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Global competition for future energy supplies heats up

By Kevin G. Hall
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WASHINGTON - Soaring demand for crude oil in China, India and other developing nations has set off a scramble to secure future energy supplies that could undermine the economic and national security of the United States.

The United States, Europe and Japan increasingly will be forced to compete with developing nations, especially China and India, the world's two fastest growing major economies, which comprise more than a third of the world's population.

"The center of gravity in world oil is shifting," said Daniel Yergin, the chairman of Cambridge Energy Research Associates and an author of "The Prize," an award-winning history of oil.

"Last year, Asia consumed more oil than North America," Yergin said. He predicts an oil supply shift, too, as Africa, Russia and former Soviet republics compete with the Middle East to fill the growing demand for oil.

The developing world's growing appetite for oil is one reason gasoline prices have shot up for Americans. Over time, these emerging economies will also shape not just global oil flows and prices but also world events, said Anne Korin, the co-director of the Washington-based Institute for the Analysis of Global Security, an energy security think tank.

"A third of humanity doesn't want to ride bikes anymore," she said. "That has profound geopolitical implications."

China and India already have moved aggressively to strengthen their relations with two oil-rich countries - Sudan and Iran - undermining U.S. sanctions against Sudan's regime and undercutting U.S. efforts to halt Iran's nuclear ambitions.

"We are in a situation right now where the energy consumption of the developing world is having an impact on the foreign policy options of the United States," said Korin.

For now, the United States remains well positioned, at least when it comes to energy supplies. The proven reserves in the Middle East make it the expected primary global supplier of crude oil. Iraq, where the United States has forcefully established a beachhead, has proven oil reserves of between 78 and 112 billion barrels.

But political instability, increased terrorism and the spread of fundamentalist Islam make it unlikely that today's oil-production map will look the same 20 years from now.

What's clearly changing is demand. The Paris-based International Energy Agency, a research arm of the world's most developed nations, projected last year that oil demand will grow by 45 million barrels a day to 120 million barrels a day by 2030. More than $3 trillion will be invested to find and produce that oil, and more than half of that investment will serve the needs of emerging economies.

The scramble to find and develop new oil fields and natural gas wells will occur in places such as eastern Siberia and West Africa, as hungry nations hedge their bets should leading producers such as Saudi Arabia or Iraq falter.

"You need energy to develop an economy, so there's a great strategic value in securing energy assets," said Antoine Halff, an oil expert with the risk-management company Eurasia Group in New York.

One likely winner is Russia, along with some of the now independent states that formerly made up the Soviet Union. They have proven reserves of 78 billion barrels but the U.S. Geological Survey estimates that there may be 171 billion barrels of estimated undiscovered oil in the region.

"Russia is virtually unexplored. Their potential is enormous," said Gary Swindell, an independent petroleum engineer in Dallas whose business is estimating reserves.

Africa is another winner. It's got 87 billion barrels of proven reserves and estimated undiscovered reserves of 125 billion, mainly in West Africa. Central and South America have roughly the same, but, as in Russia, many are in prohibitively remote areas.

Elsewhere in the Western Hemisphere, Canada and Mexico are expected to remain the second and third largest U.S. oil suppliers. But smaller oil players are courting Washington's competitors.

In Venezuela, the fourth largest U.S. oil supplier, President Hugo Chavez, a self-described protege of Cuban dictator Fidel Castro, is trying to rewrite concessions to U.S. oil companies and has invited China and India to participate in oil exploration. Ecuador and Colombia are negotiating oil deals with China, too.

China, the world's fastest-growing economy, is also making heavy diplomatic and energy investments in Africa. It needs to: China is projected to consume within 20 years what the U.S. consumes today - 21 million barrels a day.

Although China is the world's second largest oil consumer after the United States, it's only the fifth largest importer because of its own oil reserves. That's changing, however, because China is rapidly exhausting wells in Manchuria and the South China Sea. Soon its reliance on foreign oil will rival America's.

China's President Hu Jintao in mid-April cemented a "strategic" partnership with Nigeria during a state visit to Beijing by President Olusegun Obasanjo. Nigeria is West Africa's biggest producer and a major U.S. supplier. China's already trading development loans for energy development participation in Chad, Gabon and Angola.

In Sudan, China ignored evidence of genocide in the country's long-running civil war to entrench itself. It also effectively voided unilateral U.S. sanctions imposed because Sudan sheltered Osama bin Laden before he moved on to Afghanistan.

Sudan's widely reported human rights violations also sparked protests in Canada and Sweden that drove oil companies from those countries out of Sudan in 2002 and 2003. China, which now gets as much as 10 percent of its imported oil from Sudan, has repeatedly blocked U.N. efforts to impose anti-genocide sanctions against its trading partner.

Data from the federal Energy Information Administration help explain China's moves. The EIA predicts that China will import about two-thirds of the oil it consumes by 2025, up from the current figure of one third.

India, which has almost none of its own oil, is equally hungry. The EIA expects India to more than double its oil consumption to 5.3 million barrels a day by 2025.

Both China and India are investing billions in Iran despite President Bush's attempt to isolate the Persian Gulf nation because of its nuclear ambitions. The money is a lifeline for the world's fourth biggest oil producer, which also sits atop the world's second largest natural gas reserves. Both are off limits to U.S. companies.

Iran - already China's largest oil supplier - earlier this year signed long-term oil and natural gas contracts worth tens of billions of dollars with both China and India. Iran gave India's state oil company a 20-percent ownership stake in the development of a key Iranian oil field.

In strictly economic terms, it doesn't hurt the United States when developing countries promote oil drilling, extraction and production. That increases world supply, slakes demand and drives down prices. But access to ample energy is a prerequisite to world power.

That's a lesson not lost on Russia, the world's second largest exporter of crude oil and holder of the world's largest reserves of natural gas. The United States, Europe, India and China have each carved out stakes in Russia's energy future, while, for its part, Russia has sought to control strategic pipelines for oil and natural gas flowing from or through former Soviet republics.

President Bush travels to Russia in early May and is expected to lobby President Vladimir Putin for a multi-billion dollar pipeline deal to take natural gas to the Russian seaport of Murmansk. There, it would be liquefied and transported for sale in the United States.

Putin seems intent on using Russia's energy supplies to boost his influence at home and abroad. He's meddled in neighboring countries like the Ukraine and Georgia in hopes of securing greater control over how oil flows in and out of the region. And he has broken apart the country's largest private oil company, OAO Yukos, which had ties big U.S. oil interests, and is creating a new and massive state oil company from the ruins.

Putin has been friendliest to Western Europe, which now buys from Russia about a quarter of the natural gas it uses to fuel power plants and factories.

Russia's leader favors Western Europe because the dependency it promotes restores some of the international influence that Moscow lost following the collapse of the Soviet Union, said Clifford Gaddy, an expert on the Russian economy at the Brookings Institution.

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