Is Oil Independence Attainable and Desirable?

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Brief Analysis

On March 8, 2006, Gal Luft and Edward Morse addressed The Washington Institute's Special Policy Forum. Mr. Luft is executive director of the Institute for the Analysis of Global Security and co-chair of the Set America Free Coalition. Mr. Morse is executive advisor at Hess Energy Trading Company and former publisher of Petroleum Intelligence Weekly. The following is a rapporteur's summary of their remarks.

GAL LUFT

In principle, there is no problem with the notion of oil dependence; in fact, since the United States cannot produce all of its own energy, it is essential that America continue to import energy sources from other countries. However, dependence on nations that use oil revenue to finance terrorism and broaden corruption poses a significant challenge to U.S. interests. Since full energy independence may not be a practical expectation anytime in the near future, American leaders and policymakers must focus their efforts on insulating the U.S. economy from supply disruptions and minimizing the ability of problematic oil producing states to use their economic power against the United States and its allies.

In the recent past, the United States managed to combat its oil addiction through good policies. As a result of a series of strong and sustained initiatives, U.S. oil imports actually dropped from 1979 to 1985. At that point, oil prices collapsed and Americans increased their purchases of foreign energy, leading to today's situation of significant dependence on foreign oil. Since the middle 1980s, American leaders have failed to enact laws that would continue to decrease petroleum imports and reduce the United States' vulnerability to oil shocks, such as the recent terrorist attack at the Abqaiq facility in Saudi Arabia. In addition, the overwhelming expansion of the transportation sector, which consumes approximately 70 percent of U.S. demand, explains America's ever-increasing reliance on oil. Indeed, over the past thirty-five years, the number of cars has jumped dramatically, thereby expanding U.S. oil consumption and requiring a new approach toward achieving greater energy independence.

The best solution for weaning Americans off of foreign energy sources is fuel choice for automobiles. The United States should seek ways to create more fuel-flexible cars, which could run on a variety of sources, such as ethanol, methanol, electricity, or today's dominant choice, gasoline. Part of this initiative would include the increased production of hybrid cars, which use domestically produced electricity and bring nuclear and solar energy back into the debate. A variety of options will create a more competitive market. The greatest challenge in this strategy does not lie in the cost; the higher expenditures for building fuel-flexible vehicles will prove insignificant in the final prices of the cars. Rather, the difficulty will rest in convincing car manufacturers to establish the basis for these fuel choices -- namely, mass production of the new cars themselves.

Washington should avoid identifying a favored source for transportation energy, be it hydrogen or gasoline. Instead, it should provide the political leadership for developing a wide range of technologies. The steps to this end would be (1) establishing a clear goal and date for the standardization of fuel-flexible car production; (2) creating incentives to produce, distribute, and invest in new energy sources; and (3) enacting another set of incentives for consumers to purchase new cars, take advantage of their fuel choices, and help maintain the competitiveness of new technologies.

Through these efforts, the United States will have the opportunity to reduce its dependence on Middle Eastern oil.

EDWARD MORSE

Both Democratic and Republican policymakers consistently call for shifts in U.S. energy policy, but no substantive or serious debate ever emerges. These politicians tend to make three mistakes when engaging in this discussion: (1) they establish the false and impractical goal of energy independence; (2) everyone avoids the extremely important issue of energy demand; and (3) American leaders constantly seek scapegoats, such as Middle Eastern oil.

The initial question that must be addressed is why the issue of independence is only raised with regards to oil, rather than other industries like automobiles and steel. Furthermore, focusing on the issue of unstable Middle Eastern regimes is misleading; it ignores the fact that the United States has established rules for other markets, learned to manage global interdependence, and found solutions that benefit both American citizens and their trading partners. Meanwhile, oil is both the largest single sector of world trade and the most significant exception to the regulations of global trade practices.

As for oil dependence, the focus on the Middle East is not the issue; the real challenge involves finding relief for the stresses on the entire energy system. The central reason for the United States' large imports from the Middle East is Saudi Arabia's decision to ignore market forces by accepting a price discount for one-third of its oil, which it ships to the United States for political reasons. In a truly free market, the United States would not import much oil from the Middle East; it would import from other areas, while Middle Eastern oil went more to Asia.

With respect to demand, the United States is most responsible for the tight energy market due to Americans' wanton oil consumption. For example, between 1990 and 2005, U.S. oil imports increased by six million barrels per day, higher than the total oild consumption of all other countries except China, and equal to total Chinese demand. While there are some supply problems, and growing Chinese intake poses a serious challenge, nothing has affected international oil trade more than U.S. consumption. This is America's Achilles heel; it limits the United States' ability to take a constructive leadership role in climate change and foreign policy and it affects U.S. exchange rates and fiscal responsibilities around the world.

The world has an "us versus them" mentality regarding oil that does not exist in other areas. For instance, oil prices dropped significantly in 1998, forcing oil-producing nations to adjust to the lost revenue and leading them to find ways to push prices back up. When oil costs rose to $35 per barrel in 2000, the burden of adjustment fell on the United States and other Western industrial countries, which had to beg for lower prices from the oil producers. Rather than remaining stuck in this zero-sum system, it is necessary to seek "win-win" solutions that benefit both consuming and producing parties.

At the heart of today's energy problems are global issues that require global solutions. The international structure of the oil market must be radically changed. Recent events surrounding Russian gas supplies to Western Europe and East Asia's subsequent desire to secure their energy supplies provides an opening for such a shift. The best option entails applying the principles of the European Energy Charter to the entire world. This would create greater reciprocity, transparency, and fairness in the oil trade and would force all countries to recognize the consequences of violating the basic principles of globalization. The only way to initiate such a fundamental change is for the U.S. president to make energy policy a top issue, tying it to national security and offering substantive proposals rather than empty rhetoric. The lack of strong and coherent energy initiatives is detrimental to both American global leadership and international political and economic stability. A dramatic shift toward more assertive U.S. leadership and increased global cooperation is needed to enhance worldwide oil trade and ensure energy security.

This rapporteur's summary was prepared by Jonathan Powell.

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