustain oil output by reducing an occupied industry’s vulnerabilities. The occupier can increase personnel protection, strengthen infrastructure defense systems, and add network redundancies. In Colombia, assaults on the Caño Limon pipeline dipped significantly from 2002 to 2004, after government forces, supported by the United States, increased their presence in the area. The United States also revived oil transportation in northern Iraq by summer 2007 by establishing heavily defended “pipeline exclusion zones.” Alternatively, occupiers can discourage local attacks by buying off insurgents. The Nigerian state’s 2009 cease-fire agreement with Delta rebels included provisions for political amnesty, payments to opposition members, and contracts to provide security for the facilities they had previously attacked. Following the accord, assaults on the oil industry declined dramatically.

These defensive measures can therefore sustain oil output. However, they are costly. Consequently, although oil may flow, the economic payoffs of occupying petroleum-endowed territories are still compromised. Moreover, these occupation obstacles persist as long as the conqueror holds seized fields, as any lapses will result in renewed violence. In 2016, after a collapse in international oil prices led to a significant drop in state revenue, the Nigerian government decreased funding for its amnesty program by 70 percent, reducing payments to former
militants. In response to these cutbacks, a new opposition group, the Niger Delta Avengers, emerged and revived attacks on the petroleum industry, lowering Nigeria’s oil output by 750,000 barrels per day. The interruptions were so significant that, later that year, the government restored previous payment levels, in spite of the burden this placed on the national treasury.

As these examples from civil conflicts show, occupation obstacles can be extensive, even when rebels are only challenging their own governments. In foreign occupations, local resistance is likely to be even more pronounced and effective at disrupting oil output. Whereas, in civil wars, only a portion of the population challenges the ruling government, in an occupation, opposition is likely to be virtually universal. Buying off the population is therefore impractical; the costs are too high. Increasing infrastructure protection is also less productive. Because of their broad-based support, opposition groups can launch more frequent, extensive, and effective attacks. As Eugene Gholz and Daryl G. Press observe, “A successful terrorist campaign in Saudi Arabia, involving repeated attacks on the kingdom’s terminals, pipeline junctions, and pumping facilities, could . . . keep vast quantities of oil off the market.”

In a foreign occupation, opposition groups also have more tools at their disposal for reducing a conqueror’s petroleum payoffs. Since hostility is widespread, the opposition is likely to include current oil industry employees, who can interrupt extraction through work slowdowns and stoppages, generating massive drops in oil production. An antigovernment strike in Iran from 1978 to 1979 reduced national oil output by almost 90 percent. In Venezuela, strikes from 2002 to 2003 lowered oil production by almost 80 percent. Oil company employees can also constrain oil output through sabotage. Since they have access to production and transportation facilities and understand their vulnerabilities, they can design and execute more effective attacks. Several participants in al-Qaida’s 2004 attacks in Yanbu, Saudi Arabia, were employees of the engineering company they assaulted; their status gave them easy access to the firm’s office.

An occupier can attempt to reduce the impacts of industry strikes and sabotage by monitoring local employees and imposing punishments for work interference and attacks. Alternatively, it can replace local employees with its own or third-country nationals. These responses reduce the likelihood of in-house sabotage and strikes. However, like other defensive measures, they impose additional costs on oil production. Monitoring is expensive, punishment breeds resentment, and foreign workers need time to familiarize themselves with local systems in order to operate them efficiently. Meanwhile, former oil industry employees can continue to use their knowledge of the oil industry to design and execute attacks.
Local resistance significantly lowers the petroleum payoffs of classic oil wars. An occupier must either accept major constraints on its oil output or pay generously in hopes of preventing those losses. These occupation obstacles discourage prospective aggressors from seizing foreign oil resources. Historically, even great powers have been deterred by these impediments. In late 1974 to 1975, during the first energy crisis, US officials debated sending troops to Saudi Arabia or Libya to seize oil fields and enhance American energy security. However, military officers balked at the idea, largely because of the prospect of intense local resistance. Although the United States might be able to seize the fields and restore operations, they asserted, the “problems of maintaining intervention” would be extreme. As a result of occupation obstacles, grabbing foreign oil was not worth the effort.

International Obstacles

When Saddam Hussein invaded Kuwait on August 2, 1990, the international community responded immediately. World leaders condemned the attack, and within a week, the UN passed Resolution 661, imposing trade restrictions on the state. After these sanctions failed to compel Iraq to withdraw, in January 1991, a US-led coalition of thirty-four countries initiated an intense aerial bombing campaign against it. In late February, coalition ground troops entered Kuwait and began to drive Iraqi forces back toward their border. By mid-April, the last Iraqi soldiers had left Kuwait.

Chapter 8 will question whether Iraq’s conquest of Kuwait was actually a classic oil war. Nevertheless, the response to this invasion illustrates the third set of impediments to foreign oil grabs: international obstacles. These are the punishments that third-party states and international organizations impose on countries that conquer petroleum-endowed territories. International retaliation reduces the payoffs of classic oil wars by restricting an occupied territory’s petroleum production and sales. The aggressor therefore extracts few benefits from seized oil resources while it holds them. It may also be compelled to withdraw from the conquered territories, thereby forfeiting all petroleum payoffs. In addition, if the aggressor is an oil producer, its own petroleum output can be compromised by international retaliation, leaving it worse off than before it launched a classic oil war. Moreover, like occupation obstacles, this set of impediments persists as long as an aggressor holds seized territory.

Liberals have highlighted the danger of international retaliation when explaining why conquest no longer pays. They offer both pragmatic and normative explanations for third parties’ willingness to punish international aggression. On a
pragmatic level, states prefer to prevent any single country from gaining control over too much land and power, as that state could use its increased might to impose its will on other countries. Consequently, when faced with an international aggressor, other states are likely to balance against it, diplomatically, economically, and militarily. On a normative level, third parties are encouraged to retaliate against foreign aggression by the international “norm against conquest.” This norm, which has guided states’ behaviors since the end of World War II, if not earlier in the twentieth century, maintains that seizing another country’s sovereign territory is not an acceptable international behavior. To defend the norm, third parties cannot allow conquest to go unpunished. Doing so would set a dangerous precedent for other would-be conquerors, suggesting that they can seize foreign territory with impunity.

When asserting that fighting for oil pays, classic oil war believers have given little thought to international retaliation. However, this set of obstacles is just as relevant—if not more so—for oil conquest as it is for other types of aggression. Third-party states and international organizations have strong pragmatic and normative incentives to resist oil grabs. Pragmatically, countries are wary of any consolidation of authority over petroleum resources since, if one state controls a sizable portion of global reserves, it can manipulate oil production and pricing, and potentially use that power to harm other states. Most countries are therefore inclined to oppose classic oil wars, especially if they target richly endowed territories. In the autumn of 1990, President George H. W. Bush played on these practical concerns to build the large international coalition that participated in Operation Desert Storm. In a speech before Congress, he warned that “an Iraq permitted to swallow Kuwait would have the economic and military power, as well as the arrogance, to intimidate and coerce its neighbors: neighbors who control the lion’s share of the world’s remaining oil reserves. We cannot permit a resource so vital to be dominated by one so ruthless.” Other states concurred; they did not want Saddam Hussein to control over 20 percent of global oil reserves, let alone threaten Saudi Arabia’s resources.

On a normative level, conquering foreign territories in order to seize their oil resources is regarded as a particularly immoral act. Although the international community is willing to accept some rationales for foreign intervention, such as the protection of innocent civilians or coethnics, oil grabs are viewed as anachronistic acts of naked state greed. When a Russian submarine planted a national flag in the potentially oil-bearing seabed under the North Pole in 2007, the Canadian foreign minister, Peter MacKay, roundly denounced the action. “This isn’t the fifteenth century,” he admonished. “You can’t just go around putting flags in something and saying ‘I’m claiming this territory.’” Similarly, when President
Donald Trump asserted that the United States should have “taken the oil” after invading Iraq in 2003, his statement was widely pilloried.  

Oil grabs also violate formal international law. The UN Charter of Economic Rights and Duties of States (1974) explicitly asserts that “every State has and shall freely exercise full permanent sovereignty, including possession, use and disposal, over all its . . . natural resources.” Other legal statutes, including the Fourth Hague Convention (1907), assert that foreign governments must not exploit occupied territories’ natural resources for their own benefit. Recognizing these normative impediments, Kenneth Waltz described the United States’ potential invasion of oil-rich Middle Eastern countries in the mid-1970s as “distasteful” and observed that, if the country attempted it, it “might incur such wrath from so many people that long-term losses would be greater than short-term gains.” A senior US military officer described the likely consequences of an American resource grab even more succinctly: “It could create the damndest row in years,” he claimed.  

Third-party states and international institutions can retaliate for classic oil wars diplomatically, economically, and militarily. The goal of each type of international punishment is to compel the aggressor to withdraw from oil-endowed occupied territories. Diplomatically, third parties can engage in verbal condemnation, like MacKay’s rebuke of Russia’s North Pole flag plant. These rhetorical critiques can be coupled with travel bans for government officials, withdrawal of diplomatic staff, severance of diplomatic relations, and refusal to cooperate on other issues. International institutions can also deny or suspend an aggressor’s membership. Such actions clearly demonstrate third parties’ disapproval of international aggression. Yet diplomatic punishments, alone, have little impact on the petroleum payoffs of classic oil wars.  

Economic retaliation, in contrast, can substantially reduce an aggressor’s petroleum payoffs. Trade restrictions, in particular, lessen the benefits of foreign oil grabs. Third-party states, acting independently or under the aegis of international institutions like the UN, can prohibit oil purchases from occupied territories. If these sanctions are successful, the aggressor will possess additional oil resources but will not be able to sell them internationally. Revenue from seized oil can therefore drop precipitously. If sanctions also prohibit oil purchases from the aggressor’s home territories, classic oil wars can be a net economic loss, as the aggressor will sell less oil and collect less petroleum revenue than it did before the invasion. Iraq experienced both of these losses in 1990, when UN sanctions caused its oil exports from occupied Kuwait and its home territories to drop to almost zero. These revenue shocks also persisted for years, because the UN and other parties sustained their sanctions long after Iraq’s defeat. The state’s oil output only began to revive in 1997, with the implementation of the UN’s oil-for-food
program. Thus, international economic retaliation can generate lengthy, as well as large, reductions in petroleum payoffs.

International military retaliation can also drastically reduce a classic oil war’s petroleum payoffs. Military operations may target the aggressor’s armed forces to compel them to withdraw from occupied territories, as occurred in Operation Desert Storm. They can also target occupied oil production facilities and transportation networks to diminish an aggressor’s petroleum consumption and sales, thereby hastening its defeat and its withdrawal from seized territories. During World War II, Allied bombing campaigns employed the latter tactic, striking German-occupied oil fields in Ploiești, Romania, to limit the Nazis’ petroleum output. The United States also bombed Japanese tankers transporting oil from the occupied Dutch East Indies to Japan’s home islands. As a result of these attacks, the Axis powers reaped limited benefits from their seized oil reservoirs.

In addition to eliminating petroleum payoffs from occupied territories, international military retaliation can cause an oil war to be reverse cumulative. If third parties damage the aggressor’s domestic oil industry, as well as infrastructure in occupied territories, the state will be worse off following a defeat than it was before its invasion. Again, the coalition response to Iraq’s invasion of Kuwait is illustrative. Not only was Iraq forced out of Kuwait; its own oil industry was pummeled by the US-led bombing campaign. By the end of Operation Desert Storm, 90 percent of Iraq’s refining capabilities had been taken offline. The country’s postwar petroleum output was therefore dramatically lower than it had been before seizing foreign oil. This physical damage would have limited Iraq’s resource output after the war, even in the absence of economic sanctions.

Taken together, international economic and military retaliation can severely constrain, or even reverse, the petroleum payoffs of classic oil wars. As a result, even great powers, which appear to be less vulnerable to international punishment, are discouraged from seizing oil-endowed territories. During the mid-1970s debate about seizing Middle Eastern oil fields, a Congressional Research Service study emphasized the risk of retaliation by the Soviet Union. If the United States attempted to seize regional oil resources, the report asserted, military action by Soviet air and ground forces was “a distinct possibility.” Soviet attacks were expected to target oil production facilities within occupied territories, as well as tankers shipping oil from occupied territories to the United States and its allies. Recognizing these international obstacles, the Ford administration refrained from an oil grab.

Investment Obstacles

In 1995, thirteen years after the Falklands War (1982), the Falkland Islands government invited bids for oil companies to explore around the contested archi-
pelago. The area was believed to contain petroleum resources but, up to that point, no wells had been drilled or discoveries made. The Falklanders opened bidding for blocks north and south of the islands. The northern blocks, which were located farther from Argentina, attracted bids from fourteen oil companies. In contrast, no companies bid for the southern area. Although the United Kingdom had forcefully demonstrated its willingness to defend the islands only thirteen years earlier, oil companies were still hesitant to invest too close to Argentina, recognizing that their exploration rights might be challenged or overturned.

Their hesitation is indicative of the fourth set of impediments to classic oil wars: investment obstacles. In addition to triggering negative responses from local populations, third-party states, and international institutions, oil wars alienate oil companies. Investment obstacles are the losses generated by foreign companies’ reluctance to participate in oil projects in occupied territories. As profit-seeking actors, these companies prefer to avoid unstable investment environments. Yet many would-be conquerors require foreign capital to explore for, develop, extract, and market seized petroleum resources. These aggressors are therefore faced with a conundrum. They must either forgo outside investment, reducing their oil output from occupied territories and potentially their home territories, or accept unfavorable contract terms in order to attract foreign partners. With both choices, the petroleum payoffs of classic oil wars decline.

Previous contributors to the value of conquest debate have recognized that foreign companies avoid investing in occupied territories. Norman Angell observes that invasions create intense insecurity. They put contracts at risk and reduce faith in investments, as no one knows how “alien governors only concerned to exact tribute” will manage conquered territory. Stephen Brooks elaborates on this credible commitment problem, noting that “any extractive conqueror will not be able to assure foreign investors that it will abide by . . . policies and will not seize assets of MNCs [multinational corporations], extract excessive rents from them, or generally shift policies in ways that reduce the cost-effectiveness of investments.”

Aggressors appear unreliable because they have violated the norm against conquest. If they are indifferent to international rules that prohibit grabbing foreign territory, they may also ignore private property norms, seize assets, cancel contracts, and implement dramatic, unpredictable changes in fiscal policy. In response to this uncertainty, foreign investment in conquered territories is likely to decline; as Brooks puts it, “There are strong reasons to expect the flow of inward FDI [foreign direct investment] to decline markedly . . . after it is vanquished by an extractive conqueror.” Alternatively, the aggressor will be forced to solicit foreign participation on “usurious and extortionate” terms.

Brooks recognizes that investors’ fears are likely to be particularly pronounced for FDI in physical infrastructure because of the difficulty of moving these assets.
However, neither he nor other oil war believers consider investment obstacles when they claim that fighting for oil pays. Again, this is an unjustified omission. Foreign investment is critical to many conquerors’ prospective petroleum payoffs. Although some countries possess sufficient domestic capital, equipment, and technical expertise to develop seized oil resources on their own, many do not. Even Russia, one of the world’s leading petroleum producers, has required foreign oil company participation to execute its most complex oil and gas projects in areas like the Arctic. These countries must attract foreign investment if they want to obtain petroleum payoffs from classic oil wars.

Oil companies, however, are likely to be exceptionally cautious about operating in unstable investment environments, because of the petroleum industry’s physical and political economic properties. As observed earlier, the industry is comprised of immobile assets, such as wells, refineries, and export terminals, which makes it unusually physically vulnerable. In addition, oil exploration and development are extremely expensive activities. Operating an offshore oil rig, for example, costs between $250,000 and $500,000 per day. Individual oil projects regularly cost more than $1 billion. Moreover, capital expenditures are highest in the early stages of development, before oil has begun to flow. Consequently, in order to turn a profit, investors must sustain their participation in conventional oil projects for many years, if not decades. If political or economic conditions deteriorate during that time period, the company’s profits are jeopardized.

There are numerous ways that conquest can dampen foreign oil companies’ enthusiasm for investing in occupied territories. First, there is the risk of recidivism. If an aggressor is overthrown and the target state regains political authority, a new investor can lose everything. The returning government is likely to cancel exploration and production contracts and confiscate oil facilities to punish the company for doing business with the occupying regime. Moreover, since that regime was illegitimate, the investor will garner little international sympathy for its losses, which limits its ability to seek compensation.

Second, even if an aggressor retains power, oil investments in occupied territories remain dubious endeavors. The occupying regime itself poses a significant threat to company profits. It may cancel or arbitrarily renegotiate contracts, forcing oil companies to accept less favorable terms. Alternatively, it may impose prohibitively high taxes, reducing an investor’s net revenue. In a worst-case scenario, the occupying regime can nationalize the occupied territory’s oil industry, taking control of operations and expropriating foreign investors’ physical assets.

Foreign oil companies have limited recourse under these circumstances. They cannot repatriate their facilities or shift extraction to new locations; the oil stays where it is. In addition, multinational companies’ efforts to obtain compensation for such losses have historically produced mixed results. When Bolivia, Mexico,
and Iran nationalized their oil industries, in 1937, 1938, and 1951, respectively, the foreign oil companies that had been operating in these countries received minimal compensation. More recently, the Spanish oil company Repsol received only half the sum it demanded from Argentina after the country seized its shares in the national oil company, Yacimientos Petrolíferos Fiscales. Likewise, Venezuela refused to implement an arbitral award issued by the World Bank’s International Center for Settlement of Investment Disputes in 2014, even after the $1.6 billion settlement with ExxonMobil was reduced to $188 million in a major win for Caracas. Oil companies’ ability to obtain compensation will be even more limited in the context of occupation. Given aggressors’ indifference to international norms, they are unlikely to respond to lawsuits.

Third, foreign oil companies are reluctant to invest in occupied territories because of occupation obstacles. When local opposition groups attack oil installations and personnel, investor profits, as well as aggressor payoffs, decline. Like conquering states, oil companies must either accept lower petroleum output, as a result of local resistance, or expend money to sustain production: funding ransom payments, paying larger insurance premiums, offering higher salaries to attract employees, and financing greater personnel and facility security. If these costs are prohibitive, foreign oil companies will refrain from investing in new petroleum projects and pull out of existing ones. In Colombia, companies avoided new investments around the Caño Limon pipeline, even after joint US–Colombian military operations increased regional security. In Nigeria, MEND’s attacks compelled Shell and Chevron to withdraw from onshore oil projects. After civil conflict reignited in South Sudan in 2014, a number of companies, including Total, ExxonMobil, and the Indian National Oil Company, withdrew from the country. Moreover, these examples are drawn only from civil wars. In the context of foreign occupations, where local opposition is likely to be more intense, investment capital will be even more elusive.

Fourth, oil companies are deterred from investing in occupied territories because of international obstacles. International economic sanctions may directly prohibit foreign participation in oil projects in occupied territories. Alternatively, they may impede resource development indirectly, by barring technology transfers or trade in goods and services. Both of these practices limited investment in the Russian Arctic following the state’s 2014 incursions into Ukraine, thereby slowing regional exploration and development. Even if companies are allowed to invest in occupied territories, sanctions campaigns can impinge on their profits by prohibiting oil exports. Unable to market seized oil internationally, companies’ profits will decline precipitously. Meanwhile, should international military retaliation successfully overturn the occupation, restoring the target state’s political authority, companies may lose everything.
All of these concerns have a chilling effect on foreign investment in petroleum projects in conquered territories. Hoon Lee found that, when countries participate in interstate and intrastate armed conflicts, FDI in their oil industries declines. Projects in occupied territories are likely to have even greater difficulty attracting international financing. As a result, aggressors will not be able to obtain the capital, equipment, and technical expertise they need to exploit seized oil resources. Alternatively, they will have to accept unfavorable contract terms that give the government a smaller share of oil resources and revenue. If an aggressor is highly dependent on outside assistance to exploit seized oil, investment obstacles can cause a severe drop in the petroleum payoffs of international oil grabs.

**A Dispute Scenario**

Together, invasion, occupation, international, and investment obstacles drastically limit the petroleum payoffs of classic oil wars. As a result, fighting for oil does not pay nearly as much as international relations scholars, popular commentators, and the general public have assumed. If circumstances are extremely unfavorable, petroleum payoffs disappear entirely. Aggression can even leave a conqueror worse off, in terms of oil resources and revenue, than it was before its attack. Given these limited payoffs, the desire to seize oil resources cannot be a strong motivation for international conquest. This limitation renders classic oil wars, in which petroleum ambitions are a significant motivator for aggression, implausible.

There are conditions, however, that reduce the impediments to classic oil wars. The most important of these is the dispute scenario mentioned at the beginning of this chapter. In contrast to a conquest scenario, where an aggressor seizes oil-endowed territory that clearly belongs to another state, in a dispute scenario, two or more countries fight over areas where sovereignty is uncertain. For example, in much of the South China Sea, multiple states can legitimately claim potentially petroleum-endowed territories. In this type of scenario, where states are competing over resources rather than stealing them, the impediments to fighting for oil are less severe. However, petroleum payoffs are also less certain.

In disputed territories, oil resources are often underdeveloped. Interstate competition impedes petroleum exploration and development, as each claimant country is likely to resist other claimants’ unilateral projects to exploit contested oil reservoirs. In addition, states that are locked in an acrimonious territorial dispute have difficulty coordinating exploration. Consequently, in dispute scenarios, countries tend to compete over prospective oil resources rather than known
ones. This underdevelopment reduces invasion obstacles to classic oil wars, because there is little petroleum infrastructure for belligerents to destroy. Similarly, the lack of oil infrastructure initially reduces occupation obstacles, because local opposition groups have no petroleum industry targets. In addition, the populations of contested territories may have weaker attachments to a particular government, so their opposition to a new authority can be relatively muted. Locals may even have a stronger affinity for the new regime than the old one, further curbing their resistance. If contested territories are uninhabited, as is the case for some small islands and maritime areas, occupation obstacles are completely absent; there is no one to challenge a new political authority.

These reductions in invasion and occupation obstacles are counterbalanced, however, by the increased uncertainty of petroleum payoffs in dispute scenarios. Since oil resources tend to be prospective rather than known, aggressors do not know precisely what they are fighting for. In the short term, they will receive no petroleum payoffs from their attacks. In the long run, the territory they seize may reveal a petroleum bonanza. Or it can produce nothing but dry holes. Claimants will therefore hesitate to attack even if invasion and occupation obstacles are low.

International obstacles also continue to deter aggression in dispute scenarios. The international community is still likely to censure the forceful seizure of territory even if areas are contested. Although this aggression does not violate the norm against conquest, it flouts other international principles: in particular, prohibitions against the use of force to resolve interstate disputes. Third-party states also retain pragmatic incentives to prevent the consolidation of control over global oil resources, whether they are prospective or known. Thus, international punishments for seizing contested, potentially oil-endowed territories are still substantial.

Investment obstacles also fail to decline significantly in dispute scenarios. Although a reduction in occupation obstacles may encourage foreign oil companies’ participation in petroleum projects, these actors still face the threat of future reversals of political authority, as many territories remain contested even after one country forcefully asserts its sovereign control. In addition, investors must still deal with a norm-violating regime, which may be inclined to forcefully renegotiate contracts or seize private assets. Moreover, when oil resources are underdeveloped, investors’ costs are higher and their payoffs less certain. Companies must accept the expenses and risks of oil exploration rather than simply exploiting discovered fields. All of these concerns sustain investment obstacles in dispute scenarios.

The collective obstacles to classic oil wars therefore decline mildly in dispute scenarios, when compared with conquest scenarios. However, the payoffs from aggression decline as well. Consequently, states’ willingness to fight for oil is likely
to be low in dispute, as well as conquest, scenarios. Given these impediments, states are unlikely to initiate classic oil wars; these conflicts are simply not worth the effort under any conditions. However, it is possible that oil aspirations will inspire minor interstate confrontations, particularly in dispute scenarios, as states may conclude that mild conflicts, launched in favorable conditions, pay. Alternatively, states may fight in oil-endowed territories, but for other reasons.