

Addicted to Oil:

The State of the Union and the Middle East

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Brief Analysis

In his January 31 State of the Union address, President George W. Bush declared that America was "addicted to oil" and urged spending on technologies "to break [that] addiction." Noting that oil is often imported from unstable parts of the world, he set a goal of replacing more than 75 percent of U.S. oil imports from the Middle East by 2025. Depending on exactly what Bush means by that statement, such a policy could have huge significance for U.S. policy in the region, or it could be less than meets the eye.

The president's remarks represent no sudden conversion. In the 2004 presidential campaign, both candidates called for an energy policy to decrease dependence on foreign oil. In his 2005 State of the Union address, Bush called for legislation that "makes America more secure and less dependent on foreign energy." Yet the subsequent 2005 Energy Act was widely criticized for being unfocused and avoiding confrontation with the established business styles of the energy industry. The new elements this year are the stated determinations to "change how we power our automobiles" and "make our dependence on Middle Eastern oil a thing of the past."

Apart from stating the need to change to using zero-emission coal-fired plants and solar, wind, and nuclear power to provide electricity for homes and offices, Bush said he wanted better batteries for hybrid and electric cars and technology for hydrogen-power engines, and he set a goal of making ethanol from plants a practical and competitive fuel within six years. The twin stated ambitions were improving the environment and, significantly for the Middle East, moving beyond a petroleum-based economy.

The unstated motive for the president's remarks was the sense that current high oil prices provide surplus revenues for dangerous regimes, such as Iran, to develop weapons of mass destruction or fund radical Islam's "perversion by a few of a noble faith into an ideology of terror and death." But on such issues, Bush indicated he was in for the long haul, continuing to extol the virtues of democracy -- including a direct appeal to the people of Iran -- as well as defending U.S. policy in Iraq and the war on terror.

Can It Be Done?

In fact, although much of the rest of the world is dependent on Middle East oil, the United States is not. Imports

account for about 60 percent of U.S. oil consumption, but the principal suppliers, in a recently reported order of magnitude, are Canada, Mexico, Saudi Arabia, and Venezuela, each supplying 5-8 percent of the daily U.S. demand for twenty million barrels of oil. The logic of this list is that shorter transport distances makes for cheaper costs, so neighbors and near-neighbors have a price advantage. Saudi Arabia wins its place because it effectively subsidizes its supplies to the United States in order to maintain market share, which it thinks is important for the political relationship. Although U.S. oil imports are increasing, there is no particular indication that extra volumes will come from the Middle East. Nigeria and other parts of West Africa are more likely short-term suppliers, while, in the more distant future, the potential of Canada, using its massive tar sand reserves, is highly rated.

The missing word in Bush's analysis was "cost." Instead he prejudged the issue by using the word "affordable," arguing the need for "keeping America competitive." Yet the success of his initiative, in regards to moving to a postpetroleum era, depends on funding research and investment, offering potential subsidies for successful technologies, and encouraging the use of such technologies in preference to existing means, perhaps by taxation. Whether such costs are affordable remains to be seen.

In the immediate term, Bush's ideas are mainly vulnerable to a fall in the oil price, whether the result of market forces or manipulation via quota decisions by the OPEC cartel of the main oil exporters -- of which Saudi Arabia is the most crucial, regarding itself as a responsible player in the market. Saudi ambassador to the United States Prince Turki al-Faisal was in Congress to hear the speech and was described by the New York Times as being diplomatically "upset." An additional risk is that lower oil prices would increase U.S. dependence on oil unless sales taxes were raised as a deterrent, an unpopular move for any U.S. politician to support.

The Challenge of an Energy Supply Shock

As a vision, the success of Bush's remarks depends upon "the talent and the technology of America." A more immediate challenge -- and certainly earlier than 2025 -- is likely to be U.S. vulnerability to energy supply shocks. An Iranian minister recently threatened to shut the strategic Strait of Hormuz through which the Persian Gulf's exports must sail. The impact on the U.S. and world economies would be instant and huge. And that would be true even if the United States imported no oil at all from the Middle East, because the price of oil sold everywhere in the world would still go up.

On this, the president said nothing, although domestically the U.S. government needs to do more to integrate its national energy policy, improve information flows, and prepare emergency planning and procedures for the contingency use of oil reserves. Internationally, the United States needs to work with allies on antiterrorism infrastructures and improve its deterrence ability by projecting military, particularly naval, force.

Ironically, in order to counter short-term dangers, Washington needs to work with its Middle East oil producing allies such as Saudi Arabia, Kuwait, and the United Arab Emirates (UAE) in order to maintain current levels of production and raise export potential. Indeed, it is Saudi Arabia's spare capacity on which the world relies to meet shortfalls -- for instance, if Nigeria or Venezuela cut back. The three Arab Gulf monarchies, along with Iran and Iraq, have huge reserves, the market importance of which simply cannot be replaced. (Oil industry experts dispute recent research that Saudi Arabia's reserves are much less than thought, though acknowledge that Kuwait and the UAE have overstated the sizes of their fields.) U.S. oil companies are also considering long-term investment decisions, which might need to be calculated in view of Bush's remarks. The world will be watching to see how much political capital the White House expends on the new initiative.

Simon Henderson is the senior fellow for Gulf and energy studies at the Washington Institute and author, with Patrick Clawson, of the 2005 institute policy focus *Reducing Vulnerability to Middle East Energy Shocks: A Key Element in Strengthening U.S. Energy Security*. ❖

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