Many Americans are wary of foreign entanglements sometimes expressed as a frustration that we seem to seek dragon's to slay "over there" rather than building our economy here at home.

I want to start a discussion of the connection between what happens "over there" with what happens "over here".

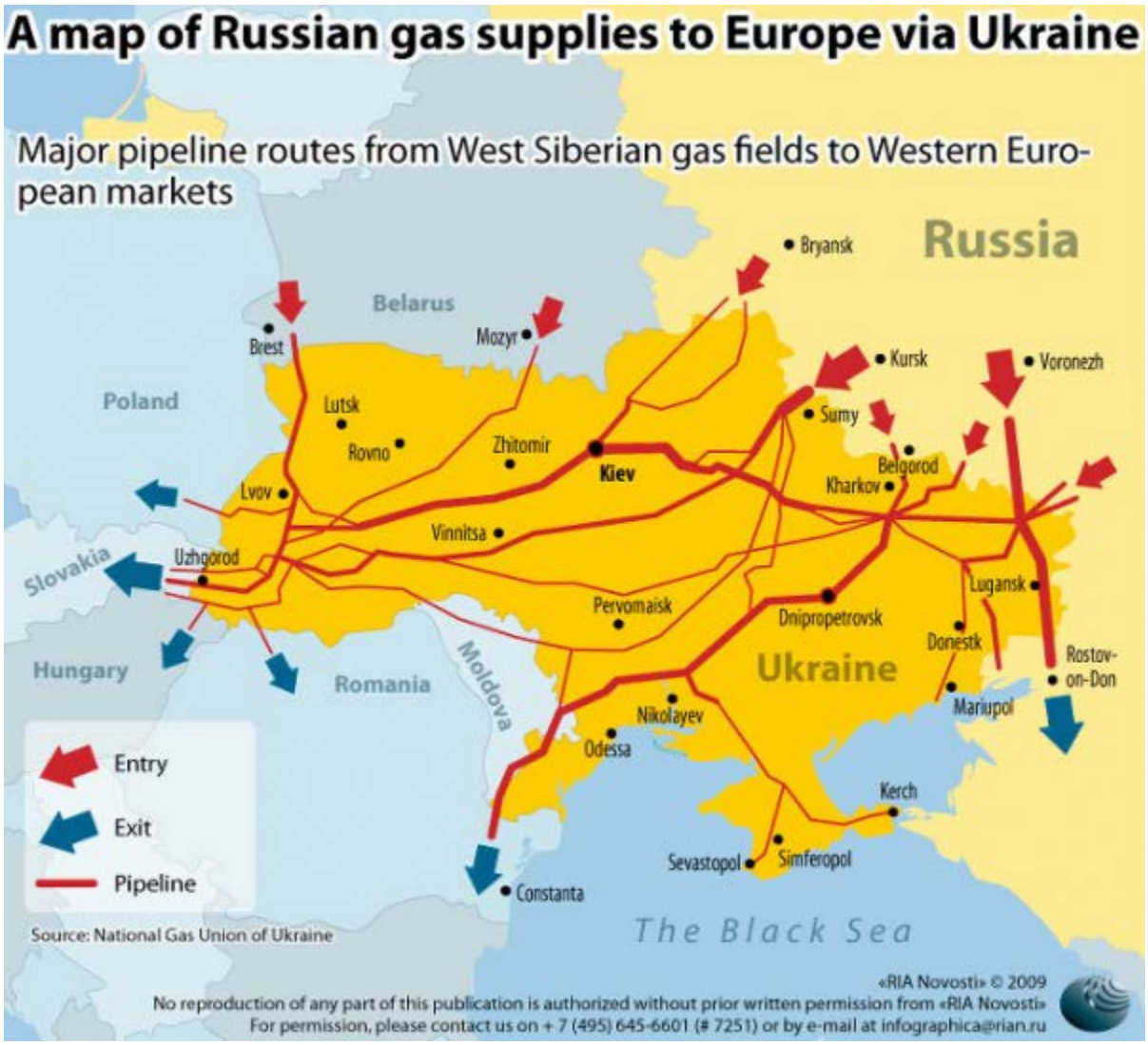
I will talk about American energy policy as especially as it relates to China and Russia. And, in that context how serious energy policy differences between these two nuclear powers, on the one hand, and potential conflict with the United States, on the other, might trigger a crisis and subsequent armed conflict which could very well lead to devastating consequences including the use of nuclear weapons.

I assume you folks like your jobs and watch your retirement plans with some interest. If so, remember that spikes in energy prices have caused the last 5 US recessions and have lost cumulatively 17 million US jobs and vaporized some $17 trillion in stock values on the New York Stock Exchange.

Here's the geostrategic landscape:

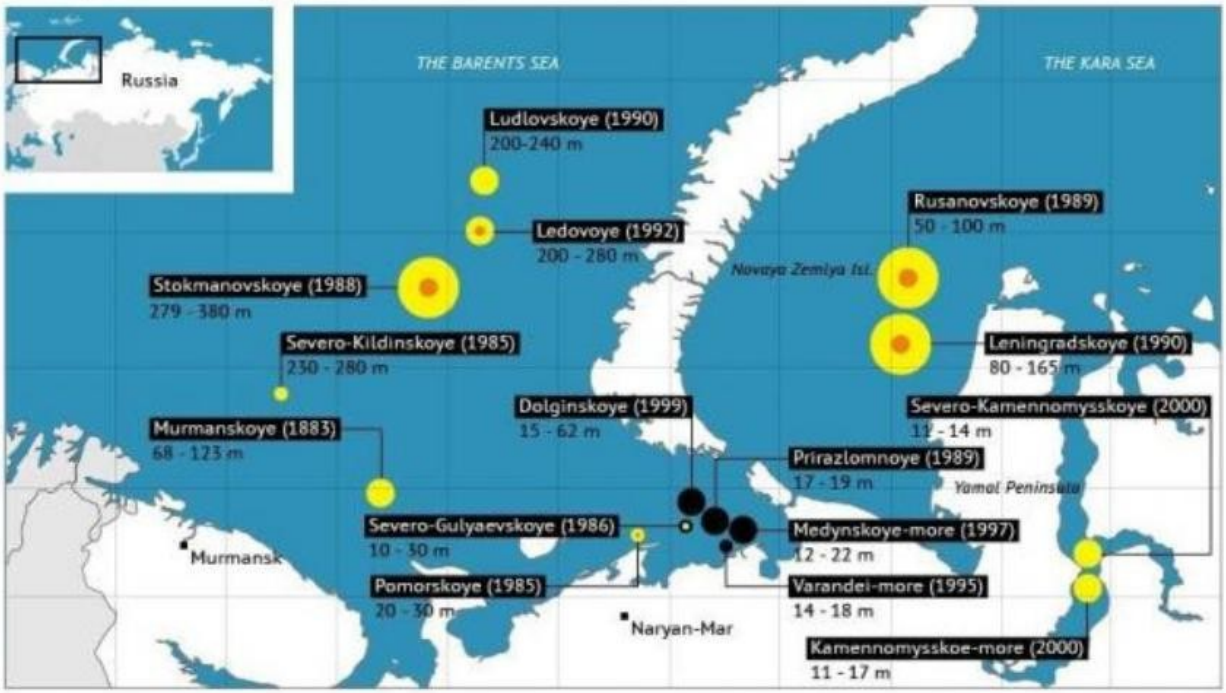
Russia wants a price for a barrel of oil north of $115 barrel, and seeks a regional monopoly over transporting energy in and out of the /Russian/Eastern Europe/Caucasus region. China like the United States, seeks a stable supply at a stable price to feed its industrial and manufacturing base.

Here are two aspects of Russia's energy policy: monopoly over supplies to Europe and grabbing energy resource supplies:


A map of Russian gas supplies to Europe via Ukraine
Major pipeline routes from West Siberian gas fields to Western European markets
Russia
Belarus
Poland
Slovakia
Hungary
Romania
Moldova
Ukraine
The Black Sea
Bryansk
Brest
Mozyr
Kursk
Voronezh
Lutsk
Sumy
Rovno
Zhitomir
Kiev
Belgorod
Kharkov
Lvov
Vinnitsa
Uzhgorod
Lugansk
Pervomaisk
Dnipropetrovsk
Donestk
Rostov-on-Don
Mariupol
Nikolayev
Odessa
Kerch
Sevastopol
Simferopol
Constanta
Entry
Exit
Pipeline
Source: National Gas Union of Ukraine
«RIA Novosti» © 2009
No reproduction of any part of this publication is authorized without prior written permission from «RIA Novosti»
For permission, please contact us on + 7 (495) 645-6601 (# 7251) or by e-mail at infographica@rian.ru

Russian oil and gas fields in the Arctic

Oil and gas fields containing immense reserves have been found in the Russian section of the Arctic sea-shelf



Field classification

Unique: more than 300 million metric tons of oil or 500 billion m^3 of natural gas

Large: from 30 to 300 million tons of oil or from 30 to 500 billion m^3 of gas

Middle: from 3 to 30 million tons of oil or from 3 to 30 billion m^3 of gas

Ludlovskoye (1990)
200-240 m

Name, year of discovery, Sea depth

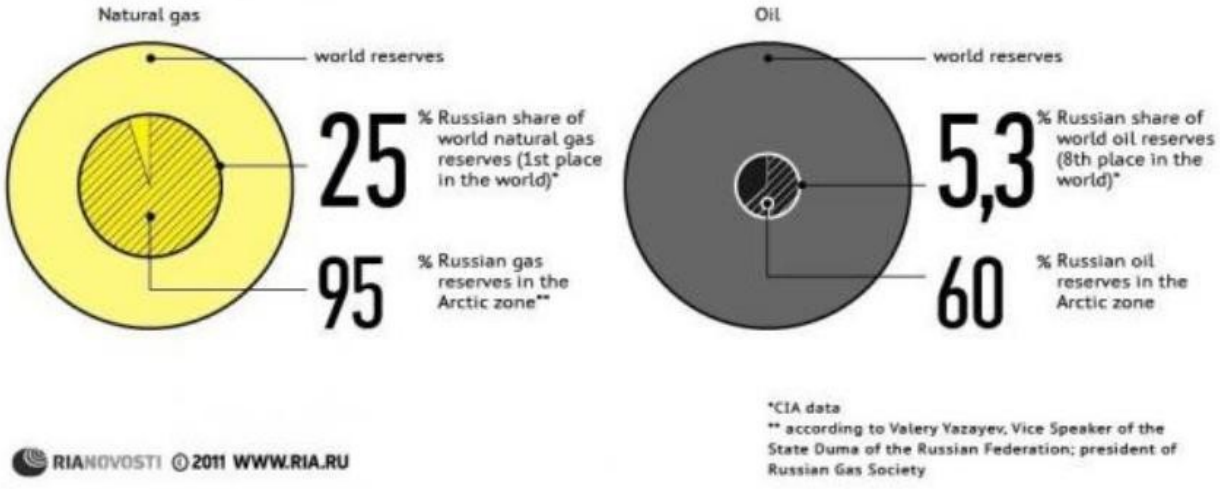
Oil

Oil and gas condensate

Gas condensate

Gas

The Arctic in figures

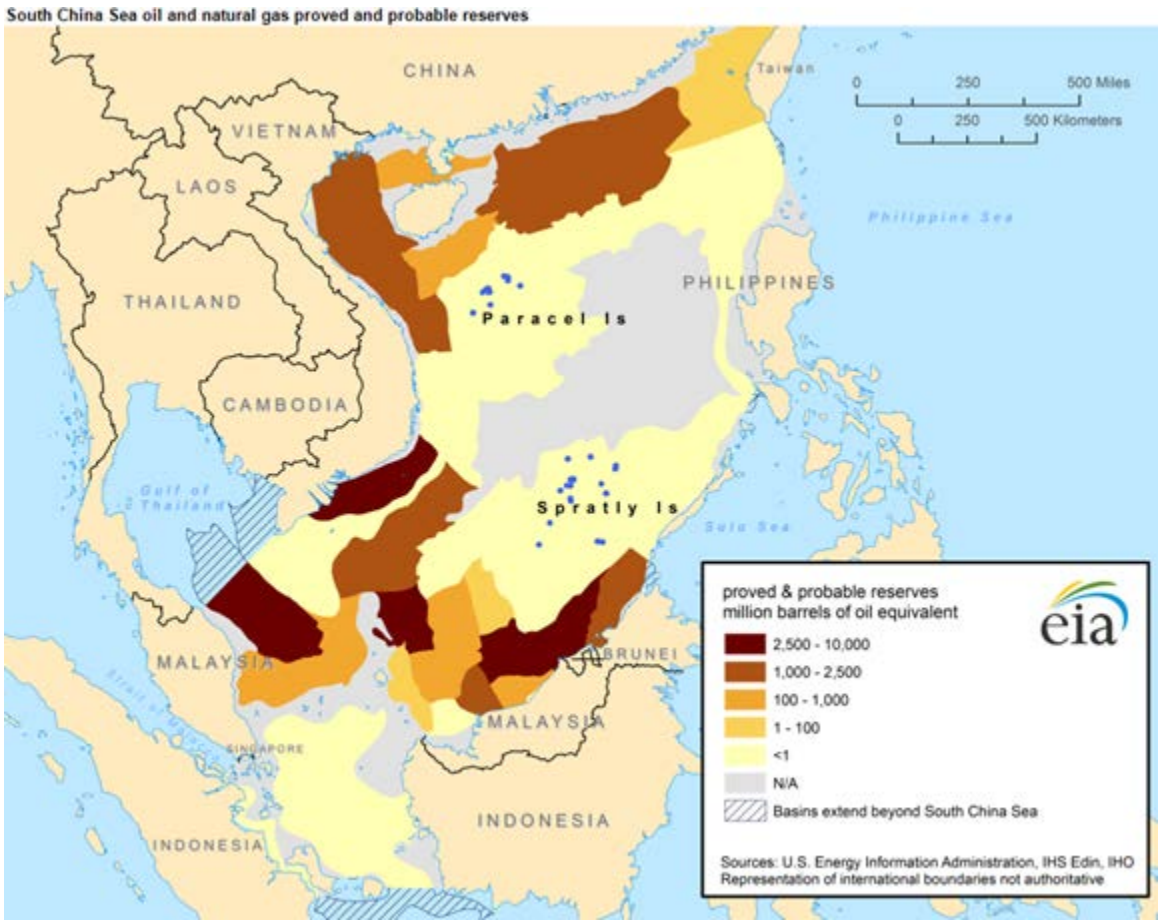


*CIA data

** according to Valery Yazayev, Vice Speaker of the State Duma of the Russian Federation; president of Russian Gas Society

Now what about China?

China has concluded and is seeking further oil deals with Sudan, Venezuela, Iran, and Afghanistan while seeking exclusive control over South China Sea oil resources: [See Charts #3-4]



World | Fri Oct 30, 2015 7:40am EDT

Related: WORLD, CHINA, UNITED NATIONS, SOUTH CHINA SEA

China naval chief says minor incident could spark war in South China Sea
BEIJING/WASHINGTON | BY BEN BLANCHARD AND ANDREA SHALAL

CNN: U.S. warship sails close to Chinese artificial island in South China Sea

Reuters: U.S. Navy Destroyer Challenges China's Territorial Claims

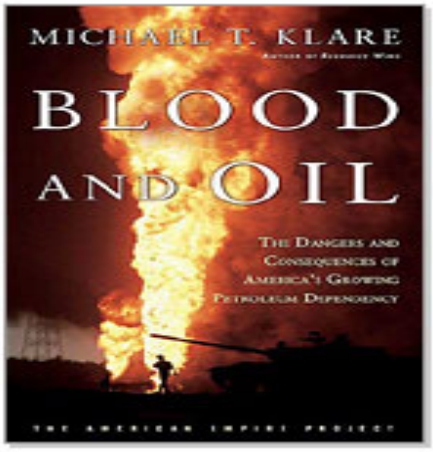
So this raises some questions:

Will China and Russia be two key “oil” antagonists in the Persian Gulf, the Pacific and elsewhere?

Remember control of oil and gas resources has been a long term American strategic concern. For example:

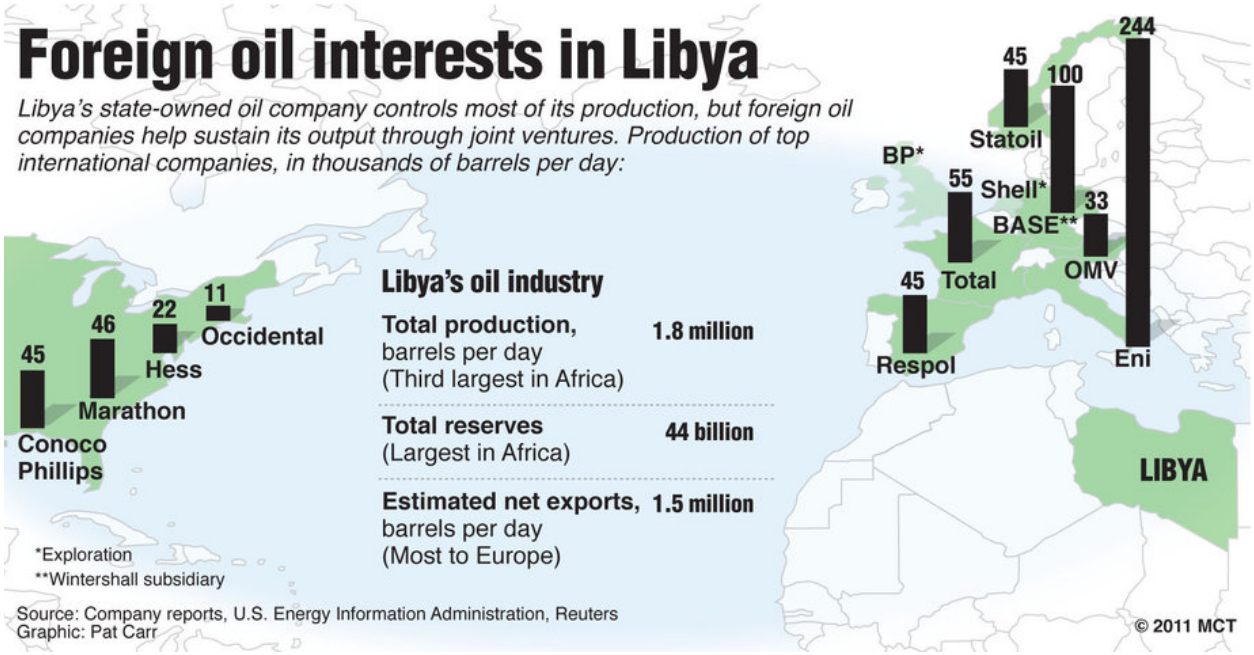
"An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America. Such an assault will be repelled by any means necessary, including military force." President James Carter, State of the Union, 1980.

I urge you to Goggle “It’s All About Oil.” Here are some results:

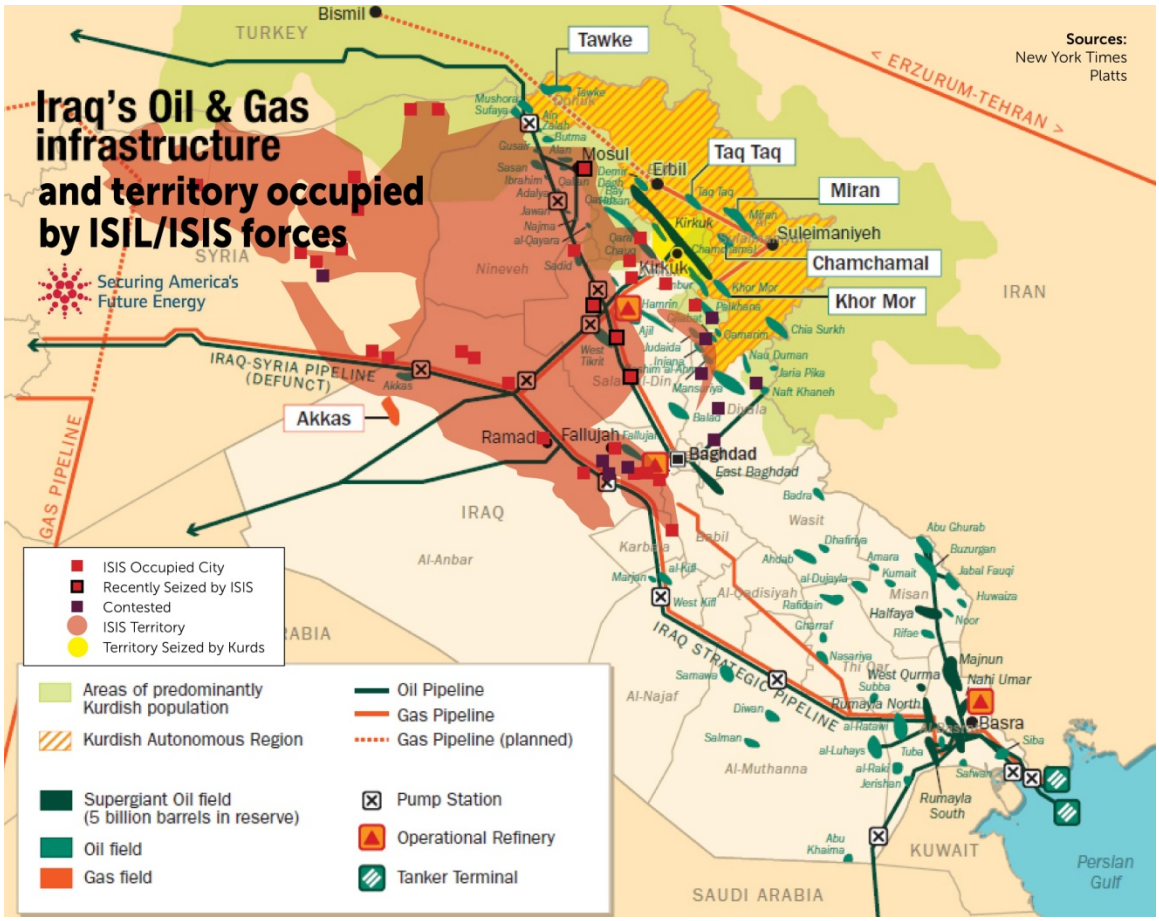


Indeed the current conflicts in many parts of the world are about oil or will impact oil and gas supplies. But not the way the conspirators believe. This is not about the USA and capitalists grabbing oil supplies and keeping them all for ourselves; it is about keeping the flow of oil and gas to the entire industrialized and emerging world economies at predictable and reasonable prices.

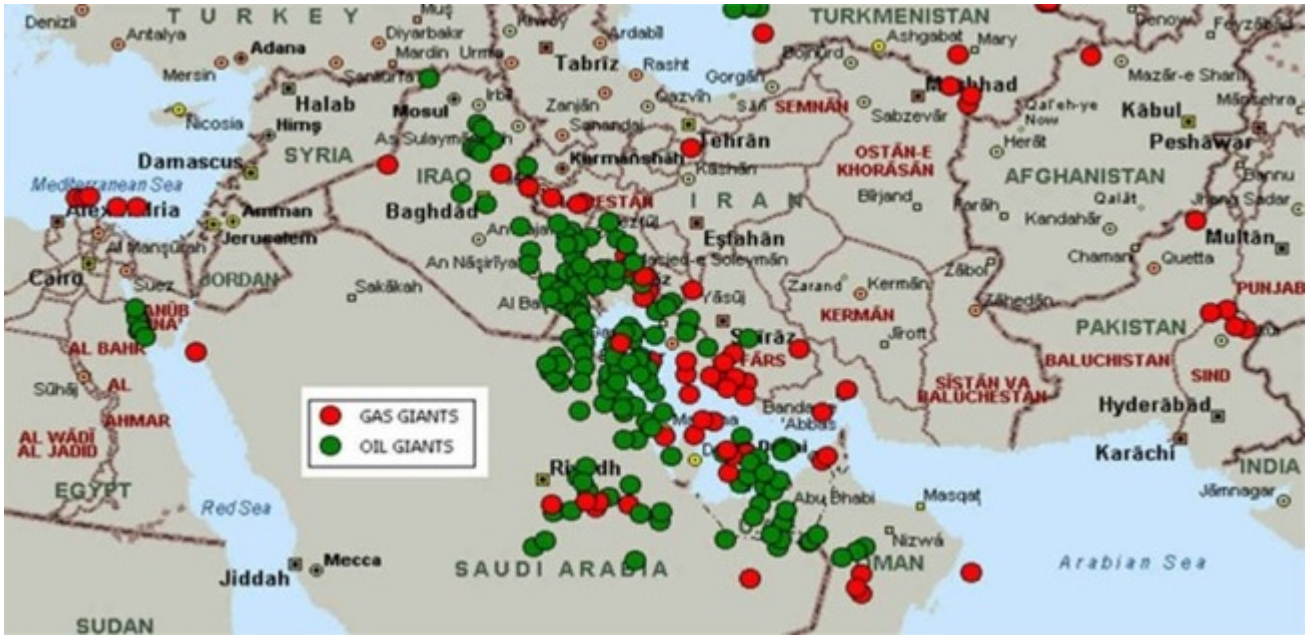
First some facts…..current conflicts and oil/gas: [See Charts #9-14]

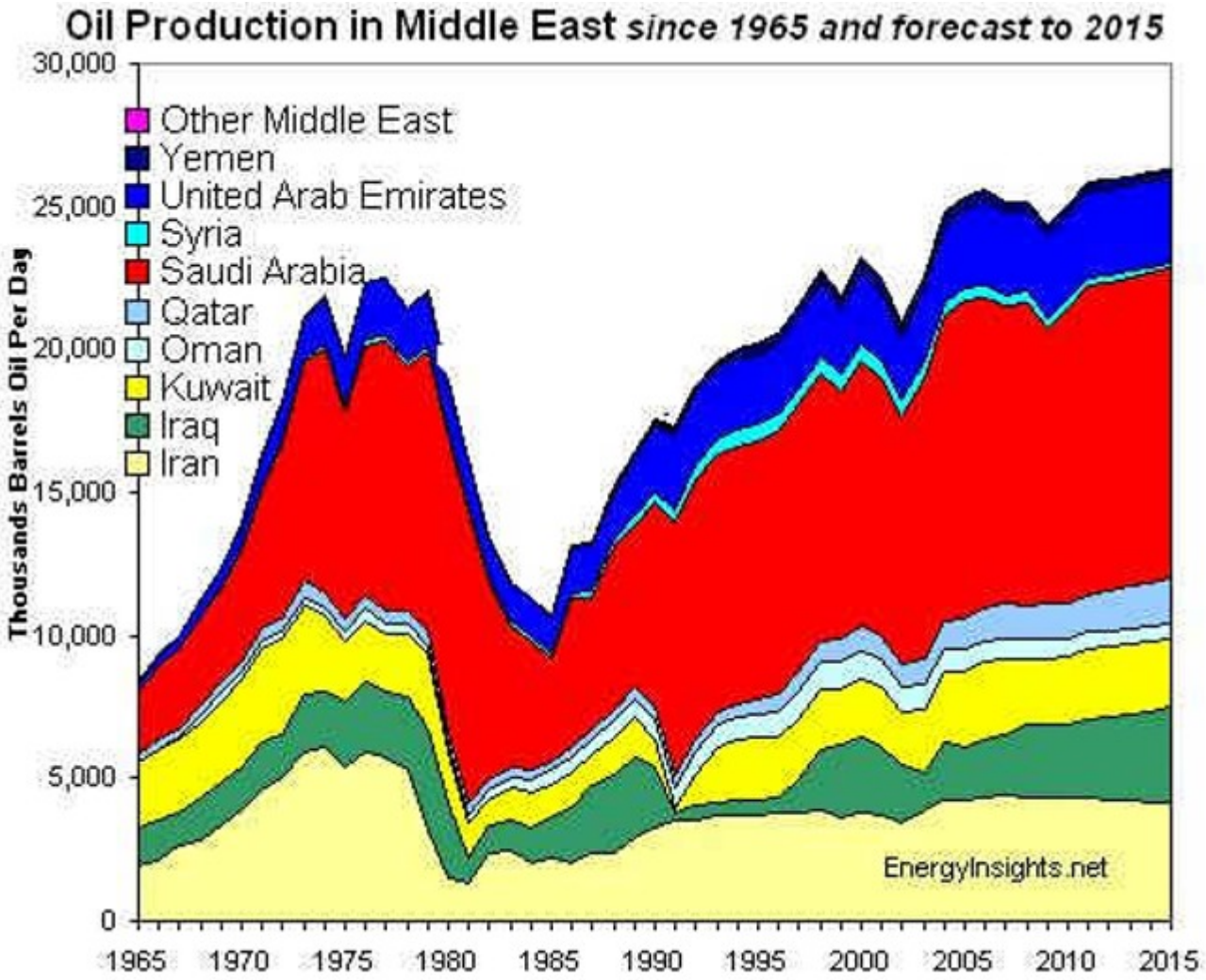


ISIS understands this:



And the Middle East as a whole…..

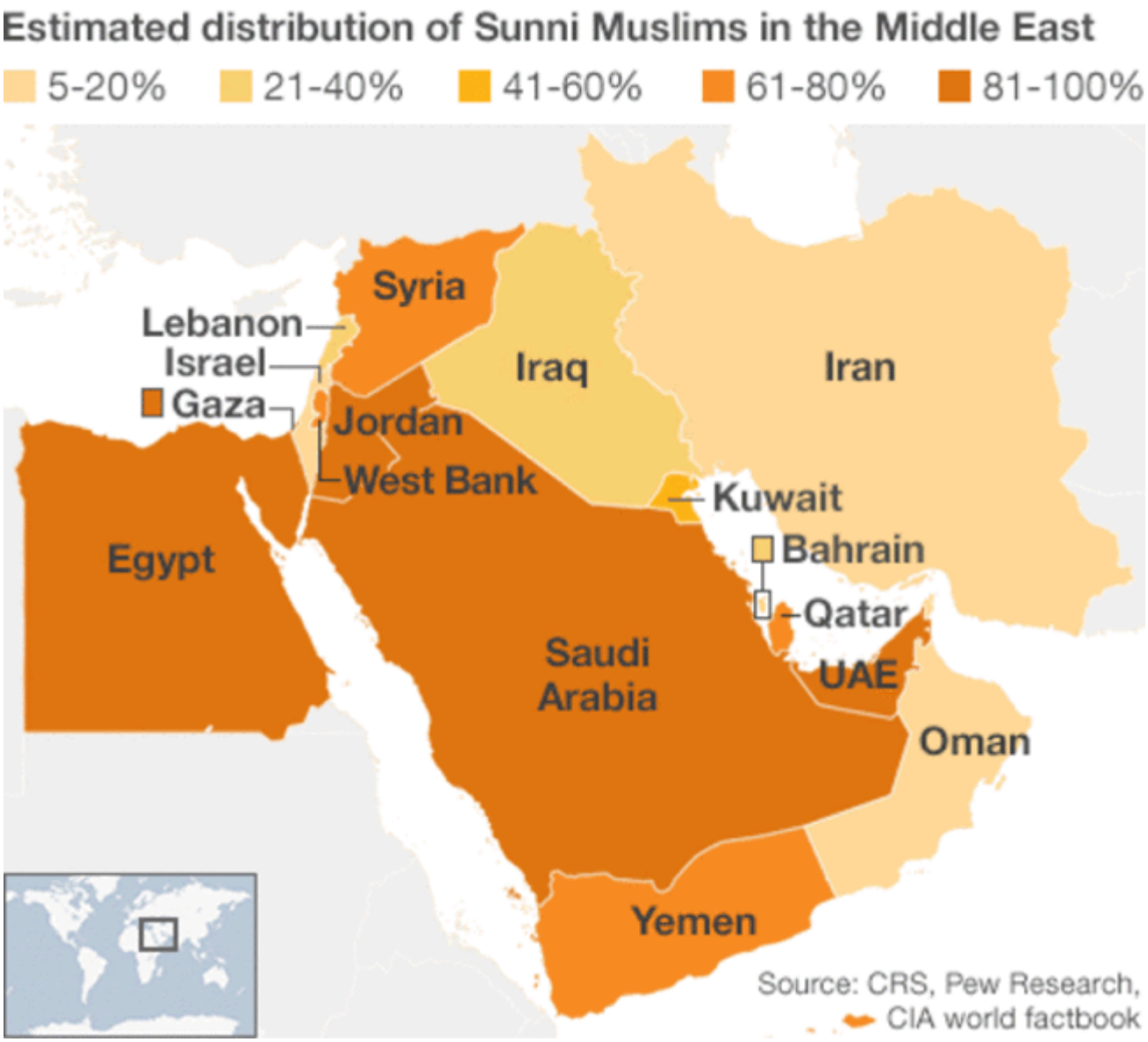




The bulk of that Middle East production is from Saudi Arabia, Kuwait, United Arab Emirates and Qatar.

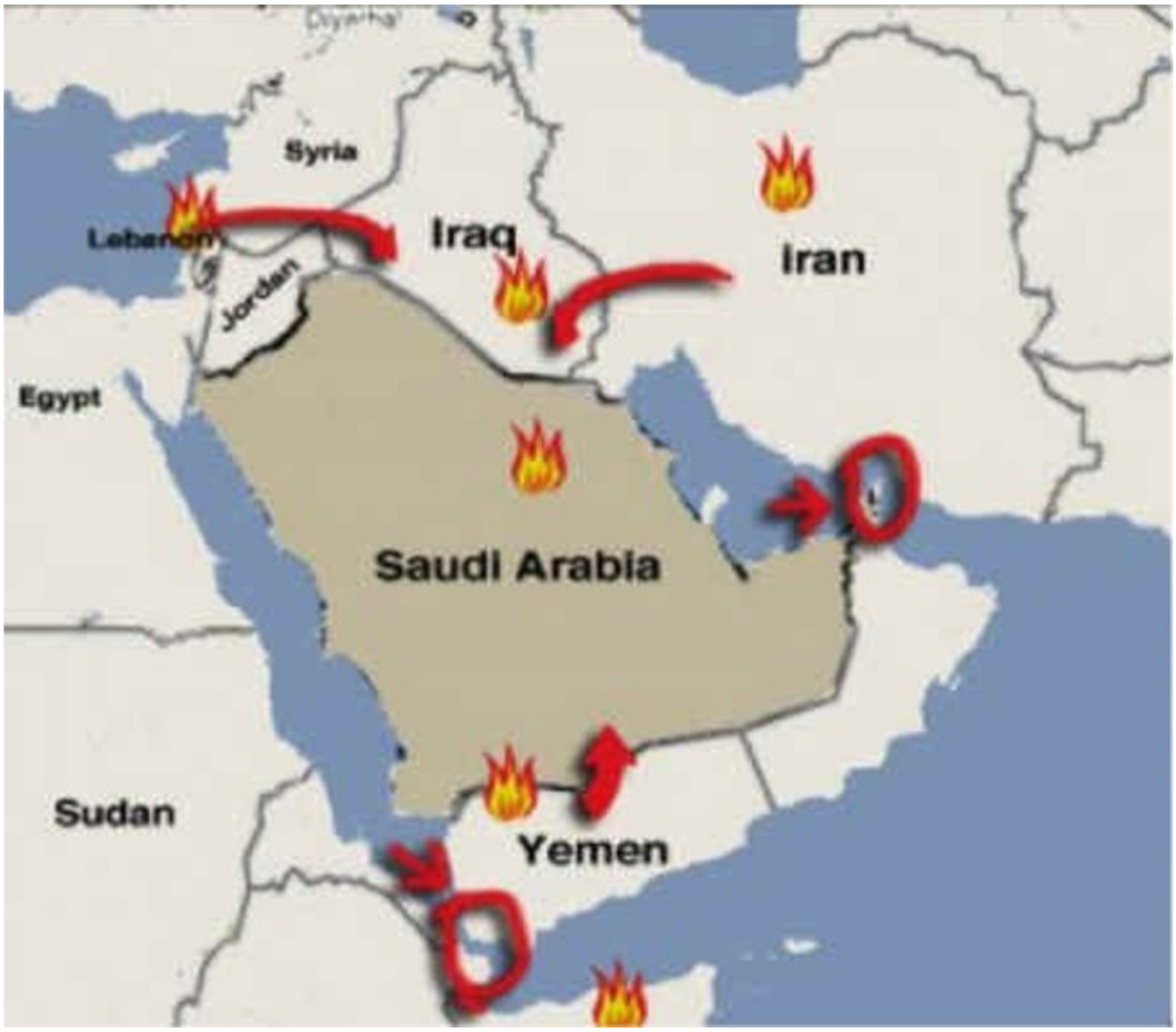
These key players are Sunnis. The Shia are located primarily in Iran and Iraq.

Look at the next map and you will understand one aspect of the power struggle:



And Yes the Iranians, Syrians and Russians, They Understand It Is Indeed All About Oil.

Now the strategic issues here are who controls the oil production of the Kingdom of Saudi Arabia and who could choke off the trade routes for oil:



Now just when you were starting to feel warm and fuzzy about the future of oil, here is another fact of life. It is that half the world's oil on a daily basis passes through 6 key choke points:[Chart #15]

Daily transit volumes through world maritime oil chokepoints

Russia is setting up an air base in Syria [See Chart #16]

U.S. intelligence now shows that Russia is planning to send a force into Syria that is capable of striking targets on the ground. Russia plans to deploy Mikoyan MiG 31 and Sukhoi Su-25 fighter planes to Latakia including air traffic control towers, aircraft maintenance supplies, and housing units for hundreds of personnel. While clearly some of this effort is to establish and sustain a Russian toe-hold in the Middle East, it is arguable that this renewed Russian presence has other strategic implications. (From September 10,2015 www.bloombergview.com/.../**russia**-s-**syrian**-air-base-)

So where does this all put the United States?

As Gal Luft and Anne Korin correctly explain in Foreign Affairs: "For the last four decades, Washington's energy policy has been based on the faulty conclusion that the country could solve all its energy woes by reducing its reliance on Middle Eastern oil."

"The crux of the United States' energy vulnerability was its inability to keep the price of oil under control, given the Arab oil kingdoms' stranglehold on the global petroleum supply," the authors write.

Let’s walk through this. From the Office of the Historian of the US Department of State:

“In 1973-4, the United States, which faced a growing dependence on oil consumption and dwindling domestic reserves, found itself more reliant on imported oil than ever before, having to negotiate an end to the embargo under harsh domestic economic circumstances that served to diminish its international

leverage. To complicate matters, the embargo's organizers linked its end to successful U.S. efforts to bring about peace between Israel and its Arab neighbors.

"The Nixon administration began parallel negotiations with key oil producers to end the embargo, and with Egypt, Syria, and Israel to arrange an Israeli pullout from the Sinai and the Golan Heights. Initial discussions between Kissinger and Arab leaders began in November 1973 and culminated with the First Egyptian-Israeli Disengagement Agreement on January 18, 1974. Though a finalized peace deal failed to materialize, the prospect of a negotiated end to hostilities between Israel and Syria proved sufficient to convince the relevant parties to lift the embargo in March 1974."

The conventional wisdom was thus reinforced by these foreign policy actions—if we just solved the problem of Mideast peace. This assumes that resolving what are grievances of the Arab/Muslim world—the lack of a Palestinian homeland--will bring stability to the region, and with it low oil prices and minimal economic disruptions.

As a second track we adopted at the same time an insurance policy. We adopted the paradigm that if we simply reduced our dependence upon oil from the Middle East we would reduce subsequent impacts on the US economy if OPEC decided to try another embargo due to their grievances not being satisfactorily resolved. And we knew the expanding Soviet influence in the Gulf might very well enhance the potential use of oil as a weapon by America's adversaries.

We then adopted a series of measures to help mitigate the impact of our continued dependence. We banned the export of petroleum. We created the Strategic Petroleum Reserve. And President Gerald R. Ford's administration imposed fuel economy standards of 27 mpg from 13.5.

An important legislative initiative was the approval by Congress on November 13, 1973 of a Trans-Alaskan oil pipeline, [TAPS] designed to supply 2,000,000 barrels of oil a day. This was completed in 1977 and has since brought 24 billion barrels of oil to US consumers with a value of $2.5 trillion.

Now here are some recent changes in where the USA gets its imported oil: [See Chart # 17]

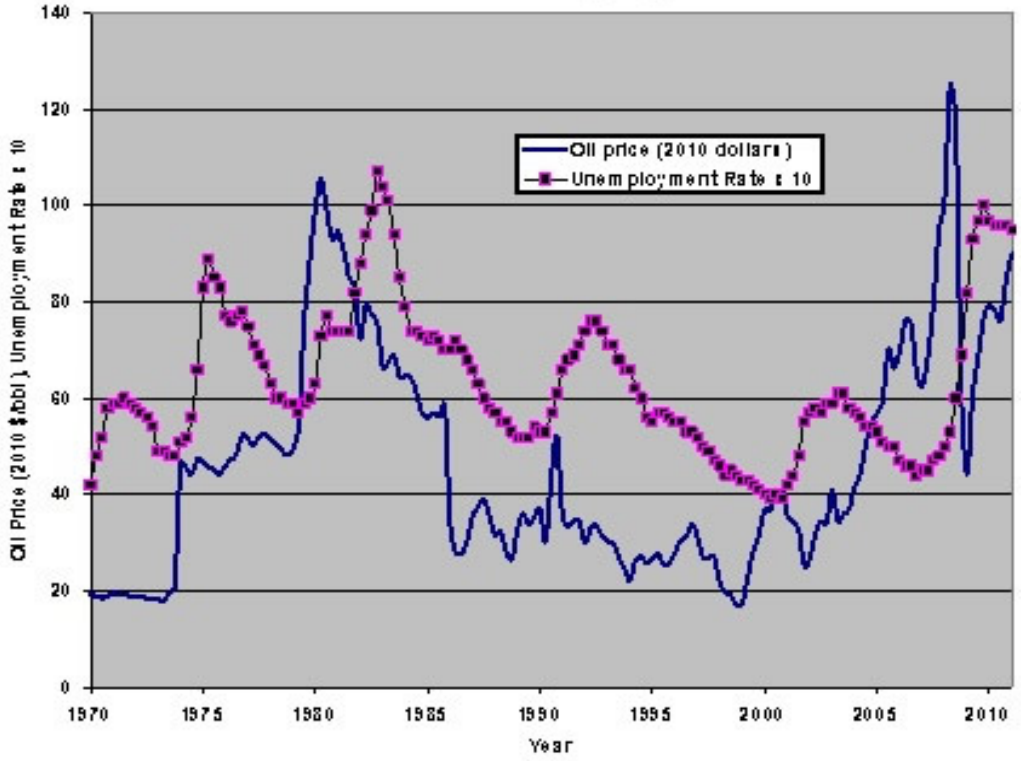
Country	Imports	% of Total in 2013	% Change since 2003
1. Canada	2.57	33.3%	65.8%
2. Saudi Arabia	1.33	17.2%	-23.2%
3. Mexico	0.85	11.0%	-45.8%
4. Venezuela	0.76	9.8%	-36.2%
5. Colombia	0.37	4.8%	121.1%
6. Iraq	0.34	4.4%	-29.1%
7. Kuwait	0.33	4.2%	56.7%
8. Nigeria	0.24	3.1%	-71.3%
9. Ecuador	0.23	3.0%	64.0%
10. Angola	0.20	2.6%	-44.4%

Data from Energy Information Administration

However, and here we come to the crux of the matter, each time there has been a recession in the United States since the oil embargo of 1973, it has been precipitated by a sharp rise in the price of oil despite all our efforts to change our energy policy and reduce our dependence upon Middle Eastern oil. In short, ***our economy remains hostage not so much to oil from one particular area of the world but to oil itself and thus to a spike in oil prices. [See Chart #18-19]***

Robert Zubrin published this next chart in National Review:

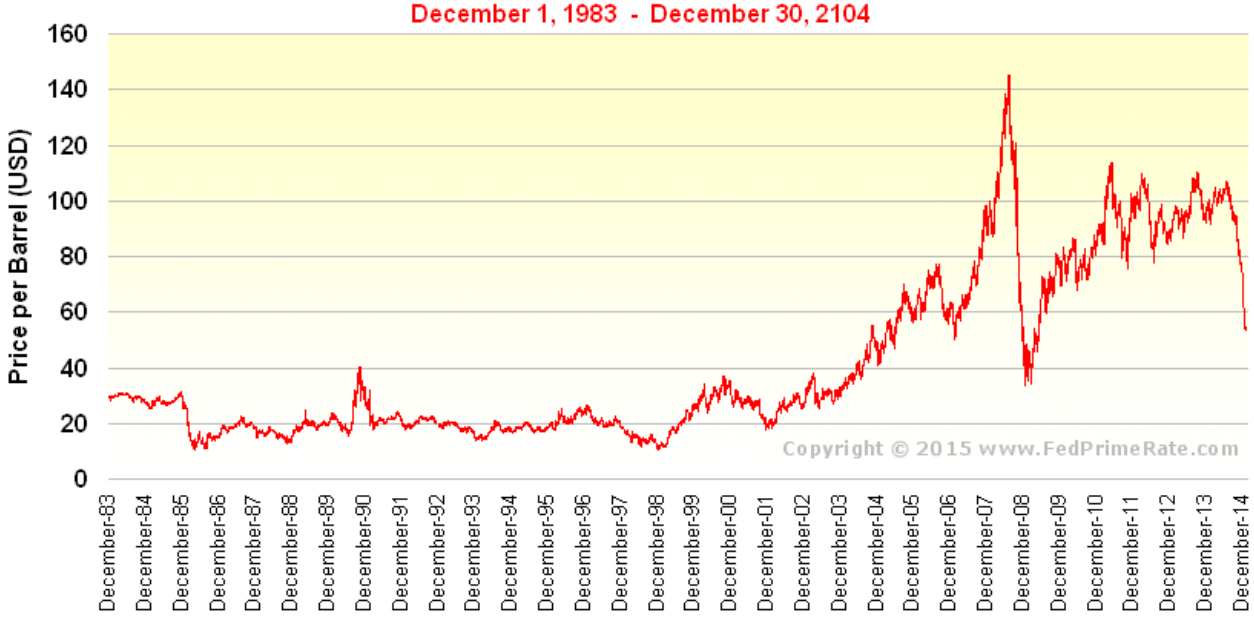
Oil Price vs. U.S. Unemployment Rate



Crude Oil Price History

NYMEX - West Texas Intermediate (WTI)

December 1, 1983 - December 30, 2104



Thus, the $130-per-barrel oil shock of 2008 didn't just throw 7.5 million Americans out of work, it drove many to default on mortgage payments and destroyed the value of the mortgage-backed securities held by America's banks made all the more consequential because of the HUD and Federal Reserve juiced ponzi scheme of Fannie and Freddie mortgage investments. When real estate prices peaked and then started to decline, this threatened a general collapse of the financial system. With the bankruptcy of Lehman Brothers the panic ensued, This in turn was checked only with TARP I and II, two bailout bills for $800 billion.

Energy expert engineer and space advocate Robert Zubrin explains it this way:

"As a result of the systematic constriction of oil production by the Organization of Petroleum Exporting Countries (OPEC), which is limiting its production rate to 1973 levels of 30 million barrels per day, [actually 32 million] petroleum prices stand at more than four times what they were in 2003. This has imposed a tax increase on our economy of $500 billion per year, equal in economic burden to a 20 percent increase in income taxes, with the cash going overseas and not directly into the US economy. This is nearly double the annual value of the 2009 stimulus package."

Now contrast the past recession years with the low oil price years. Between 1983 and 2000 oil prices remained generally around $17/barrel with the exception of the price spike because of the Iraqi invasion of Kuwait and Desert Storm.

During this period job creation was 19.9 million (1983-90) and 17.4 million (1991-2000), while the Dow Jones Industrial Average annual growth was 14.5% (1983-1990) and 15.9% (1991-2000) respectively. Between 1983-2000 investor wealth in America increased by $9.9 trillion or $32,000 for every American. Fifty percent of the value of the market at its peak in May 2015 was generated in just the 17 years starting with the Reagan recovery. And some people still insist the "Reagan boom" didn't happen!

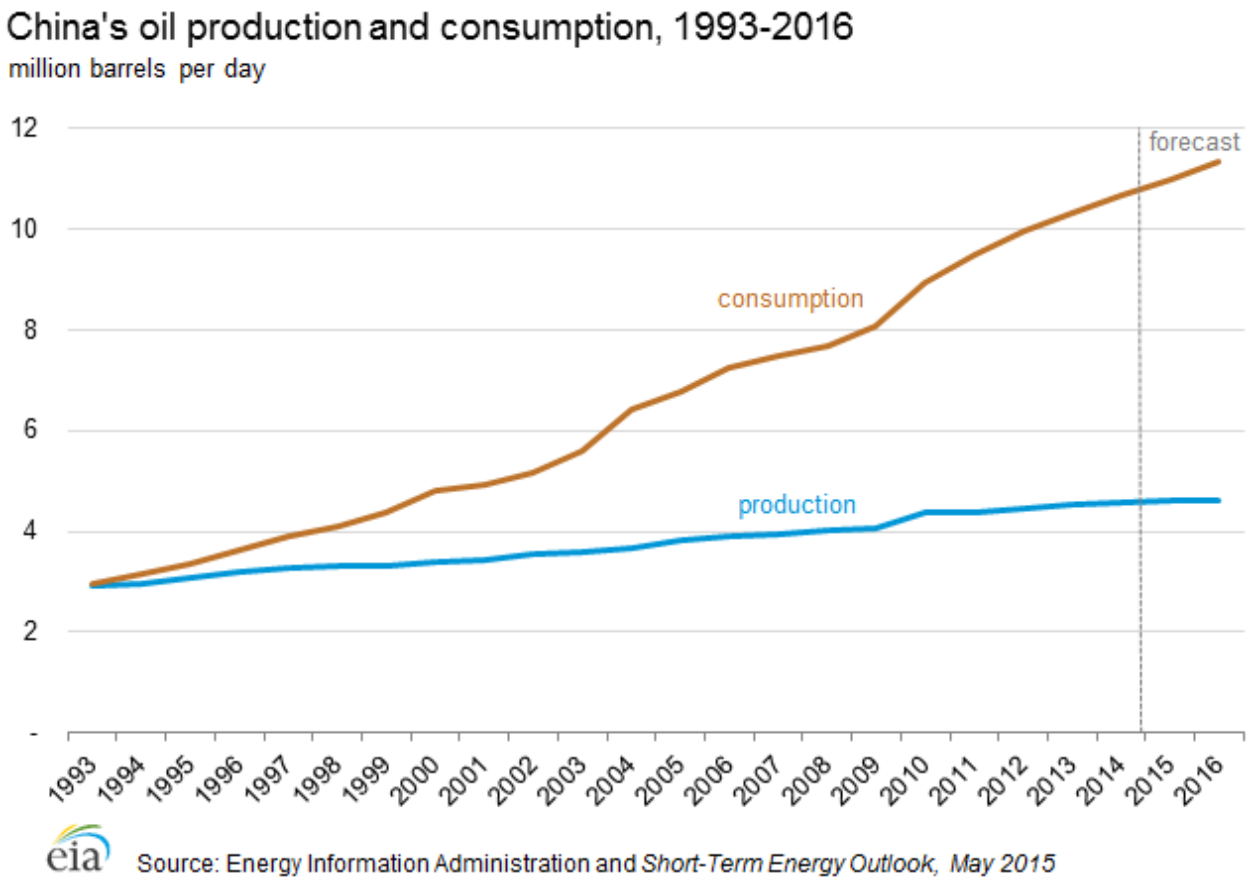
Now what about the recessionary years?

Since 1973, the US economic recessions lasted from 6 to 18 months. The loss in jobs ranged from 1.7 to 7.5 million jobs or collectively 16 million lost workers. In addition, the loss in value of Americans stock portfolio on just the New York Stock

Exchange ranged from $1.8 trillion to $7.5 trillion (measured in today's market capitalization of $19.7 trillion for the exchange) for a total of $17 trillion in losses. And this was all precipitated by increases in oil prices of 70%-400%.
Now let's see what this looks like in summary form…..[See Charts 20-22]

Now with that history as prologue, let's look at what the future might look like.

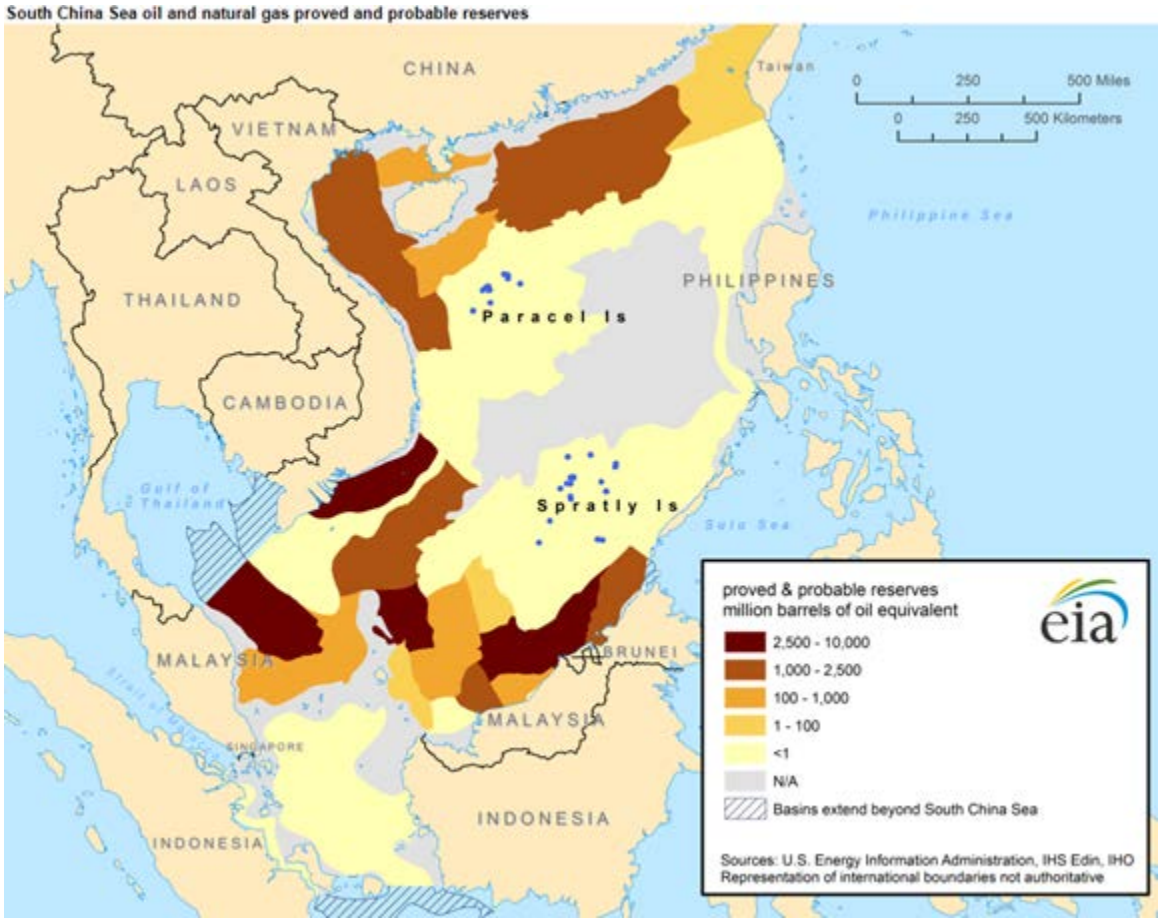
First let's look at China. [See Chart #23]



What of the future?

China currently annually produces 1.7 billion barrels of oil. It imports 2.2 billion barrels. But by 2020 its consumption is projected to hit 4.8 billion barrels and then 7.3 billion by 2040 and 8.8 billion by 2050. However production is projected to increase only modestly to 2 billion barrels by 2050, leaving China looking for 6.8

billion barrels or 18 million barrels a day or nearly the equivalent of total USA oil consumption. So let us look again at the map of the South China Sea and the recent US naval maneuvers: [See Chart 24-25]



U.S. Navy Sails Guided Missile Destroyer Near Reefs Claimed by China
Oct. 26, 2015 10:30pm Oliver Darcy

WASHINGTON (AP) A U.S. Navy ship sailed near an artificial island built by China in the South China Sea in a long-anticipated challenge to what the Obama administration considers Beijing's "excessive claim" of sovereignty in those waters, a U.S. defense official said Monday.

The Power of the Oil Disrupters [See Chart #26]

If oil is the only transportation fuel available, it gives this commodity and its major reserve holders, mainly Russia and the members of the OPEC, inordinate power on the world stage. The US Energy Security Council warns us that while it may appear to some that this power is eroding, we should be clear: as long as oil remains the sole commodity which makes the transportation world goes around, consumers will be exposed to periodic oil shocks and vulnerable to one degree or another to the decisions made by the oil cartel and its fellow travelers.

[See Chart #27—China Cooperation]

The Council continues to note that to shield the global economy from the ruinous impact of future oil shocks it is necessary for the transportation sector to be open to fuels derived from other energy commodities in addition to petroleum. This way, if oil returns to unfriendly territory, consumers will be able to shift on-the-fly to cheaper fuels and hence drag the price back to equilibrium.

From the Council again: Breaking oil's virtual monopoly over the transportation fuel sector should be a common goal for the world's two largest economies: China and the United States. (Unless China wants to be in cahoots with those stuffing $100+ oil down our throats!) China's car fleet is currently 90 million strong, but it is growing by leaps and bounds. By 2020 China will have 200 million vehicles, according to the China Association of Automobile Manufacturers, a fleet nearly the size of that operating in the United States.

Again, our friends at IAGS note that while efforts to improve vehicle efficiency are helpful elements in addressing the two nations' energy security concerns, the focus should be on ***fuel choice***. This means opening vehicles to fuel competition, allowing fuels made from energy commodities with which the two countries are well endowed, like natural gas, coal and biomass, as well as electricity generated from the above commodities as well as nuclear and renewable fuels, ***to compete against petroleum fuels over market share in the transportation fuel sector.*** Such production does not NECESSARILY reduce greenhouse gases but it does dramatically cut air pollution from the conventional burning of coal for example.

In fact, concentrating on reducing GHG emissions which is current US policy, runs directly contrary to the possible cooperative efforts we might make with China on energy security. As a result, adopting Kyoto's energy framework means we are potentially undermining our security in the Pacific and heightening the chances for superpower conflict.

RUSSIA

Things are far different with respect to Russia. [See Chart #28-9—Putin's Patrimony and Oil-Power]

Russian expert Ariel Cohen (formerly of the Heritage Foundation) explains this all very well:

Russian President Vladimir Putin's seizure of Crimea from neighboring Ukraine was a dangerous political-military action without precedent in post–World War II Europe. Putin's consistent policy of increasing state economic control may well be leading Russia on the path to stagnation and economic decline. The only way such a regime can survive is to grab more territory while distracting its citizens through ultra-nationalist propaganda.

Now China imports lots of oil from Russia: [Chart # 32]

[See Chart #33] #

Now from oilhedge, Bloomberg and oilprice.com one gets the following analysis:

Oil competition is a dangerous undercurrent in Putin's Middle Eastern policy. ***The Russian leader hopes that when its ally Iran re-enters the global oil and gas market, Russia will somehow share in the profits, perhaps through new pipelines across Syria. He also wants to stop the Saudis from establishing export routes in Syria. Now that Russian energy supremacy in Europe also is at stake, Putin's determination to resolve the Syrian conflict on his terms can only grow.***

If Russia ends up bolstering Iran's position in Syria (by expanding Hezbollah's influence and capabilities) and if the Russian air force effectively takes control of Iraq's air space, thus allowing Iran to exert a greater influence over the government in Baghdad, the fragile balance of power that has existed in the region will be turned on its head and in the event this plays out, as one analyst noted, "O**ne should not expect Washington, Riyadh, Jerusalem, and London to simply go gentle into that good night."**

The Guardian newspaper and Julien Barnes-Dacey, senior policy fellow at the European Council on Foreign Relation explain:

"Regional powers have quietly, but effectively, channeled funds, weapons and other support to rebel groups making the biggest inroads against the forces from Damascus. ***In doing so, they are investing heavily in a conflict which they see as part of a wider regional struggle for influence with bitter rival Iran."***

"What is clear to Riyadh and its regional allies is that the recent Russian and Iranian escalation will only create a more unstable region and spill more blood. Saudi Arabia and Qatar are already embroiled in an expensive and bloody war in Yemen that may limit both their military and financial resources. They have also so far deferred to western bans on transferring hi-tech weapons – including missiles that could take down aircraft – over fears that they might change hands in the chaos of the war and be used against their makers.

"The uncertain question today is the degree of power combined with efficiency that regional powers will be willing to bring to the table," continues Barnes-Dacey. *"Do the Saudis now try to take matters decisively into their hands, including by providing rebels with sophisticated weaponry long denied them?*

"The new [Saudi] king [Salman] has shown a willingness to be much more assertive and take measures into the kingdom's own hands. ***If the Saudis see the***

situation slipping out of their hands, and there is a real sense that the Iranians are consolidating their position in Syria, you could see much stronger response."

Mark Mann of the Manhattan Institute echoes these concerns . His recent essay captures the essence of the energy fight we are seeing unfold in front of us in the Middle East. Here are extensive excerpts from Mann's excellent essay:

"Geopolitically, and economically, everything in the Middle East pivots around oil and its hydrocarbon cousin, natural gas. Its entire economy is utterly dominated by oil exports. For Saudi Arabia, oil provides 90 percent of revenues; for Russia, oil and gas account for 70 percent of exports.

[See Chart #34] "Three facts motivate Putin. First, two regions utterly dominate world oil markets. The Middle East and Russia together ship 60 percent of all oil traded (45 and 15 percent, respectively). Meanwhile, American firms are by law prohibited from engaging in this vital global marketplace.

"Second, oil matters. It provides 97 percent of the global fuel needs for all the engines that transport everything on land, sea and air. No viable substitutes exist at present at any price for liquid hydrocarbons at the scale society needs. And the world will consume more oil, not less, as far into the future as it matters for sensible policymaking.

"Finally, price matters. Here the U.S. has upset the apple cart. Entrepreneurs using new technologies have unlocked a shocking increase in oil supply. U.S. shale fields have recorded the fastest increase in oil production in history. As a result, crude prices have collapsed from north of $100 to south of $50 a barrel.

"More important, given the build-up of Russian military men and materiel in Syria, is geography. Damascus is closer to Baghdad than Washington is to Boston, and not much further away from Riyadh than New York is from Chicago. Russia's military is now no longer deployed mainly on its Baltic borders but is in the world's premier petroleum neighborhood.

"Russia is not an OPEC member and has often claimed no desire to join. But they may have just joined by default. Russia's military capabilities dwarf everyone else in that neighborhood (especially now that the U.S. has exited). Putin may be on track to de facto control of OPEC."

"According to the World Bank and others, Russia and most OPEC members need oil priced between $100 and $180 a barrel to balance their national budgets.

“Thus the emerging global petroleum pricing problem for Russia is severely constrained by the sheer quantity of oil that hundreds of American businesses can produce at prices that are unacceptable to the former swing suppliers. The U.S. has reversed, in short order, its four-decade slide in production, and is now back to the former peak oil, pre-embargo, production level of 1970.

The oil and gas sector comprises less than 10 percent of the total U.S. economy. But for Russia and OPEC nations, oil accounts for 25 to 50 percent of each country's entire national GDP, and from 70 to 95 percent of all exports.

[See Chart # 36]

In conclusion, we face a confluence of factors in Asia, Europe and the Middle East around the supply of oil and gas.

These include the geostrategic ambitions of many nuclear armed powers. And price instability that has previously caused the loss of trillions of dollars in American wealth since 1973.

The problem is two-fold. (1) A US energy policy largely aimed at making our use of energy more efficient but without leverage in international energy markets to provide an alternative transportation fuel to the American consumer;

And (2) A US security policy seeking to force Israel to adopt sufficient concessions on Palestinian statehood to end the grievances of Gulf States, the Palestinian Authority and their allied terror groups but which ironically leaves the US economy still hostage to the very oil actors who are our adversaries.[From Mark Mills, Senior Fellow at the Manhattan Institute and CEO of the Digital Power Group].

So what should we try and do with the implications of this framework for looking at the geopolitics of oil?

Here are my policy recommendations:

1. Provide an alternative to transportation fuels by adopting a US flex/alternative fuel vehicle requirement for all cars and light trucks sold in America;

2. Posture the Navy in the Pacific to oppose PRC grabbing of South China Sea resources; both deploying our Navy periodically to establish a right of innocent passage and a continuous and visible deterrent presence;

3. Establish cooperative program with our East Asian and Pacific allies as well as China, to develop alternative liquid transportation fuels to compete with petroleum;

4. Lift ban on the export of natural gas and oil, build terminals in the US to supply our Eastern Europe and Baltic allies with energy as a means of turning Russia "from an energy bully to an energy supplicant".

5. Purchase and deploy with our allies a Middle East and Pacific regional missile defense shield against rocket and missile threats; important to ensure a stable conduit for energy transportation;

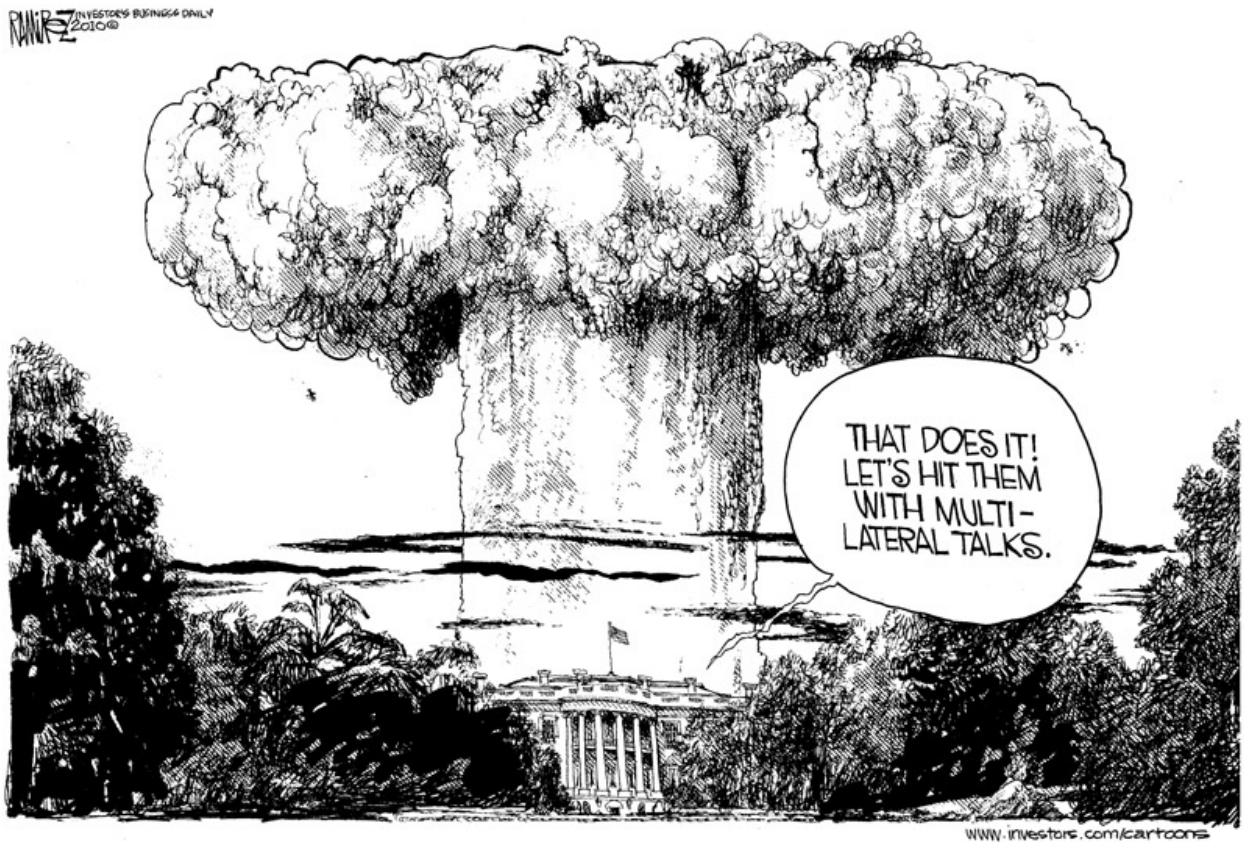
6. Work to determine what actions to take, including a possible cut-off of Iranian oil exports and earnings if/when the Iranians violate the JCPOA;

7. Work with Gulf allies to stop Russian incursions into the Middle East especially helping Egypt, Jordan, KSA and Israel arm themselves; and

8. Provide for a better deterrent capability, eliminate the cap on defense spending, and adopt a long term defense modernization plan. This must also include strategic and tactical nuclear modernization and conventional precision strike capabilities.

Conclusion:

Russia and China both seek hegemonic control over oil and gas resources in the Middle East, the Caucasus and the Pacific. Potential conflict looms in these areas. Resultant price spikes could trigger more US recessions as they have 5 times since 1973. US deterrent policy as well as our broader national and energy security policy should recognize this threat and act accordingly. This must include a flex-fuel open fuel standard for all cars sold in America and a much needed modernization of our regional and homeland missile defenses and deterrent (nuclear and conventional) forces.


RAMIREZ
INVESTORS BUSINESS DAILY
2010©
THAT DOES IT! LET'S HIT THEM WITH MULTI-LATERAL TALKS.
www.investors.com/cartoons


RAMIREZ INVESTOR'S BUSINESS DAILY 2015©
IRAN
NUCLEAR ARMS RACE
U.S. DEBT
WILL WORK for WORK
JOBS
RADICAL ISLAM
RUSSIA
CHINA
GLOBAL WARMING is the BIGGEST THREAT to AMERICA...
@Ramireztoons
www.investors.com/cartoons