



The Militarization of Energy Security

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June 2008

Outline

- Disclaimer: author opinions only.
- Project background
- The argument
- Applying argument to today's circumstance.
- Punch line: deliberate actor calculations and/or miscalculations over functioning or nonfunctioning of energy markets might lead to armed conflict between developed states or a more generalized acceptance of considering the actual and implied use of force to manipulate those markets.

Project Background

- Research project for NIC/LRA – Routledge book *Energy Security and Global Politics: The Militarization of Resource Management*
- Due out in fall of 2008 that will feature case studies: China, Gulf, Russia, Central Asia, et al.
 - This book will make a nice gift!
- Moran/Russell paper also published in Jan/Feb issue of CCC e-journal Strategic Insights; also on SUSRIS site.
- Book tries to bridge the divide between security studies and economists.

Energy Security and International Security

- Economists are wedded to workings of markets and the stakes of actors in these markets – built in impediment to disruptions, since developed states have largest stake in stable market functions.
- Security studies people believe that wars can start for all sorts of reasons; people/states can behave irrationally; states can and do go to war with their best customers for what in retrospect seem pretty foolish reasons; states will act to prevent decline in their strategic circumstances.

The Concept

- “Energy security” is now deemed so central to “national security” that threats to the former are liable to be reflexively interpreted as threats to the latter.
 - Force as coercive instrument in response to threats to “energy security.”
- Energy security seen as one “worst case” scenario that could cause developed states to reconsider calculus that war with one another does not pay.
- Broader global strategic paradigm of resource-constrained state growth.

What does Militarization Mean?

- “Militarization” requires that something must change that would force major market participants to reject calculation that war for energy does not pay.
- High energy prices would be part, but not sufficient.
- Loss of confidence in the ability of the market to deliver mean reversion in pricing.
- Calculation that compromised market changes circumstance in such a way that fundamentally erodes the strategic position of major market participants.
- Perception of market compromise is just as important as “actual” compromise.
 - Perception of “peak oil”
- Some believe it is already underway.

What does it look like and will we know it when we see it?

- Events need not be dramatic
- Militarization occurs as a series of small iterative calculations conceived in response to limited crises or opportunities, each of which erode willingness of other participants to trust the market
- This means that the normal operation of the market is compromised – “end of history”

State- Based Strategic Interventions

- Direct seizure of energy assets by military means
- Destruction of energy assets to deny their use to competitors
- Military confrontation arising from competitive efforts to identify and exploit new energy resources
- Indirect control of energy assets through creation of proxy or puppet states

Scenarios, Contd.

- Military overthrow of governments whose conduct is inimical to energy market functions
- Military protection of or attacks upon the energy production and transportation infrastructure
- Protection of or attacks upon transit choke points
- Intervention to defend governments in energy of energy producing states

Non-State Wild Cards

- Terrorist groups have systematically targeted energy nodes over the last decade in Iraq, Russia, Columbia, Ecuador, Philippines, Turkey, Pakistan and Algeria.
- Terrorist group operational areas coincide with world's major energy producing regions
- Bin Laden and Zawahiri repeatedly threaten to destroy Gulf energy targets
 - Episodic attacks mounted in Saudi, Yemen and elsewhere

Non-State Limiting Factors

- Redundancy of world energy infrastructure is significant; system is resilient
- Strategic-level sustained attack is problematic
- Producing states take facility security seriously
- BUT, the bolt from the blue, catastrophic attack at a critical node, i.e., Ras Tanura, Abqaiq, Abadan(?), Strait of Hormuz, Bab el Mandeb, cannot be dismissed out of hand

Institutional Interests Cannot be Discounted in USG

- Military organizations are reluctant to embrace the constabulary- , nation-building and irregular warfare functions that are largely ground-based
- Energy insecurity is being seized upon by USN, for example, as justification for holding on to cherished missions and multi \$ billion platforms at a time when most states have abandoned the idea of blue water operations.

Today's Politics – Markets Gap

- Growing perception that international energy markets are not functioning in accordance with two “iron laws” of the marketplace:
 - Rising prices leads to less demand and more supplies
- Not this time – demand continues to grow along with prices, 1.2 mbpd est. growth in '08.
- Suppliers will not/cannot increase supply to keep pace with projected demand increase:
 - Non-OPEC suppliers plateau by 2020
 - Saudi plan is to increase production to 12.5 bpd, far less than what projections suggest are needed.
- Prices aren't coming down any time soon – no mean reversion.

I'm Not Making This Up

- Fatih Birol, Chief Economist at the International Energy Agency: "According to normal economic theory, and the history of oil, rising prices have two main effects. They reduce demand and induce oil supplies. Not this time."

As quoted by Jad Mouawad, "Oil Price Rise Fails to Open Tap," *New York Times*, April 29, 2008 at <http://www.nytimes.com/2008/04/29/business/worldbusiness/29oil.html>



Dr. Fatih Birol is Chief Economist and Head of the Economic Analysis Division of the Paris-based International Energy Agency. He is organizer and director of the World Energy Outlook series, the IEA's flagship publication

Why Does This Matter?

- Growing perception that market is already operating outside expected norms.
- Once states or people running the states stop believing in market, or stop being able to politically support market functions, they reconsider their options.
 - Coercive instruments and markets.
 - Logic of preventative war.
 - The Iraq war shows how easily a war of “choice” can be sold.

The U.S. Case

- Alone with military capable of systemically interceding to affect energy markets.
- Also blinded to the changes in global financial plate tectonics delivered by energy markets over the last six years.
- GCC SWF, SAMA, private holdings est. at \$2 trillion; GCC now with second largest \$ holdings in the world.
 - ADIA now w/nearly \$1 trillion in assets;
 - GCC GDP could reach \$883 billion in 08, more than doubling in last 5 years.
 - The GCC is accumulating assets at the rate of about \$15B a month
- Changing balance of power in Gulf:
 - Iran has already lost the economic competition w/the GCC. It is too far behind.
 - Iran doesn't get; neither do we.

US Politics

- Chasm today between political/public domains and new global economic realities being created by energy markets.
- \$7 a gallon by 2012 est. by some, while Gulf Arabs are building underwater hotels and indoor ski slopes?
- Bush dismissed twice from Riyadh in last six months
- Lack of political will to make hard choices of any sort.
- We don't get it
 - Schumer-AIPAC arms amendment to get back at those bad old Saudis....
- Citigroup, UBS, GM Building owners in NYC get it.
- When public and politicians finally realize what's happened, watch out.

Politics of Today: Blame the Suppliers!

"If Saudi Arabia were to increase its production by 1 million barrels per day that translates to a reduction of 20 percent to 25 percent in the world price of crude oil, and crude oil prices could fall by more than \$25 dollar per barrel from its current level of \$126 per barrel. In turn, that would lower the price of gasoline between 13 percent and 17 percent, or by more than 62 cents off the expected summer regular-grade price - offering much needed relief to struggling families." Senator Charles Schumer (D-NY) on the Senate floor on May 13, 2008.



Conclusions

- War happens through variety of ways:
 - Stupidity and ideology, irrationality, miscalculation, greed, logic flowing from inexorable decline in strategic circumstance -- preventative war, genuine disputes.
- Just because developed states haven't fought each other for a while doesn't mean they won't do it again.
- "Normal" functioning of markets may be compromised
 - More important, perception is growing that this is the case.
- Perceptive chasm in the United States between domestic politics and the realigned global distribution of economic power will close, and when it does, look out.

Questions?

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