

JEAN-DAVID LEVITTE

Distinguished Fellow, The Brookings Institution; former Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

I will start where Richard just stopped. I invite you on a journey from West to East, and I will start with the US. Never underestimate the capacity of the US to bounce back. Remember Carter's last days, where there was the hostage crisis, Japan was going to be the number one economy in the world, and the Soviet Union was invading Afghanistan. Ten years later the USSR was gone, Japan confronted with a major economic crisis, and America was the only superpower left, and I think we are facing the same kind of re-emergence of the American economy, in part because of the shale and oil gas revolution. It has major implications, as Richard said.

When I was the French Ambassador to the US, there was a looming disaster, because the gas wells were declining much faster than expected, and there was only one GNL terminal, so there was no possibility of importing GNL. However, God bless America; at this very moment the discovery of the capacity of fracking for tight oil and gas started the revolution that is now underway. It has the three consequences that Richard mentioned. Firstly, the US is no longer dependent on the Middle East, because it is again the number one producer, and may soon become a net exporter of gas, which for me is a huge change. I see the Western hemisphere as one geopolitical unit, because we see more integration between Canada and the US with the Keystone pipeline and the huge project of connecting the Americas in a huge electricity grid linking North and South America.

Secondly, you have more and more jobs created from the shale and oil gas revolution, at least 600,000, and, soon to come, the insourcing of the energy intensive industries because of the difference in prices and the competitive advantage for American industries. The third consequence is CO2 emissions. The Americans are doing nothing to curb their emissions, but again God bless America, shale gas is there to replace coal. You will not believe it, but coal prices are going down because of the revolution, and so Germany, which is closing its nuclear plants, not emitting any CO2, is importing coal from America because it is competitive due to the shale gas revolution. That is the first point.

The second point is that it is more difficult for Russia. Firstly, you have to know that the share of oil and gas in Russian exports has risen from less than 50% ten years ago to more than two-thirds today, and more than 60% of Russian GDP is based on oil, gas and other extractive industries. However, even more important is that the Russian national budget is pegged to oil at a price of USD115 a barrel to avoid deficits, and Gazprom, as you know, is the cash cow of the Russian administration.

The shale gas revolution has already had a huge impact on the Russian situation, because 18 Russian utilities have already completed renegotiation of their contracts, and E.ON is in arbitration to get a much better deal. Therefore, this obviously has devastating consequences for the Russian economy. Add to that the fact that the production of most of the gas wells in Siberia is declining. They can of course be replaced by production in the Arctic region, but then the question is at what price, and if the price is not competitive, there question is what the future of these resources will be. Therefore, what we see in America is certainly not a blessing for the future of Russia in economic, social or political terms.

Thirdly, what does this mean for relations between the EU and Russia? It is very important, as a geopolitical vision, that the EU must continue its energy policy with great determination, moving rapidly forward with the interconnection of the pipeline networks, organising the possibility of reverse flows, the electric grids, renewables, and diversification of imports from Qatar, from Algeria, and hopefully tomorrow from the US. However, at the same time, if we do that, then we should have a long-term vision: Russia is and must remain our partner, and I would very much plead in favour of a long-term strategic policy, not only towards Russia but also Turkey. It is very important that we integrate these two key actors in our vision.

The fourth point is the Middle East. The end of the US's dependency on the Middle East is a fact; only 7% of energy is imported to America is imported from the Middle East; tomorrow it could be zero. Does that mean that the US will not



care less about the security of Saudi Arabia, the Gulf States and the sea lanes, such as the Straits of Hormuz and beyond? Today the US has 11 carrier battle groups, some of them deployed in the Straits of Hormuz region. My personal impression is that, despite their lack of dependency on the Middle East, the US will remain the ultimate guarantor of the security of Saudi Arabia, the Gulf States and the sea lanes, because it is in America's interest to continue to play this strategic role. Secondly, everybody, including the US, has an interest in seeing the oil prices as low as possible, which means security.

However, I anticipate a growing presence and role for India and China in this region in terms of ships and in terms of a political role; as a first symbol of that growing interest, China recently enquired about the possibility of becoming a member of the Quartet dealing with the Israeli-Palestinian problem. I say that because 70% of oil and gas imports from the East Asian countries come from the Middle East, and this will not only remain but will probably increase in the future.

We are in the Middle East, and you would be surprised if I did not say one word about Iran. This is the number one question mark in strategic terms for next year. I will speak at length in this afternoon's plenary about the Iranian crisis, but it is the major looming crisis about our heads for next year. The sanctions worked very well; exports of oil by Iran have been reduced by one billion barrels a day, which means USD3 billion less for the treasury of the Iranian Government each month, which is huge. Adding the sanctions against the banking system, you can consider that the economic situation in Iran today is a disaster. Does this mean that there will be negotiation, and even a successful negotiation? There are two solutions; either there is a diplomatic breakthrough, and you can anticipate that the price of oil may be going down next year, or, as I fear, you may have a huge confrontation, and then it is a disaster for the price of oil and the world economy.

Let us move on to East Asia, and here I see an increasing differentiation between Japan and China in terms of energy. Because of Fukushima, of course, there will be a rapidly diminishing role for nuclear energy in Japan, and do not have much in terms wind and solar investments, and to my knowledge they have no shale oil and gas, so they will be even more dependent on the Middle East situation tomorrow than they were yesterday and today. China will import more and more because of their growing needs, but they have a very ambitious nuclear energy programme, as you know, and they have huge reserves of shale oil and gas. However, there is a big difference with the US; most of them are situated in Xinjiang, in the far west of China, in a region which is very far away from the main cities and where you do not have much water, and as you know, water is key for exploitation. Therefore, it is a blessing, but technology will decide if it is really a blessing for the economy, and it will probably take years before it is exploited.

Now I will say a word about the confrontation over the Senkaku islands and the South China Sea. Firstly, I see that as China's determination to impose its immemorial dominance over its neighbours. Secondly, below the islands, of course, you probably have important resources in terms of oil and gas, so we can anticipate a long-term confrontation about the South China Sea. The American answer to that situation is to be the balancing power, and it is good for everybody. This is a request from Japan, Korea and the Southeast Asian countries, but if I were the Chinese Government I would see this role as a blessing. That is not at all the situation in Beijing; I was there a few days ago, and they see that as a threat, but they are wrong. I said that if the US was not the balancing power, if Japan was more and more sceptical about the long-term alliance with the US, the decision taken by the next Prime Minister of Japan would be rearmament. They can get nuclear weapons in a few months' time, and they have enough money to develop their navy and air force and finance a stronger army. This would be a full-scale disaster, not only for Japan and China but for the whole region.

Finally, do not forget the new discoveries. Everybody knows about Brazil, which has changed even further the relationships and power balance in Latin America. Have a look at what is happening in Africa now, where major discoveries are underway in Mozambique. The last remark is about the Arctic region. People anticipate big battles, but not I; you have huge new recoverable oil and gas resources, but I do not see a conflict for one good reason. 95% of the prospective Arctic resources fall within agreed borders, and half of those remaining territorial disputes are between the US and Canada. I see a growing role for the eight-nation Arctic Council, so the only remaining question, though a huge one, is whether it is possible to develop these resources at a price which is competitive with oil without too many environmental risks.



Therefore, energy will certainly remain a key element in the geopolitical landscape in the years and decades to come, which will bring many more opportunities for the diplomats and the CEOs of huge companies to work well together.