

Session C – Game Changer – Shale Revolution?

Keynote Speech - 'U.S. Energy Independence - Could it Change the World as We Know it?'
William F. Weld, Former Governor of Massachusetts

William F. Weld:

Thank you very much, John. As a loyal Republican and former office holder, I have a suspicion that I'm actually here because I am the big elephant in the room. [laughter] I've had about thirty years background in national politics in the United States. I've also had more than a toe in the water of oil and gas and mining the last five or ten years, but I think I'm here chiefly with my political hat on.

My career in politics began at the end of 1973, and calendar '74, when I shared a small office in Washington, D.C., at the House Judiciary Committee, with a young Yale law graduate named Hillary Rodham. We were the first two staffers hired on the impeachment staff for Richard M. Nixon, who was impeached in August of 1974. And the two of us were assigned the job of writing the legal briefs on what constituted grounds for impeachment of a United States president. Twenty-six years later, almost to the month, I got a call from John Podesta, who was President Clinton's Chief of Staff, who said, "It looks like they're going to proceed against my guy. We need someone to testify as an expert witness on the law of impeachment. It appears there are two people in the United States who know a lot about that; the other one is very much disqualified by interest, so you have to testify." [laughter] And I did, as I've done dozens of times since. It's possible, in fact, that I enjoy testifying before the United States Congress even more than Dr. Hayward does. [laughter & applause]

Thirteen years later, I was head of the criminal division of the Justice Department in Washington, so I was in charge of the Iran-Contra scandal, which threatened major damage to the Reagan administration, which I served for seven years as a federal prosecutor. Many wags have suggested that my specialty is actually national scandals in the United States. [laughter] But I have been close to every U.S. Presidential administration since Ronald Reagan. I was at the same college at Oxford as Bill Clinton -- we're the same age, Bill Clinton, George W. Bush, and myself. Close to both Bushes. I was a classmate and fellow Massachusetts son along with John Kerry, even ran against him for the United States Senate once upon a time; not successfully, as it turned out in the event.

My topic today is U.S. energy independence as a game changer—I gather specifically for the Middle East. We're not going to be independent, of course, we're still going to need Canada, and I think that's a good thing. Canada has a habit of taking the rough edges off the United States sometimes in desirable ways. But I do think it's fair to say that we could well be a net exporter of energy by as soon as 2020, 2025. It may not be LNG, liquefied natural gas, as some

people are predicting, there are logistic issues there. But I think overall we should be a net exporter.

Point number one that I would make is that in macro terms this is going to happen; nothing is going to get in the way. I note for the record that the Keystone pipeline down from Canada got a clean bill of health in the state of Nebraska last Friday. So that's just another straw in the wind. But the gas shale is there in the United States; oil shale aplenty as well, although we're not as far along in terms of know-how in getting the oil out of the shale as we are with the gas. I guess my point is you should not think that the environmental issues and risks here are going to sidetrack that process. There's much too much economic momentum in the United States, favorable momentum, in terms of impact on the U.S. manufacturing plant and U.S. manufacturing jobs. Those are the true holy grail of United States politics and have been for ten years: J-O-B-S. And no amount of lamentation and donning of ashes and sack cloth about potential harm is going to derail an actual engine, a powerful engine, of job creation.

I do think also it's fair to say that technology is going to help to alleviate what environmental issues do exist. The technology already exists to permit horizontal fracking of gas shale and oil shale without using liquids. So it's not going to be hydraulic fracking; it's just going to be fracturing, using essentially power or shockwaves. That's a giant step in the direction of saying bye-bye to the much ballyhooed potential damage to the water table. And that's just one company! I mean, there's an enormous incentive for the Schlumbergers, the Halliburtons, and many other major actors in the fields to put their best technology brains to work on this.

If you solve the water table issue, what you've got left really is seismic; and we actually don't have to drill three miles deep to unlock our gas and oil in shale, in the United States. So I think it's going to happen.

I'm not here to say that this isn't a big thing. The estimates are that there's 8 to 10 barrels of oil or oil equivalent trapped in source rock around the world, I believe, for every barrel of reserves in conventional structures or fields. So there's a long way that could be travelled along this road. I think Dr. Hayward hit it right: it's all a matter of the technology and the know-how, and the cost, of getting it out.

We've seen this movie. We saw it in the oil sands in Alberta—and it went pretty quickly. That was even within my lifetime of paying attention to oil and gas. And I can't remember exactly what the figures were, but people were saying "No way!" at 30 dollar oil or so, and then it got to be 60 dollar oil and there was suddenly an entirely new set of spectacles put on. Everyone said "Let's go!"

Other things can happen as a result of technology that don't necessarily lead in the same direction. I'm one who believes that the conversion of heavy oil to light oil is just around the corner at an economic cost, from 6 API to 16 or even 21 API. That's going to make a huge

difference to eighteen or twenty countries around the world that have major deposits of heavy oil, which are stranded assets; whether they're in the desert or in the jungle, they're stranded if you can't pipe them and there's no transmission facilities nearby. But I know of at least one company that has heavy to light technology, which is essentially is similar to a classic fluid catalytic converter, FCC, except that it uses common sand instead of a catalyst, which can be very useful because it doesn't require any diluent, it doesn't require any natural gas. And for a country like Oman, for example, which is concerned about its blend, that could be a very important piece of technology. And if, you know, heavy oil is no longer a stranded asset, that's going to be a big game changer for the Middle East. But guess what? It's going to be a positive game changer, not a negative one.

In any case, I do think that shale, around the world, is much more important than just U.S. energy independence. I read, at least, that China has twice the shale deposits, oil and gas, that the United States has. I spent two hours at ADIA yesterday, talking about the world, and one of the members of their core strategy group, Dr. Chu, said "Yeah, that's true. I went to middle school in China forty years ago and we had it drummed into us that we were sitting on top of enormous shale deposits of gas and oil, sufficient to make China absolutely energy independent."

But China has not had the know-how—back to know-how. And I think frankly the reason they haven't had the know-how is that they were coming along and they didn't have the wealth to develop the technology or conduct the necessary processes to get this energy out. But again, guess what? Now they do. I mean, those of us who have spent a lot of time in China the last five years have seen the mindset change in terms of their expectations, even their demands. And that's not a function of them getting smarter; that's a function of them developing enormous wealth to fund the extraction of energy and other natural resources that are part of the security needs of every country in the world.

I've been all over the world in the last five years and one thing that's clear to me is that almost every emerging economy, and I include China, has the same sets of needs. In order: water, food, energy, and minerals. And security of supply of these natural resources is very high on the shopping list of every world leader that I'm familiar with.

Other countries as well could have very substantial shale deposits. France, of course, is now unilaterally disarmed; but Poland, it's said, may be a major player here. And I dare say that there are other countries that aren't even known yet; they may be in Africa, maybe the exploration has not yet occurred.

So I think there's a good bit of unknown in the future of shale and it is a big deal, but except in the case of the United States, there's a good ways to go. And the exact fallout, I think, is a little bit hard to predict.

Having said all that, my assigned topic today is “What is the geopolitical impact of U.S. shale production on the Middle East?” All by itself, that factor alone. And my conclusion on that, I’m speaking for myself, not the United States government, is that the answer is: not much. Not much impact. Oil is not going to go away. And in terms of price, Saudi Arabia is still going to be the swing producer. It may be that OPEC is going to sell a little bit less of its oil to the U.S. for the next couple of decades. But guess what? They’re going to sell a lot more to India, and right behind them China. So that’s not going to make a huge difference.

The suggestion is now that Prince Bandar is no longer ruling the Diplomatic Corps in Washington, D.C.—which he did for well over a decade, by the way, I was there—will the United States Fifth Fleet turn tail and steam out of Bahrain and head right back to the Gulf of Mexico, or perhaps east to Japan. And the answer is: nah, it’s not going to happen. There’s just too much going on here; this is too important an area of the world. Not Secretary Hillary Clinton, not Secretary John Kerry, or any prominent U.S. politician is going to advocate moving away from engagement, serious engagement, in the Middle East.

Partly, I think, while people may not realize it—it’s kind of a subtle reason—but I think this is partly historical and cultural. The three great so-called Abrahamic religions: Judaism, Christianity, and Islam, all originate here. That has a resonance in the United States; even though it may not be on page one of the newspapers because it doesn’t sell newspapers.

Partly this is also economic and cultural self-interest on the part of the United States. The U.S. has a fairly big stake and a huge amount of interest in the many, many educational initiatives that are underway in the GCC countries. U.S. companies are also anxious to participate in infrastructure development in this area, which is going to be very considerable. Because of the FCPA and other reasons, U.S. companies may not always be cost competitive, may be a slightly higher cost provider. But I always have one eye trained on workforce development, when I look at major infrastructure projects. And from the point of view of Gulf countries, I would hope it may be true in some cases that we, U.S. companies, offer more than the competition in terms of ongoing training for nationals of the GCC countries. Certainly the days of the 50s and the 60s, when the U.S. was almost a hissing and a byword, we would parachute into countries and say, “This is what we got! You want it or not?” those days are long behind us.

Beyond these cultural and historical factors, partly I think -- and again, this is me talking, not the State Department or the Defense Department -- but as I look at this, I think part of it is pure realpolitik, in which the Middle East possesses indubitably the three great advantages that you can have in the real estate industry. And those, as you all know, are location, location, and location. In a way, the Middle East really sits athwart, or at least near to, a majority of sensitive spots in the world in terms of security. There’s a lot of obsession with China these days. I also think the United States is probably not going to forget our old friends in Russia, in terms of realpolitik; it certainly is not going to forget Europe, whose destiny and whose energy needs are

very much intertwined with Russia. It's not going to forget—and this is an increasing phenomenon—Central Asia, in which there's more and more interest in the United States.

So, gas shale is all well and good, and it's important. And cultural diplomacy is fine and it's also important. But neither one of those phenomena is going to repeal the need, the real need, for the United States to project its power. And so sorry to be so direct, but I'm talking about hard power here; that is to say, military power. The United States is simply not going to leave the Straits of Hormuz to the tender mercies of Iran. It's just not going to happen. They're not going to risk major disruption to energy supplies to our major trading partners in Asia, South Asia and elsewhere around the world, which would happen as a consequence of any such move.

So my prediction is that for at least multiple decades, business as we have known it will go on in the Middle East, the United States isn't going anywhere, and life will be good. And beyond multiple decades, I think it's probably fanciful to predict. Thank you very much.

[applause]

END OF PART 2, SESSION B