

Perspectives on Energy Geopolitics. Who will be the Leader: the US, Russia, the EU, China or Japan?

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What has changed?

The global energy landscape has been undergoing serious changes in the fifty years following the creation of OPEC and the subsequent collapse of the USSR. We can identify several key directions in this profound transformation.

1. “Energy transition”

The policy of switching to “new energy” is playing an increasingly important role not only in the developed world but also in the developing countries. This includes the growing role of low-carbon energy sources — primarily local RES, a specific focus on energy efficiency and optimization of energy systems due to digitalization. The initial outcomes of this policy are already apparent: slowing energy consumption growth rates (and in some countries, an absolute reduction in energy consumption volumes) and a gradual slowdown in fossil fuel demand growth rates. International oil and gas companies are reviewing their strategies and investment priorities, increasingly moving into natural gas business and growing their presence in the renewable energy sector. Most Western investment funds and financial institutions are following the same paradigm. As a result, investment in hydrocarbon projects is progressively being made by national oil and gas companies and national investment funds. At the same time, “Energy Transition” is aimed primarily at supporting local energy resources, the development of which reduces import dependency and thus lowers the risks associated with energy geopolitics.

2. The transformation of the US from an oil and gas net importer into the largest producer and exporter.

The Shale Revolution had enormous consequences for the whole alignment of power in the global energy arena. From the geopolitical point of view, it did not just lead to a decrease in the US dependence on hydrocarbon imports from the Middle East (and, consequently, to a clear decline in attention to this extremely controversial and sensitive region), but also made the US and Russia direct competitors both in the global oil market and in all major regional gas markets, for the first time in history. The US gained an additional strategic advantage over the EU countries as it had access to cheap hydrocarbons, and, moreover, for the first time in history began to position itself as a potential supplier of petroleum products and LNG to Europe.

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3. The change in the US foreign policy after the Trump administration came to power.

Trump's arrival signalled a revision of several structures and priorities which had previously appeared entirely stable. On the one hand, it is clear that the US no longer leads the climate change agenda. On the other hand, trade wars are unfolding and previous agreements with former partners within the framework of NAFTA, the Transatlantic (US-EU) and Pacific (US-Japan) partnerships are being reviewed. Relations with China are deteriorating sharply (including those in hydrocarbon trade - we are witnessing the unfolding of a real trade war). Not to mention the tightening of policies towards less friendly countries: new sanctions are being introduced against Russia and Iran. Trump's isolationist and protectionist policies are prompting a radical overhaul of many formal and informal international agreements. And, perhaps most importantly, they completely discredit the very idea of reaching a compromise and the emergence of some unified, coordinated global energy policy, at least on the part of the developed world. The main motto is "every man for himself" and the role of international organisations and institutions in decision-making is falling rapidly.

4. Formation of an extended OPEC + coalition between the OPEC countries and Russia.

For several decades, all attempts to reach an agreement between the OPEC countries and Russia failed: the USSR, and later Russia never fulfilled production cut agreements, choosing to follow a "free-rider" policy. It was only in 2016 that Russia seriously committed to reducing production for the first time. At the time, a sharp drop in oil prices had seriously threatened the sustainability of the economies of all producing countries. It became apparent that OPEC was no longer able to cope with that challenge alone. As a result of Russia joining the agreement and concerted efforts of all member countries, OPEC managed to achieve a staggering result - oil prices more than doubled. Shared economic interest allowed to develop large-scale cooperation at all levels between Russia and Saudi Arabia, whose relations could not previously have been called friendly. Even Russia's fairly complex multi-vector policy in the Middle East (ongoing cooperation with Iran, the whole situation with Syria) did not prevent the strengthening of the alliance between Russia and Saudi Arabia.

What could be the consequences?

Firstly, geopolitical risks are inevitably increasing globally as a result of all the described changes and a redistribution in the balance of power. The old system is bursting at the seams, both previous political agreements and many commercial decisions are being revised. This period of turbulence cannot, by definition, be calm - the stakes are too high and the situation is changing too quickly. The Middle East, where there are too many mutually contradictory interests, looks especially fragile and explosive.

At the same time there is yet no visible new paradigm for "Global Energy Governance" -

rather, we are witnessing a set of centrifugal trends and the strengthening of the role of national interests in opposition to international stability.

It is almost impossible to tell now who the winner in this growing international competition will be (and whether there will indeed be any winners). **The United States** will certainly retain its leading position, although rejection of leadership in international organizations in favour of “America first” slogan and the fact that the American foreign policy is generally unpredictable and at times irrational will noticeably reduce the role of the United States as the global superpower as such. Diminishing attention to the Middle East, an almost inevitable further deterioration of relations with Russia, pressure on the EU and Japan to limit the role of Russian hydrocarbons and the promotion of America’s own energy supplies in return, trade wars with China - all these are the signs of the new American foreign policy. This policy has become protectionist in nature and aggressively promotes solely one’s own short-term interests.

It appears that **China** is not averse to snatching the role of the new leader from the United States - at least, this is quite noticeable in relation to the climate agenda and the Middle East policy, where China is increasingly trying to take the positions which were previously controlled by the United States. A number of factors make China a serious contender for the role of a new leader. They include the following: China’s transformation into the world’s largest economy, its enormous influence not only as the largest energy consumer but also the largest manufacturer of renewable energy equipment and, in general, its growing leading position in new energy technologies. China seeks to build much more multi-polar ties - not only with the Middle East, but also with Russia, the EU and other global players.

The European Union, torn by internal contradictions, is virtually unable to articulate a unified position on most of the critical issues of the foreign energy policy - from Iranian oil imports to the construction of the North Stream-2 pipeline.

An energy alliance with Russia would be the most effective option for Europe. However, it appears unrealistic in the current geopolitical situation. As a result, the European energy policy focuses on the development of local low-carbon and free-carbon energy (although it remains costly), based on renewable energy and energy efficiency. This should gradually reduce the region’s dependence on energy imports.

Within the new world energy order, **Japan** finds itself in a position very similar to Europe - rather vulnerable in terms of hydrocarbon imports and therefore increasingly moving towards reducing their role.

Russia and the **Middle East** are also in a difficult situation. The most serious long-term threat to the producing countries is the onset of future peak of demand for oil and gas. In this respect, the

desire of the producers to monetize their reserves as quickly as possible, creating fierce competition between everyone, is quite understandable. On the other hand, consumer countries with their agenda to reduce import dependence and diversify supply sources contribute to this increase in competition. However, the experience of the last two years has shown that coordinated cartel interaction is able to cope with the pressure of growing competition. Thus, the most important issue in the coming years will be the ability of Russia and other OPEC countries to maintain constructive relations - even in the downward phase of the next price cycle. For Russia, its ability to withstand financial and technological Western sanctions is the most important element which will determine its position in the global energy market. So far the sanctions have not had a particularly serious impact on the Russian energy sector. However, their effect is cumulative, and the question arises whether Russia will be able to ensure the necessary funding for new projects and independently supply these clearly more complex projects with its own production technologies. In this respect, cooperation with the Middle Eastern countries, as well as with China, Japan and Korea, who are able to help with financing and technology, becomes vital for Russia.

The overall impression is that the new world energy order will most likely not have any leader for some time. Rather, we will be able to observe a number of players opposing each other and at times joining forces in tactical alliances.

All the largest energy producers and consumers are currently reviewing their energy strategies and rethinking their role in global energy markets. What conclusions they will come to, and most importantly, how new energy technologies will manifest themselves and what successes will be achieved in reducing their cost - all of these factors will determine the new balance of power in global energy markets.

Writer's Profile

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She has twenty years of experience in dealing with the development of Russian and global energy markets, including production, transportation, demand, energy policy, pricing and market restructuring. She is leading annual "Global and Russian Energy Outlook Up To 2040" project. She is a scientific advisor at the Energy Research Institute of the Russian Academy of Sciences (ERI RAS), research scholar at the Center on Global Energy Policy at Columbia University, and senior visiting research fellow of the Oxford Institute for Energy Studies (OIES).