

Conference Report: The Militarization of Energy Security

Strategic Insights, Volume VI, Issue 2 (March 2007)

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Naval Postgraduate School, Monterey, CA
November 30 - December 1, 2006

Workshop sponsored by the National Intelligence Council, Long-Range Assessment Unit

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Introduction

On November 30 and December 1, 2007 the Center for Contemporary Conflict at the Naval Postgraduate School hosted a conference addressing the topic "The Militarization of Energy Security." The National Intelligence Council's Long-Range Assessment Unit sponsored the event, which brought together about 30 government officials, military officers, civilian analysts, academics, and non-governmental experts.

This conference sought to grasp the full range of considerations that would be involved if a major strategic crisis arose in the energy sphere. The themes addressed in this conference included:

- Unintentional conflict created by a struggle to exercise control over energy resources in unstable areas
- Perceptions of growing energy insecurity and their effects on alliances and conflicts
- The possibility of states rethinking the use of force as a means of securing energy supplies
- The threat posed by nonstate actors to global energy markets
- Possible reactions of developed and developing states to constrained energy resources
- The impact of higher energy prices on consumer and producer states

Global, Structural, and Systemic Issues

Naval Postgraduate School professor James Russell opened the conference with an overview of what the militarization of energy security looks like. He defined it as a paradigm in which increasingly costly and depleting resources make continued growth problematic, which leads to a change in state behavior as they strive to protect their strategic positions; this may entail states rethinking the current consensus that war for energy does not pay. Militarization is not necessarily a dramatic event, but rather a series of small events occurring in response to crises or opportunities, causing political leaders' perception of energy issues to change over time. This change in psychology ultimately leads to the end of normal market operations as we now know them. Developed nations are in the best position to procure higher-priced energy, but at the same

time, they are the best equipped to intervene in the market militarily. By contrast, developing states without their own energy resources or the financial means to continue economic growth in the face of rising energy prices are more likely to resort to the military option.

Mr. Russell pointed to nonstate actors as the wild cards of the energy system, as terrorist groups tend to operate in major energy producing zones and systematically target energy nodes worldwide. While the infrastructure of the energy system is redundant and therefore resilient, a strategic-level attack would be problematic. Any number of strategic interventions could follow, ranging from military seizure or destruction of energy assets to deny them to competitors, to intervention in producer states to defend the government against internal upheaval. The major issues in the future of energy security include political and military responses of the industrialized and industrializing countries to constrained energy supplies, the impact of higher energy prices and constrained supplies on the developing world, and the impact of higher prices on producer states. Militarization, to some extent, is already underway, evidenced by the U.S. military presence in the Gulf as well as facilities infrastructure. Mr. Russell concluded by posing some critical questions, among them what is the impact of changing energy supplies on states' strategic behavior, and what indicators do we look for to determine whether states are making these changes?

Dr. Daniel Moran of the Naval Postgraduate School gave a presentation describing the historical evolution of attitudes regarding the interaction between war and the global economy. Current thinking about energy security is dominated by two competing sets of assumptions. Some hold that energy markets are so efficient and fungible that they will adapt to almost any kind of belligerent behavior short of World War III. Market rationality, it is felt, is inherently stronger than whatever belligerent impulses may exist among market participants. Thus the character of governments that control energy resources is of little concern, because whoever they are, they will have to sell it to someone or suffer self-defeating consequences.

Others hold that energy security, being virtually synonymous with "national" security, is so special that it is the one thing that even rational and peace-loving governments are prepared to fight about. No one, it is felt, is going to settle for market-based results in the energy field if the consequence is a serious diminution of their national prospects. On one side, then, are those who insist that energy is something even good governments will fight about, and on the other are those who claim that energy is the one area in which even bad governments will submit to market rationality. Dr. Moran examined these positions in light of two historical episodes: the crisis of July 1914, in which expectations of "market rationality" broke down, so that everyone in Europe ended up going to war against their best customers; and the decision by the United States to freeze dollar-denominated Japanese assets in the summer of 1941, in which an attempt by a market-oriented country to employ market pressure for its own strategic purposes contributed to the onset of a major war.

Dr. Michael Klare of Hampshire College described how a lack of confidence in the security of future energy supplies has led states to rely on military force rather than markets to procure these scarce resources. He pinpointed three sources of anxiety in the relationship between energy supply and international security: The first is an insufficient supply of petroleum liquids due both to the irregularity of supply of extant sources and the inaccessibility of newly discovered oil fields. The second is the rise of cutthroat competition among old and new consumers, namely China and its neighbors. The third source of anxiety is the shift in the center of global oil production from the North to the South. These countries are already inherently prone to conflict and insecurity due to their imperial legacy, and oil as a primary source of national wealth often exacerbates this instability.

Dr. Klare noted that while states continue to rely on markets to provide energy, they are also increasingly relying on statist methods such as diplomacy to ensure access to overseas resources. He concluded that the focus should not be on the dichotomy between market and

military approaches as the securitization of energy policy becomes a matter of national security; we must also be aware of unintentional escalation and possible proxy conflict as national paranoia and militarization are on the rise.

Regional Issues and Strategic Responses: Consumer States

Dr. Henry Gaffney of the Center for Naval Analyses presented an overview of the myriad possible trends in the future of globalization, along with the security implications each of these hold for the United States. Dr. Gaffney described three current global trends which are of particular importance to the United States: the decline in worldwide supplies of oil and gas, pollution, and irregular warfare. He outlined four possible paths for globalization, and the necessary response from U.S. forces: upward continuation where security concerns are lowered and U.S. forces focus on readiness and improvements; continuation with glitches (conflicts), which would require continued worldwide operations; a shift of balance toward Asia leading to frictions, which would entail force taking a back seat to diplomacy; and a global breakdown into new security blocs, leading to containment strategies.

This was followed by a depiction of the United States' stretched capacity at the moment, spread across areas as diverse as Iraq and Taiwan, and engaged in such activities as capabilities-based planning and the Global War on Terror. Dr. Gaffney argued that the Bush Administration has represented a shock to an otherwise consistent stream of foreign policy, and there are three evolutionary paths for future U.S. foreign policy: business as usual, where the United States will be engaged in many small conflicts due to continued dependence on fossil fuels; a cooperative world in which U.S. forces will stay back as conservation and alternative fuels are embraced; or a "mixed bag" requiring preparation for any number of possibilities.

In his presentation entitled "Indian and Chinese Security Strategies and Potential for Militarized Crises," Dr. Peter Lavoy of the Naval Postgraduate School talked about China and India's non-market strategies to meet their energy needs as they drive the growth of world energy consumption through the early twentieth century. He stated that the majority of the oil needed to sustain an annual five percent growth rate in both countries for the next 20 years will come from known sources in the Middle East, and any price volatility or supply disruptions will have enormous ramifications for both economies. The energy security strategies he discussed were overseas equity investments through national oil companies; supply diversification using international pipelines; domestic production, which is weak in both countries; strategic petroleum reserves, which are limited; demand reduction requiring an increase in efficiency; and oil substitution.

In terms of access, China has utilized a wide variety of diplomatic and economic strategies to develop strategic partnerships, while India has worked to influence its neighbors to increase economic interests. Furthermore, both states are increasingly using their naval capacities to secure energy supplies. Dr. Lavoy concluded by stating that although energy security and access strategies are peaceful at present, energy insecurity for both will likely increase in the future.

Dr. Flynt Leverett of The New America Foundation gave a presentation on Chinese and Indian relations with the Gulf States. Leverett explained that both China and India rely on international energy markets to fulfill their energy needs, and as such, employ statist approaches such as resource mercantilism to feel more secure. Currently, the Persian Gulf accounts for about fifty percent of China and India's oil supply, and is thus significant to both countries on the strategic level. While the external strategies of China are important, the strategies and goals of individual Chinese oil companies are significant as well, because they are the ones inking deals with Middle Eastern suppliers, not Beijing. The relations between China and the Gulf States are characterized by a mix of high politics and the interests of independent companies.

Saudi Arabia is pursuing hedging strategies against the precipitous decline in the U.S.-Saudi strategic relationship during the past five years by increasingly cooperating with China. While they realize that China cannot offer the same military security as the United States, they see other strategic advantages to this relationship. Iran increasingly believes that it has an alternative to the West in consumer states like China and Russia, and is cultivating strategic partnerships with these states. Though China does not have comparable technologies for oil extraction, it is now in strategic competition with the United States because of its strategic relations with the Gulf States. Such cooperation could pose a future economic threat to the United States in the form of a shift in the currency regime away from the exclusively pegged dollar. Though the current Administration is against it, Dr. Leverett suggests that it is in our best interest to establish a cooperative security agreement in the Middle East with all interested states, similar to that which we already have in Europe.

Dr. Jackie Newmyer of Harvard University's Belfer Center began her presentation on China with two main assumptions about China's energy security strategy:

1. China's history of "resource diplomacy" indicates a trend toward militarization of energy security, and
2. China's inherent resource vulnerabilities will require consideration of possible scenarios that prevent it from securing energy resources.

As China is suspected of adopting a mercantilist approach to oil supplies, Dr. Newmyer stated that the important question was not *whether* China would pursue a non-market strategy, but rather, *which* non-market strategy? She outlined three alternatives: the diplomatic course, the subversion path, and the military route.

Two major considerations for the diplomatic course are the potential trouble spots in relations with India over old territorial claims and shared water sources, and territorial disputes with Japan—these disputes represent fundamental obstacles to China's cooperation with its immediate neighbors, who are two of the largest energy consumers in the region. Also, its soft power capabilities are negligible, as it has yet to capitalize on new relationships formed by trade and foreign aid. The subversive technique, by which China would get preferential treatment from producers by intervening in their internal affairs, is risky because of the costs associated with "getting into bed with the bad guys." This leaves the militarization strategy as the most likely to succeed. It is not a far leap to imagine that China would apply its current proto-militarized approach in protecting its African interests to a larger arena. Dr. Newmyer asserted that any foreign-linked downside scenario will be justification enough for China to convert its military capacity into an "active power projection mechanism."

Regional Issues and Strategic Responses: Producer States

Dr. Harold Trinkunas of the Naval Postgraduate School presented an overview of Venezuela's attempts to end its dependence on U.S. oil consumption, noting the difficulties the Chavez Administration has encountered in doing so through political and military means because they are currently dependent upon the United States' market-based framework. The pre-Chavez market strategy had been determined by international oil companies investing in Venezuela, and national oil companies became increasingly independent from the government as integration with U.S. and European companies brought more capital into the country in the 1990s.

Dr. Trinkunas described several aspects of Chavez's anti-U.S. strategy, including colluding with fellow producers Saudi Arabia and Russia to increase world oil prices, seeking new markets in China, and using oil profits to finance like-minded political movements throughout Latin America, Africa and Asia. He contended that Chavez does enjoy wide national support due to his carefully crafted personalist leadership strategy, but that his regime is vulnerable to low oil prices, and he

must therefore allow economics to trump politics in order to survive. Additionally, Latin American countries with WMD capacity are against sharing it with Chavez, further complicating any efforts at militarization.

In his presentation on Central Asia, Naval Postgraduate School professor Thomas Johnson described the dynamics and drivers of the regional energy supply system, among them a landlocked geographical position necessitating extensive pipelines, the dependence on remaining Russian infrastructure and market ties for exporting, the competition between Uzbekistan and Kazakhstan for regional hegemony, and the unpredictability of regimes that have used energy supplies as a political tool. Concentrated primarily in Uzbekistan and Turkmenistan, Central Asia's gas reserves are the third largest in the world after the Middle East and Russia; Kazakhstan has significant oil reserves, which Mr. Johnson predicts will be nationalized by 2012, when the supply is expected to peak.

The main obstacles preventing the Central Asian republics from cashing in on their natural assets are production, as new reserves become more difficult to locate and extract; and transportation, which is complicated by the geopolitics of shared infrastructure—there are five pipeline options, but once made, the investment decisions will be largely irreversible, according to Mr. Johnson. There is a certain level of mutual tolerance among the republics themselves, but there are great differences in their approach to regional cooperation. There is pressure from the supply side as Russia attempts to reexert its influence, and from the demand side as China increases its investments in the region. Potential flashpoints in energy security include intraregional competition and the likely resurgence of the Taliban in Afghanistan.

Dr. Ronald Soligo of Rice University discussed Russia's currently powerful position as a supplier of Central Asian oil. He stated that the Russian economy is dependent on the export of natural resources, and as such the government has taken control over gas production as well as the transport of oil and gas. Russia has used energy policy to influence neighbors like Ukraine, Lithuania and Georgia, and has also used these policies to take over Central Asian pipelines and extract rents from producer countries. Dr. Soligo described some of Russia's immediate economic interests, including extracting a lot of oil and maintaining high prices, which could entail using its military muscle in colluding with OPEC on aggressive pricing measures.

He also described the nature of Russia's relations with its neighbors: Europe is dependent on Russian gas, but worried about supply; there is a potential conflict with China over Central Asian resources, but an alliance would provide energy security to China and influence to Russia; Iran is a natural competitor for supplying Europe, but collaboration could augment Russian power in their ability to influence the Saudis. Dr. Soligo concluded with an alternative scenario for Russia's future, in which oil prices collapsed and the government would be unable to buy support—he predicted that Russia would pressure producers in Central Asia and elsewhere to decrease output to force a price increase and maintain stability.

Saad Rahim of the Petroleum Finance Group gave a presentation about the changing nature of energy security in the Gulf States, pinning the responsibility for the current oil price of US\$70/barrel on an increasing sense of energy instability among both suppliers and consumers. He stated that restoring energy security would require a division of supply and suppliers, cooperation between buyers and sellers, and more reliability in both supply and demand. Currently, the market is being driven by the United States, the European Union and Japan, and the United States is providing security. Mr. Rahim stated that the Middle East is the most militarized region in the world, and a few factors pointed to an increase in militarization of energy security, including the increasing role of nonstate actors like Al-Qaeda, the rise of potential regional belligerents like Iran, and the presence of outside players like the United States.

However, Mr. Rahim asserted that the instability we are now witnessing is not likely to continue in the long run because of numerous mitigating factors. One of them is reliability of oil producers in

OPEC, as they welcome investment to increase their oil and gas capacities and allow some access as well. Another is the role of the private sector in the new system—society is ready to mature and participate without being bought out by the royals, which increases stability. Finally, the governments of the Gulf States are changing their strategic focus and creating developmentalist states. They are achieving macroeconomic stability, harnessing the wealth of the private sector, and capturing regional and global demand. Energy is not merely being used as a source of revenue, but as a source of jobs. Mr. Rahim believes that the new model, where oil revenues are the main engine for growth, is sustainable, and will restore both domestic stability and regional relevance to the Gulf.

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