

GEOPOLITICS OF ENERGY

Energy and [geopolitics](#) have been interconnected since the beginning of the twentieth century, but expanded globalization, increased industrialization, and booming fossil fuel supplies have made this relationship increasingly brittle.

The political actions of energy-producing states such as Saudi Arabia, Russia, Iran, and the United States impact energy prices. Conversely, energy prices affect the geopolitical actions of energy-producing states, as well as global consumers like China and India. The dramatic fluctuations in the [energy sector](#) are rewriting the relationship between [geopolitics](#) and investments. A pragmatic understanding of these two separate components is essential to navigating national security and understanding financial markets related to fossil fuels. More than ever before, an understanding of [geopolitics](#) is critical to making profitable oil and gas investments.

For example, as a result of the Joint Comprehensive Plan of Action – the Iranian nuclear agreement spearheaded by the United States – Saudi Arabia has declared war on US oil and gas production. The shale revolution now directly affects how Saudi Arabia reacts to US policies regarding Iran, as the Saudi oil minister has repeatedly spoken about being at [war with U.S. shale](#). The Saudi decision to liquefy [oil prices](#) was a conscious effort, as Saudi national and economic security was threatened by improved Iranian relations with the West, and the resulting influx of Iranian oil in the marketplace. The raise of Qatar mostly in natural gas caused the reason for the block of Saudi Arabia, Kuwait, Bahrain and United Arab Emirates and then the embargo.

The remissive and reluctant attitude of European states towards Russian aggression in Ukraine, such as the 2014 invasion of Crimea, is a direct result of European – namely German – dependence on Russian oil and natural gas. As the decades-old ban on US natural gas exports has been lifted, Europe is more likely to be freed from Russian attempts to use oil and natural gas as a geopolitical weapon. Now, increased US energy exports could lead to Russia becoming more aggressive and resentful towards the West, specifically the United States. Furthermore, there is no reason to expect that OPEC, with Russian cooperation, will stabilize its production levels.

Historically the United States has balanced world affairs; yet as international US assistance wanes – political stability, economic markets, and energy production are now catastrophically volatile. For these reasons, geopolitical developments drastically influence energy production, economic markets, and investment decisions.

Countries across the globe are now linked in ways never imaged even two decades ago. Global energy markets will continue to change as a result of this stark reality. Newly tapped energy resources that the shale revolution has flamed into existence will now be used to support countries' international objectives. Interfering with geopolitical energy markets will cause [unintended consequences](#) that can undermine the interests of domestic and international oil and natural gas investments. A firm must now have a better understanding of the changes in global energy markets, such as shifts in global energy demand, reducing supply through artificial means, and increased competition in global gas markets. Moreover, firms must grasp the interplay among nations – that geopolitical unrest in one part of the world triggers responses in other regions. Foreign policy and national security decisions are now as influential in driving energy investment trends as economic action and trade agreements.

Many believe that renewable energy sources will insulate markets and shield investors from the dramatic shifts in energy prices held hostage to the energy geopolitical paradox. Yet renewables only comprise 11% of worldwide energy sources, and it is estimated that by 2040 renewables will only provide 15% of global supply. These estimates highlight the three major challenges presented by renewables in their present state. First and second of these challenges are issues related to storage and transmission of the energy produced. Inadequate technology for harnessing the supply of natural sunlight and wind necessitates the use of fossil fuels as a substitute during periods of energy shortages and fluctuations. Furthermore, delivering energy to end users on a global scale would require grid modernization, the cost of which would escalate to the trillions of dollars. Most nations are not likely to spend that sum given the abundance of oil and natural gas that can be extracted and used at very low costs. Finally, these challenges underscore the heightened cost of renewables, which are more than [double the cost](#) of traditional fossil fuels.

Bad policies cause bad results. Mandates to generate an ever-increasing fraction of electrical power from renewable sources will raise the cost of electricity production, as it has done in places like California and Western Europe. This means that the cost of over [six thousand every-day products](#) will become more expensive to purchase because they are now more costly to produce. The fossil fuel industry will also suffer due to burdensome government interference. Carbon policies in Germany, Britain, and Spain, for example, have resulted in soaring electricity rates, tax-heavy subsidies, energy poverty, and industrial flight, yet they have missed their intended goal to meaningfully reduce carbon emissions. Germany now subsidizes dangerous, lignite coal-fired power plants as necessary back-ups for renewables. Britain now burns wood imported from the U.S. to generate electricity on a countrywide scale. Even the Paris climate agreement is flimsy at best. In the United States, renewables have succeeded solely as a result of heavy government subsidization. When renewable energy production becomes cost competitive, both consumers and energy suppliers will embrace the production methods, and renewable energy production will increase without forced consumption. When government subsidies leave renewables, your portfolio will suffer.

Ironically, despite the promise of green technologies, renewables actually negatively impact the environment. The production of ethanol fuels increases land degradation due to the heavy fertilizer used to amplify crops. Experts further believe that widespread ethanol production and consumption will lead to increased food prices, creating famine, and nutrition shortages for impoverished parts of the world. And while wind and solar may offer an unlimited power supply, both production methods are land-use intensive and must be backed-up by fossil fuel generators. In addition solar energy requires inordinate amounts of water to clean panels for optimal energy production, which could further burden water-impoverished nations.

While Western nations will likely continue implementation of renewable energy technologies, it cannot be expected that these trends will become popular globally. Oil and natural gas are widely used and abundant energy sources. States like Venezuela, Nigeria, Russia, Iran, and Saudi Arabia have affordable means in place to produce and distribute these resources. China and India have little incentive to abandon fossil fuels when they desperately need energy, and there are global suppliers willing to sell. The geopolitical importance of fossil fuels will not diminish, nor will the economic significance. Fossil fuels, particularly natural gas, are the best investments to achieve market stability and carbon reductions.

The International Energy Agency has said government intervention will be necessary for transitioning to a low-carbon economy, creating a market for renewables, funding gaps in research and development, paying for the transition from fossil fuels, and encouraging international collaboration. Although renewables are technically feasible, they do not yet constitute a complete substitute for oil and natural gas.

Energy markets are complex and factors such as production, regulations, consumption, and consumer behavior have to be assumed when developing modeling projections. Yet behavioral characteristics of nation-states give representations towards specific outcomes. Projecting energy markets are subject to randomness and uncertainty, but can be foreseen through the prism of behavioral economics using [geopolitical threat](#) analysis assumptions. In today's uncertain markets, more has to be understood than financial modeling, budgets, and good accounting practices. Otherwise energy investors could be caught in a downward spiral the way they were in this latest unforeseen oil and natural gas crash.

Where do you see Turkey?

The threat of declining energy production combined with increasing competition over energy resources has made energy one of the basic issues in international actors' geopolitical considerations. In the post-Cold War era, with the rise of newly industrialized capitalist states like China and India, a multi-polar and energy-oriented geopolitics has emerged. Within the new energy geopolitics, China and India have grown into one of the biggest consumers of Eurasian energy resources. Hence, the intense competition in the global energy market has caused a decrease in the share of the US and the EU. Furthermore, this intense competition has given energy-rich states strategic and geopolitical leverage to become the superpowers of the new world order. The rise of Russia and Iran is a good illustration of this shift toward new, energy-oriented geopolitics. Besides the energy-rich regional powers who seek strategic leverage over global superpowers, the new energy geopolitics has created wider room to maneuver for the states that lie at the center of the supply and demand routes for oil and gas. Within this context, Turkey has been trying to exploit its new position as an energy hub in the new energy geopolitics to guarantee the security of supply, particularly for gas, by enjoying the offtake rights of transit states. Aside from these resource-led reasons, being an energy hub could provide Turkey with strategic advantage to gain political influence in Europe and in the region. The question is, what will Turkey do next with this great potential?