

Panel: Geopolitics of Shale

Date/Time: April 28, 2015 / 12:30-13:45

Moderator: J. James Kim, The Asan Institute for Policy Studies

Speakers: Philip Andrews-Speed, National University of Singapore

Chen Weidong, China National Offshore Oil Corporation

Edward Chow, Center for Strategic and Int’l Studies

Mikkal Herberg, National Bureau of Asian Research

Session 1, titled “Geopolitics of Shale,” began by exploring the sustainability of the ongoing shale revolution. Panel moderator, Dr. J. James Kim, research fellow at the Asan Institute for Policy Studies, began by asking about the overall energy landscape in the United States in the new unconventional revolution era. Mikkal Herberg of National Bureau of Asian Research thought the production is resilient given the trends in the scale of shale and tight oil production. For example, the United States already surpassed Russia as the top natural gas producer in 2009, and production has increased 15 folds over the last 8 years. With the improvements in shale extraction technologies bringing the costs down, shale as an unconventional source of energy would endure. Edward Chow, senior fellow at the Center for Strategic and International Studies, agreed with Dr. Herberg that the shale revolution has helped enlarge the U.S. base of energy resources. While acknowledging that it is still in its early phase, Mr. Chow sees the revolution as sustaining.

Mr. Chow next turned to the impact of shale on oil markets. Edward Chow assessed the price downturn as a net benefit to consumers. From the producers point of view, \$100 per barrel of oil is never a good thing since the consumers will be driven to raise efficiency which will mean decreasing dependence on oil. In terms of historical price trend, the average price of oil over the last 150 years is \$35. This is not to say that Saudi Arabia did not enjoy the temporary benefits of the high price of oil – but it was only a temporary phenomenon from his vantage point.

Regarding the impact of the unconventional revolution on the Chinese market, Chen Weidong of China National Offshore Oil Corporation observed four results: 1) increased production; 2) expanding of knowledge of oil resources; 3) industry structure change; and 4) delinkage of the price of gas and oil. There has also been an increase of investment and financial business in energy/oil industries.

In the United States, Mikkal Herberg found a reversal of economic investment trends, where U.S. petrochemical companies abroad are returning to set up domestic operations. According to Mr. Herberg, this is the result of cheap energy prices that lower costs of production and

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subsequently increase profits for U.S. manufacturing and petrochemical companies. Moreover, such economic benefits aside, Dr. Philip Andrews-Speed from the National University of Singapore finds a political advantage in that the unconventional energy revolution has reignited U.S. 'soft power' after the IT revolution, calling it the "industrialization of science." As other countries look to the United States in developing their own shale industries, U.S. influence is strengthened.

Mr. Chow noted two geopolitical implications of the U.S. unconventional revolution. One is the change of the U.S. status from a net oil/gas importer to a net exporter. The change puts the United States in different positions with allies, including NATO and its Asian allies. Pointing out that China became the largest oil importer last year and is going to increase consumption, Mr. Chow saw that China is also benefiting in the unconventional revolution. Moving ahead, the positive benefits from a new supply source will only grow into the future.

Mr. Chen sees the revolution as an opportunity and challenge to China. Russia and Middle East began to compete for the Chinese liquefied natural gas (LNG) market, but the challenge is how China may manage the lower the gas price. Chen suggested that the East Asian countries, which consumes 70 percent of the global LNG, needs to cooperate on the issue.

On the impact in the Middle East, Mikkal Herberg insisted that U.S. policy toward the region has fundamentally changed its approach but that the overall importance of the region will not go down. Acknowledging that the Middle East would be the biggest winner of the revolution and remain to be so as the region controls the oil market as the big and low cost producers, Mr. Herberg projects U.S. engagement in the region to be just as important as before. Mr. Chow agrees that from the objective standpoint, Middle East will continue to remain important but from the psychological and emotional point of view, U.S. foreign policy in the region is likely to be impacted by the recent history in this region. He also noted that the United States is no longer importing West African oil from the region. It would be more interesting to see how U.S. foreign policy and security posturing in the region may change going forward. There is already some change in U.S. posturing, however, if we take a look at U.S. policy regarding ISIL – "no boots on the ground." While the U.S. policy in the region has not changed, its posturing or approach has somewhat shifted as far as military engagement are concerned. What this suggests is that the United States would require some burden sharing as far as security matters in Africa and Middle East are concerned. Are countries like China interested in participating? According to Dr. Chen, this is a question that China is still wrestling with and has yet to formulate a solution.

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