

Energy Market Consequences of An Emerging U.S. Carbon Management Policy

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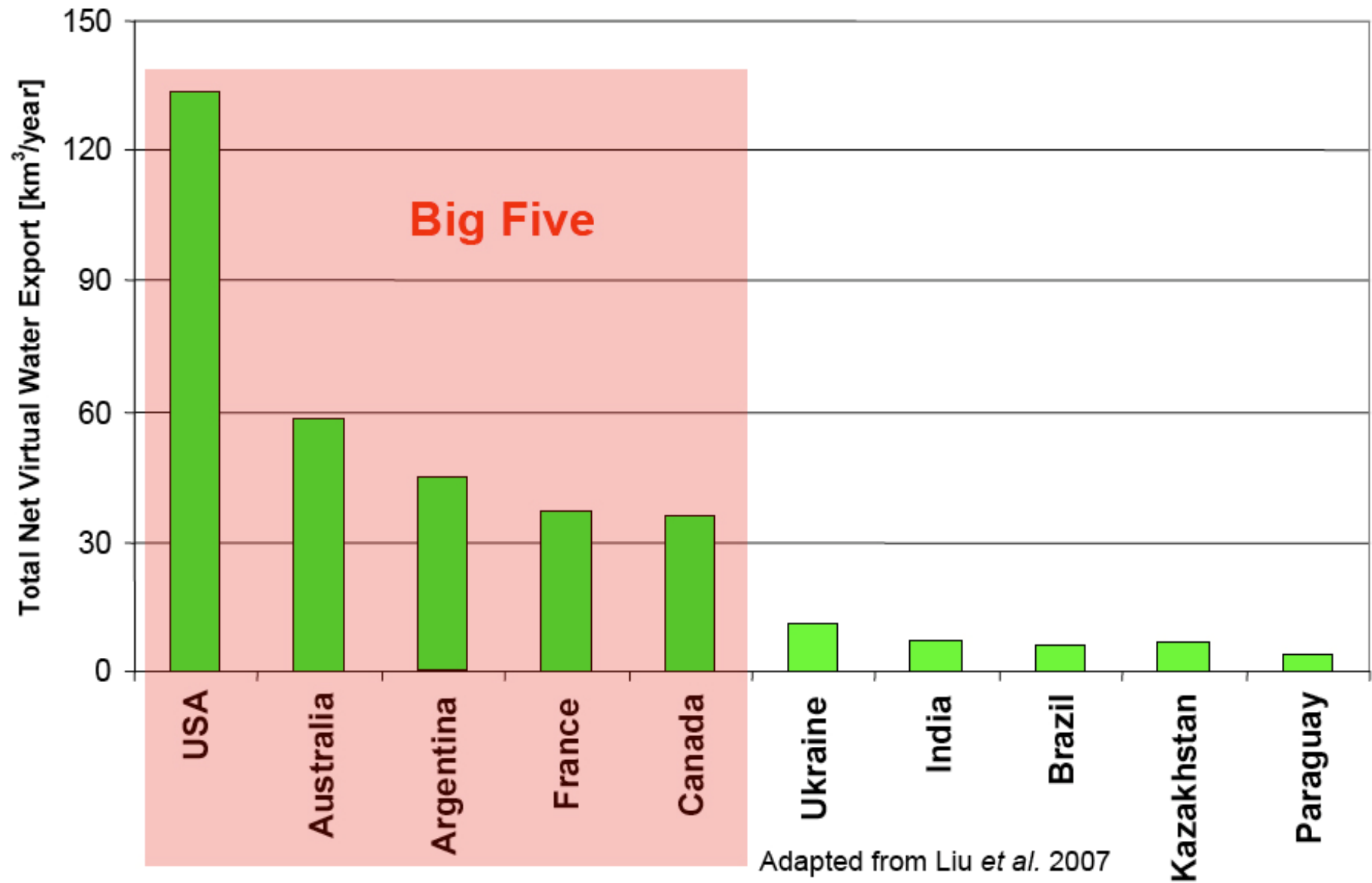


**The History of U.S.
Relations with OPEC:
Lessons to Policymakers**

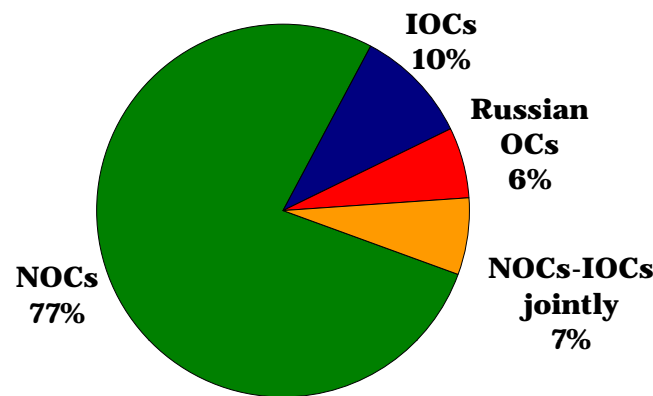
September 27, 2010



Main Food Exporting Countries

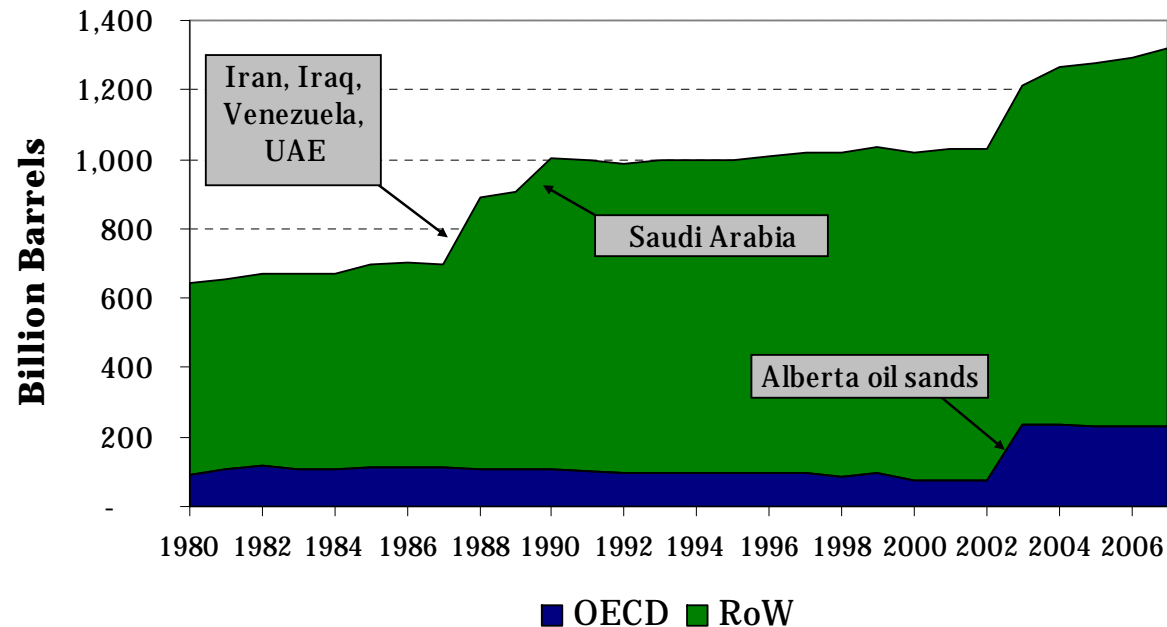


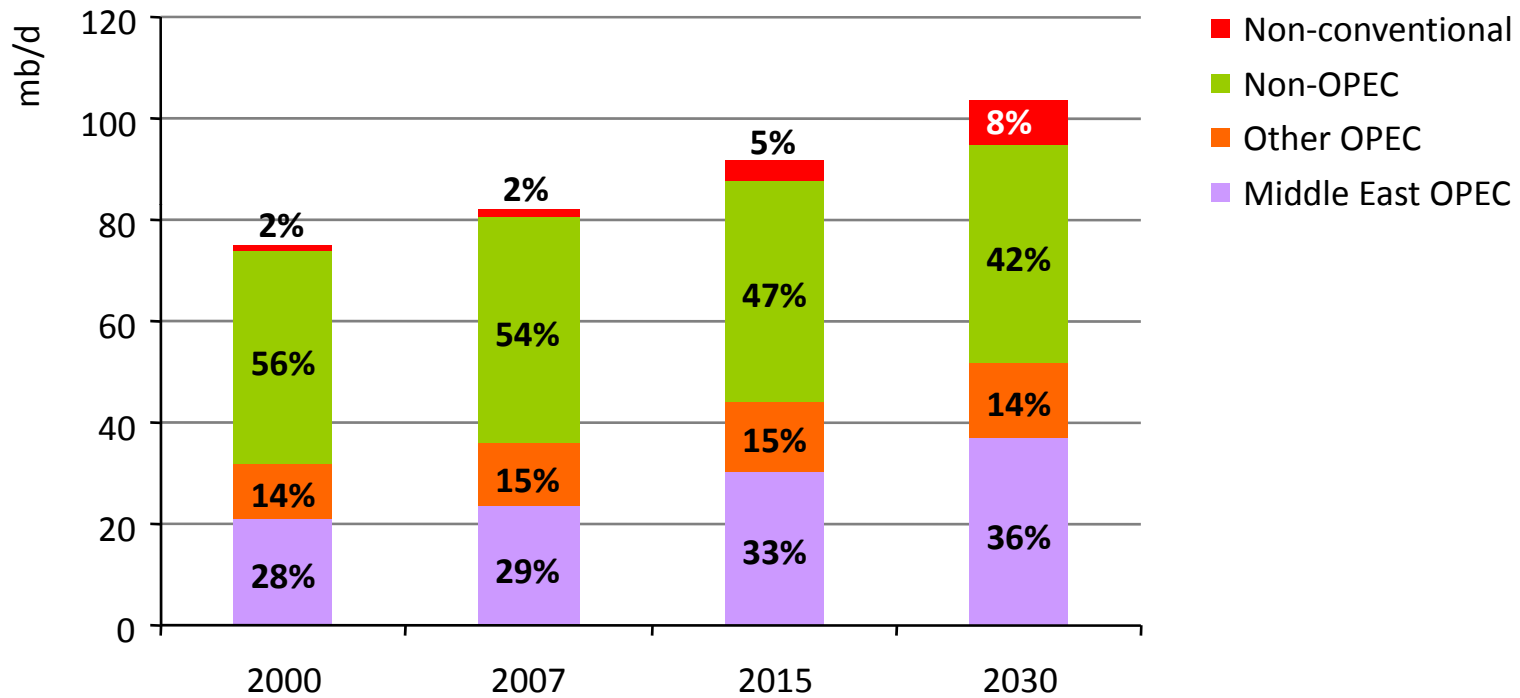
Control of Oil Reserves, 2005



Majority of remaining oil resources are controlled by traditional state monopolies and emerging partially privatized firms.

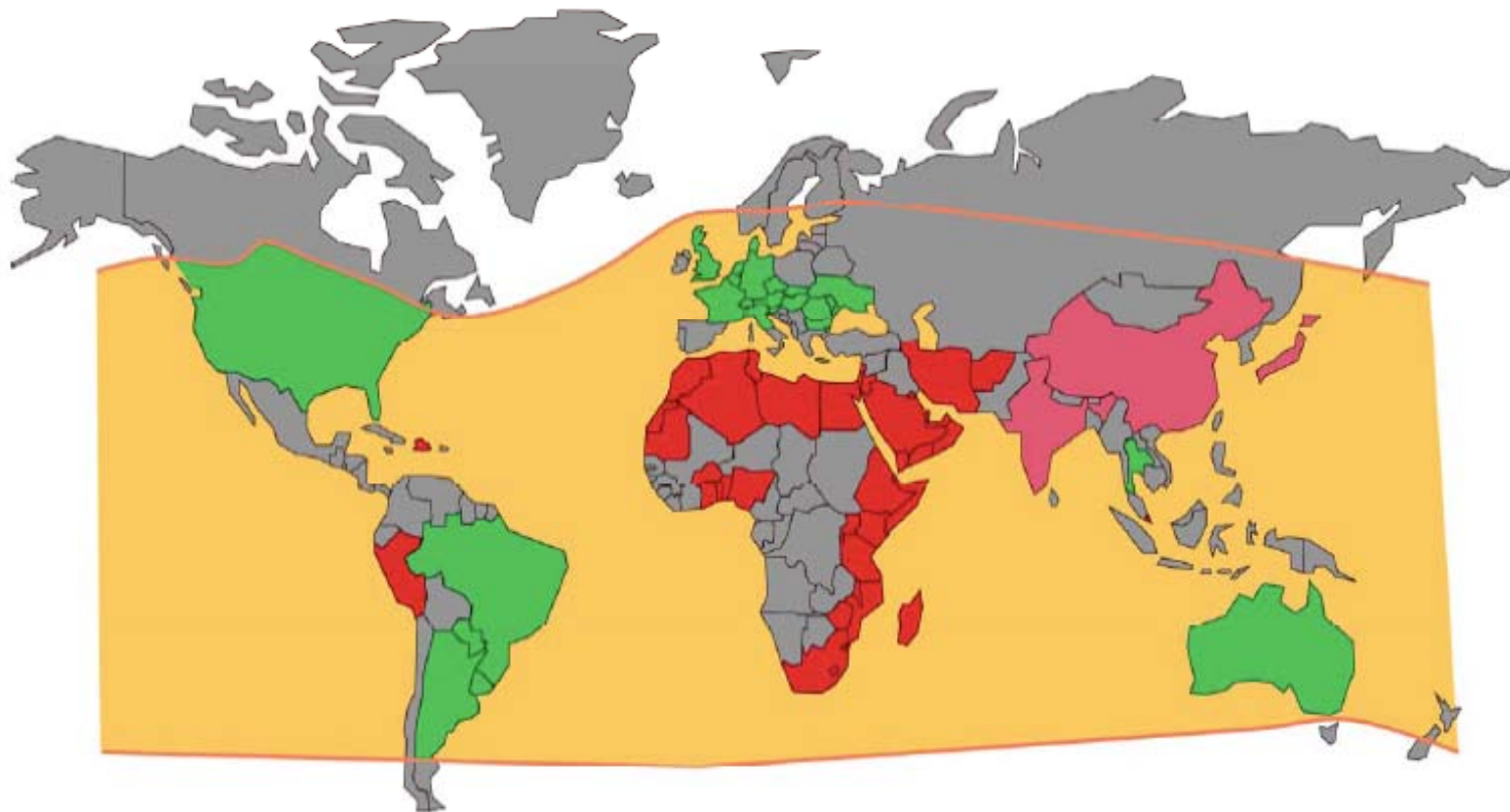
World Proved Crude Oil Reserves, 1980-2006





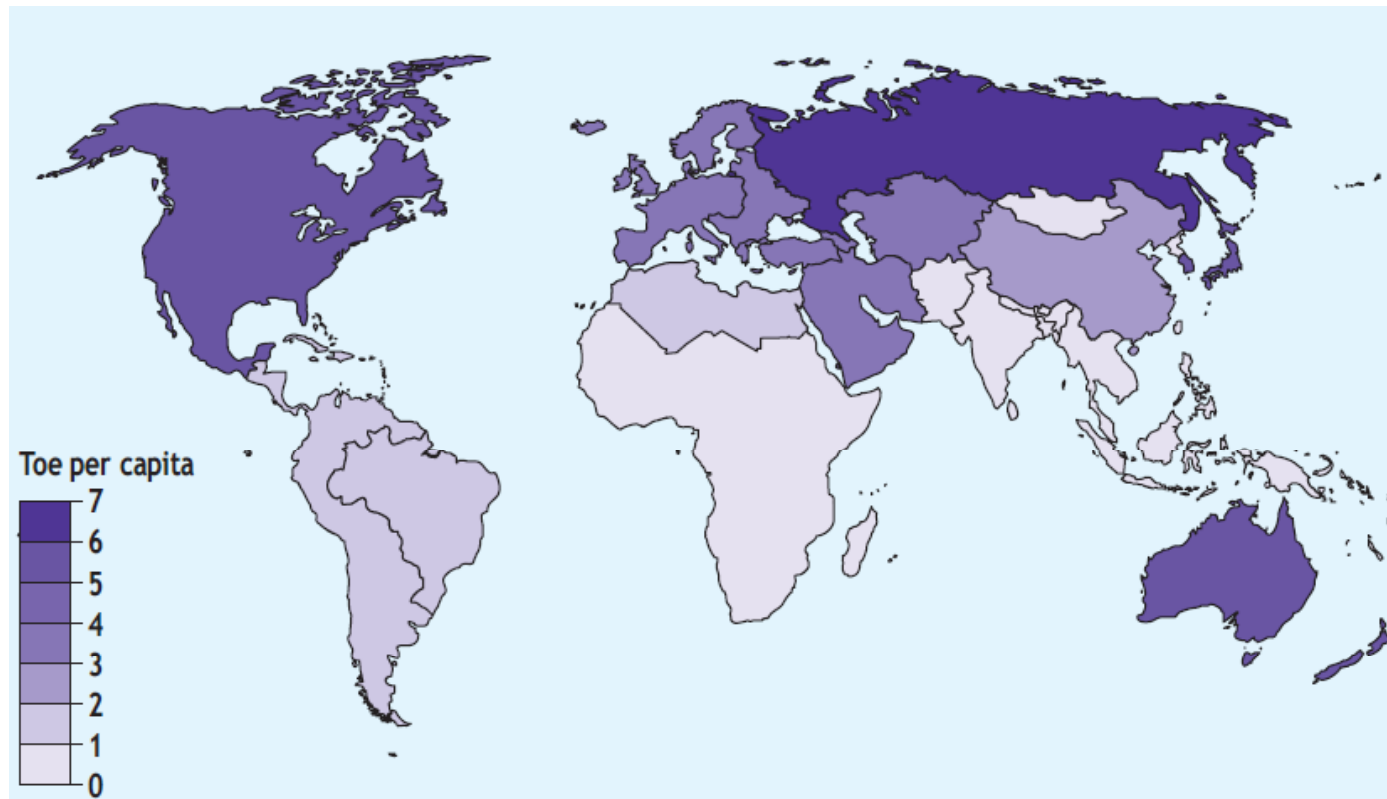
Is Oil Supply Really Any More Geographically Concentrated than Food Supply?

Situation 2025



- Limits for food production
- Lack of water for sufficient food production
- Water, soil and climatic conditions allow substantial food production for export

From Zehnder, 2002



Even in 2030, disparities in per-capita energy consumption continue to be dramatic

Why Does the International Community “Accept” Oil Should be Treated Differently When Other Commodities are Just as Scarce and Important?

- Do Oil Producing Countries Really Win In the Long Run From Withholding Oil Capacity Investment?
- What Lessons Does U.S.-OPEC History Teach?
- What Are We Doing Now That Is Working?
- What Else Could We Be Doing?

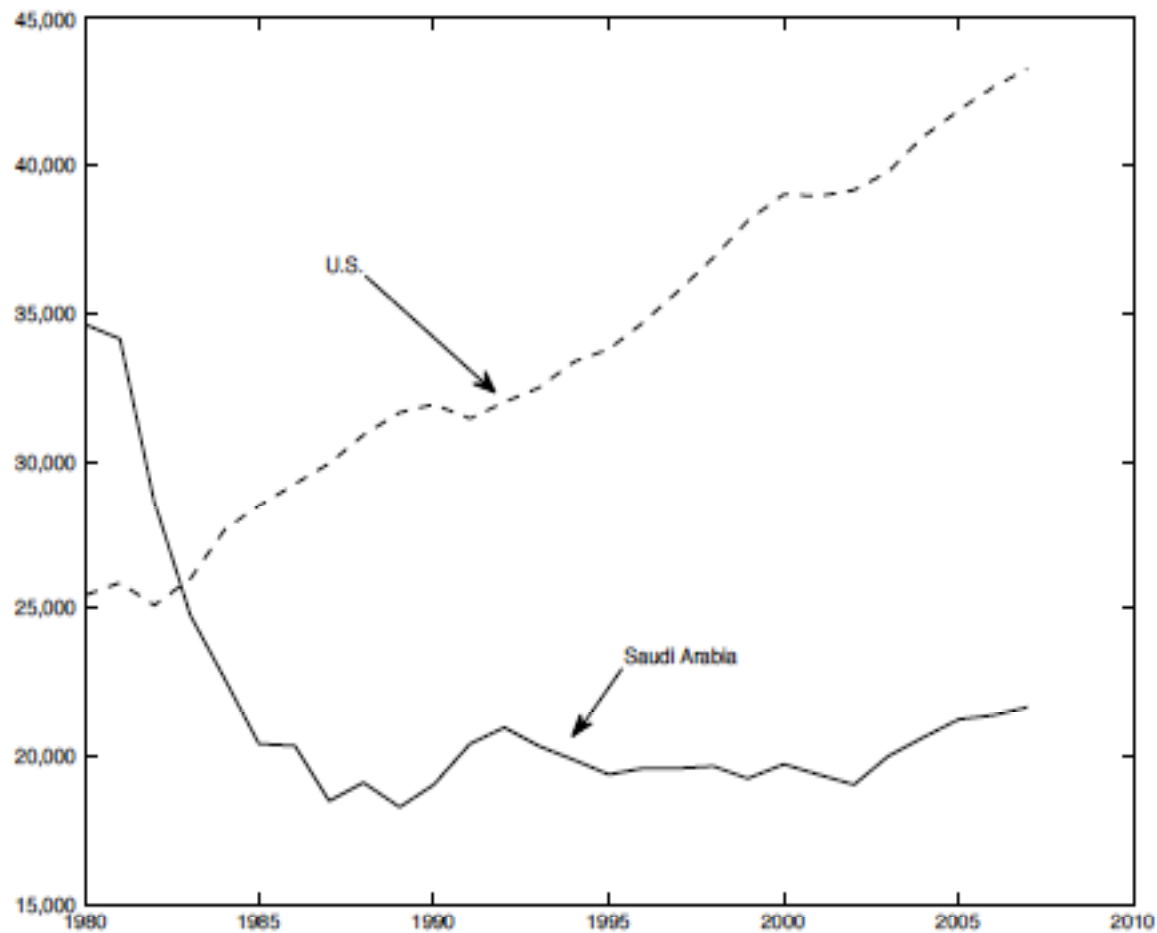


Figure 2.1. Real per capita GDP (PPP constant 2005 international Dollars) for Saudi Arabia and the United States. *Source:* World Bank, World Development Indicators.

Paper Conclusion: “Competitive Strategies where oil producers seek the highest possible oil prices and the United States seeks the lowest possible oil prices have not just been zero sum, but ultimately negative for all concerned.”

- Signaling a willingness to use strategic stocks is a critical tool in managing oil market stability
- Oil disruptions, no matter the source, require intensive diplomatic effort (Essential reading: Kissinger *Years of Renewal* “The Energy Crisis” p. 664)
- G-20 or other bilateral or multilateral institutions/diplomacy should be dealing with ensuring sufficient investment in oil and gas resources (we should be building on current G-20 success at commitment to \$75 oil barrel)
- Need bilateral or multilateral framework to encourage SWFunds and others to invest counter-cyclically (ala Kissinger’s economic development commissions)
- U.S. energy independence “mantra” not getting us anywhere
- Bilateral or multilateral diplomacy with other major consumers can also be an important first step (another Kissinger lesson!)
- Cultivating oil producers as allies with concrete incentives and sticks but are weapons sales our only option?

Benefits of Hindsight: The Laundry List of Policy Failures: The Lessons of Unintended Consequences

- Price Controls
- Import Controls
- Regulatory Limits on Natural gas use in power generation
- Protecting the coal industry
- Declaring the United States won't use the SPR
- Motivating expensive Congressional pork barrel projects by saying we are running out of oil (or natural gas)
- Setting targets for Energy Independence that are 50 years away
- Spending billions of dollars on a single uneconomic alternative energy
- Environmentally regulating the complete shutdown of any possibility of using a major energy source instead of finding technical solutions to the environmental externality
- Bowing to Resource Nationalism instead of seeking strategic responses

Benefits of Hindsight: Some things do actually work

- Automobile mileage standards and improvements to automobile efficiency
- International diplomacy: carrots and sticks
- Markets Clear
- Letting prices stimulate energy efficiency and new drilling