

Setting America Free -- From Dubious Energy Security Thinking

Energy and Security: Illusions and Realities

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1. The Current Crisis, in Perspective

- Energy security crisis: definition

An energy security crisis is when US policy-makers lose trust in the international energy markets as reliable providers of energy to the United States

1. The Current Crisis, in Perspective (*cont'd*)

- Three main historical crises
 - 1920s: Rapid depletion of domestic fields; European monopoly over the Middle East resources (Persia, Iraq)
 - 1970s: Rising prices; Nationalisations; Crisis of US leadership; New “Axis of Oil” (OPEC); Deep resource pessimism
 - 2000s: Rising prices; Resource nationalism; Middle East crisis; Crisis of US foreign policy; New players (China, India); Resource pessimism

1. The Current Crisis, in Perspective (*cont'd*)

- US policy responses
 - 1920s: Naval Petroleum Reserves; Open Door policy in the Middle East
 - 1970s: IEA (Kissinger); Project Independence (Carter); SPR (Carter/Reagan); Carter Doctrine, RDF & Centcom (Carter/Reagan); Re-construction of the market for E&P rights (Reagan)
 - 2000s: Still a work in progress... Dominant idea: The US should cut its reliance on the world oil market -- Key player: the “Set America Free” coalition

2. “Set America Free”: The Agenda

- The problem defined
 - 9/11, Islamic radicalism, and US trouble in the Middle East, are all by-products of the US oil dependence
 - The US foreign policy (democratization of the ME, war on terrorism) fails because oil empowers America’s enemies, decreases US leverage
 - Competition for “access to oil” is one of the main sources of tensions in the world -- cf. China in Africa, Latin America, the Middle East
 - Cheap oil era is over, and the American way of life depends on cheap oil

2. “Set America Free” (*cont’d*)

- The goal -- different versions of it
 - Move America (or the world) away from oil
 - Make America independent from *foreign* oil
 - ...or from oil from *bad countries* (understand: Arab and/or Muslim)
 - Decrease significantly the US oil imports (from the ME)
 - Give people the choice between sending their dollars to those who “wish us bad”, or to the Mid-West farmers
 - **Ultimate strategic objective: Deprive the Muslim world of their money; at least of their leverage against the US**

2. “Set America Free” (*cont’d*)

- The solution proposed
 - Break the monopoly of oil products in transportation
 - Alternative fuels (esp. Biofuels -- and “flex-fuel” vehicles)
 - Advanced technology (esp. plug-in hybrids)
 - Transportation should be like electricity

Set America Free: A Critique (*cont'd*)

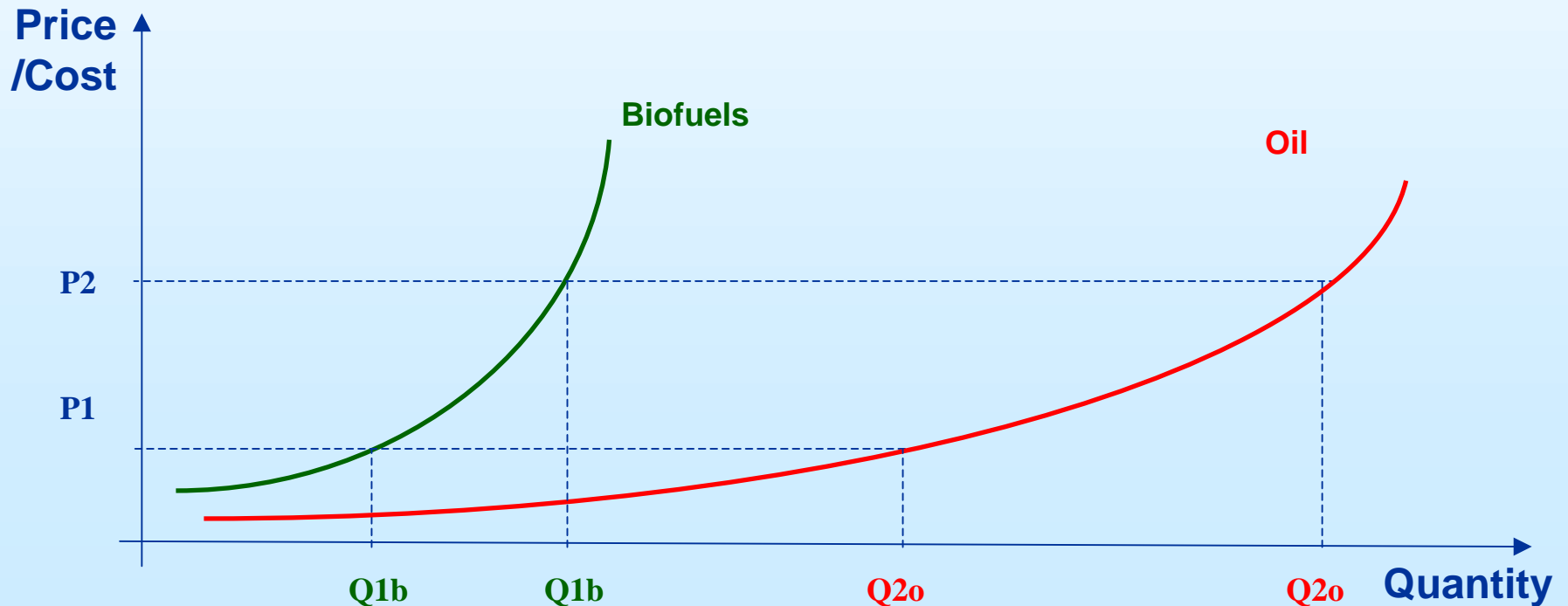
- Oil and international security
 - Oil and Islamic terrorism: The financing of radical Islam can be controlled
 - Oil and freedom: Non-oil countries in the ME (Egypt, Syria) do not seem necessarily freer than oil-producing countries
 - Oil and proliferation
 - Israel, India, Pakistan, North Korea: all have financed their nuclear program without any oil revenue
 - Would the ME be safer if Iran and Saudi Arabia became poorer?... Al Qaeda's support in SA was boosted by the price collapse of 1998-99
 - **The Set America Free objectives derive more from xenophobia than rigorous analysis**

Set America Free: A Critique (*cont'd*)

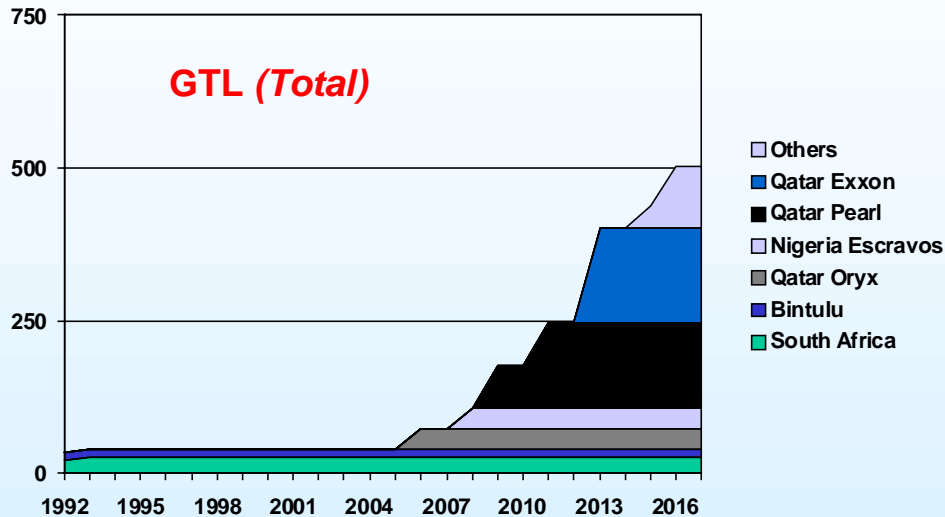
- Oil and US foreign policy
 - The Bush administration's Middle East policy is failing because it's unrealistic and poorly implemented -- *Not because of the US oil dependence*
 - A 50% decline in US oil imports would *not* allow for a 50% decrease in the US military expenses and presence in the ME -- a 10% or 20% decline would allow for *no decrease at all*
 - Tensions with China over its resources policy can be managed
 - H. Chavez is not a threat to the US national security
 - Russia under high oil prices can be a pain -- but Russia under sustained low oil prices could be a real danger
 - **There is no energy policy fix to US foreign policy problems**

Set America Free: A Critique (*cont'd*)

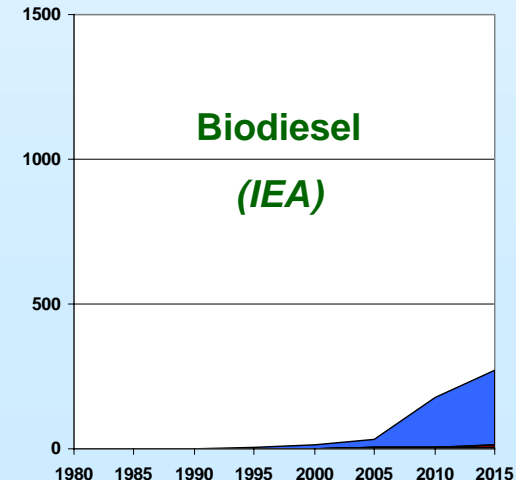
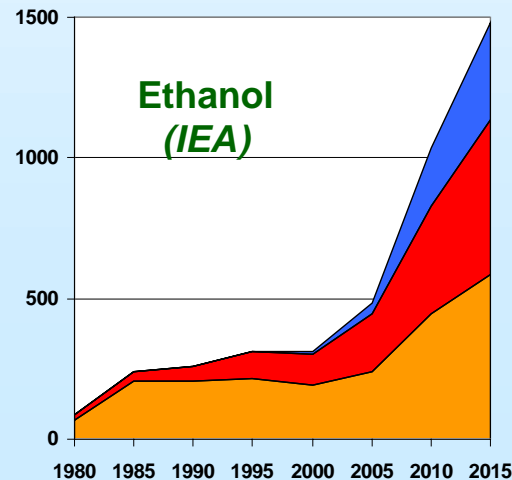
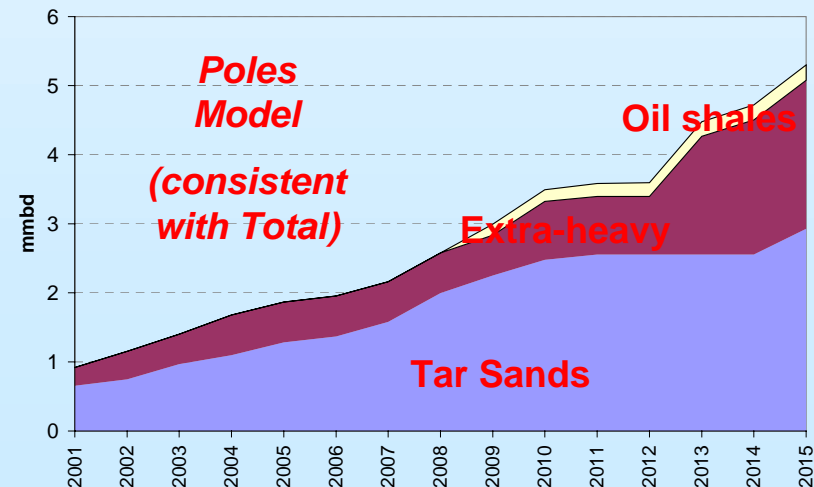
- Unit costs of biofuel production are misleading -- *what counts is the supply curve*
- Venture capital in biofuels, etc... -- *A marginal business can be highly profitable!*



Set America Free: A Critique (*cont'd*)

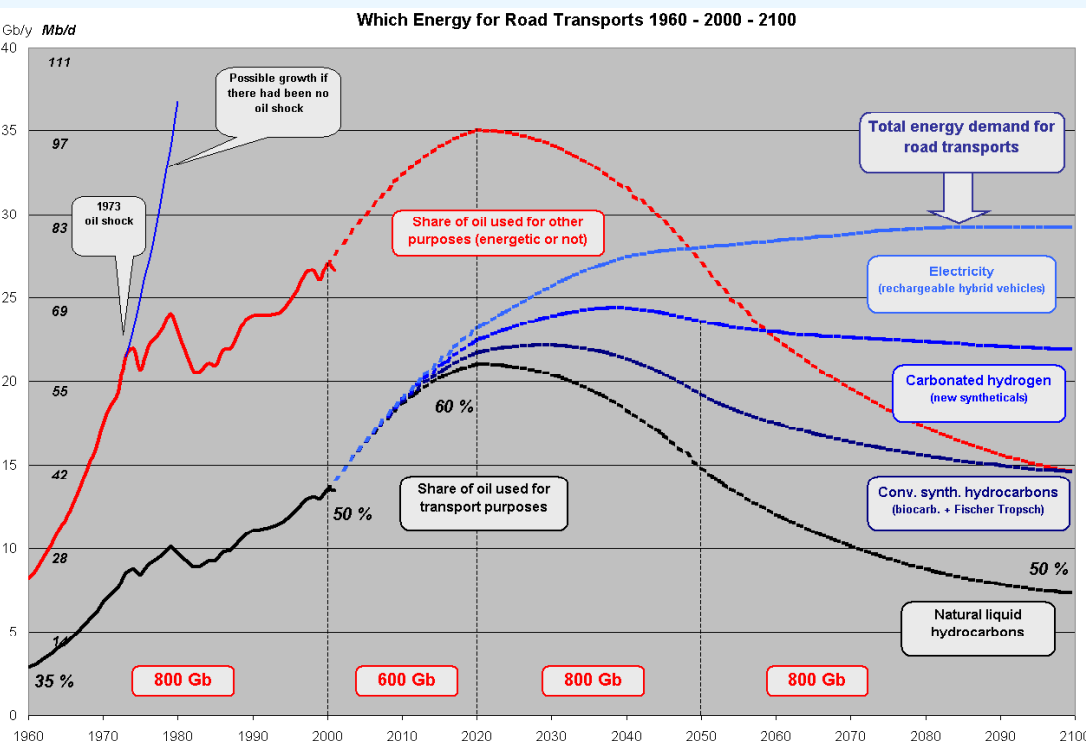


- Non-conv. liquids to 2015
 - Tar sands Canada: 2.8 mmbd
 - Extra-h. Venez.: 2.2 mmbd
 - GTL: 0.5 mmbd
 - Ethanol: 1.5 mmbd
 - Biodiesel: 0.25 mmbd



Set America Free: A Critique (*cont'd*)

Fuel-mix for road transportation in the long-run
(*projection by P.-R. Bauquis, former head of strategy, Total*)



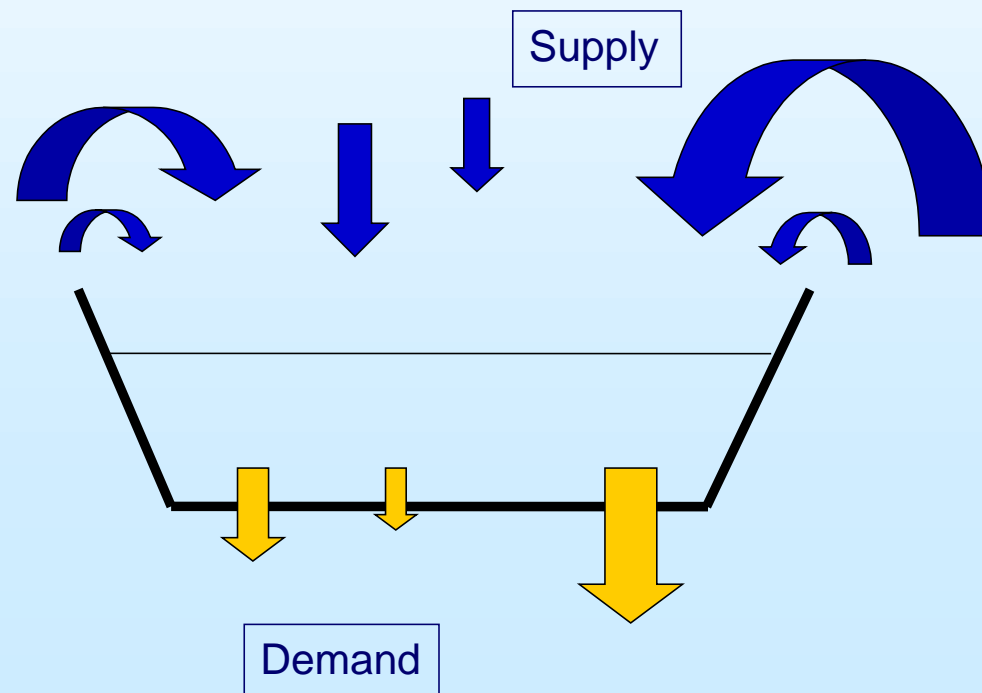
- Out of 78 mmbd in 2050
 - Natural oil: 42 mmbd (53%)
 - bio+GTL+CTL 12 mmbd
 - carbonated H2: 12 mmbd
 - electricity (plugins) 12 mmbd

2. “Set America Free”: A Critique (*cont’d*)

- Lessons
 - The fuel-mix for transportation is bound to diversify -- *and will do so faster if prices remain high and/or go higher*
 - Electricity may penetrate this market (plug-in hybrids)
 - Biofuels will grow but should remain a small (though not negligible) part of the mix
 - *Way into the 21st century (long after the peak!), “natural oil” should still be the dominant fuel for transportation -- And will be massively imported by consumers*

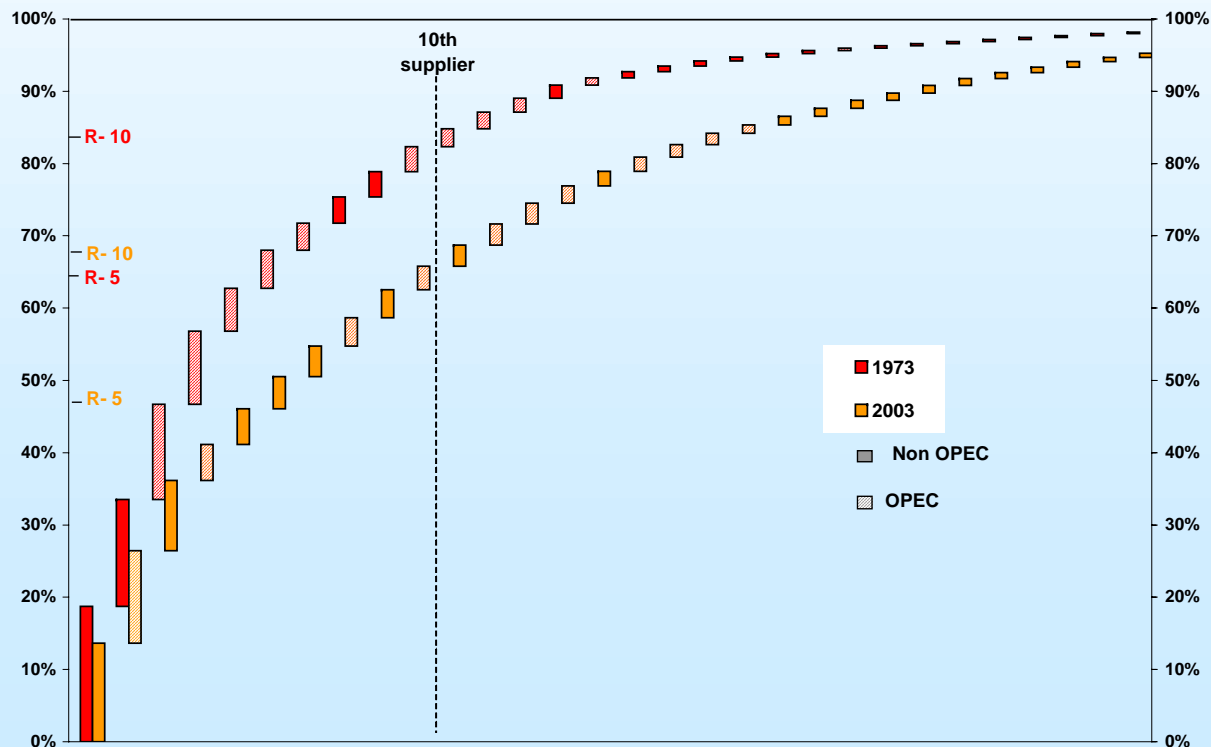
3. An Energy & Security Agenda for the US

- The fundamentals of oil security are here to stay
 - The oil market is globally integrated -- *it does not matter where the oil comes from*



3. An Energy & Security Agenda for the US

- The fundamentals of oil security are here to stay
 - Global oil supply diversity is the key



3. An Energy & Security Agenda for the US

- The fundamentals of oil security are here to stay
 - Making the market work
 - Promoting investment into diversity of supply and transit
 - Keep the oil market as free as possible -- *especially during a crisis*
 - Dealing with oil supply disruptions
 - Strategic stocks
 - Military security of sea lanes
 - Security of Saudi infrastructure
 - **These realities will not go away -- The US energy security policy should deal with realities**

3. An Energy & Security Agenda for the US

- New challenges
 - Non-OPEP, non-Russia production reached plateau -- Sustaining diversity will be very difficult
 - Renewed resource nationalism
 - Lower levels of spare capacity (less than 5%) *and* higher risk of supply disruption
 - China (and India) don't play by the market rule and pursue very active global resource policies -- With side consequences for Western political interests
 - **The US energy security policy should tackle these challenges -- *The China factor is essential***

China as a Strategic Energy Security Partner

**Building a shared
vision of global oil
market security**



**Expanding
the world's
strategic
stocks**



**Providing
military security
to the oil market**



**Bringing advanced transportation
technologies to China**

3. An Energy & Security Agenda for the US

- The Washington landscape
 - “Set America Free” thinking has had strong influence on the Administration’s discourse (esp. the President -- State of the Union, recent speeches and interviews)
 - Companion to the Administration’s Middle East policy
 - The State Department has a very different approach
 - Last 2 years: Administration’s China policy stance has gone a long way -- Choice of engagement to co-opt China into international “regimes”
 - Strategic energy cooperation with China now an official policy objective