President Bush's National Energy Policy and the Middle East

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Brief Analysis

The Bush administration this week launched initiatives on two fronts of U.S. concern about the Middle East: Secretary of State Colin Powell's proposals to end Arab–Israeli violence and Vice President Dick Cheney's national energy policy. While the energy policy report concentrates on domestic issues, it necessarily discusses the Middle East. Its prescriptions about the Middle East, however, are vague. At worst, Washington appears unwilling to criticize the price-influencing production policies of the members of the Organization of Petroleum Exporting Countries (OPEC) cartel, dominated by Middle Eastern countries.

Background The United States is in the fortunate position that it is self-sufficient in many energy resources. Thirty-five percent of U.S. energy consumption is from domestic coal, nuclear power, and hydroelectric power; a further 25 percent is from natural gas, of which 84 percent is domestic (some is imported from Canada and Mexico). The one energy source upon which the United States is import-dependent is oil, of which the United States imports 52 percent of its net requirements. More than half the imported oil comes from either Western Hemisphere nations (such as Canada, Venezuela, and Mexico) or European countries (such as Norway and Britain) — and less than a quarter comes from the Middle East. By comparison, Japan, the world's second largest economy after the United States, has to import almost all its energy, and more than 80 percent of its oil comes from the Persian Gulf. The world's third largest economy, Germany, is also heavily reliant on imported oil and natural gas.

But prices of oil and gas in the United States are determined in world markets, and U.S. oil consumption — more than a quarter of world production — is set to continue to grow. For the foreseeable future and despite diversification in supplies since the 1970s oil price crises, the world is going to be greatly dependent on the Middle East, which accounts for two-thirds of world oil reserves. Therefore, a significant disruption in world oil supplies would affect the United States as well as its trading partners.

Arab Oil Producers The Bush energy report is kind to the OPEC-member, oil-rich Arab monarchies in the Persian Gulf — Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar — for which the arrival of a Republican administration in Washington has been met by barely contained joy. The Republicans have been seen as being more supportive of Arab positions in disputes with Israel, and U.S. oil companies have been powerful advocates on their behalf. Despite President Bush's comments when, announcing the new plan in St. Paul, Minnesota, that: "If we fail to

act . . . our country could become more reliant on foreign crude oil," the report is generous in its tributes to the Gulf oil monarchies. It describes the Persian Gulf region as "vital to U.S. interests" and says, "Saudi Arabia, the world's largest oil exporter, has been a linchpin of supply reliability to world oil markets."

The report says that "Saudi Arabia has pursued a policy of investing in spare oil production capacity, diversifying export routes to both its coasts, and providing effective assurances that it will use its capacity to mitigate the impact of supply disruptions in any region." The map in the report showing the kingdom's export pipelines — provided by the state oil company, Saudi Aramco — includes the Tapline route to Jordan, which the Department of Energy tactfully describes elsewhere as "mothballed." In reality, the Saudis are refusing, despite U.S. diplomatic exhortations, to supply oil to Jordan, making Amman dependent on Saddam Husayn for oil, a persistent and major weakness in the sanctions regime against Iraq. And Washington might want to reconfirm with the de facto Saudi ruler, Crown Prince Abdullah, Saudi Arabia's willingness to make up for any supply disruptions. Crown Prince Abdullah is currently declining to include the United States on his itinerary for an international tour in June (even though he will be visiting Canada), apparently in protest of Washington's refusal to pressure Israel to stop what he sees as unprovoked attacks on Palestinians.

In the report's discussion of Saudi policy, there is no mention that the kingdom has made production cutbacks (as part of its membership of OPEC) of more than 1 million barrels of oil per day in production in the last two years, helping to treble the price of oil. Indeed, the only direct criticism of the OPEC cartel is hidden in a chunk of text entitled "Diversity of Supply." It says, "Periodic efforts by OPEC to maintain oil prices above levels dictated by market forces have increased price volatility and prices paid by consumers, and have worked against the shared interests of both producers and consumers in greater oil market stability. This remains a policy challenge, which we will meet over the longer term through a comprehensive energy policy that addresses both supply and demand, as well as through increased engagement with all our major suppliers." There is no associated policy recommendation, which is surprising in a report otherwise littered with 105 of them.

Investment and Sanctions Praise is given for those states in the region that have opened up their energy sectors to foreign investment. (Last Friday, Saudi Arabia announced that Exxon Mobil will lead a project on Saudi Arabia's Red Sea coast to produce natural gas for domestic use.)

The praise to those opening to foreign investment is only for those states "with which we maintain diplomatic relations," meaning that the praise is not extended to Iran and Libya, which are desperately seeking foreign investment, or to Iraq, currently under United Nations sanctions. "Sanctions," the report says, "can be an important foreign policy tool, especially against nations that support terrorism or seek to acquire weapons of mass destruction." But mindful perhaps of Cheney's previous criticism of the sanctions, the report says, "sanctions should be periodically reviewed to ensure their continued effectiveness and to minimize their costs on U.S. citizens and interests."

Another investment issue has been the development of transport routes out of the landlocked Caspian Basin. The Clinton administration, under the personal leadership of then-Vice President Al Gore, gave much political support to this issue. While many in the oil industry thought U.S. support for Caspian transport routes would lessen under Bush, in fact, there are no less than six recommendations for ensuring that momentum is maintained. The competitive impact of such action will mainly affect Iran, which argues that it is the most logical market for Caspian energy as well as export route for surplus supplies.

Impact on the Middle East Overall, despite the acknowledgement of the continued dependency of the international energy market on the Middle East, the report has a (perhaps unintentional) subtext that will be viewed with dismay by OPEC countries, particularly in the Middle East. Increasing domestic U.S. energy production and diversifying U.S. supply sources reduces OPEC's power, thereby reducing prices by virtue of extra supplies reaching the market. The

report also backs a relatively hefty tax credit for "hybrid" cars, which use a combination of gas and battery power. This incentive could reduce demand for oil, especially if such vehicles become common in ten years and dominant in twenty, as some experts predict. This is bad news for countries like Saudi Arabia, Iraq, Kuwait, and the United Arab Emirates, which have enough oil to maintain current production rates for 100 years or more.

Simon Henderson, an adjunct scholar of The Washington Institute, is completing a study of U.S. relations with the conservative Arab states of the Persian Gulf. ❖

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