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Global Energy Security: The Hottest Energy Topic

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There is a wide degree of public ignorance about the connection between energy security and war.

It has been claimed by a surprisingly wide range of people, and no doubt believed by many, that the decision by the United States and its coalition partners to use military force to remove the Saddam regime from Iraq was really motivated by the aim of securing oil supplies.

National Security

Political decisions authorising the use of international military force are invariably founded on the need to protect national, regional or world security. National security is the indispensable bedrock upon which the stability of world order depends. This is not to deny that the making of decisions to engage in war can be influenced by the underlying fears of people and their mistrust of others.

Energy security must not however be confused with national security. Energy security is concerned with the risks that could have an impact on the flow of affordable energy products to meet the demand of consumers. Shortages of energy products and increases in energy prices rarely have a discernible impact on national security (although of course they can have in times of war or other emergency). The stability of energy markets is nonetheless of fundamental importance not only to the economic welfare of the world and its various populations but also to future relations amongst sovereign states, hence also of importance for world order.

National security considerations therefore have great relevance for energy policy. To see this, you need go no further than the published strategic objectives of US energy policy.¹ These make it clear that US national security is the paramount driver of US energy policy. The reverse does not apply, that is, energy policy is not the driver of national security policy.

Energy security

Energy security relates to the *security of energy supply*. But there is no single source of energy supply. The global reality is that there is a complex and continually shifting mismatch between many centres of energy production and many centres of demand.

Energy security is made up of three elements:

- security of primary energy availability
- security of energy processing and conversion and
- security of energy delivery systems.

Energy security does **not** include (as OPEC spokespersons have occasionally suggested) security of energy demand. This is not to downplay the legitimate concerns of oil exporting nations to protect their export revenues, concerns which are shared by all nations that export their agricultural or natural resources.

Structural change in the global energy economy since 1973

The 1973 Gulf War is, for the purpose of this article, a handy starting point. Since 1973, the global energy economy has undergone two major structural changes, the implications of which are not yet widely understood. In essence, these changes are:

- a wave of liberalization in domestic energy markets (including the abandonment of central planning in the former communist economies) and
- an unprecedented increase in competitive trade and investment activity in freely operating global and regional energy markets (which has been most pronounced in the gas sector).

Since 1973, gas has substantially increased its share of primary energy consumption, a fact which is widely understood. What is not so widely understood is that the major energy importing nations, especially the US and China, have increased the proportion of their gas and other primary energy imports even faster.

In other words, energy trade has "gone global", causing most energy importing nations (including the US) to be *relatively far more vulnerable* to energy supply disruptions than they were at the beginning of the period.² Furthermore, the IEA emergency stockpiling system is now *relatively much less effective* than it was when created and, as its name implies, it was only ever intended to deal with emergency situations in the oil sector.

During the post-1973 period, concerns over the sustainability, both domestically and internationally, of energy production and related environmental concerns have also come to the fore, effectively imposing greater regulatory constraints on the freedom of action of energy market participants.

The consequence of structural market change

Increased competitive activity in global and domestic energy markets over the post-1973 period has easily counterbalanced the increased supply vulnerabilities of energy importing nations. Most of the world has continued during the period to prosper from the availability of affordable energy (not forgetting the chronic energy impoverishment of large populations in many developing economies, a state of affairs that has its roots in a range of other issues not discussed here).

Despite energy markets having become increasingly susceptible to interruption and increasingly constrained by environmental regulations, energy remains both available and affordable to most consumers. This is an astonishing and almost incredible result, largely brought about by the simple expedient of opening up markets so they can operate more freely.³

However, although energy trade has "gone global", *governments have remained local*. Furthermore, there has been relatively limited success in creating effective intergovernmental organizations (IGOs) to manage international energy resource allocation and trade and its environmental impacts.

The WTO, IEA, IAEA, OPEC, OAPEC, UN, IMF, World Bank, APEC, ASEAN and OLADE, despite all their best efforts and not gainsaying their achievements, have thus far been unable to effectively meet, underwrite or reliably facilitate the resource development and utilization aspirations of the majority of nations. The ECT stands out as one IGO that in the recent past has significantly increased its global influence but even the ECT has been unable to conclude its long-awaited transit protocol. Many non-governmental organizations (NGOs) have tried to plug the gaps but have lacked legitimacy, on occasions brazenly and unsuccessfully challenging the authority of legitimate governments.

Voluntary international standards and codes of practice have begun to emerge, an example being the Equator Principles recently adopted by major banks to govern their lending practices.

The importance of stability in energy markets

Given that governments have remained local, the maintenance of global order now depends to a significant degree on the maintenance of stability in international and domestic energy markets.⁴

However, energy markets are now, more than at any time in history, especially vulnerable to log-jams in delivery systems which can impede their free operation. Delivery log-jams can occur at a variety of upstream and downstream points, particularly across national borders. This applies to maritime, rail, road, pipeline and power transmission systems.

The world is not about to run out of fossil fuels but energy supplies will almost certainly become more expensive over the long term as political and environmental regulations and log-jams in delivery systems all combine to tighten the noose. The "Hubbert's peak" theory of resource depletion⁵ is no longer a real concern for policymakers for the reason that it has been overtaken by events.

Every time intervention in any market occurs at the instigation of a state, it can have a deleterious and long-lasting effect on private investment. Fortunately for energy consumers everywhere, there are few current signs that governments are losing confidence in the reliability of energy market mechanisms. Micro-economic reforms have swept across the energy sectors of developing countries at a pace comparable to that shown in the developed countries just a few years ago.

There has never been such a clear and widespread recognition of the importance of global energy market stability by all of the major participants than there is right now. It can be seen in Asia (particularly in ASEAN), in the US and in the Middle East. One early sign was the World Energy Assessment⁶ prior to the Johannesburg WSSD; other signs were the balanced outcomes of the WSSD itself.

Conclusion

Energy security has become the hottest energy topic. The belated recognition of the value of energy markets and the importance of energy market stability is a welcome signal of global political sanity and rationality. Energy policies everywhere are now in need of redesign to accommodate the new market-dependent environment.

Before long, we may even see open markets in energy security, which would be an even hotter topic.

Endnotes

¹ US Department of Energy, "Strategic Plan", Washington DC, USA, 30 September 2003.

² Alhaaji, A F and Williams, J L, "Measures of Petroleum Dependence and Vulnerability in OECD Countries", Middle East Economic Journal 46:16, 21 April 2003.

³ In markets, monopolistic or excessive anti-competitive activity, where it occurs, still needs to be controlled by regulators in the interests of optimising the level of intensity (fairness) of competition (although, at the same time, it should be said that regulatory activity needs to be restrained from becoming too heavy-handed).

⁴ It has been suggested by a highly regarded energy analyst that protection of the world trading system in general may be even more important than protection of the energy component. See Mitchell, J V, "Renewing Energy Security", The Royal Institute of International Affairs, London, UK, July 2002.

⁵ Hubbert, M K, "Energy Resources (Report to the Committee on Natural Resources)", National Academy of Sciences, Washington DC, USA, 1962. See the recent discussion in Hall, C et al, "Hydrocarbons and the Evolution of Human Culture", Nature, 20 November 2003.

⁶ United Nations Development Programme (UNDP), United Nations Department of Economic and Social Affairs (UNDESA) and World Energy Council, "World Energy Assessment", New York, NY, USA, 2001.

ResourcesLaw International is an Australian-based consultancy which provides specialist advisory services to governments and corporations on:

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