

ENERGY PRICES AND EUROPEAN ENERGY SECURITY

An Interview with Ambassador Richard Morningstar

Ambassador Richard L. Morningstar is the Founding Director of the Global Energy Center at the Atlantic Council. He served as the U.S. Ambassador to the Republic of Azerbaijan from July 2012 to August 2014. He is one of the leading energy experts in the United States. Morningstar provided *The Journal* with insight on the political results of declining energy prices, new trends in energy, the impacts of the energy abundance in the United States and the nexus of climate change and global security.

Journal of International Affairs: What are the reasons behind declining energy prices? Is it a fundamental change in the supply side or is it just because of a temporary market move?

Ambassador Richard Morningstar: Prices have moved back and forth many times in the past. I think the real question is how long low energy prices will continue. It is very difficult to predict. It will depend on demand and whether the supply glut continues. Will certain countries at some point cut production? Will there be disruptions in certain countries that can have negative effects on supply? All of these factors will contribute.

Journal: What are the current and future economic and political impacts of a decline in energy prices?

Morningstar: Clearly, declining energy prices are having an impact, particularly on certain countries. Low prices are affecting the economies of countries heavily reliant on hydrocarbon revenue, creating budget shortfalls. Clearly Saudi Arabia has made a determination that it wants to keep production up to maintain its market share. There is a question of how long a country like Saudi Arabia can handle low prices without instituting major changes. Moreover, low energy prices will certainly have an affect in Russia, Iran, Iraq and in all producing

countries. Low prices are beginning to have some effects in the United States with respect to production.

***Journal:** What kind of geopolitical effects will result from the economic issues facing these countries?*

Morningstar: Low gas and oil prices have had an effect in Russia. They also have an impact on European energy security in the sense that prices are low which ultimately can have a positive effect even though Europe must do a lot more to ensure its energy security. Whether or not low prices had an effect on Iran entering the nuclear agreement, one can only speculate. One can also only speculate whether Russia's intervention in Syria is in part to create a distraction from its economic problems.

***Journal:** In light of advances in renewable energy and recent developments in global climate change, what new issues are arising in the nexus of energy and geopolitics?*

Morningstar: Climate change does relate very much to issues related to global security and individual countries' national security. For example, if climate change continues unabated, it can have a significant effect on migration, which is already a serious issue. Developments in renewables and alternative technologies will help mitigate the effects of climate change. I would also argue that more and more gas should be used to substitute for coal over the coming decades. As renewables and alternative technologies develop, gas can be an important bridge fuel to help lower emissions. There is a very direct relationship between climate change and security. The development of alternative technologies as well as the use of gas will have a favorable impact on the effects of climate change.

***Journal:** How should the United States respond to these changes in the energy market?*

Morningstar: The United States has significant energy abundance. It is not just the development of oil and gas within the United States; the United States has also been a prime developer of new technologies and a leader in research and development. The combination of increased gas production in the United States as well as the increased use of renewables has resulted in a significant reduction in emissions. It is important for the U.S. to take an "all of the above" approach. I think that the energy boom in the United States with respect to oil and gas is a good thing and that development of gas can be very helpful with respect to climate change. Oil will be used for a significant period of time and

American oil production can help to create a stable global oil supply. This is not incompatible with developing clean technologies and cleaner environment. The United States has to continue its efforts in research and development and work on alternative new technologies. In the long run, that would be a major contributor to combating the affects of climate change.

Journal: How can the United States incorporate the advantages of energy abundance to the national security agenda?

Morningstar: The Atlantic Council has recently issued a task force report specifically on these issues. We came to the conclusions that the United States should lift its oil export ban and ease restrictions on liquified natural gas. Also it is critically important to develop renewables and other alternative technologies. The energy boom is important globally in working to create a stable energy supply. It can help by making liquified natural gas exports to Europe which will help Europe reduce its dependency on a single source supply. It can also help in different parts of the world whether it be in Asia, in the Middle East, Africa, or Latin America. Developments in alternative energy resources can help to reduce energy poverty in places like Africa, Latin America, and Southeast Asia. Encouraging United States' exports will also show that we are consistent in our trade policies. Given that we continue to promote free movement of goods, we should also be promoting the movement of American goods such as oil and gas.

Journal: Do you think shale gas is an overrated new development? Or can it potentially have a impact on the overall outlook of the global energy market?

Morningstar: I think shale gas will continue to have a major impact in the United States, making it independent from a gas stand point. The question is how much of a role shale gas will have in other parts of the world. Developments have been very small in other places such as Europe and have been disapointing. It will be interesting to see what happens in other large countries like China and Russia in regards to the shale gas development. Just because it became successful in the United States does not mean it will necessarily be successful in other parts of the world.

Journal: As countries increasingly turn towards alternative technologies in an effort to diversify their energy supply, do you think the roles of the pipelines are diminishing?

Morningstar: I don't think their importance is diminishing. Companies are

facing economic difficulties right now that could slowdown various projects particularly on the exploration and production side. The Southern Gas Corridor from Azerbaijan through Georgia and Turkey to Europe will continue. There has been significant progress with respect to that route. The pipeline system that is being constructed is not as big as originally anticipated because of the unavailability of enough gas to fill a 31 bcm pipeline, which Nabucco was originally intended to be. The stakeholders had decided on a more incremental scale. The TANAP pipeline will bring 6 bcm of gas from the Shah Deniz project in Azerbaijan to Turkey and 10 bcm to Europe. On the European side, the Trans Adriatic Pipeline will transport gas to Greece, Italy and Albania and possibly to Bulgaria. What is significant about these pipelines is that they are scalable, so that if more gas becomes available then they can be expanded. I think there is always going to be a need for piped gas and liquified natural gas.

Journal: Do you think nuclear energy will continue to be a significant part of power production in the developed world?

Morningstar: Nuclear energy is in fact a clean technology that will continue to be used, especially in certain parts of the world, along with many other new technologies. It will obviously be more important as nuclear energy becomes even safer and more reliable. The development of small modular nuclear reactors, if successful, could be interesting for countries like China and possibly countries in the developing world. A project can be started with a small reactor and then implemented in a sequential way that can be cost compatible with other technologies like coal. We will see how these develop. But I think nuclear energy, at least in some parts of the world, will continue and should continue to be a part of a mix. 