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Energy Diplomacy with Attitude
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The United States doesn't have an energy policy, and we never will. Neither does China, despite decades of a planned economy. China didn't even have an energy minister to serve as a counterpart for Secretary Bodman when he and Treasury Secretary Paulson led a U.S. delegation to Beijing last year to inaugurate the Strategic Economic Dialogue.

Both the U.S. and China are oil energy price takers – not price givers -- in a world where there are only two kinds of actors. But our similar circumstances may make these high-level discussions much more important than might otherwise be the case.

When it comes to oil, Americans let markets and consumption set our agenda. The 1973 shock didn't change behavior in a durable way. Neither did the spike of the early '80s. The post-Sept. 11 trajectory saw the price of standard crude oil move from under $25 per barrel in September 2003, tripling to around $80 per barrel last year.

Oil dependence is a fact of life. While the neuralgia about it has deepened, neither the government nor markets have seen much reason to reduce U.S. political risk through conservation and an all-out technological commitment.

The U.S. isn't alone in this conceit of inaction. China has joined the U.S. as a world class consumer, gobbling up oil and competing for energy assets around the world. Indeed, four of the world's top five oil importers are Pacific nations – including the U.S. The U.S. Pacific fleet protects more than 90 percent of the oil flowing to China, Japan, and South Korea.

What if the U.S. leadership proposed in the next round of the U.S.-China Dialogue that these energy hungry engines of global prosperity join together to discuss how they could cooperate in reducing their dependence on oil?

Of course, in a world of price givers and price takers, what good does it do to celebrate our dependence? It's important to understand the potency of impressions in oil markets. These markets don't react, they only over-react. Think about what would happen to assumptions about the future price of any product if four of its biggest buyers sat down to discuss their interests in a public way.

The mere fact of a meeting and the possibility of some coordinated behavior could send a powerful message to sellers that bargaining power and leverage are moving. They may confront an inflection point. To be clear, the goal of such cooperation isn't to emphasize "us/them" politics in a zero-sum game with producer nations. We need each other and we need an orderly market. But that market doesn't operate freely now, so there's no harm in sharing views among the four major buyers.

Substance does matter, however, and the opportunities for cooperation are tangible. Most obvious is the need for better coordination of strategic petroleum reserves in Asia. China is at the nascent stages of developing an oil reserve. Like much in that system, this process so far lacks visibility and is largely unconnected with the international system.

Because China isn't an OECD member, it can't be a member of the international body that does most to coordinate emergency reserves, the International Energy Agency. But there is no reason the U.S. cannot take steps to build off of the strong coordination it has enjoyed for decades with Tokyo and start to imbed China and South Korea, to an even greater extent, in the international energy economy in a way that reduces uncertainty and builds confidence.

But China is a strategic competitor and will never be an ally, unlike both Japan and South Korea. Isn't increasing energy coordination with Beijing dangerous? To the contrary.

First, knowing what China will do in an energy emergency is vital to U.S. crisis management, but every day is a crisis if your energy imports are growing. Co-option – making China more of a status quo power – is an urgent U.S interest. So too, reducing China's fear of being left alone in the cold may reduce its accretion of influence in Africa and Latin America through aggressive purchases of oil assets there.

Second, if four of the world's most technologically innovative countries sit down together, it could prompt a broader, deeper dialogue about both technology gains and conservation. Japan has shown how powerful a national commitment to reducing oil consumption can be. In addition to transferring learning and best practices, a dialogue of this kind could create political cover at home for belt tightening that no U.S. government – and no Chinese government – has been willing to undertake on its own.

Third, the very fact of notional consumer cooperation puts the most pressure on the exporting countries with the greatest dependence on exceptionally high oil prices: the three with questionable economic fundamentals. Iran, Venezuela, and Russia are all thorns in the side of broader U.S. interests. The more downward pressure on world oil prices, the less leverage these regimes have on the U.S.

To be clear, it is not possible to create a buyers' cartel – a notion that has been under consideration since the mid-'70s. The IEA was conceived to serve this goal, but it has reached the limits of what is possible with its diverse membership. But if the fastest growing and most innovative economies on the planet set a tone and direction, the signal to markets is that something may be about to change.

At the very least, an effort by China and the U.S. to work together on a problem that confronts Japan and South Korea too will affirm U.S. leadership, reduce political risk in Asia, and encourage habits of cooperation that could pay dividends in other areas.

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