



Energy Security Populism: Oil Prices, American Leaders, and Media

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Energy Security Populism: Oil Prices, American Leaders, and Media

By **Kevin P. Kane**

American leaders and news outlets often refer to American-company overseas oil field purchases, oil & gas discoveries, freedom-from-oil initiatives, and offshore drilling as vehicles towards energy security. These efforts do not, and cannot, enhance oil security for the U.S. without simultaneously increasing global oil security—defined as insulation from price and supply shocks.

Inaccurate views and statements coming from our leaders continue to misinform the public about the nature of oil and its relationship to energy security. Insofar, leaders often refer to supply initiatives such as offshore drilling, foreign oil field developments, and exploratory block procurements as national zero-sum pursuits for energy security; statements that perpetuate these views reflect a calculating effort to appeal to American liberal and conservative energy populism. No choice of energy-related rhetoric could be more misleading to the public and farther from the economic and financial integration truth. Although Republican and Democrat leaders are equally responsible for appealing to energy security populism for political support, reporters also help to circulate these misleading and framing-loaded statements through media outlets.

Past & Present Oil Supply Security

In 1980 following Soviet military gains near oil producing states, the Iranian Revolution, the Arab Oil Embargo, and the Organization of Petroleum Export Countries (OPEC) price hikes, President Jimmy Carter contended in his State of the Union address,

“The region which is now threatened by Soviet troops in Afghanistan is of great strategic importance: It contains more than two-thirds of the world's exportable oil... therefore, that poses a grave threat to the free movement of Middle East oil... An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force...”[\[1\]](#)

President Carter went on to argue that by reducing dependence on Middle Eastern oil, this would

make America stronger. This argument reflected a zero-sum national security view of oil, one in an era before the emergence of economic integration, before the decline of OPEC's influence on world prices, and before the evolution of today's supply and demand fundamental market forces serving as the dominant driver behind oil prices.^[2]

The belief that diversifying oil import sources coupled with securing physical supply for national consumption would improve energy security reflected the reality of the Cold War; we are no longer in the Cold War, although some leaders speak of oil security as though we are! Although many informed energy security advisers in the U.S. may view oil from a market lens that reflects vulnerabilities inherent in financial and trade integration, supply nationalism in the form of energy security populism appears to be creeping back into the hallways of the D.C.-area bureaucracy, at least in rhetoric.

A Survey of Leadership Misinformation

President Barack Obama

President Jimmy Carter set the U.S. on a course towards "energy independence" in his 1980 State of the Union address.^[3] Like former President Carter, all of the presidents after him sought to "free the U.S. from foreign oil," including U.S. President Barack Obama. In 2006 speaking before the Governor's Ethanol Coalition in Washington, D.C., in a speech tellingly titled "Energy Security is National Security," the then-Senator Obama contended,

"During World War II, we had an entire country working around the clock... When we wanted to beat the Russians into space, we poured millions into a national education initiative that graduated thousands of new scientists and engineers. If we hope to strengthen our security and control our own foreign policy, we can offer no less of a commitment to energy independence."^[4]

In 2004 when speaking at the Democratic National Convention, the then-Senator Barack Obama quoted John Kerry and said,

"John Kerry believes in energy independence, so we aren't held hostage to the profits of oil companies or the sabotage of foreign oil fields."^[5]

President Obama and the Democrats are not alone in perpetuating misinformation on oil markets.

Senator John McCain

In 2007 speaking at the Center for Strategic International Studies in Washington D.C., John McCain said,

"As President, I'll propose a national energy strategy that will amount to a declaration of independence from the fear bred by our reliance on oil sheiks and our vulnerability to the troubled politics of the lands they rule... energy security is our best defense. We won't achieve it tomorrow, but we must achieve it in our time."

In June 2008, John McCain also argued in his remarks on energy security and the economy,

"What we really need is to produce more [oil], use less, and find new sources of power...In the short-term; this requires more domestic production, especially in the Outer Continental Shelf... But as a matter of fairness to the American people, we must assure affordable fuel for America by increasing domestic production."^[6]

Former Governor Sarah Palin

In October 2009 through an Op Ed titled “Drill,” Sarah Palin argued,

“Reliance on foreign sources of energy weakens America. When a riot breaks out in an OPEC nation, or a developing country talks about nationalizing its oil industry, or a petro-dictator threatens to cut off exports, the probability is great that the price of oil will shoot up. Even in friendly nations, business and financial decisions made for local reasons can [destabilize] America’s energy market, since the price we pay for foreign oil is subject to rising and falling exchange rates. Decreasing our dependence on foreign sources of energy will reduce the impact of world events on our economy... It’s about building a more secure and peaceful America, an America in which our energy needs will not be subject to the whims of nature, currency speculators, or madmen in possession of vast oil reserves.”[\[7\]](#)

A Survey of Media Misinformation

Perpetuating misinformation, media outlets and journalists also report on oil drilling, nationally owned oil company (NOC) investments, and national energy initiatives as zero-sum increases in a single nation’s energy security. This becomes particularly true when media outlets cover stories on Chinese oil companies investing in Africa or when Chinese NOCs attempt to participate in mergers and acquisitions, including the example of the failed Chinese company attempt to purchase Unocal.

Time Magazine

In 2004, Time magazine ran a major essay written by Mathew Forney, titled “China’s Quest for Oil.” The author attempted to frame the efforts of Chinese oil companies to acquire upstream Exploration & Production (E&P) investments as a national objective aimed at “[securing] long-term supplies independent of the world’s fickle prices.”

Financial Times

On January 20, 2010, the Financial Time released an article by Christian Oliver titled “S. Korea’s [Korean National Oil Company] KNOC eyes \$6.5 [billion] oil deals.”[\[8\]](#) The journalist wrote that “Seoul officials have stressed they will strive to avoid being muscled out of resource deals by powerful Chinese competitors...The moves to increase energy security go hand in hand with Seoul’s pledge to reduce wasteful consumption.”[\[9\]](#)

CBS News

On July 17, 2008, amidst high oil prices during the second major peak, only this time driven purely by the fundamentals of supply and demand, Mark Hemingway argued in the National Review Online that,

“An [Oil price] fell another \$3.71, to \$135.03, and at one point was trading as low as \$132... U.S. crude-oil supplies rose by 3 million barrels...but bizarrely, the AP did not mention that ...President Bush removed the executive order imposing a moratorium on offshore drilling in the United States. To think that this dramatic and unexpected move by the Bush administration did not have a significant effect on oil prices is folly... The price of gas dropped significantly upon Bush’s word that more domestic offshore drilling was one small step closer to becoming a reality. How much more will it drop if we actually start drilling and producing oil...Of course, it’s not as simple as saying that, if we allow more offshore drilling, the oil companies will have America’s energy problems solved in a mere two years.”[\[10\]](#)

Summarizing Assumptions: American Leaders and Media

President Obama's arguments are based on the flawed premises that energy security can be achieved by reducing oil imports without having our trade partners also reduce their oil price exposure, and that oil companies can exert downward pressure on pricing—the converse action of holding hostage the American economy with prices. Naturally, both of the assumptions behind these arguments are flawed.

John McCain went so far as to propose a “declaration of energy independence” while arguing that by reducing oil imports, the U.S. will be able to remove itself from the politics of the Middle East. John McCain went to suggest that energy security in the U.S. could be achieved by increasing domestic production. This implicitly suggests to the listener that such a drilling effort would insulate Americans from world prices through domestic supply. Of course, no matter how much the U.S. drills, domestic oil price will always be the exact same as international oil price. Thus, domestic drilling creates globally supply increases and global energy security, not American energy security *per se*.

Sarah Palin fares no better than President Obama and Senator McCain, suggesting that by reducing U.S. oil imports, Americans can become “free” from the price insecurities inherent with the Middle East. It is of course impossible to be “free” from Middle Eastern oil in a one-world price system where economic linkages connect us to shocks through the stock market, interest rates, foreign investments, exchange rates, derivatives, futures markets, and not to mention the economies of China, Japan, South Korea, and the rest of the world that depend on Middle Eastern oil. She went on to suggest that the U.S. could do something independent of international action through drilling that would insulate it from “the whims of nature, currency speculators, or madmen in possession of vast oil reserves.” Nothing could be further from the truth. All of the aforementioned leaders are appealing to mistruths, or energy security populism.

Time Magazine ran an article that led the reader to believe Chinese companies were on a quest for world oil domination despite the fact that Chinese companies, CNPC, CNOOC, Sinochem, and Sinopec sell—as of 2004—11%, 92%, 98%, and 99% of their oil production on the world market place, respectively.^[11] Thus, they contribute to world energy security, not China's oil supply relative to the rest of the world's.

The **Financial Times** ran an article that suggested a nation's oil NOC could improve energy security through upstream investments on the other side of the world despite the fact that transportation costs force them to sell the produced oil on the international market place. South Korean, or any other nation's, nationally owned oil company investments on the other side of the world do nothing to improve their energy security. If KNOC invests in Canada, this does nothing for Korean energy security since they will likely sell the oil to local markets.

Through **CBS News**, the **National Review Online** ran a story suggesting that a change in offshore drilling policy—despite that policy not immediately resulting in a supply inventory change—influenced oil prices. It is obvious to anyone who follows oil markets that a White House statement about investment in the Gulf of Mexico will not result in meaningful price changes in oil prices unless it results in daily production changes so significant it expands global, not American, supply. Correlations are not the same as causation.

Not understanding the nature of oil companies, oil economics, derivatives—risk and hedging, and *price discovery* in a one world oil demand and supply system, leaders are either misinformed or misleading when speaking to the public about oil prices: both explanations however are equally as troubling. If they are misleading, they are pursuing populism. If they are misinformed, they may not be qualified to lead. Such Views or statements as those described above promote conspiracies, and economically uninformed nonsense about investment banks, oil companies, and OPEC. The continued circulation of massive misinformation on oil supply initiatives will lead to an energy security bubble that will burst at the first chance such energy security measures are tested in our

Correcting the Way we Frame Oil

It's time for politicians to either read about the fundamentals of oil markets, or if they do already understand them, stop pursuing the low hanging populism fruit by promoting the continued circulation of misinformation through national pride-pandering statements such as those presented by the aforementioned public leaders. Such misleading statements about oil promote energy security populism and the following deeply flawed beliefs among the public,

- (1) Domestic oil prices can be eased separate from world prices through increases in domestic supply
- (2) Countries acquire oil rather than companies who discover it for market sale
- (3) Companies that acquire oil sell it to their home country as opposed to selling it on the market place
- (4) Acquiring physical supply benefits countries in a zero sum relationship
- (5) NOC and private company upstream investments will increase domestic supply
- (6) Oil is a public good when within a country boundary, and consumers are entitled to it

In order to explain what is wrong with the above views, let us take a look at the "[Oil 101](#)" fundamentals of the oil market.[\[12\]](#)

"Oil 101"

Oil prices derive first from physical supply and demand fundamentals. Oil futures contract—an agreement to purchase oil at a future date—traders analyze these fundamentals by introducing information on a commodity exchange market—primarily on the [New York Mercantile Exchange](#) (NYMEX) and the International Continental Exchange (ICE). They introduce information and factors—such as supply changes, present and expected demand, and spare capacity—they believe determine oil's market value—defined in prices—in the near and long-term.[\[13\]](#) [\[14\]](#) Through the introduction of this information, traders participate in the process of *price discovery*.[\[15\]](#) On NYMEX, spot market prices for West Texas Intermediate (WTI) crude oil are *discovered*, and ICE Brent Crude prices are generally set at or around this price. Oil suppliers around the world base their prices generally on the same, or closely similar, prices as WTI depending on benchmark formulas as well as the benchmark itself.[\[16\]](#) *Ceteris paribus*, the rest of the world crude oil spot markets and Over-The-Counter (OTC) crude oil market traders are approximately the same price as WTI with the exception of minor occurrences of arbitrage, benchmark formula variances, and transportation costs.[\[17\]](#)

On the issue of the emotionally loaded concept of "excessive speculation," the OTC market derives oil prices from the futures markets. Thus, investment banks cannot exert any sort of pressure through derivatives on oil prices despite some—excluding the former [Commodity Futures Trading Commission](#) (CFTC) senior economist who found they do not influence prices—in the U.S. CFTC trying to encourage us to believe otherwise without any empirical—causal and not correlative—evidence to back up their politically motivated arguments based on time order correlations and "what ifs."[\[18\]](#)

In addition to our single supply and demand oil market serving as *a priori* evidence the aforementioned views are flawed, globalization and interconnectedness further complicates oil

Oil Shocks in an Era of Financial and Economic Integration

Of the newest issues in oil supply security, economic and financial integration appear to be the least discussed aspects of any single nation's oil supply and energy security calculations. In an era of goods and financial services economic integration, if one globalization-connected country's economy experiences a supply shortage or price shock, seemingly distant and unrelated, but economically integrated, countries will feel the effects of these shocks in their own trade and financial sectors, just as they did during the 2008-2009 Financial Crisis.^[19] Thus, the pursuit of "freedom from oil" and energy independence reflects a pre-globalization view of the world: also known as Cold War thinking. On the other hand, one country in this world has achieved energy independence and freedom from foreign oil: North Korea. Therefore, perhaps not all hope is lost for the donkeys and elephants who aspire to rally Americans behind their campaign for freedom from foreign oil.

The bias in our terminology towards energy security is so commonplace that it permeates even in the most basic terminology we use to describe oil. For example, in our single supply and demand curve global oil market, there is no such thing as "foreign" oil. The term "foreign" before the word "oil" encourages people to view oil supply and the companies that acquire it from a flawed lens since it would have us implicitly assume that there could be a national role in the pursuit of oil resulting hopefully in a two price and supply structure: foreign and domestic. Nothing could be farther from reality and more impossible. First, there is only one kind of oil: not foreign, not domestic. Second, in an age of globalization, U.S.-based multinational companies are not American anymore since they belong to stockholders who may be from any nation around the world. Their profits, successes, and losses do not belong to the American people.

The oil market operates almost exactly the way a perfectly working market would in an economics textbook. With thousands upon thousands of individual players in the global oil market, we all purchase oil from the same exact global pool regardless of where it is produced. Thus, the market is out of the control of any single government or oil company, even Saudi Aramco. We are no longer in the Cold War.

Energy Security Populism: Changing the Words We Use

In order to move past the Cold War and into our present reality, we have to start with the following approaches to correcting misinformation on oil,

(1) Pressure our leaders to use the direct truth as the basis for persuasion, which requires using vocabulary that accurately represents what a policy will achieve. Our leaders have to correct flawed views and cease the use of pride-pandering statements that relate to oil markets through direct and concise, even condescending if necessary, language.

(2) Pressure media outlets to stop reporting on company oil investments as zero-sum national gains by removing terminology like "energy security" and "foreign oil" from their vocabulary.

Our leaders should trust the American people to be educated enough to understand that, first, we have no natural right to low oil prices, and second, that we should support oil companies not for energy security, but because it gives profits to companies—especially those in the Middle East—that have used their earnings to raise 4/5 of the world out of poverty over the last twenty years thanks to their investments in producing and supplying fuel to the world's economy.

Our leaders must encourage Americans to embrace the market place as the proper means to determine who will get what rather than their government through freedom from oil and energy

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security populism. Our leaders must communicate to the truth to the people, that the market place is more powerful than any single country or investment bank. We are all without paddles in the same ocean, trying to steer the boat together with each nation on board. One nation's energy problem is another nation's economic problem. This is the reality from which our leaders should initiate their public discourse on oil.

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Author Bio

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Presently working on projects related to green growth and oil markets, Kevin looks forward to utilizing his energy expertise coupled with his diverse international strategic affairs experience to work with companies that wish to penetrate and excel in Asian and North American markets.

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