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A worldwide thirst for oil

China, India demand more

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By SUDEEP REDDY and BRENDAN M. CASE / The Dallas Morning News

Across China and India, millions of consumers are dumping their bicycles and buying cars as never before.

U.S. motorists are burning more gasoline than ever, too. But the global kings of gas guzzling are facing major challenges from their Asian counterparts.

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AP
China's state-owned energy companies have been scouring the globe for oil and gas deals, and India has been trying to satisfy its own growing energy demand. The oil price board was changed recently at a Sinopec gas

The shifting tide is launching a new era of competition across the oil sector. Rapidly developing nations are growing thirstier for petroleum while wealthier countries – especially the United States – do little to rein in their own demand.

For U.S. consumers, the growing battle means that higher prices at the pump – already $2.35 a gallon in Dallas as the price of crude soars past $64 – may not go away anytime soon.

The threatening imbalance between supply and demand has already started a struggle that's smoldering from the Sea of Japan to Venezuela's Lake Maracaibo to the Caspian Sea in Central Asia.

The developments could reshape foreign policy in the coming century as energy-hungry nations increasingly forge alliances with U.S. foes.

"China and India together are a third of humanity, and they don't want to ride bicycles anymore," said Anne Korin, the co-director of the Institute for the Analysis of Global Security, a Washington think tank. "Their transportation demand, which is to say their oil consumption, is growing at a phenomenal rate."

station in Beijing.

The battle for energy resources sparked a frenzy in recent months with the global battle over Unocal Corp., the object of a bidding war between Chevron Corp. and CNOOC Ltd., a state-controlled Chinese company.

That fight was settled Wednesday when Unocal shareholders approved Chevron's $18 billion takeover.

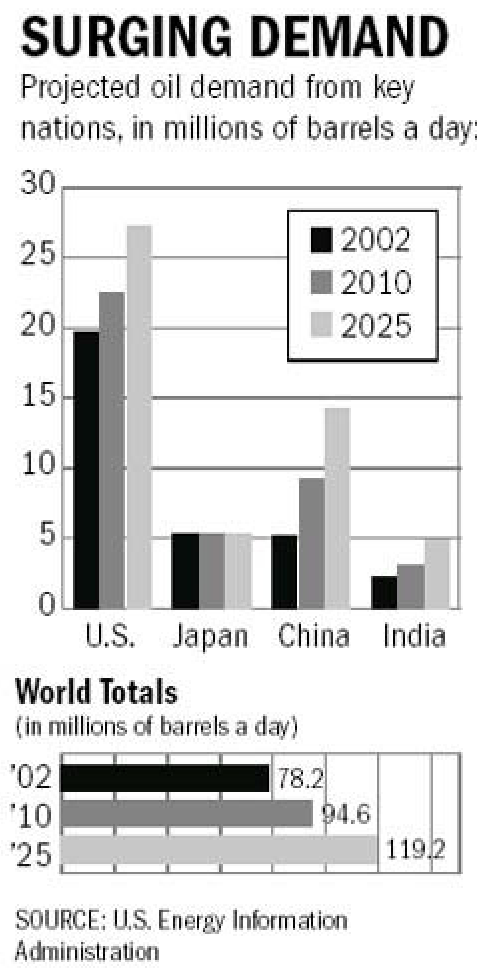
But CNOOC's proposal, which was higher than Chevron's earlier bid, prompted an outcry among U.S. lawmakers who opposed the takeover of a large U.S. oil company by a firm owned largely by China's communist government.

The takeover battle has drawn government leaders into a discussion of the ties between energy suppliers, recalling debates that took on greater urgency in World War I and II and during the 1973-74 Arab oil embargo.

But many analysts warn that such fears are guided by antiquated notions about control of the oil trade. Over the last three decades, oil producers and consumers have built a global oil market that directs supplies to consumers who demand it and guides prices based on the world's needs.

"We never really have grown out of the mentality of the 1970s," said Dennis O'Brien, director of the University of Oklahoma's Institute for Energy Economics and Policy.

"We still carry a lot of basic, wrongheaded thinking about energy security," he said. "It's a globalized, efficient market. Oil moves seamlessly across national boundaries."



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Production concerns

Still, surging demand for oil comes as worries mount that global production could stagnate. Several top industry officials – including the head of Chevron Texaco – have warned that the era of easy access to oil reserves is over

If supply can't keep up with demand, prices are bound to increase – and so is jockeying for supplies.

"The supply of oil has been growing all these years in approximate consonance with demand," said Michael Klare, professor of peace and world security studies at Hampshire College.

"Now it appears that the historical trend is changing. Demand is galloping ahead of supply," said Mr. Klare, author of *Blood and Oil: The Dangers and Consequences of America's Growing Dependency on Imported Petroleum.* "You're going to see more competition because demand around the world is increasing faster than supply."

The clearest sign of skyrocketing demand comes from China, where astonishing economic growth is fueling huge increases in oil and gas needs.

Strong appetite

To meet that demand, China's state-owned energy companies are scouring the globe for oil and gas deals, wooing the leaders of pariah states such as Iran and Sudan, and striking deals in established oil powers from Russia to Canada to Venezuela.

"The Chinese government needs energy, period," said Peyton Feltus, president of Randolph Risk Management, a Dallas-based consultancy. "Their appetite for imports is growing at a cancerous pace, and that's with the Chinese government trying to hold back demand."

Meanwhile, India is trying to satisfy its own growing energy demand, which is expected to double by 2020.

The Indian government has formed alliances with leaders of Russia and Venezuela, just as China has done.

With Pakistan and Iran, the country is laying out plans for a multibillion-dollar gas pipeline connecting Iranian gas fields with India. Indian and Pakistani officials said last month that construction could begin next year. U.S. officials and energy experts have expressed reservations about the project, given what they charge are Iran's nuclear ambitions and ties to terrorist groups.

"These countries like Iran, like Saudi Arabia, like Sudan, what they have to offer is energy – oil and gas," Ms. Korin said. "And different countries are willing to forgive an awful lot to do business with them."

"Iran just bought a third of humanity by making deals with India and China," she said.

U.S. supplies

As other nations scramble to secure supplies, the U.S. government has spent the last five years mired in a contentious debate over federal energy policy and access to domestic resources.

Oil companies and many lawmakers want to open up coastal waters and other federal lands – such as the Arctic National Wildlife Refuge – to oil and gas drilling. The resources beneath, they say, could help reduce the nation's dependence on other nations and contribute to U.S. supplies for years.

The energy bill that President Bush signed this week won't help oil producers gain much additional access to U.S. lands. But it does seek to spur development of newer technologies – in the wind, solar and even coal industries – to help the nation diversify its energy supplies.

With the U.S. guiding the global industry for the last century, government leaders have generally deferred to oil companies and global markets to secure supplies for U.S. consumers.

Concerns about U.S. firms competing with national oil companies helped win government support for mega-mergers over the last decade, including the 1999 marriage unifying Exxon Corp. and Mobil Corp. into the world's largest publicly traded oil company.

Irving-based Exxon Mobil and other companies often face restrictions that other oil producers would not, such as laws restricting U.S. firms from dealing with corrupt governments.

But industry officials say that the strength of U.S. companies will help support the nation's energy interests.

"We're all competing for resources," said John Felmy, chief economist at the American Petroleum Institute, an industry trade group. "Fortunately, the United States has the technology. We've got a market system that supports it.

"We'll be seeing more and more oil being produced," Mr. Felmy said. "I think the market will rule."

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