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Europe, the US and the Geopolitics of Energy
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Changes to the energy industry, like the ones we have seen over the last decade with the shale revolution in the US, can cause power shifts and impact geopolitics. Mr. Westgaard argues that energy, its distribution and price, is a key determinant of power in the international system. Thus, a country with an abundance of energy holds a comparative advantage and tends to increase its influence on the world stage. A geopolitical power shift can also occur when prices change. Higher prices transfer money and influence from importing/consuming countries to exporting/producing ones. With the current lower prices, consuming countries possess an advantage.

But despite the benefits that currently accrue to consuming countries, say, in Europe, the energy trilemma remains. A successful energy policy must balance security, affordability and sustainability. Countries seek energy that is secure, cheap and green. Westgaard focuses on the new geopolitics of energy and how it impacts the attainment of these objectives. He also asks whether the US shale revolution, despite being a good thing for European gas supply (both security and affordability), could foster transatlantic divergence.

In energy security, Westgaard primarily addresses European concern about overdependence on Russian gas. This concern is crystallized in debate over the Nord Stream 2 pipeline. Westgaard argues that while over reliance on one supplier of any strategic commodity should be a concern, this is not the situation in European gas markets. In fact, gas supply to Europe is both abundant and diverse thanks, in part, to US liquified natural gas (LNG) exports. This is not about the actual volumes of US gas exports but about the psychological impact (reassurance) of having access to marginal supplies if need be.

Two other factors have also contributed to enhanced European energy security. First, the EU has managed to create a functional internal energy market through a combination of competition rules and investments in gas infrastructure (pipelines, gas storages, reverse-flow capacity). Second, Russia and Gazprom have been forced to come to terms with the EU's Third Energy Package and play by the rules as established by Brussels.

As to sustainability policy, Westgaard elaborates on the twin challenges facing the energy industry – and the world. On the one hand, the world needs to find more oil and gas in order to meet growing demand and spur economic growth and development. On the other hand, the world needs to move away from fossil fuels in order to fight climate change. Increasingly, the industry's response has been to produce oil and gas with ever lower CO2 footprint and to produce more renewable energy.

This may seem like a contradiction – “using the accelerator and the break at the same time” – but Westgaard maintains that it's what will make the energy transition viable. He argues that it takes time

to create a low-carbon energy system and that decarbonization must be enabled through a combination of policy, technology and markets. As the scale of wind and solar projects increase, the unit costs come down. This strengthens the competitiveness of renewables, reducing the trade-off between cheap and green energy. Renewables also contribute to energy democratization, given that they're available in one form or another in most countries.

The US shale revolution has transformed global energy markets and provided America with a windfall. The US has been the world's leading natural gas producer since 2011 and the world's leading oil producer since 2018. The US became a net exporter of gas in 2017 and will become a net exporter of oil this year. The shale revolution has strengthened America's economic competitiveness and increased Washington's room to maneuver in foreign policy. According to Westgaard, this has changed the mindset of US policymakers, strengthening tendencies towards unilateralism and strategic retrenchment.

Unilateralism is evident in US sanctions policy. It is easier for Washington to sanction adversaries like Iran, Venezuela and Russia when increased US production can serve as an offset, making the impact on oil prices either tolerable or negligible. President Trump has threatened US disengagement or withdrawal from the Middle East. Westgaard posits the question how this could impact the geopolitics of energy. After all, the Middle East remains by far the largest net provider of oil to world markets. If it were to come to that, who would assume the role of protector of oil supplies from the region after the Americans?

How are transatlantic relations affected by the shale revolution and the emergence of the US as an energy superpower? The good news is that ample US supply means lower-for-longer energy prices. European consumers benefit. Additionally, US LNG exports help diversify the supply of natural gas to the EU. The bad news is that US energy sector sanctions, which seem to have become a policy tool of choice for Washington, tend to exacerbate transatlantic differences. We see this regarding sanctions against Nord Stream 2, which hit European political and commercial actors directly, and sanctions against Iran, which had a secondary effect on Europe. Westgaard is concerned that the issue of sanctions could increase transatlantic divergence when combined with serious disagreements over trade (tariffs) and defense spending. He believes increased transatlantic divergence would be particularly unfortunate at a time when Europe and the United States should be facing common external challenges together.