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CONCLUSION AND THE PROSPECTS FOR THE FUTURE – Part III

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Blog No: 19
16.06.2014

12 June 2014

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The previous two parts of this article demonstrated that the geopolitics global energy of will play the most important role in shaping the 21st Century.

In recent years, demand for energy has surged. This unrelenting increase has fueled global economic growth but placed considerable pressure on suppliers buffeted by g eopolitics, violent weather conditions and other potentially disruptive factors. On the demand side, increased energy security and environmental concerns may lead to changes in the energy policies of consuming countries. These uncertainties have been reflected in the market through volatility and high prices.

The market share of nuclear power is declining, and the share of renewable non-hydro energies will remain flat, at around 11 percent, for the foreseeable future. It is obvious

that ecological concerns, underscored by the recent Fukushima disaster in Japan, have decreased the demand for nuclear energy. Although new technological advanced may be developed in the field of renewable energies, any real increase in supply will be negligible.

The longevity of shale gas and shale oil may be limited. Countries with an abundance of these resources, like the USA and China, may consume their reserves within 20-30 years.

Shale Gas Boom

Over the last decade, U.S. shale gas and tight oil production has skyrocketed. Between 2005 and 2014, U.S. production of crude oil and natural gas has risen by nearly 65 and 34 percent, respectively, due to tight oil and shale gas development.[1]
The shale gas supplies from Pennsylvania alone equal the entire natural gas export capacity of Qatar, the worlds second largest natural gas exporter in 2012.[2]

And the increase from light tight oil production in places like North Dakota and Texas over the last five years is equivalent to Iraqs current production levels. These increased energy supplies have fed not only national, but global markets as well, helping to offset other market disruptions and stabilize prices, to the benefit of many.

Caution About Forecasting Future Production

It is risky business to extrapolate long-term conclusions from a resource with such a short production history. While the resource potential is large, there remains considerable uncertainty regarding any given reservoirs ultimate production. Thus far, however, technology and production practices have exceeded expectations, resulting in higher and higher production estimates as experience grows.

[1] Calculations based on U.S. Energy Information Administration (EIA). 2014 projections from EIA, Short-Term

Energy Outlook (STEO) (Washington, DC: EIA, November 2013), http://www.eia.gov/forecasts/steo/archives/nov13.pdf; data for 2005 is from EIA, Short-Term Energy and Summer Fuels Outlook (STEO)(Washington, DC: EIA, April 2014), http://www.eia.gov/forecasts/steo/index.cfm

[2] 2. BP, BP Statistical Review of World Energy 2013 (London: BP, 2013),http://www.bp.com/content/dam/bp/pdf/statisticalreview/statistical_review_of_world_energy_2013.pdf

Taking into view these facts, we can say that classical fossil fuels-coal; oil and natural gas - will play a more dominant role in energy supplies after 20-30 years.

So, the classical coal energy will be the first to be exploited to the utmost. However, new technologies to prevent both mine disasters and air pollution should be developed to decrease these two liabilities of coal. Countries will try to find new coal reserves. Investment to develop air surveys and new geological techniques to detect more coalmines may be increased.

Since, oil and natural gas will remain abundant still for many years to come, countries that have these two will benefit most. The Middle East will be the most important region alongside with Central Asia.

Urgent Need to Reexaminations Of Energy Policy

The massive potential for additional development of unconventional oil and gas resources is prompting many countries to rethink their energy policies to either take advantage of their own unconventional resource base, or respond to some of the changes brought about by the impact of the U.S. oil and gas production surge.

The Amount of the Fossil Energy Reserves

The amount of the fossil energy reserves of Venezuela and Brazil in Latin America, and that of Indonesia and Malaysia in Southeast Asia, will enable these countries to play important roles in their region in proportion to the amount of their reserves.

The consumer countries and regions who do not have these two fossil fuels will have to find producing countries as reliable partners.

After the Ukraine crisis, Europe, which has been under the bondage of Russian gas, may resort to the newly discovered natural gas reserves in the Eastern Mediterranean, mainly around Israel and Cyprus, but also around Lebanon. This new scenario may lead to the

final solution of the Cyprus problem-one way or the other-, rapprochement between Turkey and Israel and the stabilization of the political situation in Lebanon.

However, it is difficult to predict the future of this unstable country still in the midst of a civil war, as political competition between USA and Russia in the region may create new, and unforeseen political ramifications.

The political thaw between Iran and the West may give Iran a new chance to ameliorate its relations with USA, and have more freedom at the energy market, if released from all the embargoes.

China, after making a 30-year deal to import Russian gas, may feel comfortable for about 20-30 years, as it also has large reserves of coal and shale gas.
But for the long run, the unexcavated fossil energy reserves in the Pacific Ocean is still increasing the appetite of China for these possible reserves under the ocean and tempts the Chinese government to establish its dominance over these disputed areas, even taking into account the risk of war with Vietnam, the Philippines and, albeit less likely, with Japan.

The positions of USA and Russia over these disputed areas in the Pacific Ocean will indirectly effect the future politics in the Far-East.

India, which needs energy for industrial purposes, may find Iran, its closest neighbor, as a reliable supplier.

New energy, New geopolitics, New world

Energy geopolitics in 2014 are very different from what they were even a few years ago
The Cold War that shaped European and world politics for second half of the 20th century has been changed dramatically since the last decade of that century when Russia entered Georgia. It was the first geopolitical shakeup that would result in dividing international system from the new world order.

Observing the relations between Russia and its neighboring countries after 1999, some commentators described the whole situation even as a New Cold War. The New Cold War, however, will differ from the Old one as it is based on a broader concentration on energy resources as a means of exerting political power.

Russia returned to the global arena

Since the rise of Vladimir Putin as Russias President in 1999, a large amount of analysis has been dedicated to Russias energy policy as a means of fostering the political influence over continental Europe. It seemed that Russia had finally completed that long sought after post-Soviet resurgence, bringing the Kremlin back to a geopolitical position proportionate to its history and ambition.

The return of Russia has been probably the most important world geopolitical event of the early 2000s, right before the full-blown emergence of China. This was not only because Russias return symbolized the end of the Roaring Nineties, the United States uncontested premiership in global politics.

For the sake of the U.S., we might safely assume that, for better or for worse, that strong nation called Russia would have returned to the global arena regardless. The U.S. enjoyed almost a decade of absolute global hegemony, but possibly no policy on earth would have achieved outcomes such as a prevention of the Russian return
Energy geopolitics and realpolitik has been central to Russian foreign policy since this date. But Russian economy is very much dependent on oil and gas exports with the highest possible price. Therefore, Russia has not used the energy weapon more vividly to further a certain level.

More importantly still, 53 percent of the Russian gas exported to European markets passes through its territory. The high dependency of Europe to Russia gas exports brought numerous advantages to Russia, but it was not easy the country to use this advantage as a foreign policy weapon because of the Russian economys near total dependence on this unreliable market.

Russia plays risky

If Gazprom is the world largest energy company, controlling 15 percent of global gas production and reserves and with export revenues reaching $163 billion in 2013, it is also extremely vulnerable. The lack of reform in the Russian energy sector has eroded its profit margin and the company is heavily indebted both domestically and internationally, with Western banks holding up to $36 billion of credits indexed on oil exports.

Yet the largest liability for Russian energy companies has been their inability to keep up with the technological developments in the energy sector. The future of Russian energy

security relies today on the exploration and harvesting of oil fields in the Arctic and the Pacific such as the mega Sakhalin project operated in cooperation with ExxonMobil.

Ignoring the colossal environmental impact of these developments, Moscow has ramped up exploration in its northern regions. But the truth is Russia depends on the technology and expertise developed by American firms in offshore drilling and harvesting in these hostile environments.

Without the participation of Shell, Exxon and other Western companies, Rossneft and Gazprom would be incapable of ensuring profitable production. This explains why the prospects of potential US sanctions on its oil sector would be so damaging for Moscow.

But of course transnational (USA) oil companies will also be affected from this situation. Therefore it doesnt seem to work as expected.

The Geopolitical Impacts of Global Energy Shifts

While concrete geostrategic impacts thus far have been limited, there have clearly been changes in national and international perceptions that may or may not align with new realities. Big energy producers like Russia and Saudi Arabia, producers aspiring for a greater role in world markets like Iran, Iraq, and Mexico, revenue-dependent countries like Nigeria, Yemen, and Algeria, large energy consumers like China, Europe, and Japan, and, as already discussed, the United States, have all shifted their domestic or foreign policies in response to perceived changes in strategic context resulting (or expected to result) from tight oil and shale gas development.

New Paradigm

It is time to completely revise the approach to the geopolitical structure of East-West energy relations. It is not just a matter of change in the energy sector: the structure of great powers has changed. Talking about the pipeline competition as the sole dimension of the energy game is shortsighted: more fundamental dynamics have started influencing the sector, involving governments, industries and societies.

Great powers are adopting similar international tactics of influence, mixing territorial and market approaches, abandoning the more strict delineation that characterized the Cold War competition. As for China, it remains unclear whether the country will be able to deploy a full-fledged international approach, besides the interest-driven selected presence

in some territories.

The impact of shale gas further fragmented the situation, as the globalization of gas market jeopardizes the reliability of rents related to long-term investments, and the global price structure.

Current political concerns are deeply influenced by shale and its mediated effect on commodity prices, yet the main assumption is that the shale boom forever will last for at least two decades.

It seemed that Russia had finally completed that long sought after post-Soviet resurgence, bringing the Kremlin back to a geopolitical position proportionate to its history and ambition.

The return of Russia has been probably the most important world geopolitical event of the early 2000s, right before the full-blown emergence of China.

Such factors have already changed the global energy equation and Asian energy market has started to play an increasing role in global energy geopolitics.

It might reshuffle the cards of global energy geopolitics depending on the scale of enlarging Russian influence in Asian energy market.

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To cite this article: Nuri YILDIRIM. 2026. "CONCLUSION AND THE PROSPECTS FOR THE FUTURE Part III." Center For Eurasian Studies (AVİM), Blog No.2014 / 19. June 16. Accessed October 30, 2026. https://avimbulten.org/public/Blog/CONCLUSION-AND-THE-PROSPECTS-FOR-THE-FUTURE-Part-III

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