US Energy Renaissance Shifts Power

Exclusive: When President Obama addressed the global warming crisis last month, he linked progress on “green” energy with America’s greater natural gas production and strides toward energy independence, two themes that are quietly transforming global power relationships, writes Andrés Cala.

By Andrés Cala

The surge in U.S. output from shale gas and so-called “tight oil” is reshaping global economics by making Americans less dependent on foreign oil and freeing President Barack Obama to reorient the nation’s geopolitical strategies accordingly.

The supply-and-demand math of this new equation is simple. The U.S. economy has historically been configured to run on cheap energy, but for the past half century, rising oil prices have caused economic dislocations domestically while funneling trillions of American dollars to energy-rich regions around the world.

The U.S. government also ramped up its security involvement in these areas, especially the oil-rich Middle East, frequently protecting ruling autocrats in exchange for steady supplies of oil.

Early in this new century, an expanding world economy and an expectation that energy supplies would dwindle kept prices high, enriching oil and gas producers, including American rivals such as Russia and Iran. Meanwhile, high oil prices put pressure on the economies of big consumers like the United States, often distorting U.S. global strategies. President George W. Bush partially justified his invasion of Iraq in 2003 by citing a concern over who would control that nation’s vast oil reserves.

Adding to energy-price inflation was the historic growth in the economies of nations such as China and India. Oil prices soared to records of nearly $150 a barrel before crashing in 2007-08 as the global economic crisis hit. Still, revived expectations of tight supplies and a resurgent demand lifted crude prices again, threatening the fragile U.S. economic recovery taking hold during the early years of the Obama administration.

However, by then, decades of private U.S. investment finally was delivering technological breakthroughs in the use of “fracking” technology to release shale gas and “tight oil.” By 2010, it was increasingly clear that the great potential of shale reserves was materializing and triggering a profound reassessment of global output forecasts for this decade and beyond.

A bullish price climb toward $200 a barrel, which was expected as recently as two years ago, has turned into a bearish price outlook of between $80 and $100 a barrel. This new reality is underscored by the U.S. Energy Information Administration 2013 Outlook, which projects that U.S. primary energy consumption will remain mostly flat for the next 30 years while the country's gas and oil production will grow steadily.

In May 2013, U.S. crude output increased 20 percent from a year before to 7.3 million barrels per day, the highest since 1992, while oil demand has shrunk as the result of the economic crisis, increased fuel efficiency, more use of natural gas in transportation, and reducing consumer demand trends.

"Tight oil" output will contribute 2.4 million bpd by 2020, similar to Norway's and Venezuela's output, and similar to Iran's exports before sanctions took hold. Natural gas production is also surging, and the U.S., which last decade built gas import infrastructure, is now expected to become a net exporter.

That means U.S. energy imports will decrease while exports increase, changing the old rules of the energy game not just for the United States but for the world's other major energy producers and consumers.

Global Strategies Redrawn

Though the U.S. government had little to do directly with the rising energy output, which can be traced to high oil prices that made the new technology economically viable, Obama's policies to rein in U.S. oil demand and to replace oil increasingly with natural gas has begun to redraw global strategies, from the Middle East and South America to China and Russia.

While the Obama administration, like its predecessors, has mostly addressed energy policy as a domestic issue whether focusing on "energy independence" or "climate change" the impact of the shifting energy markets is now foremost geopolitical.

For oil-producing countries including Russia, Iran, Venezuela and the Mideast oil states the lower energy prices will mean less revenue and, presumably, less geopolitical clout. And, as these new technologies are slowly transferred to other high-potential countries, including oil importers like China and Argentina, those nations are expected to become less dependent on outside energy suppliers.

Ironically, the unexpected U.S. domestic production gains of oil and gas also are fueling Obama's reenergized "green energy" drive in his second term, after it stalled in his first. Obama's plan to transition to greener and more sustainable energy in the future would be harder to sell to the public without the energy security provided by the resurgent production of domestic fossil fuels, which will still supply around 80 percent of U.S. energy for decades to come.

For example, the debate over approving the Keystone connection to vast Canadian oil sand reserves often circles around climate change and the ideological divide with Republicans, but that overlooks the growing doubts about the need to increase import pipeline capacity at a time when imports are decreasing.

The surge in shale gas and “tight oil” has improved U.S. economic growth, too, easing the political pressure to ignore “global warming” in favor of “jobs, jobs, jobs.” A shrinking trade deficit freed from massive capital outflows for oil as well as the capital investments required for domestic energy production will create jobs and have a multiplier effect, creating boom times for some parts of the country.

But the short-term impact of the altered energy landscape should be greatest in global relations, including making the economies of some U.S. adversaries more fragile. Already, Washington has used the prospect of declining oil prices to pressure Iran, which had expected to offset sanctions against its nuclear program by pulling in higher revenues from a tight global oil market.

Yet the Islamic Republic is not likely to get that relief because of shrinking U.S. oil imports and oversupplied global markets. With its oil revenue declining rapidly, Tehran knows time favors the U.S. and its allies. That doesn’t mean the outcome of the nuclear standoff will be determined by oil prices, but both sides have recalculated their negotiating equations as a result of the new energy reality.

OPEC’s Challenges

Bearish energy prices are also reshaping the power relationships of the Middle East. Saudi Arabia and the broader Organization of Petroleum Exporting Countries, OPEC, are slowly losing their clout. Non-OPEC supply additions, especially from the U.S., are forcing the cartel to curb production into the future to keep prices around the $100 a barrel mark that Riyadh has set as fair price.

But that means Saudi Arabia will bear most of the cuts because no other country has the power to close and open the oil tap, especially with Iraq expecting to double or perhaps triple its output in coming years.

As the flow of its petrodollars tapers off even if only gradually Saudi Arabia will find its grip on the U.S. and world economies loosened, freeing the United States to pursue a more independent approach to the region, less compliant toward Saudi geopolitical interests. Indeed, the Middle East, which has been at the center of U.S. national security concerns for generations, may eventually recede in importance.

America’s newfound energy supplies are also affecting Venezuela, which is struggling as the current price range and future forecasts are below its breakeven fiscal prices. That explains why Caracas is playing nice to attract foreign investors and toning down last decade’s populist rhetoric at least when negotiating with Chinese, American, European and Russian corporations.

Over the years, improved U.S. energy security also could reshape geopolitics with Russia and China. The impact of oil price fluctuations in the U.S. is inversely proportional in Russia, which for decades has depended on its oil industry to advance its foreign agenda. As energy prices drop, the U.S. economy tends to grow, while Russia’s contracts.

Russia’s muscle-flexing using its huge oil and gas reserves is also blunted, especially in relations with Europe and China, but also with the former Soviet republics around Russia’s borders.

Ripples from lower oil prices may have the most profound effect in the long term on Asia’s strategic evolution. Already, the Obama administration has declared its objective to gradually pivot away from the Middle East and to strengthen its Asian interests.

China benefits from lower oil prices, but its energy trends run in the opposite direction of the U.S. Its import dependence is soaring, along with its energy demand to fuel its economy, but it lacks the reserves or production of the U.S.

In fact, China’s inroads in Africa and Latin America are designed to supply the raw material needed for China to build its economy and for its military to assert its power. But its energy dependence is also its biggest weakness.

China’s growing maritime assertiveness is meant to protect vital supply lines, as well as to impose its claim over vast underwater gas and oil reserves it’s disputing with Japan, the Philippines, Vietnam and several other countries.

So, the list of geopolitical repositioning as a result of the altered energy realities is long. Europe is looking to the U.S. for natural gas (which would decrease its dependence on Russia); Caspian countries, Turkey and North Africa have lost much of their anticipated energy clout; Canada now is looking toward China to sell its planned oil gush, and Latin America and Africa are recalibrating from an overhyped bonanza.

Regardless of these outcomes, it’s clear that the unexpected U.S. energy output surge is reshaping the world's geopolitical map.

Andrés Cala is an award-winning Colombian journalist, columnist and analyst specializing in geopolitics and energy. He is the lead author of *America's Blind Spot: Chávez, Energy, and US Security.*

A Grim Turn in Egyptian Crisis

The Egyptian army's killing of more than 50 protesters opposing the coup against elected President Morsi has escalated the political crisis by choking off hope of a peaceful resolution. The moderate Islamists of the Muslim Brotherhood also see their legal routes to power shut down, says ex-CIA analyst Paul R. Pillar.

By Paul R. Pillar

The most important consequences of the Egyptian military's ouster of President Mohamed Morsi will become clear only over a long term. But for anyone who believes the coup was on balance a favorable event, an awful lot of favorable news will have to come out in the months ahead to offset what has already happened in the first few days after the generals moved.

The most visible disturbing developments have occurred on two fronts, neither of which should have been altogether surprising. One is a manifestation of the principle that closing political channels for more moderate Islamists increases the influence of less moderate Islamists.

The immediate beneficiaries in this case are the hard-line Salafists of the Al Nour party, who are seizing the opportunity to assert themselves as their more moderate and compromising rivals in the Muslim Brotherhood are knocked off balance, with the army incarcerating their leaders.

Al Nour includes the folks who want sharia to be *the* law of the land, unlike the Brotherhood, who in the writing of a constitution agreed with secularists that it ought only to be a source of principles in shaping the law. Al Nour so far can be said to be extreme only in objectives, not methods. Its assertiveness has included vetoing the candidacy for prime minister of former nuclear diplomat Mohamed El Baradei, who is the closest thing to a Western favorite among prominent Egyptian political figures.

The question of methods was raised by an even more disturbing development Monday morning, when dozens were killed as pro-Morsi protesters were gunned down in front of a military headquarters. This is likely to be a defining event for Egypt similar to, even if on a smaller scale than, bloody suppression of protests in past history, from Saint Petersburg to Beijing.

The bloodshed will be associated with whoever is put into office in Cairo with the sufferance of the military. Most worrisome is how such an event may lead to an all-around escalation of violence. One can read in several ways a statement the Muslim Brotherhood issued after its supporters were felled in the street, calling for an “uprising” by Egyptians against those who would “steal their revolt” with tanks and massacres.

As with other phases of political upheaval in Egypt, the United States lacks the power to repair, much less control, the course of events there. The task of dealing with those events, if only as a matter of bilateral relations, has just become even more difficult. It now ought to be harder than ever to do the Egyptian military the favor of not calling their coup a coup.

Paul R. Pillar, in his 28 years at the Central Intelligence Agency, rose to be one of the agency’s top analysts. He is now a visiting professor at Georgetown University for security studies. (This article first appeared as a blog post at The National Interest’s Web site. Reprinted with author’s permission.)