

The US President Trump and Uncertainty

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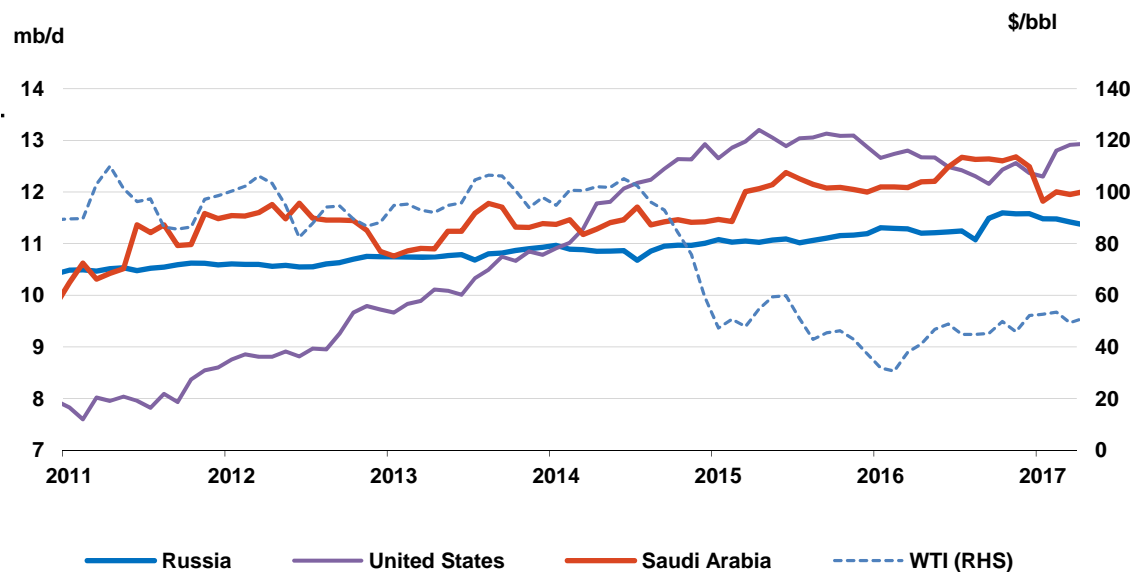
Since the inauguration of President Trump, the world seems to have entered an unprecedented era of “inconceivable uncertainties.” This article examines whether this could apply to energy and global environment policies.

In July, President Trump announced the strategy of “energy dominance” with the intention of becoming energy self-sufficient by increasing the production of domestic fossil fuel. Might Trump’s oil policy stabilize or destabilize the situation in the Middle East? The attached graph by IEA shows the changes of oil production volume and oil prices of the world’s three largest oil producers: the United States, Russia, and Saudi Arabia. The shale gas revolution in the United States around 2010 accelerated the production of shale oil, making the U.S. the world’s largest oil producer in 2014. It was a revolutionary shift, and as General Petraeus, who was the Commanding General of Multi-National Force - Iraq (MNF-I), said, “The decades for the United States have come.” President Trump seems to strengthen this trend.

For a long time, Saudi Arabia, the largest oil producer, had been adjusting the production volume to stabilize price of oil as a swing supplier; however, at the end of 2014, the collapse in oil prices made Saudi Arabia shift its policy and instead focus on maintaining market share. Saudi Arabia considered the United States’ shale oil to be its biggest threat and tested its resilience to a lower oil price. However, shale oil turned out to be an unexpectedly tough threat which can be produced in abundance even at around 45 dollars per barrel; now it is the US shale oil that balances the market. Faced with low prices, Saudi Arabia and Russia tried to regain the control by collaborating to cut oil production. However, as prices rose, production of shale oil has also increased. If the situation remains the same, the era of 50 dollars per barrel may continue. Tough oil competition among these three countries will change the geopolitics in the Middle East. Russia and the United States cannot reset their relationship due to “Russia Gate”. On the other hand, the relationship between the United States and Saudi Arabia has changed. President Trump’s backing of Saudi Arabia while being tough on Iran led Saudi Arabia to break off diplomatic relations with Qatar. Cornered, Qatar could approach Iran or Russia which would destabilize the Persian Gulf. This will put oil importing countries in Asia, such as China, India, Japan, Korea and other ASEAN countries, which are expected to become increasingly dependent on oil imports from the Middle East, in a difficult situation. In the event of a war, it would threaten the survival of Japan because most of the nuclear power stations have been shut down.

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**(Appendix) Changes of Oil Production by the World's Three Largest Oil Producers
and Oil Prices (Source: data from IEA)**



One of recent geopolitical changes in the Middle East is the nuclear accord between Iran and the permanent members of the UN Security Council plus Germany. President Trump considers this biggest diplomatic legacy of the Obama Administration to be the worst accord possible and is trying to dismantle it. A researcher of a government-controlled think tank in Tehran, with whom I became friends while visiting Iran several times in the past two years, told me that Iran is aiming to become a country similar to Japan, Germany, India, or Brazil. These four countries are the G4 nations that are trying to reform the UN Security Council and aim to become permanent members of the Security Council; however, because each of these countries faces opposition from some countries, they have yet to attain their goals. When I said to this friend, “The director-general of the International Atomic Energy Agency (IAEA) is Mr. Amano, a Japanese. This is mainly because the world approves of the fact that Japan has no nuclear weapons and has devoted itself wholly to the peaceful use of nuclear energy even though it is a victim of nuclear bombing. Japan’s post-war nuclear energy policy may provide a model for Iran,” he said that Iran is seeking the exact same solution to its nuclear issue. In the short term, the nuclear accord means a sort of negotiation that freezes Iran’s nuclear development, in exchange for the lifting of sanctions by Western countries; however, in the long term, it aims to rebuild a relationship of mutual trust that will take up to ten years to accomplish. Stabilization of the Persian Gulf, where the Strait of Hormuz is located, is the most important risk of Japan’s energy security. Currently, Secretary of State, Tillerson, and Secretary of Defense, Mattis, are advising President Trump to reconsider his stance on the issue and are monitoring Iran’s implementation of the nuclear accord. However, nobody knows whether this situation will continue because the conservatives and fundamentalist forces both in the United States and in Iran are maneuvering to overturn the accord.

This accord may be very important for the peaceful solution for North Korea as well as the

Middle East peace. This year, the G7 Summit was held in Taormina, Italy, the first in Italy since the one in July 2009, in L'Aquila which was hit by an earthquake. That Summit was hosted by Prime Minister Berlusconi and was attended by US President Obama for the first time. As the Executive Director of the International Energy Agency (IEA), I was invited to the luncheon with African leaders. The person sitting next to me at the large table was Colonel Gaddafi of Libya. He requested to speak first. He criticized Western countries, endlessly repeating that countries in Africa are suffering financial difficulties and poverty as a result of European colonialism. Chairman Berlusconi allowed him to talk and he kept on talking for some 30 minutes. Then, African leaders such as Egyptian President Mubarak and South African leader Zuma followed, agreeing that the cause is colonialism. At that point US President Obama, who was still a new face, said, "I personally acknowledge those African issues because I have cousins in Kenya. I have heard that it is difficult to find a job in Kenya. That is because public officials demand bribes. To me, bribes and corruption have nothing to do with colonialism." Only Obama could make this statement as he is African American. Listening to this, German Prime Minister Merkel, French President Sarkozy, and British Prime Minister Brown individually claimed that corruption is the cause. These comments completely changed the course of the discussions. Being an eloquent speaker, President Obama gave a splendid performance; that was what I wrote in my notebook and closed it.

Later, I heard a surprising story from Mr. Wataru Nishigahiro, who was a former ambassador to Libya and friends with Gaddafi, that Gaddafi had started to clean up corruption in Libya in early 2010, the year after the Summit. The ambassador said he understood why Gaddafi made a serious effort to eliminate corruption and why he firmly believed till the end that the United States would not come to kill him, although Gaddafi was eventually killed in the civil war triggered by the Arab Spring which Western countries were involved in. In fact, Gaddafi said one more thing at that G8 luncheon. He said that after Libya stopped developing nuclear weapons, he was asked by Britain and the US to try to persuade North Korea to stop its nuclear weapons development; and he did try, but North Korea (possibly Kim Jong-il?) did not listen. Gaddafi abandoned nuclear weapons development, tried to persuade North Korea, and tried to clean up corruption. Since he did all he was asked to do by the United States, he seemed to believe that the United States would not attack him. Whether Obama thought about it or not, the Obama Administration decided to enter the war in Libya. Recently, it has been reported that Kim Jong-un of North Korea professed that he would not repeat the same mistakes of Saddam Hussein and Gaddafi. The Arab Spring, which eliminated Gaddafi, might have inspired North Korea to possess nuclear weapons regardless of the intention of the Arab Spring. If the United States abandons the nuclear accord with Iran, dialogue with the United States would become completely meaningless and would give North Korea an excuse to develop nuclear weapons. Therefore, maintaining the nuclear accord with Iran is absolutely crucial in order to influence North Korea to work towards a long-term reasonable option through dialogue rather than developing nuclear armaments.

Under such geopolitical changes and uncertainties, do we, an energy importing country, have

any possible actionable alternatives other than just to helplessly watch events unfold? Yes, we do. I recall what Zaki Yamani, former Minister of Petroleum and Mineral Resources of Saudi Arabia, said. “The Stone Age did not end because we ran out of stones.” What Saudi Arabia fears is not the depletion of its oilfields, but the unexpectedly early arrival of peak demand for oil due to energy saving policies, decarbonization of energy, and electric vehicles. Two years ago, I was invited to a panel discussion at the board of directors’ meeting of Saudi Aramco along with Daniel Yergin. The subject of the discussion presented by Al-Falih, Aramco’s previous CEO and current Minister of Energy, Industry and Mineral Resources of Saudi Arabia, was when the peak demand for oil would arrive. The reason why Aramco is planning to sell part of the company’s stock is probably because they are seriously concerned about the risk that oil prices may not increase much. I suggested that if China starts to reduce carbon dioxide emissions before 2030, the peak demand for oil may also arrive before 2030. Officially, the IEA has stated that the peak demand for oil will not arrive so early. In the Energy Technology Perspectives 2017, however, the IEA squarely presents a scenario (Beyond 2DS) suggesting that the increase in atmospheric temperature should be suppressed to nearly 1.5 degrees by the end of this century, and strong government regulations are required to achieve this target. France and Britain’s introduction of measures to ban the sale of internal combustion engine automobiles by 2040 indicates the direction of this trend. China may follow the trend in terms of preventing air pollution and strengthening industrial competitiveness by giving electric vehicles preferential treatment. Prices of batteries are also falling rapidly. Eventually, an EV revolution in the transportation sector could occur. The world may start moving regardless of the Trump Administration’s global environment policies.

In 1973, a geopolitical shock caused by the oil trade embargo implemented by the Arabian oil producers brought oil-consuming nations together to establish the International Energy Agency (IEA) to collectively manage the strategic stockpiling of oil. To cope with unprecedented uncertainties and the unpredictability by President Trump’s America First geopolitics and withdrawal from COP21, major oil importers in Asia should jointly consider how to ensure collective energy security and sustainability. Now is the time to think about the unthinkable.

Writer’s Profile

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Mr. Tanaka has decades of experience with energy and finance since he joined the Ministry of International Trade and Industry (MITI; presently METI) in 1973. He has also worked for Japanese Embassy in Washington, D.C., and OECD. He served as Executive Director of the International Energy Agency (IEA) from 2007 to 2011. Joined IEEJ as Global Associate in 2011. Since 2015, he holds current position. He holds MBA from Case Western Reserve University, US.