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Reorienting American Energy: The Geopolitics of Oil in Transition

by Joe Calnan
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CONFERENCE REPORT

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Amrita Sen - CGAI Fellow and is the Founder and Director of Research at energy consulting firm Energy Aspects.

Sara Vakhshouri - Founder and President of SVB Energy International, a member of the Energy Task Force of the Cyprus Climate Initiative, and Professor of Energy Security at the Institute of World Politics.

QUESTION: *What is the strategy behind the combination of policies which support domestic fuel demand, but oppose domestic fuel supply?*

Ellen Wald

- Rising demand and restricted supply are the real causes of high fuel prices, but OPEC and speculators are easy villains for politicians to target
- Biden's policies provided stimulus for fuel demand while at the same time increasing instability and uncertainty for oil production, causing rapid inflation
- Demonstrates a lack of planning and preparation by the administration for the energy transition, without planning there will be multiple energy crises

Sara Vakhshouri

- The strategies that the white house is pursuing are very hasty, too ambitious to meet the needs of the market
- There is a mismatch with realities on the ground with Biden's energy policy

Amrita Sen

- To even say that they have a coherent policy may be giving the Biden administration too much credit
- The biggest challenge for transition is talking about units – we are talking about 500 billion tons of liquids that need to be transitioned
- Biden's energy team is very focused on climate change and the Paris agreement – they did not initially have any oil people on their team prior to Amos Hochstein



- Bigger problem – policymakers have to grapple with the fact that transition will be costly, including inflation

QUESTION: *How do you see the relationship between the United States and OPEC+ changing if oil becomes a smaller component of the American energy mix?*

Amrita Sen

- The relationship between the current U.S. administration and Saudi Arabia is in question due to Khashoggi
- At the same time, on the oil front the current U.S. admin is less intrusive than the last – not as strong on the top level, but more reasonable on the OPEC level

Sara Vakhshouri

- During the Obama administration and the shale boom in the U.S., the U.S. became less dependent on Middle Eastern oil
- The creation of OPEC+ resulted from this, to create similar close relationships with Russia and China
- Both Saudi oil and U.S. oil is seen to have a long-term future, due the low cost of Saudi oil and the high quality of U.S. oil

Ellen Wald

- State-owned oil enterprises are very well positioned to take advantage of continued demand for oil, as opposed to private oil companies which have cut investment
- The future of oil production will be from well-run national oil companies
- There is a close strategic partnership between the U.S. and Saudi Arabia, where American and Saudi companies have invested in each other's economies

Amrita Sen

- The UAE should not be ignored – ruler of the UAE inspired Saudi Arabia's de facto ruler MBS for giving the UAE far greater influence regionally and globally
- At a political level, the U.S. wants to have a limited role in the Middle East – this is resulting in major shifts in Middle Eastern geopolitics such as rapprochement with Israel
- Russia's oil is part of the free and global market – U.S. oil imports of Russian crude makes headlines, but the U.S. for years has been the largest buyer of Russian fuel oil



- Politics plays very small role in crude and fuel oil, but a large role in natural gas – Nord Stream 2 is a great example of this

Sara Vakhshouri

- Where oil is sold is determined by where you can get the best price on the market
- If you're looking at the energy transition, countries like China, Russia, and Iran have more sensible politics for long-term planning
- In the rush to the energy transition, we are missing the importance of securing supply chains for the materials we will need - western countries are putting themselves at a geopolitical disadvantage

QUESTION: *Does China have an advantage over the United States as energy systems evolve in this transition?*

Amrita Sen

- Once China puts its mind to something, they will make it work – the incentives are very different in a command economy
- One major advantage in China is sharing information between state-owned companies, while expertise in competition-based economies cannot share information as easily

Ellen Wald

- China can't be trusted to abide by trade agreements and treaties, there are severe concerns with China's dominance over critical materials
- China's supply chains are not low-carbon or clean either

QUESTION: *Does Michigan Governor Gretchen Whitmer's opposition to Line 5 represent a challenge to the stability of North American energy integration? What could the consequences be for Canada and the United States if this relationship is damaged?*

Ellen Wald

- There is no such thing as American energy security without the integration of Canada – should be at the policy level and corporate level
- With Line 5, we're seeing a disintegration of Canadian and American energy security – Whitmer should be concerned about the availability of energy supplies for Michigan



- We're getting rid of the energy we have now and replacing it with energy that we don't have

Amrita Sen

- The refineries in the United States have been designed to take Canadian oil – billions of dollars have been spent to take this oil, and it should be flowing
- Saudi oil is very good on an emissions per barrel basis, but there is a huge demand for heavy oil worldwide
- If Canada starts getting its oil to Asia, the U.S. would appreciate the importance of Canadian oil to its economy more

Sara Vakhshouri

- Politics often does not follow logic – Biden administration is laser focused on climate
- Votes in the United States will determine how energy policy in the future will unfold – whether it becomes more practical or continues being unrealistic

Amrita Sen

- This is not just the geopolitics of energy, but the *Politics* of energy
- This coming winter will be the true test – if this is a colder than normal winter, we will see sky-high prices of energy
- There is currently a disconnect between politics and reality – we all want energy to be more clean, but we cannot have politicians misunderstanding how important oil and gas is

Ellen Wald

- The Keystone XL pipeline was a political football, a quick and easy way to get credit with environmentalists

Sara Vakhshouri

- It is difficult to get politicians to take any actions that voters aren't pushing them toward

► About the Author

Joseph Calnan is the Energy Security Forum Coordinator at the Canadian Global Affairs Institute. He graduated from the University of Calgary's School of Public Policy with a Master's Degree in Public Policy in 2020. He received a Bachelor of Arts in Western Society and Culture from Concordia University in Montreal. Prior to joining CGAI, Joseph worked as a CEO's Office Intern with Sustainable Development Technology Canada. Joseph has also worked as an intern and in short-term contract positions with various firms involved in Alberta's energy industry, including Canadian Natural Resources Limited, Rocky Layman Energy Inc., and Marvin Shaffer and Associates.

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