

In energy, we're all connected

There is more to it than oil and gas.

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As host of this weekend's summit of top world leaders in Russia, Vladimir Putin got the party theme right. "Energy security" is a hot topic, given doubled oil prices over the past three years. Yet the Russian president's views on this subject need adjusting.

As the biggest energy exporter among the Group of Eight industrialized countries, known as the G-8, Russia's take on this issue carries weight – dead weight. The Russian president is increasing state control over his country's oil and gas wealth. He's limiting foreign investment in these hydrocarbons and wants to do what he can to lock in demand for the energy exports. Most troubling, he's not above using fuel as a political weapon.

But Mr. Putin's hardly alone in his view that national control of energy equals a secure future for his country. China, for instance, thinks that if its state-managed firms can just buy stakes in enough oil fields – in Sudan, Nigeria, and Angola, for example – it can guarantee fuel for its surging economic growth.

If the leaders of the G-8 do anything this weekend, they would do well to move closer to an understanding that energy security (i.e. enough supply at an affordable price) is a matter of global market interdependence – not national control.

Given the tight supply and high prices of today's petroleum scene, that's a tough concept for some governments to grasp. With China and India as significant new buyers in the world energy market; with some oil experts warning that the world has already used up half its crude oil reserves; and with a host of other threats, including terrorism and other geopolitical instability, not to mention hurricanes – it's no wonder some countries want to get (or tend) their own patch before the getting's too late.

But too much control can backfire on the controller. A Russia willing to cut off natural gas as political punishment to Ukraine simply scares off customers. Indeed, Europe's looking for other energy sources. State control of energy also diminishes the free flow of R&D and equipment investment that an open market brings (Mexico's creaking Pemex is an example). And there's no guarantee that owning a distant oil field will keep the crude flowing.

Historically, diversification is the key to energy security, and governments and the private sector should do all they can to diversify. That includes greater investment in safer nuclear power, "clean" coal, renewables, and conservation (a 10 m.p.g. increase in US fuel efficiency would reduce oil imports by nearly 25 percent).

But in today's global economy, equal emphasis must be placed on ensuring that energy markets run openly and smoothly. After all, a China disabled by an energy shortage would also hurt the US economy.

To that end, China and India should be included in the system of oil stockpiles set up by industrialized countries in the 1970s to handle market disruptions. That system came in handy after Katrina took down Gulf petroleum. At the same time, hydrocarbon

producers and buyers should work to protect the global supply chain of pipelines, shipping choke points, and refineries.

These steps require coordinated government and private effort – and a global mental shift that recognizes interdependence. The G-7 must persuade its 8th member of this view.