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New report: Economic Populism, Energy Policy, and National Security

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CNAS PRESS RELEASE

CNAS Releases New Report on Economic Populism, Energy Policy, and National Security

Washington, November 14 – As a populist backlash rises against international political and economic institutions – both in the United States and around the world – experts from the Center for a New American Security (CNAS) Energy, Economics, and Security (EES) Program have written a new report examining how that backlash could harm U.S. energy production and exports and arguing that open U.S. energy markets are good for the domestic economy and national security interests. The report, “Energy, Economic Growth, and U.S. National Security: The Case for an Open Trade and Investment Regime,” further argues that, particularly in this time of growing distrust in the fundamentals of globalization, it is critical to explain publicly why open energy markets are beneficial to the U.S. and to the American people.

The report was written by CNAS Adjunct Senior Fellow David Gordon, Eurasia Group Head of Global Energy and Natural Resources Practice Divya Reddy, CNAS Director of the EES program Elizabeth Rosenberg, CNAS Research Associate Neil Bhatiya, and CNAS Researcher Edoardo Saravalle.

Summary

It has been nearly two years since Congress lifted the ban on the export of crude oil from the United States. In 2015, a Center for a New American Security report - “Crude Oil & U.S. National Security” - examined the implications of the ban for U.S. national security. The report further argued that opening the export market for oil, which had been closed since the Organization of Petroleum Exporting Countries (OPEC) oil embargo of the mid-1970s, would help U.S. energy producers nimbler and the U.S. economy more resilient. It would also strengthen America's influence and leverage around the world.

At the core of this report was the argument that an open U.S. energy market would strengthen global energy resilience, improve the U.S. trade balance, and ensure the continued primacy of the U.S. dollar, while avoiding putting upward pressure on U.S. gasoline prices. At the same time, it would promote more open energy markets globally, which is positive for both the U.S. economy and U.S. national security interests. By increasing the proportion of global energy supplies from politically

stable regions, U.S. exporters would support U.S. allies both in this hemisphere and in Europe and East Asia, while weakening the leverage of the OPEC cartel and thus making the market less vulnerable to price spikes. Finally, the report argued that opening up exports would enable the United States to sustain its technological advantage in unconventional energy production, a further source of leverage (and admiration) around the world.

In December 2015, Congress and the Barack Obama administration reached an agreement on legislation to lift the crude ban and extend tax credits for renewable energy. At about the same time, U.S. policy leaders also began to loosen the regulatory regime around natural gas exports. As a result of these actions, the U.S. role in international energy markets grew substantially, especially in 2017.

When President Donald Trump hosted “Energy Week” in early July 2017, his main theme was that the United States was poised to enter a new world of energy dominance. According to Energy Secretary Rick Perry, “An energy-dominant America means self-reliant. It means a secure nation, free from the geopolitical turmoil of other nations who seek to use energy as an economic weapon. An energy-dominant America will export to markets around the world, increasing our global leadership and our influence.”

The “energy dominance” slogan suggests a more zero-sum relationship than is accurate or desirable – global energy players are fundamentally interconnected, and our energy market partner countries do not want to be dominated by the United States. The U.S. political debate around energy still features arguments for restricting exports and naïve calls for “energy independence.” However, the growing perception of the United States as an energy market “maker” rather than a “taker” speaks to how rapidly and profoundly global energy markets are evolving, and to the central U.S. role as a major producer and exporter in that revolution. Two years after the CNAS report on lifting the crude export ban was published, and its core recommendation adopted, almost all of the impacts discussed in the report are happening in the real world.

Two years ago, an outdated regulatory framework stood in the way of the United States reaping the benefits of an open energy trade and investment regime. Those constraints are, for the most part, no longer a factor. However, while the trajectory of energy policy seemed to be moving toward reducing some of the last vestiges of regulation of U.S. energy markets, like the Jones Act mandating that only U.S.-flag ships can transport goods between U.S. ports, the dynamic is now different.

Today, a rising populist backlash against the international system finds its expression in trade protectionism and a distrust of multilateralism. These themes appeal to voters who remember a time of U.S. industrial dominance that they believe has been eroded by globalization and the willingness of elites in Washington to sign trade deals that hurt U.S. competitiveness. While these sentiments do not focus specifically on energy markets, they may erode the political and economic arrangements that support them. They may also be here for an extended period; there are few signs that the economic and global migratory forces that set them in motion will change anytime soon.

In the United States, there has been an erosion of popular support, on both the right and the left, for open trade and commercial flows, as well as for U.S. leadership in the international institutions that underpin these activities. This now threatens the actual and potential benefits to the United States – in both economic and national security terms – that have begun to accumulate since the dramatic shift in U.S. energy policies in the final years of the Obama administration. In this context, it is more important than ever to explain why open energy markets are beneficial to the United States. That is the purpose of this report. But beyond this analysis and its policy recommendations to the administration, it is absolutely critical that energy firms invest more in conservation, community engagement, and trust building with the people affected by their activities. Without this, no amount of regulatory support will afford these firms the “social license to operate” or relieve them of massive

litigation activities that challenge their operating capacity.

This report assesses why, in the context of expanding U.S. energy production and exports, open U.S. markets are good for the U.S. economy and the broader global economy and, at the same time, support U.S. national security interests. The report then makes a series of policy recommendations – largely on what traps the Trump administration needs to avoid – to ensure that “energy dominance” does not veer down the path of a new version of damaging energy protectionism. The report also presents ideas for how companies may be able to restore broader public confidence in the responsible operation of the U.S. fossil fuel industry.

The report’s authors are available for interviews. To arrange an interview, please contact Neal Urwitz at nurwitz@cnas.org or 202-457-9409.

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