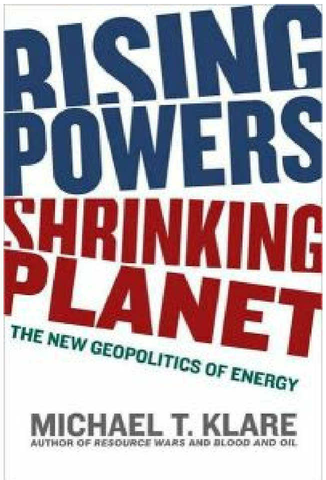

Book Rising Powers, Shrinking Planet

The New Geopolitics of Energy

Michael T. Klare
Metropolitan Books, 2008
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Recommendation

Oil and other energy resources are the flashpoints of modern world politics, and they will be at the center of future conflicts. Author Michael Klare analyzes energy politics from a global perspective, presenting his points methodically, from continents to nations to oil companies, eventually working his way down to the pipeline routes that deliver the oil and natural gas to consuming nations. Although, because of this structure, the book at times reads like an almanac, the minutiae do not diminish the importance of the story Klare tells. *BooksInShort* recommends this book to oil industry executives and other serious students of petropolitics.

Take-Aways

- The U.S. military consumes 16 gallons of oil per soldier per day in the wars in Iraq and Afghanistan.
- “Statism” or “neomercantilism” occurs when the state assumes a larger role in energy acquisition than individual companies.
- The emergence of state-owned and private petrosuperpowers, combined with new energy-related alliances, has made the world more dangerous.
- By 2030, the world’s top energy consumers will be the U.S., China, Russia and India.
- China will be the largest consumer, using 20% of the world’s energy.
- Competition between developed and developing nations will create a new world energy order.
- The world’s largest network of natural gas pipelines emanates from western Siberia.
- Natural gas from Russia provides fuel for the former Soviet Union nations, Greece, Austria, Poland, Italy, Germany and France.
- The Persian Gulf contains two-thirds of the world’s proven oil reserves.
- Africa is vulnerable to oil exploitation by foreign companies.

Summary

The Emergence of “Petrosuperpowers”

The world is engaged in an international power struggle over energy, and the competing national interests of developed and developing nations will eventually result in the emergence of a new world energy order. Rising demand and shrinking resources will build new global alliances, many of which will be dangerous and unstable. Nations that deplete their energy reserves will become less important and will lose power to those that are energy and mineral-rich.

> “Some analysts believe that Hitler’s failure to capture Baku and its oil reserves represented one of the critical turning points of World War II.”

The strongest countries in the new order will not necessarily be the ones with the most powerful militaries. Rather, to develop strong armies, countries will need oil. The

U.S. military has become one of the largest consumers of oil in the world. During World War II, it consumed one gallon of oil per soldier per day. During the first Gulf War (1990 to 1991), that amount increased to four gallons. In the current wars in Iraq and Afghanistan, demand has hit 16 gallons of oil per soldier per day. A 2007 Pentagon study found that an oil shortage could curtail U.S. military operations worldwide.

> "China's 'Go West' strategy has been driven, above all, by sheer need."

Both developing and developed nations have huge demands for oil. The U.S. Department of Energy estimates that by 2030, China will be the largest energy consumer in the world. China is already competing with Japan, the world's second largest economy, for energy. Both are looking to resource-rich nations such as Nigeria and Kazakhstan. The U.S. remains dependent on Venezuela, which supplies it with 10% of its imported oil, even though Venezuelan President Hugo Chavez has been a vocal critic of U.S. policy.

> "Putin's dreams of employing Russia's resource abundance to restore the country's status as a major world power...are now a distinct reality."

On a global level, energy supplies are diminishing just as the world population and demand for energy are rising. The U.S. Department of Energy estimates that world oil production would have to rise by 57% over the next two decades to meet demand. However, energy experts say that all the easy-to-extract oil has already been found. Getting to additional sources of oil, uranium, coal and natural gas is expensive and dangerous. Renewable energy sources, such as hydropower and wind, will account for only 8% of worldwide energy by 2030.

Power Shifts

The ever-increasing demand for energy has reallocated monetary power. Oil-exporting nations received $970 billion in 2006 alone from importing nations, a three-fold increase on their 2002 takings. Russia and the Persian Gulf countries have become extremely wealthy. They have used their "sovereign wealth funds" (government-controlled investment funds) to purchase large interests in U.S. companies, such as Citigroup, the Carlyle Group and Advanced Micro Devices.

> "A surprisingly large share of the world's current oil production – nearly 50% – comes from just 116 giant fields, each of which produces more than 100,000 barrels per day."

The emergence of national oil companies (NOCs) in other countries including, Iran, Venezuela and Saudi Arabia, is redistributing world power. National oil companies, not private ones such as Chevron, now control about 80% of the world's proven oil reserves. The NOCs are aligning with one another not only to expand their refining and distribution capacities but also to promote their economic and foreign policies and interests.

> "When considering the problem of mature oil-field decline, no country matters more to the supply equation than Saudi Arabia."

In response, the U.S. and other major nations have exploited their relationships with oil-producing nations. The U.S. moved into former Soviet republics near the Caspian Sea, such as Kazakhstan, when the U.S.S.R. collapsed in 1991. Both the Clinton and Bush administrations promoted the construction of a 1,040-mile pipeline from the Caspian Sea to Ceyhan in Turkey. China took a similar approach in promoting a pipeline that would flow east to its own citizens. For both Vladimir Putin of Russia and Hugo Chavez of Venezuela, this kind of "resource nationalism" has become a way to advance their political agendas.

The Rise of Statism

"Statism" or "neo-mercantilism" occurs when the state assumes a larger role in energy acquisition than private companies do. While this approach once characterized noncapitalist nations, France, Italy and Japan have all pursued state-run energy policies. In 2001, even the Bush administration said the government should assume a greater role in procuring energy supplies worldwide. Vice President Dick Cheney visited Kazakhstan in 2006 to convince its new president to ship oil to the U.S. rather than to China. The U.S. need for oil has also influenced its policy in Iraq, where U.S. companies want to develop that nation's oil resources. The global role of the U.S. in procuring energy resources on behalf of its corporations is much greater than is China's.

The Cases of China and India

Due to their huge populations and aggressive economic expansion plans, China and India have vigorously pursued petroleum exploration and acquisition. China's average income is nearing $6,000 per year, and its new middle class wants to buy cars. In the 1990s, China encouraged the construction of auto plants through lavish tax breaks and subsidies. Today about 1.7 million people work in the Chinese auto industry. China is also building its infrastructure and, therefore, using more steel, copper and aluminum than any other country. By 2030, the U.S. Department of Energy projects that China will account for 20% of the world's energy consumption.

> "Oil will cease to be primarily a trade commodity, to be bought and sold on the international market, becoming instead the preeminent strategic resource on the planet."

India is also expanding economically. By 2030, India is likely to have 115 million cars, and the U.S. Department of Energy projects that it will increase its energy consumption 2.8% annually between 2004 and 2030, or three times faster than the U.S. By 2030, the top energy consumers in the world will be the U.S., China, Russia, India and Japan.

> "A world of rising powers and shrinking resources is destined to produce intense competition among an expanding group of energy-consuming nations."

India and China have ambitious expansion plans, so they have competed or, less often, worked together to acquire energy sources. In January 2006, they signed a joint energy cooperation agreement to coordinate bidding, including the possibility of joint bids and exploration. Not to be outdone, Japan has acquired drilling rights in North Africa and the Middle East.

Enter the Russians

Russia began emerging as an energy superpower in 2006, when its production climbed to 9.8 million barrels of oil per day. Led by large energy companies, the Russian economy has benefited from the country's huge natural gas, coal and oil reserves. It exports more of these resources than it consumes. Of its energy resources, natural gas is the most important, since it provides fuel for the former Soviet Union, Greece, Austria, Poland, Italy, Germany and France, which it serves through the world's largest network of natural gas pipelines, emanating out of western Siberia.

> "In the planet's new international order, countries can be divided into energy-surplus and energy-deficient nations."

As Russia developed as an energy provider, former Russian president Boris Yeltsin privatized the nation's most valuable energy firms, enabling the country to use its resources to leverage itself onto the world geopolitical stage. However, Vladimir Putin later nullified Yeltsin's privatization policy by nationalizing numerous large oil-producing firms, ousting the Russian "oligarchs" and gaining control of Russia's major energy companies. He maintained that, with the state controlling the acquisition and use of energy resources, Russia could reconfigure its economy. In 2006, Putin took control of two "production-sharing agreements" led by non-Russian consortiums working on Sakhalin Island. In 2007, the Kremlin forced British Petroleum to sell its stake (worth around $700 million) in the $20 billion Kovykta natural gas field.

> "The...'Great Game' over energy, with its potential for rivalries, alliances, conflicts, schisms, betrayals and flash points, will be a pivotal...feature of world affairs for the remainder of the century."

After September 11, 2001, U.S. President George W. Bush approached Putin about supplying energy to the U.S. to replace Middle Eastern oil. Putin initially agreed, but soon soured on the idea, and by 2006, dashed any hopes of U.S.-Russian energy cooperation. Russia moved closer to China and turned away from Japan, which had courted Russia in joint ventures – most notably the proposed 2,500-mile-long East Siberia-Pacific Ocean Pipeline, which would run from Taishet, Siberia, to Perevoznaya Bay on the Sea of Japan. Russia reconfigured the pipeline to include a link to a railroad junction 30 miles from the Chinese border.

> "For the United States and Europe, the Caspian offers an attractive alternative to the Persian Gulf and its troubles."

Russia's other major energy reserve borders the Caspian Sea and includes the newer states of Georgia, Armenia, Turkmenistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, as well as Russia and Iran. This area's reserves of oil and gas are not as large as the ones in the Persian Gulf, but they have yet to be fully explored and developed, which makes them attractive to private and state-owned oil companies worldwide – those from the major powers as well as from Turkey, India and South Korea. In the 1990s, Chevron became the first U.S. company to enter this region, followed in 1994 by Exxon Mobil and Conoco Phillips. The U.S. government, led by President Clinton, then moved to build relationships with the non-Russian Caspian states to counter Russian influence. The high point of this effort was the construction of the 1,000 mile Baku-Tbilisi-Ceyhan pipeline, which bypasses Russia and Iran.

> "The principal goal of American diplomatic endeavors has been to clear the way for U.S. energy firms by persuading local governments to eliminate unfavorable tax codes, prohibitions against overseas ownership of natural resources and other barriers to foreign investment."

Under President George W. Bush, U.S. energy companies became partners in area development and played large roles. They pushed to lay oil and gas pipelines under the Caspian Sea. In 2005 and 2006, Bush courted Caspian leaders. This attracted Putin's attention, and he pushed to include Russian companies in the development consortiums. Despite this flurry of activity, independent oil analysts estimated that the Caspian Sea area will reach peak production in 2009, will stay stable for about 10 years and, after 2021, will produce only enough oil for domestic use. A similar timetable applies to the area's natural gas supply.

Out of Africa

As in colonial days, foreign companies are eager to exploit Africa's natural resources, including chromium, gold, diamonds, tantalum, cobalt, copper, platinum, titanium and uranium. However, today's players include China, India, Malaysia and Indonesia, not European imperialist powers.

> "By all accounts, trillions of dollars will have to be invested in new energy forms to make the transition from the existing energy infrastructure to one based on alternative fuels."

Oil exploration activities have focused on North, East and West Africa. Of these regions, Nigeria has the continent's largest petroleum and natural gas reserves, while Angola is the sixth largest oil exporter to the U.S. and China's largest foreign supplier. Many of these nations suffer from significant civil unrest, so foreign oil exploration has recently focused on offshore oil platform projects in the Gulf of Guinea and the South Atlantic Ocean.

Due to Europe's strong historical ties to Africa, oil exploration companies from France, Norway, Italy and Britain are active on the continent. U.S. companies have focused mainly on West Africa, especially offshore production sites that offer direct tanker routes to the East Coast of the U.S. Since the U.S. Navy protects this route across the Atlantic Ocean, shippers consider it especially attractive. The Pentagon has expanded its military facilities in Africa, with an emphasis on protecting Nigeria, which could account for as much as 25% of future U.S. oil imports.

An "American Lake"

Because of the significant U.S. military presence, the Persian Gulf is often called an American Lake. International competition has challenged American foreign policy makers, who have to balance other countries' inroads into the area's oil production and exports against American interests. While U.S. oil companies have played important roles in production, processing and transportation, they have lost ground to local Arab companies. To counter American influence, Russia has expanded its military aid to Iran and Syria, prompting fears of a regional arms race.

Averting Potential Dangers

The emergence of state and private petrosuperpowers, combined with new energy-related alliances, has made the world more dangerous. Among the dangers are reignition of the Cold War; wastage, which could stall the development of alternative energy; and the aggressive use of state power to acquire energy. These activities threaten democracies and increase the potential for economic and environmental problems. In their efforts to become favored trade partners, emerging nations with oil could participate in arms transactions and military programs, increasing political instability in Africa, the Middle East and the Caspian Sea area. To avoid these dangers, countries must cooperate with one another and subordinate their national interests. They should work together to replace dwindling oil resources with alternative energy and to reduce greenhouse gases. This will require new and better relationships among nations, most notably between the world's largest energy consumers, the U.S. and China.

About the Author

Michael T. Klare is the author of 13 books, including *Blood and Oil* and *Resource Wars*. A contributor to *Harpers*, *Foreign Affairs* and the *Los Angeles Times*, he is the defense analyst for *The Nation* and the director of the Five College Program in Peace and World Security Studies at Hampshire College.