Moscow, Not Arabia, Is the Big Threat to Europe

by Simon Henderson **(/experts/simon-henderson)**

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Barring a Saudi crisis, the main security risk for Europe lies in Moscow.

What is energy security? Not having to queue for petrol? Not having to pay too much? Not being vulnerable to shortages of natural gas? Never having a power failure? It is all these and more.

How does a country achieve energy security? There are many answers. Some would argue that it is when a country does not need to import energy, particularly oil. A refinement (or perhaps a debasement) of this argument is that the oil should not have to come from the Middle East. Having a range of energy sources -- oil, gas, coal, nuclear, hydro, solar, wind, biomass -- would seem sensible. For those who remember the 1984-85 British miners' strike, having power stations which can run on inputs other than coal is an advantage.

Is energy security achievable? Perhaps, but there are always other insecurities, which should not be ignored. Kuwait probably thought it had energy security until Saddam Hussein's tanks rolled across the border in 1990.

The Middle East and energy security often seem twinned, as shown by present-day anxieties and Saddam's invasion of Kuwait. One of my early childhood memories in Potters Bar was walking past a filling station that was closed because the 1956 Suez crisis had disrupted oil imports to Britain. Again, in 1973, I queued for petrol because of the Arab oil embargo.

But Europeans have learned from these past crises. Unless there is complete meltdown in the Middle East, Europe is no longer particularly vulnerable to oil supply hiccups. The Suez Canal scarcely merited a mention in the 18 days that it took to unseat President Hosni Mubarak. Europe now obtains much of its oil either from the North Sea or West Africa. Most oil from the Persian Gulf, about one third of the oil traded internationally, heads instead towards the Asian growth markets of China and India, and the established economies of Japan and South Korea.

The more serious challenge to Europe's energy security these days is the continent's dependence on imports of natural gas, particularly from Russia. Sure, there is gas under the North Sea, some other offshore areas, and also in shale deposits, which it has recently become feasible to exploit. Even so, Europe imports about 60 per cent of its natural gas and the proportion is increasing. The beauty of natural gas is that it is cleaner than oil or coal and even small power stations can be economic. But demand for electricity is growing rapidly and alternative sources of generating capacity, particularly nuclear plants, are slow to build. So in the meantime, Europe relies on Moscow, a trading partner that is at least potentially capricious.

What would constitute complete meltdown in the Middle East? It would be trouble in Saudi Arabia, which has huge market strength and effectively directs the output policies of the Organisation of Petroleum Exporting Countries cartel. So far, the socially (and religiously) conservative kingdom seems an unlikely domino but much depends on good decisions by the ruling gerontocracy aka the House of Saud.

A little imagination is also be in order. Precautions taken in the name of energy security tend to address the crisis that has just happened. Who, on 1st January 2011, could imagine a wave of political change across the Middle East and North Africa that would invite comparison with the collapse of Soviet control over Eastern Europe?

Are we gearing up to meet the right challenge? It is important to have large emergency fuel stocks, alternative suppliers, arrangements with others to share the pain of shortages, and policies to limit the impact of shortages such as rationing or, these days, encouraging telecommuting.

On these measures, Europe probably judged until recently that it was well prepared for the next energy crisis. Now we can no longer be quite so sure. Different scenarios need to be addressed, and quickly.

What Happens if Trouble Spreads to Saudi Arabia?

Saudi Arabia tops all the charts for oil: it has the most plentiful reserves (about 20 percent of the world's), it is the largest exporter (currently around 8m barrels per day or around 10 percent of world demand), and it has the largest spare capacity (more than 3m barrels per day, almost at the turn of a tap).

No wonder the world is always concerned about the stability of Saudi Arabia. These days, not only is the country in a tough neighbourhood (Iran across the Persian Gulf, revolutions across the Arab world), there is concern because of potential unrest at home and an increasingly old and unhealthy leadership. If the Saudi government was unwilling to increase oil production to make up for a fall in production elsewhere, it would have a major effect on the price of oil. The effects in other financial markets would also be significant, as higher prices slowed down growth across the world.

The Paris-based International Energy Agency (IEA) calculates that Opec has 4.7m barrels per day of spare capacity. Industry experts judge 3.3 million b/d is closer to the mark. Apart from Saudi Arabia, only Abu Dhabi, the lone oil-rich part of the United Arab Emirates can really help in increasing supplies.

Apart from worrying which oil state will be next to topple, there is also the concern that Saudi Arabia's facilities are vulnerable to sabotage. An al-Qaeda attack on the

Abqaiq processing plant was narrowly averted. If the terrorists had been better trained much of the plant's 6m barrels per day would have been lost. (Since this near miss, the US has been working with the Saudis to improve their infrastructure protection.) Also, the kingdom's estimated 2m Shiites, co-religionists of Iran, mostly live in this area.

An additional concern is that Saudi decision-making is held tightly by the top princes. But King Abdullah, 88 this year, is in poor health; so is Crown Prince Sultan, 87, and Prince Nayef, 77, is slowing down.

The world's main developed economies, which make up the IEA's membership have, 1.6bn barrels of oil held in reserves. This equates to 145 days's worth of supplies. But there is a continuing debate whether these stocks should be accessed only to make up for physical shortages or instead to manipulate prices downwards.

How high could prices go? If there is prolonged disruption, one industry survey concluded that the price per barrel could rise by another $150. If the IEA released stocks, the increase might be kept to $125.

The good news is that since the price shocks of the 1970s, oil is a less important component in the economies of the industrialized countries. But for that disruption, another $100 or more on the price of a barrel of oil would still be tough. For many other countries, it could still be catastrophic.

Simon Henderson is the Baker fellow and director of the ***Gulf and Energy Policy Program (http://washingtoninstitute.org/templateI02.php?SID=23&newActiveSubNav=Gulf%20and%20Energy%20Policy%20Program&activeSubNavLink=templateI02.php%3FSID%3D23&newActiveNav=researchPrograms)*** *at The Washington Institute.* ❖

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