

By Dr Liam Fox MP, Shadow Secretary of State for Defence

In the American presidential election the debate on energy has moved on from energy security to the concept of energy independence. Let me begin by making a differentiation between the two. Energy security is about risk management. Energy independence is an impossibility in an increasingly global economy. When I hear friends and colleagues on Capitol Hill in Washington talk about making America energy independent I point out to them that if Al Qaeda sink a supertanker in the Malacca Strait and the price of oil rockets and there is an economic effect on Southeast Asia then we will see just how independent they really are!

This brings me to my first point which relates to politicians and globalisation. Politicians like the upside of globalisation -the increased chances for trade and prosperity and the potential stabilising effect of economic interdependence. But they often fail to take into account the downside of globalisation which is the inevitable importation of strategic risk.

In a complex, sensitive and interdependent global economy none of us can be insulated from the impact of adverse events on other economies, particularly the major economies. Yet we are dealing with a complex interdependent system with political structures designed for the post-Second World War environment and military structures designed largely for the bipolarity of the Cold War.

### Global Energy Demand

Estimates vary about future global energy demand. Some claim that within little over 20 years we may see a 50% increase in global demand with the majority of this coming from developing nations. While this may be an overestimate, what is clear is that, barring global recession, demand for energy is set to grow faster than any increase in supply. Recent reports suggest that Nigeria, for example, could see the loss of a third of its production, that Russia may be unable to maintain let alone increase production and that the regulatory regime in Alberta has led-for now at least-to the postponement of upstream investment in one of the world's most promising areas for oil extraction.

Here in India, the IEA forecasts that energy demand will double between 2005 and 2030 at a rate of some 3.6% per annum. Energy infrastructure investment of some \$1.25 trillion will be needed to meet this level of demand.

Rapid demand will be driven by both economic and population growth. In energy demand, India currently ranks sixth in the world but energy usage and penetration are still very low so, even assuming no real population growth, energy demand would still rise radically. When the realities of India's actual population growth are added it is easy to see the extent of the problem.

## Creating an Energy Security Strategy

All net importers of energy face the same basic problems and there is a widespread desire to develop political strategies to deal with issues of energy security. I believe that any such strategy requires three distinct components. The first is the need for diversity of the fuels we use for energy generation in our own domestic economies. The second is a rigorous assessment of the geopolitical reality in the regions and countries from which we need to import. The third element is the willingness to invest in the secure transport of vital fuel supplies whether by sea or via pipelines. All three of these need to be underpinned by a sound analysis of our domestic needs within the global supply and demand equation.

Let me deal with each of these in turn.

### Fuel diversity

Diversity in the fuels we use for domestic energy production is simply about risk management and ensuring that we do not leave ourselves open to over dependence on any one fuel source. This means that we will have to use a mix of oil, gas, coal, nuclear and renewables. India for example is rich in coal with about 8% of the world's coal reserves but relatively poor in oil with only 0.5% of the world's oil reserves. Each nation will have to determine where its strengths and weaknesses lie and make the appropriate adjustments. For example, India is likely to become a major importer of natural gas over the next few decades, including LNG.

### Security of supply

The United Kingdom became a net oil importer in 2006 and is in the process of becoming a net gas importer. We are having to alter our mindset having had the comfort since the 1970s of being on the exporter side of the fence. With energy security, economic security and national security becoming increasingly synonymous, we need to take an ever closer interest in the security and stability of those countries we will be importing from.

From the economic tensions of the Middle East to the potential instability of West Africa we find major oil and gas reserves in some of the least predictable parts of the planet. Add to this the increasing level of supplies under the control of national governments and the dangerous territory of energy nationalism where producer states are willing to use hydrocarbons as tools of foreign policy, and we have a worrying picture.

The problem is most acute in the Middle East where regional conflicts continue and tensions over Iran's nuclear ambitions add further uncertainty about the predictability of future supplies adding to the adverse sentiment which has an upward effect on prices. The risk of conflict affecting the Strait of Hormuz, whether by accident or intent, has been well documented. Even relatively minor events, such as the recent cold winter in Iran, can have unexpected consequences as Turkey discovered when its gas supply was regularly interrupted due to increased Iranian domestic demand.

Russia is another potentially problematic supplier. Several months ago Russia announced its

intention to annex a 460,000 square mile portion of ice covered Arctic. Scientists claim that the area, on which Russia has audaciously set its sights, may contain an estimated 10 billion tonnes of gas and oil deposits.

Russia is now rivalling Saudi Arabia as the world's largest oil producer and is estimated to have the world's largest natural gas supplies with 1,680 trillion cubic feet—nearly twice the reserves in the next largest country, Iran. If military might and nuclear weapons formed the core of Soviet power during the Cold War, Russian elites now view Russia's energy resources as the basis of Russian power in the modern era.

Russia has demonstrated that it has no problems using its energy resources as a means to promote a broader foreign policy agenda. This was illustrated when Russia reduced gas supplies to the Ukraine as part of a bi-lateral dispute and when it doubled the price of gas to Georgia in 2005.

Resource nationalism may play well at home but at a time of great uncertainty in the global economy this is no time for brinkmanship by OPEC or Russia or other major producers. Indeed it is worrying that at a time of record commodity prices, instead of investing in greater infrastructure, there are some producer nations so intent on maximising their profits that they run the danger of killing the golden goose.

Unfortunately the threats do not stop with energy nationalism. Terrorism poses a major threat to world energy supplies, especially in the areas of transport and infrastructure such as refineries. It is no wonder that Osama bin Laden described the latter as the "hinges" of the world's economy. Al-Qaeda's 2006 failed attack on the Abqaiq oil facility in Saudi Arabia is a reminder of the threat terrorism poses to our energy resources.

### Security of transport

Then we come to the issue of the security of transport.

The distribution of global energy supplies means we are particularly vulnerable to the 'choke points' in transport routes around the globe from Hormuz to Panama.

Other regions will take on an increased importance as we seek new sources of energy imports. The Caspian basin has been a particular focus of attention including Tajikistan where India has stationed troops. India is also actively pursuing relations with Kazakhstan, Azerbaijan and Iran, although the latter has complications for a nation with a domestic population of 25 million Shia Moslems. Each country will be looking to spread the risk of supply dependence to as wide a range of producers as possible.

So what can be done to ensure the security of energy resources, including the refining and transport of such resources?

Existing institutions such as the EU have a role to play, especially in countering the threat posed by Russia. An end needs to be brought to the divide and rule which the Kremlin operates

through single nation "sweetheart deals". The Commission must act to remove protectionism and national monopolies, creating a genuine free market in energy. Better interconnections will reduce the risk of supplies being cut off.

But the EU will not be a sufficiently strong vehicle to guarantee energy security. NATO must also have a role.

Norway and Turkey, both of which are valuable NATO members, are not members of the European Union. No energy security strategy can work without the support and cooperation of these two countries. Both played a vital role in NATO during the Cold War by being the only NATO members that bordered the Soviet Union.

After the Cold War their geo-strategic importance is just as valid. In the south, Turkey is the gateway to the resource rich Caucasus and Caspian Basin. In the north, Norway is strategically located near the resource rich Arctic Ocean.

Energy security is not a problem that can be dealt with by hoping that it will one day disappear. The complexity of this problem makes it too easy to look the other way and hope that someone else deals with it in the future. Dealing with energy security issues will involve the protection of maritime supplies and pipelines. New international arrangements will be required to safeguard supply in an interdependent global economy with shared risks.

### Conclusion

Our global addiction to hydrocarbons is dangerous. Like all addicts our habit is increasingly costly and risky. Whether we view the problem from an environmental, economic, or security perspective we need to reduce our dependency.

We are harming the global environment with potentially catastrophic consequences. Not the least of these may be a profound impact on the patterns of food production with all the risks of conflict and mass migration that this might mean. The recent social unrest being faced in countries across the globe as a consequence of rising food prices should be a wake-up call to all of us.

Competition for scarce resources combined with high prices can harm global economic growth and seriously threaten the ability of developing countries to pull their people out of poverty. We in the developed world can tighten our belts-in the Third World people will starve.

The combination of dependence on oil and gas, coupled with high prices, means that debt relief and aid budgets can become indirect subsidies to the producer states. This means that money intended to relieve poverty and famine ends up in the already swollen coffers of Russia or Middle East states.

As with any addiction we also leave ourselves vulnerable to the goodwill, or otherwise, of our suppliers. This inevitability has consequences on the balance of power, and as with any dependency relationship, increases the risk of instability and conflict.

We require leadership and action not equivocation and talk. Time is not a luxury that we have.

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