By Danielle Cohen & Jonathan Kirshner

As China’s massive and ever-expanding economy claims more and more of the world’s energy supplies, international relations experts have increasingly predicted its energy needs will eventually put it in conflict with the United States, the world’s largest energy consumer. But Danielle Cohen and Jonathan Kirshner argue that both countries are mistakenly in thrall to a “cult of energy insecurity” and could avoid conflict if they adopted more sensible energy policies.

CHINA AND THE UNITED STATES each have a growing and seemingly insatiable demand for energy; they also increasingly depend on foreign supplies to satisfy that demand. While most countries are anxious about interruptions to their energy supplies, great powers like China and the US do more than worry — they seek, proactively and often aggressively, to do whatever it takes to ensure “energy security.” Are these two energy-hungry giants destined to clash over that pursuit? Not necessarily. In fact, the notion that a country can achieve true energy security is a myth. The effort global leaders devote to securing energy supplies indicates a fundamental misunderstanding of the international energy market. The real threat to international political stability posed by energy does not come from the scarcity of oil or vulnerabilities to its supply chain. Rather, the threat comes from “the cult of energy insecurity” — the erroneous belief that national security requires ambitious and vigilant foreign policy measures to assure adequate access to energy.

The cult of energy insecurity results from two great and commonly held misconceptions. The first is to overstate the extent to which the supply of oil to any given state can actually be threatened. The second is to greatly overestimate the extent to which states can redress problems of energy security through foreign policy measures. Most foreign policy measures designed to enhance energy security only marginally enhance it at best, and invariably generate costs and negative international political consequences that outweigh the benefits of any marginal increase in security produced.

The exaggerations that characterize the cult of energy insecurity rest on two interrelated misconceptions: underestimating the power both of efficient energy markets and of opportunity costs. Oil is an essentially homogeneous, fungible product that seeks out its highest dollar level. The world price of oil is extremely flexible and equilibrating. The problem for the next few decades, at least, is not that we will run out of oil — it is that we will probably have to pay exorbitant prices to get it. And no foreign policy will change that, though wise domestic policies might.

The second blunder of the cult of energy insecurity is the neglect of the concept in economics known as opportunity cost. Policymakers focused on nominal price levels fail to grasp that the real cost of oil, and determinations about how best to use it, is measured solely by the opportunities foregone by making one choice instead of another. These opportunity costs are beyond the control of any state, no matter how powerful. Choices about the allocation of oil will be determined by its opportunity cost, which will be established by the world price of oil set on international markets. This holds true even for oil that is domestically produced or under the proprietary or physical control of a consuming state. Governments can dictate the retail price for oil within their borders, but they are servants to the real cost of using it. Who owns the oil is largely irrelevant.

PRICE NOT POWER
Thus, although countries do face some real, if modest, threats to energy security, these dangers pale in comparison to the dysfunctional and dangerous consequences of the cult of energy insecurity. The US, for example, is correct to recognize that a sustained interruption of the flow of oil from the Persian Gulf region would be a serious national security problem. But there are only two ways this could happen. The first, very unlikely scenario would be if a single hostile power achieved physical control or political domination over the entire resources of the Persian Gulf. The US is committed to the use of force to prevent such a situation, as formalized in the Carter Doctrine. The second scenario is a sustained blockade of the Strait of Hormuz to the north of the Persian Gulf. This could cause a major short-term disruption on world energy markets until alternative routes could be established.

But simple precautions mitigate this threat: some US naval presence in the region, both as a deterrent and, if necessary, to protect tanker traffic; and the existence of the US strategic petroleum reserve. Taken together, these measures can manage the potential problems in the strait at a fairly modest cost. Absent either of these threats, price, not power, will determine the allocation of the world’s oil. But given the fixation on the cult of energy insecurity and the resulting obsession with assuring supply, US policies are dysfunctional. The US simply refuses to take readily available measures to reduce its profligate consumption of oil. This, rather than any external threat to supplies, presents real national security problems for the US, and others as well. With the world’s reserves concentrated in the Persian Gulf region, this dependence has complicated US foreign policy and generated negative consequences for security.

American consumption, perhaps the most important determinant of world prices, empowers states such as Russia, Iran and Venezuela — all arguably political opponents of the US. It matters not whether the US buys its oil directly from these sources; its purchases are part of the global demand that sets the world price, and all net oil exporters benefit. In sum, the US has a serious energy security problem, but it is one that can only be mitigated by taking simple, necessary steps to curb its own excessive energy consumption.
There is no good reason that China and the US need to come into conflict. The two radically overestimate both their degree of energy insecurity and their ability to ‘solve’ the energy problems that do exist through assertive foreign policies.

CHINA IS IN THE CULT
Like the Americans, Chinese policy-makers are card-carrying members of the cult of energy insecurity and appear to believe that concerns about energy supply must motivate foreign policy. It is often suggested that the Chinese leadership has attempted to assure its energy supply by encouraging its three major national oil companies to engage in “equity oil deals,” through which companies purchase the right to extract oil, and split the output with the foreign government that owns the territory. On the one hand, concerns that this behavior somehow reflects a threat to world energy supplies are misguided: the vast majority of Chinese oil equity is sold on the international market, and any oil that China “takes off” world markets simply displaces oil that would have been purchased elsewhere. But China’s search for equity oil (and the concerns that other states have about those deals) do reflect the underlying “cult” mentality that control of oil matters — and could fuel a collectively self-defeating scramble for supplies in the event of an economic or political crisis.

China’s anxiety about energy security has also been driven by the fact that 80 percent of its oil imports travel across the Indian Ocean and through the narrow Strait of Malacca. Given these concerns, China has sought the ability to move more energy across seemingly more secure routes. Some of these choices are sensible, such as the 2009 agreement with Russia to build a spur onto the East Siberia-Pacific Ocean (ESPO) pipeline from Skovorodino and the 2007 agreement with Kazakhstan to extend the Atasu-Alashankou pipeline. But other pipeline projects — and heavy-handed diplomacy in their pursuit — reflect the “cult” at work. Two projects aim to avoid the Strait of Malacca: the pipeline from Kyaukpyu in Burma to Kunming in China, currently under construction, and the proposed China-Pakistan Energy Corridor from Gwadar in Pakistan to Xinjiang in China. These pipelines offer little security. They would be located in unstable regions and oil would still be shipped by tanker from its origin in Africa or the Persian Gulf to a port at the start of the pipeline. These efforts by China suggest instead an instinctive and counterproductive drive for control.

In sum, there is no good reason that China and the US both recognize the folly of the “cult” and pursue wise domestic energy policies with the US need to come into conflict over increasingly expensive energy as their demand — and their dependence on unappealing foreign suppliers — grows in coming years. The two states radically overestimate both their degree of energy insecurity and their ability to “solve” the energy problems that do exist through assertive foreign policies. Except for a few unlikely but manageable scenarios, price will dictate the flow of energy, opportunity costs will dictate how it is used, and foreign policies of states, however robust, will matter little. The real danger derives from those ambitious, anxiety-driven foreign policies and how those policies might clash — that is, from the cult of energy insecurity.

It should be acknowledged that even if China and the US both recognize the folly of the “cult” and pursue wise domestic energy policies, the “normal” pursuit of foreign energy policy will still generate some political friction, especially with the emergence of China as a great power. The central importance of Persian Gulf oil, transported primarily by tanker, will contribute to an emerging naval security dilemma. As China expands its naval reach, it will enter areas of the sea that the US currently dominates. Additionally, rivalries in the broader Asian region are likely to simmer over the construction of pipelines and the oil and gas they transport. Japan and China are already jockeying for influence over Russia with regard to various trans-Siberian pipeline routes. There are simply more opportunities for conflict over resources that must be moved from one fixed terminus to another under the sovereign control of states than for undifferentiated oil that moves freely about at sea, directed by apolitical spot markets.

These two areas of political rivalry are unlikely to be avoided in their entirety. But if states are able to break the cult of energy insecurity’s spell, these rivalries will be much less likely to devolve into tragically unnecessary international crises.

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