

The Intensifying Global Struggle for Energy

Michael T. Klare

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From Washington to New Delhi, Caracas to Moscow and Beijing, national leaders and corporate executives are stepping up their efforts to gain control over major sources of oil and natural gas as the global struggle for energy intensifies. Never has the competitive pursuit of untapped oil and gas reserves been so acute, and never has so much money as well as diplomatic and military muscle been deployed in the contest to win control over major foreign stockpiles of energy. To an unprecedented degree, a government's success or failure in these endeavors is being treated as headline news, and provoking public outcry when a rival power is seen as benefiting unfairly from a particular transaction. With the officials of numerous governments coming under mounting pressure to satisfy the needs of their individual countries -- at whatever cost -- the battle for energy can only become more inflamed in the years ahead.

This struggle is being driven by one great inescapable fact: the global supply of energy is not growing fast enough to keep up with skyrocketing demand, especially from the United States and the developing nations of Asia. According to the U.S. Department of Energy (DoE), global energy consumption will grow by more than 50% during the first quarter of the 21st century -- from an estimated 404 to 623 quadrillion British thermal units (BTUs)

per year. Oil and natural gas will be in particular demand. By 2025, global oil consumption is projected to rise 57%, from 157 to 245 quadrillion BTUs, while gas consumption is projected to have a 68% growth rate, from 93 to 157 quads. It appears increasingly unlikely, however, that the world's energy firms will actually be able to deliver such quantities of oil and gas in the coming decades, whether for political, economic, or geological reasons. With prices rising all over the world and serious shortages in the offing, every major consuming nation is coming under increasing pressure to maximize its relative share of the available energy supply. Inevitably, these pressures will pit one state against another in the competitive pursuit of oil and natural gas.

Frenzied Search

In the past, such zero-sum contests between major powers over valuable resources have often led to war. Whether that will prove to be true in the case of oil and gas remains to be seen. But the pressure to maximize supplies is already shaping the foreign policy decisions of many states and generating fresh international tensions. Consider, for example, the following recent developments:

* A decision by Japan to initiate natural gas production in a disputed area of the East China Sea sparked massive anti-Japanese protests in China on April 16, the worst outpouring of such animosities in over 30 years. Although leaders of both countries sought to diffuse the crisis by promising fresh efforts at reconciliation, neither side has backed off its claims to the offshore territories. While other issues also fed into Chinese popular discontent, notably

Japan's reluctance to express regret for atrocities committed by its forces in China during World War II, Tokyo's unilateral move to extract natural gas from the East China Sea was the precipitating factor. At stake potentially is the ownership of a vast undersea gas field in disputed waters lying between China's central coast and Japan's Ryukyu island chain. Because the offshore boundary between China and Japan has not been established, neither side is willing to countenance the extraction of gas by the other in the disputed "national territory." Thus, when Tokyo announced on April 13 that it would allow drilling by Japanese companies in waters claimed by China, Beijing had no compunctions about allowing an unprecedented, weekend-long display of nationalistic fervor.

* During her first visit to India as Secretary of State, Condoleezza Rice called on New Delhi to back away from a plan to import natural gas by pipeline from Iran, claiming that any such endeavor would frustrate U.S. efforts to isolate the hard-line clerical regime in Tehran. "We have communicated to the Indian government our concerns about the gas pipeline cooperation between Iran and India," she said on March 16 after meeting with Indian Foreign Minister Natwar Singh in New Delhi. But the Indians let it be known that their desire for additional energy supplies trumped Washington's ideological opposition to the Iranian regime. Declaring that the proposed pipeline will be necessary to meet India's soaring energy needs, Singh told reporters, "We have no problem of any kind with Iran."

* One month after her meetings in New Delhi, Rice flew to Moscow and pressured President Vladimir Putin to open up Russia's energy industry to increased investment by American firms. Noting that Moscow's crackdown on the privately-owned energy giant, Yukos, along with proposed restrictions on foreign investment in Russian energy projects would discourage U.S. companies from collaborating

in the development of Russia's vast oil reserves, Rice implored Putin to adopt a more inviting posture. "What Russia can do is to adopt policies in its energy sector in terms of the development of its energy sector that will increase the supply of oil both in the short term . . . and the long term," she avowed. But while embracing Rice's call for enhanced U.S.-Russian relations, Putin evinced no inclination to back off from his plans to bolster state control over Russian energy companies and to use this authority to advance Moscow's geopolitical objectives.

* On April 25, President George W. Bush met with Crown Prince Abdullah of Saudi Arabia at his ranch in Crawford, Texas, and exhorted him to substantially expand Saudi petroleum output so as to bring down American gasoline prices. "The Crown Prince understands that it is very important to make sure that the price is reasonable," Bush observed before the meeting. "A high oil price will damage markets, and he knows that." Bush and Abdullah also discussed the Israeli-Palestinian conflict and the continuing threat of terrorism, but it was oil demand that dominated the Crawford summit.

Highlighting the degree to which energy issues had come to overshadow more traditional security concerns, both Secretary of State Condoleezza Rice and National Security Adviser Stephen Hadley emphasized the importance of boosting world oil output in their comments on the meeting. "Obviously, with the states like China, India, and others coming on line, there is concern about demand and supply," Rice observed. "And these issues have to be addressed."

Developments like these, and Rice's comments on the Bush-Abdullah meeting, capture the essence of the current energy equation: Demand is rising around the world; supplies are not growing fast enough to satisfy global requirements; and the global struggle to gain control over whatever supplies are available

has become more intense and fractious. Because the first and second of these factors are not likely to abate in the years ahead, the third can only grow more pronounced.

Insatiable Demand

Economies -- all economies -- run on energy. Energy is needed to produce food and manufacture goods, power machines and appliances, transport raw materials and finished products, and provide heat and light. The more energy available to a society, the better its prospects for sustained growth; when energy supplies dwindle, economies grind to a halt and the affected populations suffer.

Since World War II, economic growth around the world has been fueled largely by abundant supplies of hydrocarbons -- that is, by petroleum and natural gas. Since 1950, worldwide oil consumption has grown eightfold, from approximately 10 to 80 million barrels per day; gas consumption, which began from a smaller base, has grown even more dramatically. Hydrocarbons now satisfy 62% of the world's total energy demand, approximately 250 quadrillion BTUs out of a total supply of 404 quads. But no matter how important they may be today, hydrocarbons are sure to prove even more critical in the future. According to the Department of Energy, oil and gas will account for 65% of world energy in 2025, a larger share than at present; and because no other source of energy is currently available to replace them, the future health of the global economy rests on our ability to produce more and more of these hydrocarbons.

The future availability of oil and gas also affects another key aspect of the global economic equation: the growing challenge to the older industrialized nations posed by dynamic new economies in East Asia, South Asia, and Latin America. At present, the industrialized countries account for approximately two-thirds of total world energy use. Because these

countries, for the most part, possess mature and efficient economies, their demand for energy is expected to increase by a relatively modest 35% between 2001 and 2025, a conceivably manageable rate. But demand in the developing world is soaring. By 2025, developing countries are projected to hold a startling half-share in total world energy consumption. When their added demand is combined with that of the industrialized countries, the net world increase jumps 54% over the same set of years, a far more demanding challenge for the global energy industry.

The competition for hydrocarbon supplies will be particularly intense. According to the Department of Energy, oil consumption by the developing world will increase by 96% between 2001 and 2025, while consumption of natural gas will rise by 103%. For China and India, the rate of growth is even more dramatic: China's oil consumption is projected to jump by 156% over this period and India's by 152%. The struggle these countries, and other developing powerhouses like South Korea and Brazil, face in obtaining additional oil and gas for their growing economies will naturally pit them against the older industrialized countries in the competitive pursuit of energy. As suggested by Rice, "with the states like China, India, and others coming on line, there is concern about demand and supply."

Questionable Supply

Accommodating the growing Chinese and Indian demand would not be a significant problem if we had great confidence that the energy industry is capable of generating the necessary additional amounts. In fact, the Department of Energy wants us to believe that this is indeed the case. Future oil and gas supplies, DoE claims, will be more than adequate to satisfy anticipated world demand. But many experts dispute this view. World oil and gas supplies, they argue, will never achieve

such elevated levels. This is true because much of the world's known hydrocarbon reserves have already been exhausted and not enough new fields have been discovered in recent years to make up for the depletion of older reservoirs.

Take the case of oil. The DoE predicts that global petroleum output will reach 120.6 million barrels per day in 2025 -- 44 million barrels more than at present and just a tad shy of the anticipated world demand of 121 million barrels per day. For this to occur, however, the major oil firms must discover massive new reserves and substantially increase their output from existing fields. However, few new large fields have been discovered during the past 40 years, and only one, the Kashagan field in the Caspian Sea, has been found in the past decade. At the same time, many older fields in North America, Russia, and the Middle East have experienced significant declines in daily production. As a result, many geologists now believe not only that the global petroleum industry will not be capable of rising to the 120 million barrel level but will fall far below it.

Predictions that global oil output will peak between now and 2025, far short of the DoE's projections, are highly controversial. This is not the place to consider clashing assessments in detail. But one way to get at this issue is to consider the all-important case of Saudi Arabia, the world's leading supplier and the most likely prospect for higher production in the future. According to the DoE, Saudi Arabian oil output will more than double between 2001 and 2025, jumping from 10.2 to 22.5 million barrels per day. If Saudi Arabia could, in fact, raise its output by this amount we would have some degree of confidence that total world supplies could satisfy anticipated demand even at the end of this period. But there are growing indications that Saudi Arabia is not capable of coming anywhere close to that figure. In a much-discussed 2004 article in the New York Times, business analyst Jeff Gerth reported that

"[o]il executives and government officials in the United States and Saudi Arabia... say capacity will probably stall near current levels, potentially creating a significant gap in the global energy supply."

In response to Gerth's assertions, Saudi officials insisted that their country is fully capable of boosting daily production by a sufficient amount to satisfy anticipated world requirements. "Should [higher world demand] actually materialize... we're going to be ready to meet it," Saudi Oil Minister Ali I. Al-Naimi declared in February 2004. In particular, "we have looked at scenarios of 12 million [barrels per day] capacity, we have looked at 15 million capacity, and those are all feasible." Such pronouncements have provided some relief to those alarmed by Gerth's report. But note that Al-Naimi spoke only of "scenarios" for reaching 12 to 15 million barrels per day -- hardly an ironclad guaranty -- and even an increase of that size would fall far short of the 22.5 million barrels projected by the Department of Energy. Many energy analysts have suggested, moreover, that any drive by Saudi Arabia to boost its daily output above 10 million barrels for any length of time will cause irreparable harm to its fields and result in an inevitable long-term drop in production. As noted by one senior Saudi oil executive, an attempt to reach 12 million barrels per day would "wreak havoc within a decade."

The question of Saudi Arabia's future oil output is terribly important to this discussion because it is highly unlikely that any other supplier, or combination of suppliers, can make up the difference between Saudi Arabia's sustainable yield of 10-12 million barrels per day and the DoE's 22.5 million-barrel goal for Saudi output in 2025. Other big suppliers -- Iran, Iraq, Kuwait, Nigeria, Russia, and Venezuela -- are expected to have a hard enough time maintaining their own output at current levels, let alone filling in for the "missing" Saudi oil. This being the case, it appears highly unlikely

that the global oil industry will be capable of satisfying anticipated world demand in the years ahead; instead, we should expect chronic petroleum shortages, higher prices, and persistent economic hardship.

Precisely because of this prospect, many national leaders are now placing greater emphasis on the acquisition of increased natural gas supplies. Because gas was developed later in the industrial cycle than oil, its principal sources of supply have not yet been fully exhausted, and new fields -- such as those in Iran and the East China Sea -- await full-scale development. Like oil, natural gas will eventually reach a global peak in output, but this is not likely to occur for a decade or so after oil has peaked. As petroleum output declines, therefore, natural gas is expected to take up some of the slack -- but only some, because there is not enough gas in the world to fully replace petroleum in all its myriad uses. And it is for this reason that many governments seek to gain control over or access to major gas reserves now, before they are locked up by someone else.

Intensifying Struggle

What can we expect from this intensifying struggle over valuable energy resources? Certainly, national leaders are placing ever greater emphasis on the competitive pursuit of energy as Condoleezza Rice made clear in her recent jaunts around the world. Whether in India, Russia, or Latin America, she has raised the energy issue at every turn, pressing America's allies and business partners both to supply us with more oil and to ignore the appeal of "rogue" producers like Iran and Venezuela. Other world leaders like Vladimir Putin of Russia and Junichiro Koizumi of Japan have behaved in a similar fashion. Striking, in fact, is the degree to which the quest for energy has been elevated into the realm of national security, on an equal plane with efforts to combat nuclear proliferation and

international terrorism. Thus, it was the President's adviser for national security affairs, Stephen Hadley, who briefed reporters on the outcome of the Crawford summit between Bush and Abdullah. "The news that came out of the meeting today ought to be good news for the [energy] markets," he declared on April 25 -- not good news in the war against terror or in the drive to promote peace between Israel and the Palestinians.

Secretary of State Rice, however, offered the most telling observations after the April 25 meeting. The problems arising from insufficient supply to meet rising world oil demand, she said, "have to be addressed, not by jawboning, but by having a strategic plan for dealing with the problem." Anyone familiar with the Bush administration lexicon cannot help but be troubled by this call for a "strategic plan" to obtain additional energy, redolent as it is of the administration's bellicose, pre-emptive strategy for dealing with terrorism, "rogue states," and weapons of mass destruction. Just exactly what Rice means is not yet entirely clear, but it certainly suggests that energy issues will be paramount in U.S. foreign and military policy in a Bush second term.

And what is true for the United States is also likely to prove the case for other major oil-importing countries. Warning that China has outperformed India in the pursuit of new oil and gas reserves, Indian Prime Minister Manmohan Singh declared in January that New Delhi would have to accelerate its efforts in this area. "I find China ahead of us in planning for the future in the field of energy security," he told a convention of Indian oil and gas executives. "We can no longer be complacent and must learn to think strategically, to think ahead, and to act swiftly and decisively."

Japanese leaders, too, have stressed the need for decisive action. Energy-poor Tokyo's decision to proceed with drilling in contested areas of the East China Sea is just one

indication of this outlook. Equally striking is Japan's effort to convince the Russians to extend a new Siberian oil pipeline to Nakhodka on the Sea of Japan. Originally, Moscow had expected to terminate the pipeline at Daqing in China as part of a plan to strengthen Sino-Russian energy cooperation. But after Prime Minister Koizumi flew to Moscow and offered billions of dollars in additional aid and technology to Russia, President Putin indicated a preference for the Nakhodka route, which will, of course, facilitate oil deliveries to Japan. This has not deterred Chinese leaders from seeking a reversal of this decision, claiming that the "strategic partnership" between Moscow and Beijing outweighs the purely mercantile interests of Japan.

So far, none of these efforts has led to more than verbal sparring -- "jawboning," to use Rice's term -- along with high-stakes bidding wars and the occasional outbreak of street protests, as in Shanghai and Beijing. But if history is any guide, such friction -- when combined with other sources of animosity like China's smoldering resentments over Japanese atrocities during World War II -- can lead to more violent forms of competition. This is certainly the case in the East China Sea, where Chinese and Japanese planes and gunboats have already made threatening passes at one another.

Tensions are sure to rise, moreover, if Japan actually commences drilling in waters claimed by China. "If real exploration starts, we cannot totally exclude the possibility of Japanese private company ships having to face Chinese military ships," Junichi Abe, an analyst at the Kazankai Foundation in Tokyo, told a reporter for the New York Times. And if this were to occur, the Japanese government would come under enormous political pressure to protect those private vessels with planes and warships of its own, thereby setting the stage for an armed confrontation with China, whether intended or not.

Similar escalation could occur in other cases of disputed energy claims. In the Caspian Sea, for example, Iran seeks control over offshore oil and gas fields also claimed by Azerbaijan, an ally of the United States. In July 2001, an Iranian gunboat steamed into the contested area and chased off an oil-company exploration vessel operating there under Azerbaijani auspices. In response, the United States has pledged to help Azerbaijan build a small Caspian navy, to better protect its offshore energy claims. On April 11, John J. Fialka of the Wall Street Journal revealed that the U.S. Department of Defense will spend \$100 million over the next few years to establish the "Caspian Guard," a network of police forces and special-operations units "that can respond to various emergencies, including attacks on oil facilities." Russia is also expanding its Caspian Fleet, as it too presses its claims to offshore fields in the region. Under such circumstances, it is all too easy to imagine how a minor confrontation could erupt into something much more serious, involving the U.S., Russia, Iran, and other countries.

Territorial disputes of this sort with significant energy dimensions can be found in the Red Sea, the South China Sea, the Persian Gulf, the Gulf of Guinea, and the Bakassi Peninsula (a narrow stretch of land claimed by both Nigeria and Cameroon) among other regions. In each of these areas, opposing claimants have employed military force on occasion to assert their control or to drive off the forces of a challenger. None of these incidents has led to a full-scale conflict, but lives have been lost and the risk of renewed fighting persists. As the global struggle for energy intensifies, therefore, the danger of escalation will grow.

It is important to recognize that energy-related pressures are bound to increase as global demand continues its upward course and the supply of oil and natural gas fails to keep pace. The Bush administration, in particular, is aware of these pressures, having analyzed the global

energy equation in its May 2001 report on U.S. energy requirements. While administration officials have repeatedly denied that oil played any role in the 2003 decision to invade Iraq, they clearly believed that control of the country would provide the United States with enormous advantages in any coming struggle with competitors like China over Persian Gulf energy.

Indeed, once a problem like energy security has been tagged as a matter of national security, it passes from the realm of economics and statecraft into that of military policy. Then, the generals and strategists get into the act and begin their ceaseless planning for endless "contingencies" and "emergencies." In such an environment, small incidents evolve into crises,

and crises into wars. Expect a hot couple of decades ahead.

Michael T. Klare is a professor of peace and world security studies at Hampshire College and the author of [Blood and Oil: The Dangers and Consequences of America's Growing Dependency on Imported Oil](#) among other works.

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