

*The View from Europe*  
*By David Jessop*

## New energy balance will bring profound change

No one should be in doubt: the global energy balance is changing rapidly with profound political and economic consequences for the way countries and regions relate to one another.

During the latter part of last year a consensus emerged that the United States was moving faster than anyone had previously thought to become first energy self-sufficient, and then a net exporter of natural gas. How this has occurred, why it has turned previous predictions of continuing US energy dependency on their head, and how it will change geo-strategic relationships, is only gradually beginning to be understood.

What is happening is that the US domestic energy sector has been advancing rapidly on all fronts. US production of crude oil is forecast to increase sharply up to 2019, and US natural gas production is set to outpace domestic consumption by 2020, so that by 2016 the US will become a net exporter of natural gas. All of this is occurring because technological advance and a lessening of environmental controls have enabled a significant increase production from shale and other tight formations as a result of hydraulic fracking and horizontal drilling. This is occurring just as US energy consumption is in decline as a result of the introduction of fuel economy requirements for vehicles; liquefied natural gas (LNG) is gradually offsetting diesel fuel consumption; and renewable energy for power generation is growing at a much faster rate than the use of fossil fuels.

Until recently, the consensus, based on conventional methods for the recovery of oil and gas, was that the US would remain a middle level producer requiring imports far into the future. However, recent commentaries from the US Energy Information Administration, a government statistical body; by BP; from the International Energy Agency (IEA), an OECD based Governmental body; and others, make clear that that this is no longer so.

In a recent presentation to the Atlantic Council, Dr Fatih Birol, the Chief Economist of the IEA, demonstrated how the development of shale gas and tight oil using non-conventional methods would enable the US to overtake Russia as the world's principal gas producer by 2015 and pass Saudi Arabia to become the leading global oil producer by 2017. This was, he suggested, the biggest change since World War II with implications for the whole world.

All of this is occurring as a vast new find of oil has just been made in Iraq, the exploration of the 'high north' as a result of the melting of the Arctic sea ice is actively being considered, and some industrialised nations, have decided to move away from nuclear energy.

Although there are no forecasts of any dramatic fall in energy prices, the suggestion is that despite global economic recovery and growing demand for energy in advanced developing nations as they return to significant levels of growth, prices will first stabilise and then soften slowly after 2019.

The implications of what is happening in the US and to a lesser extent Canada – which has huge but yet-to-be exploited shale deposits – are considerable.

By 2035 the US is forecast to be energy self-sufficient, a net exporter of oil and LNG and to have returned to robust economic growth. It is expected to bring back onshore many manufacturing operations and jobs as new forms of high-tech based industrialisation occur using domestic energy.

Together with China – which has invested billions of dollars in US companies involved in fracking – it will in effect create a new bi-polar world in which some surprising countries may become energy rich in relation to the size of their populations and economies, while regions such as the Middle East presently central to US thinking, may come to be seen very differently.

Assuming environmental reservations are overcome, some of the less likely energy producers that could begin to emerge as a consequence of fracking technology are, according to experts, French Guiana, France itself, the Ukraine, Brazil, Cyprus, Ethiopia, Poland, Romania, Bulgaria, Israel, Kenya, Mozambique, Sierra Leone, Somalia, Tanzania, and Uganda.

The geopolitical consequences for the world of all of this are only just starting to be considered. Europe – which has just announced that it is to negotiate an ambitious EU-US Free Trade Agreement – will free itself from Russia's gas hegemony; China will become the biggest consumer of Middle East oil and will have to become a significantly greater player in that region; Saudi Arabia will need to diversify its influence and relationships; the US may change its posture on the Middle East; and it will confirm the Pacific Rim as Washington's long term focus, effectively redrawing the economic and political map of the world.

Apart from the obvious implication that the countries of the Caribbean Basin will have to reorient the way they think about the world and their place in it in years to come, these developments have more direct implications.

Closest to home, if France lifts its ban on fracking imposed in 2011, there will be rapid development of the French département d'outre-mer of French Guiana, which remains remote from most of the Caribbean. This will bring into focus the future economic weight of the far southern Caribbean if, as many expect, Guyana, Suriname and French Guiana add oil to their list of mineral deposits and join Trinidad and Venezuela as nations that are resource rich.

Trinidad and Venezuela too may have to reorient their thinking about their regional oil and gas relationships if, as some suggest, the US were over time to develop concessional energy programmes providing LNG alongside regional renewable energy programmes. Reconsideration may also have to be given in the medium term to proposals for refinery development, LNG terminals, and oil and gas storage in the region, and the viability of proposed regional energy projects.

It is of course important to recognise that there are significant environmental concerns associated with the technology used in fracking whether in populated or remote areas. There remain questions too about the implications for greenhouse gas emissions if there is to be greater use of fossil fuels. However, history suggests that Governments' concern will continue to lie first with energy and national security.

For these and many other reasons, the energy revolution underway suggests that in less than twenty years, the world, its relationships and where future economic weight lies in the Caribbean, may be very different.

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