Policy Brief #3
The Atlantic Council of the United States, The Middle East Institute, The Middle East Policy Council, and The Stanley Foundation

U.S. Challenges and Choices in the Gulf: Energy Security

This policy brief is based on the discussion at the fifth in a jointly sponsored series of congressional staff briefings on "U.S. Challenges and Choices in the Gulf." To receive information on future briefings, contact Jennifer Davies at jdavies@stanleyfoundation.org.

With approximately 70 percent of the world's known oil reserves, Gulf countries, including Saudi Arabia, Kuwait, the United Arab Emirates, Iran and Iraq, are the world's leading petroleum exporters. Gulf oil exports (and, therefore, world oil prices) are largely governed by the political and economic dynamics of the Gulf region – suggesting that U.S. leaders have a substantial stake in understanding these dynamics generally and, specifically, how they impact U.S. energy security concerns.

Oil plays a key role in U.S. energy security, providing approximately 40 percent of the total annual energy use of the United States (measured in trillion Btu). Indeed, the United States is the world's number one consumer of oil, using 20 million barrels of oil per day, or one-fifth of the world total. Of these 20 million barrels, the United States imports 9 million, as its domestic production is insufficient to satisfy the country's needs.

This brief addresses four fundamental questions regarding the current and likely future energy needs of the United States.

1. **Is the United States "dependent" on Arab/Gulf oil?**

This often-asked, but misleading question begs several responses. First, as Table 1 indicates, the United States depends on the Gulf/Middle East region for only about one-quarter of its direct oil imports. U.S. oil imports come primarily from Mexico, Canada and Venezuela, whose close geographic proximity to the United States allows for minimal transport cost.

Second, given that oil is a fungible commodity, the United States is indeed dependent on Arab/Gulf oil because the entire world depends on Gulf oil. Given the Middle East/Gulf region's large percentage of world oil production (Table 2), any disruption in Gulf oil supply would force those countries that directly import high quantities of oil from the Gulf to try to buy instead from other suppliers, including those from which the United States imports heavily. Such competition would cause a dramatic increase in the price of crude oil for all consumers and thus impact the U.S. economy.

Third, the United States is, and will remain, dependent on oil generally, unless it soon develops the ability to harness alternative fuels and exploit conservation opportunities for its industrial and consumer needs.

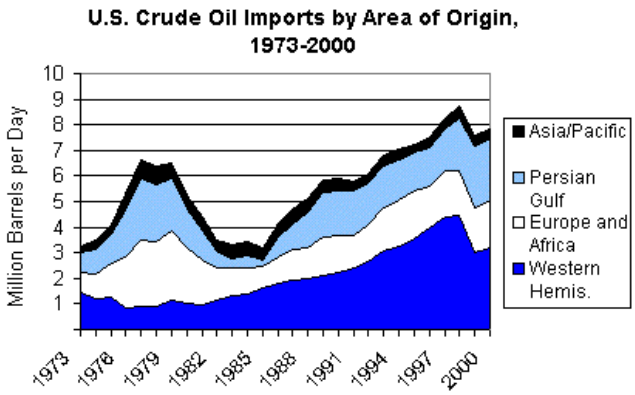

Table 1: Source, *Monthly Energy Review,* table 3.

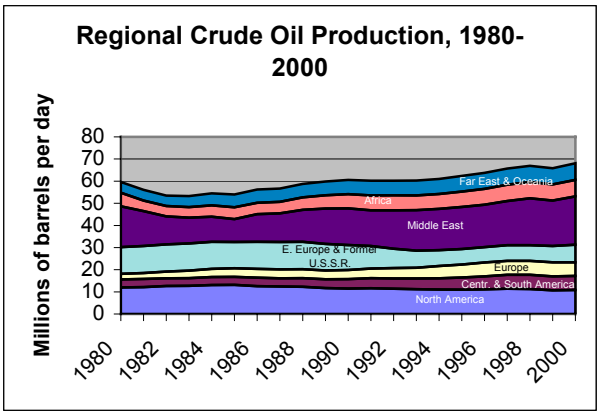

Table 2: Source, *International Energy Annual,* table 2.2

2. Are there alternative sources of oil that would make the world, including the United States, less dependent on oil from the Middle East/Gulf region?

Russia. The oil reserves in Russia could never replace the Gulf's oil supply. In fact, proven Russian reserves amount to only about half those of Kuwait alone (25 vs. 50 billion barrels), though Russia currently extracts its oil at a much higher rate. Even more rapid extraction of Russian oil would be a very expensive proposition and involve considerable investment in new infrastructure, making such an alternative relatively uneconomical.

The Caspian Sea. The largest estimate for Caspian Basin reserves appears to be about 50 billion barrels, an amount equal to the reserves of Kuwait. More realistically, however, the Caspian basin might yield 25 billion barrels – an amount that would have only a modest effect on the world oil market. Here, as in Russia, greater extraction would carry extremely high cost and require new infrastructure for pumping and transport.

Iraq. Experts believe that Iraqi oil might provide the only alternative to production from other OPEC countries, as Iraq's reserve figures have not been updated since the 1970s. (At the time, Iraq's proven reserves were estimated at 112 billion barrels, second only to those of Saudi Arabia.) Still, the prospect of a U.S.-friendly Iraqi regime producing and selling oil according to Western preferences is uncertain in the near future, in the view of many regional experts.

3. If the Middle East/Gulf region is an indispensable supplier of oil, how are its production levels determined? Is OPEC a responsible actor that can be trusted to assure U.S. energy security?

The oil production levels of the Middle East/Gulf region are effectively determined by the Organization of Petroleum Exporting Countries (OPEC). OPEC's current members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela. The Oil and Energy Ministers of these 11 countries meet twice a year to decide on the Organization's output level, and to consider whether any action to adjust output is necessary in the light of recent and anticipated oil market developments. For example, OPEC reacts to interruptions in Iraqi supply (which usually occur during the reauthorization of the UN's "Oil for Food" program) in order to keep the price of oil relatively constant.

The key player in OPEC is unquestionably Saudi Arabia, as its large reserves and surplus production capacity allow it to change its oil extraction levels dramatically, quickly and inexpensively. In this way, Saudi Arabia functions as the "central bank" of world oil production. Understanding the gravity of this role, Saudi Arabia's Crown Prince Abdullah seems firmly opposed to cutting oil production for political gain, though political developments in the Near or Middle East could have unpredictable impacts on Saudi policy.

The Saudi government is, in fact, the most important and consistent advocate for high OPEC production levels/moderate oil prices, because it believes that Saudi Arabia's share of the world market will increase with world demand. This policy is opposed by both other OPEC members (notably Kuwait) and extremist factions within Saudi Arabia. Osama bin Laden is among those who staunchly oppose the Saudi regime and its oil policy – bin Laden believes a more appropriate price for oil to be $144/barrel, instead of its current $23-28/barrel.

For the most part, the Saudis have over the years acted in a manner consistent with Western and U.S. interests in setting their oil policies. In exchange, the United States has provided Saudi Arabia with military equipment and acted militarily with its own forces to provide the Saudi regime with a measure of protection, most notably during and after the 1991 Gulf War. But the Saudi regime's interests are not necessarily identical with those of the United States. Most clearly on the matter of Palestine (and Jerusalem), Saudi Arabia believes the United States has been too one-sided in its support of Israel and, recently, not active enough in stemming violence in the Occupied Territories. Domestically, the House of Saud has its critics. Not only because the oil-based Saudi economy has increasing difficulty in delivering the wealth needed to satisfy social and political demands, but also because of dissent related to continuing close ties with the United States. Speculation about the stability of the regime has been voiced for many years.

4. What can be done to assure U.S. energy security?

Protect the Saudi government. From an energy security standpoint, a friendly Saudi Arabia serves the interests of the United States as well as any alternative that seems plausible. This implies that the United States should continue to provide a troop presence (so long as they are welcome) and to sell U.S. weapons to Saudi Arabia. Dissent among the Saudi population, especially towards Palestine, contributes to the divisions within the government towards reform. The United States should try to influence the reform factions while realizing the limitations of U.S. influence.

Pass laws fostering efficient use of fossil fuels and develop alternative fuel sources. Conservation could lead to a drop in immediate and especially future dependence on foreign oil. Over the long term, technologies such as fuel cells and coal gasification look promising, especially when combined with laws and regulations that encourage energy efficiency. Together, they have the potential to reduce to some extent the dependence of the U.S. economy on oil and thus the salience of the situation in the Gulf to U.S. interests.