How the Demand for Oil Drives American Foreign Policy

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Theme: One of the most intractable national security challenges facing the United States today is its over-dependence on oil supplied from the most unstable parts of the world.

Summary: The United States is the largest and most technologically advanced economy in the world, yet fossil fuels remain the lifeblood of the American system. The United States is, in fact, the world's largest consumer of oil, but it depends on foreign producers to supply most of its demand. Because energy security is inextricably intertwined with economic prosperity and national security, oil is one of the primary factors shaping US foreign and military policies. Indeed, from Iraq to Iran and Nigeria to Venezuela, oil is omnipresent in the calculations of American foreign policy. Even the centre-piece of the Bush Administration's foreign policy, encouraging democracy in the Middle East, is being jeopardised in the current environment of rising oil prices. As the US demand for oil rises, so does America's exposure to trouble in the world's volatile oil-producing regions. Some analysts argue that all that is needed is more oil production, although that will only come about with more investment, which requires ever higher levels of security in unstable parts of the world. Others say that reducing American dependence on oil would be the single greatest multiplier of US power in the world.

Analysis:

Addicted to Oil
In his January 2006 State of the Union Address, US President George W. Bush declared that the United States was 'addicted to oil'. Indeed, with less than 5% of the earth's population, the United States is the world's largest consumer of oil, accounting for 25% of global daily consumption. At the same time, America supplies only 9% of global oil production and it holds less than 3% of the world's proved oil reserves. This leaves the United States highly dependent on foreign suppliers to meet its domestic demand for energy. In fact, imports now account for 60% of total US oil consumption, and projections show that by 2025, the United States will be importing more than 70% of its oil.

It should come as no surprise, then, that this reliance on imported crude oil is one of the main factors that drives American foreign and military policy. Indeed, the use of military power to protect the flow of oil has been a central tenet of US foreign policy since 1945, when President Franklin D. Roosevelt promised King Abdulaziz of Saudi Arabia that the United States would protect the kingdom in return for special access to Saudi oil.

Since then, the United States has maintained a costly permanent military presence in the Persian Gulf, primarily to prevent disruptions in oil supplies and sudden price increases

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that could have adverse macroeconomic consequences for America and its trading partners. In addition to the 140,000-plus American forces deployed in Iraq, the US military now has more than 6,000 active troops stationed throughout the Middle East. Another 2,000 troops, most of them US Marines, are stationed on amphibious vessels in the Persian Gulf. The military cost of defending US interests in the Persian Gulf is estimated at roughly US$50 billion every year. In addition, the Pentagon spent some US$60 billion on the 1991 Gulf War and another US$300 billion on the 2003 Iraq War. Cumulatively, then, the United States has spent an estimated US$1 trillion to secure oil in the Middle East alone since 1990.

America's addiction to foreign oil is costly in other ways, too. If oil prices remain at US$60 a barrel through 2006, for example, the United States will spend about US$320 billion on oil imports this year. In 2005, energy costs accounted for a whopping one-third of the US trade deficit. Higher oil prices also reduce the spending power of consumers and cause a reduction in discretionary spending. For the US$13 trillion US economy, each US$10 increase in oil prices reduces household spending power by about US$35 billion, or about 0.5%. And the US Federal Reserve estimates that a US$20 a barrel increase in oil prices reduces US GDP by about 0.75%.

Historically, the United States has tried to solve its oil vulnerability problem by using its military to protect supply routes and to prop up or install friendly regimes. Since 9/11, the Bush Administration has also renewed US efforts to secure oil from non-OPEC sources, especially from Canada, Latin America, Western Africa and Russia. This diversification away from the Middle East is reflected by the fact that the main suppliers of oil to the United States today, in order of magnitude, are Canada, Mexico, Saudi Arabia, Venezuela and Nigeria, each supplying between 5% to 8% of the daily US oil demand of 20 million barrels. From a regional perspective, imports from Latin America made up 34% of US crude imports in 2005; the Middle East supplied 24%; Africa 19%; Canada 16%; and Europe and Asia 7%.

Diversification provides only a short-term solution, however, because the proved oil reserves of non-OPEC producers are believed to average about 15 years at current production levels, compared with more than 70 years for OPEC suppliers. Moreover, because oil is a fungible global commodity, a change in supply or demand anywhere will affect prices everywhere.

In any case, as global demand for oil grows and reserves dwindle, the United States will have no choice but to turn to OPEC producers in the Middle East to supply its energy needs. In fact, the US Department of Energy predicts that American oil imports from the Persian Gulf will double from 2006 to 2025. This has led some analysts to warn that the economic stability of the United States is increasingly being compromised by an over-reliance on foreign oil, particularly oil from the volatile Middle East.

Middle East
Oil is what makes the Middle East geo-politically relevant. Two-thirds of global oil (some 690 billion barrels of proved reserves) is located in the unstable Persian Gulf region: Saudi Arabia sits atop the world's biggest oil reserves, followed by Iran, Iraq and Kuwait, respectively. (Under new rules for counting reserves, Canada holds the world's second-largest oil reserves, when taking into account the Alberta oil sands that previously were considered too expensive to develop.) As a result, the Middle East has been one of the main priorities of American foreign policy for the past half century.

Although the United States has maintained a permanent military presence in the Persian Gulf since the end of World War II, it was not until the Nixon Administration that the United States became directly responsible for defence of the entire region, and Western interests there. Before 1971, the responsibility for the region's security fell to the British, with the United States limited to a supporting role. However, in 1968 British Prime Minister Harold Wilson announced that the British had decided to withdraw their forces from the Persian Gulf by the end of 1971. That action set the stage for America's future involvement in the region.

Ever since then, there has been a progressive expansion of the importance of the Persian Gulf to American foreign policy. In his State of the Union Address of January 1980, President Jimmy Carter announced that the secure flow of oil from the Persian Gulf was in 'the vital interests of the United States of America'. In what became known as the Carter Doctrine, he said that Washington would use 'any means necessary, including military force' to protect those interests from outside forces (particularly those of the Soviet Union, which invaded Afghanistan in December 1979). Carter then increased the naval presence of the United States in the Persian Gulf and Indian Ocean.

The Carter Doctrine was expanded by President Ronald Reagan to include the internal stability of countries in the Persian Gulf region. During the Iran-Iraq war, for example, the United States guaranteed Kuwaiti stability by re-flagging its oil tankers and sending more than 30 combat and support ships into the Persian Gulf to escort the re-flagged tankers through the Strait of Hormuz. The Carter Doctrine was later used by the first President Bush to justify the 1990-91 Gulf War. It also provided an important rationale for the second President Bush's invasion of Iraq in 2003, which foiled Saddam Hussein's bid to dominate the Persian Gulf.

Today as before, one of the main drivers of American policy in the Middle East is to ensure the free flow of oil to international markets, so as to insulate the economies of the United States and its main trading partners from supply disruptions. The operational principle of this policy is to prevent domination of the Middle East by powers that are hostile to the United States or its allies. In practice, this involves maintaining stability vis-à-vis a delicate regional balance of power, preserving the independence of the states in the Persian Gulf and containing the threat of Islamic fundamentalism. This policy objective has been consistent across the span of five American presidential administrations, and it also sets the context for the current crisis with Iran.

The United States and a growing number of other countries believe Iran is using its civilian nuclear power programme as a cover to build nuclear weapons. A nuclear Iran would alter the regional balance of power, and given its central position in the Middle East, Tehran would be in a unique position to disrupt access through the strategically vital Persian Gulf. Some 40% of the world's traded oil passes through the Strait of Hormuz.

With this in mind, Bush used his 2006 State of the Union Address to reiterate his opposition to Iran's possession of nuclear weapons. 'The Iranian government is defying the world with its nuclear ambitions –and the nations of the world must not permit the Iranian regime to gain nuclear weapons–. America will continue to rally the world to confront these threats', he said.

In fact, the revised March 2006 'National Security Strategy of the United States of America' singles out Iran as the biggest future challenge facing the United States. 'We may face no greater challenge from a single country than from Iran', the report says. 'We will continue to take all necessary measures to protect our national and economic security against the adverse consequences of their bad conduct', the document says. It warns that current international diplomacy to halt Tehran's nuclear enrichment programme 'must succeed if confrontation is to be avoided'.

Meanwhile, some of the key countries involved in this diplomacy, including China and Russia, are hamstrung by energy alliances with Iran. For example, in October 2004 China signed a US$70 billion oil and gas deal with Iran that locks the two countries into a 30-year relationship. And, in July 2002, Russia declared that it plans to provide Iran with five nuclear reactors over the next decade in a deal valued at US$10 billion. In this context, can a US military intervention in Iran really be avoided?

China and India

With over one billion people, China is second only to the United States in oil consumption. China has one of the fastest-growing economies in the world and its demand for energy is projected to grow by 150% by 2020. China currently imports half of its oil, and its oil demand is increasing seven times faster than that of the United States. Moreover, like the United States, China in the future will become increasingly dependent on oil from the Middle East.

As a result, access to oil from the Middle East will become over time a key issue in relations between China and the United States. Indeed, the more Chinese actions in the Middle East are perceived as an effort to dominate oil resources there, the more the United States will consider China a threat to its interests, and vice-versa.

This is reflected by the revised US National Security Strategy, which takes a decidedly tough line on China. The strategy says that China’s leaders are ‘acting as if they can somehow “lock up” energy supplies around the world or seek to direct markets rather than opening them up –as if they can follow a mercantilism borrowed from a discredited era’. And in reference to China’s activities in countries like the Sudan, Beijing is chided for ‘supporting resource-rich countries without regard to the misrule at home or abroad of those regimes’. These admonitions do not appear in the earlier version of the strategy, and in a briefing subsequent to the release of the new doctrine, US National Security Advisor Stephen Hadley said the warning is an effort to get China’s leaders to think about ‘the broader constellation of their interests’.

Indeed, China has struck oil deals with places ranging from Siberia to the Sudan, from Indonesia to Iran and from Canada to Cuba. Some American policymakers believe these deals are not only designed to secure oil for China, but to effectively take oil supplies off a global market upon which the United States is increasingly dependent. This implies that a key driver of Washington’s future policy towards Beijing will be to defuse a potential US-China rivalry over global oil supplies.

Meanwhile, the Bush Administration is seeking ways to counter-balance China’s regional ambitions. In this context, in July 2005 the White House declared that it wants to help India become a major world power in the 21st century, the not-so-secret objective of which is to establish a balance of economic and military power in a region increasingly dominated by China.

In fact, the Bush Administration has concluded that it is in the strategic interests of the United States for India to emerge as a major global power, and the White House has stated that it will do its best to help India achieve that goal. In an effort to integrate India into the global nuclear order, therefore, the Bush Administration has broken with past non-proliferation policy, and has offered to make full civil nuclear energy cooperation with India the basis of the new bilateral relationship.

Russia and Central Asia

Russia has the world’s largest gas reserves and is the second-largest oil exporter after Saudi Arabia. American over-dependence on oil from Saudi Arabia and other unstable countries in the Persian Gulf has contributed to a nascent US-Russia energy relationship.

But progress on bilateral energy cooperation has been slow. In fact, most Russian oil is exported to Europe; Russia does not even rank among the top 15 suppliers of oil to the United States. Meanwhile, the first shipment of Russian liquefied natural gas (LNG) to the United States arrived in September 2005.

Russia and the United States have also spearheaded a call for increased nuclear power to provide a more secure energy supply for the world. After a meeting of energy ministers of the Group of Eight (G8) nations in Moscow in May 2006, the United States and Russia called for 'substantial rebirth' of the global nuclear industry. Moscow's energy plan includes increasing domestic nuclear power by 25%. But closer cooperation has been stymied by Washington's concerns over Moscow's dealings with Iran and its proposed deal to supply enriched uranium to the Islamic republic.

At the same time, the White House fears that Russian President Vladimir Putin is seeking to restore Russia as a great power through the use of oil and gas revenues. Indeed, growing oil revenues have enabled Putin to consolidate Kremlin authority, sideline competing centres of power and reassert control over former Soviet republics. The Kremlin has also seized control over energy resources through state-controlled companies such as Rosneft, the state oil company, and Gazprom, the state-owned gas monopoly.

During a speech in Vilnius, Lithuania on 4 May, US Vice President Dick Cheney warned the Kremlin against using gas and oil supplies as a political weapon. 'No legitimate interest is served when oil and gas become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation', Cheney said. His comments follow increased debate in Europe over the security of Russian energy supplies. In early 2006, Russian gas monopoly Gazprom temporarily cut off supplies to the Ukraine over a pricing dispute, a move that prompted sharp rebukes from the White House. Projections show that by 2025, Russia will supply 70% of Western Europe's natural gas. As Europe's vulnerability increases, some analysts fear that Russia could use its energy supplies as a lever to advance its geo-political agenda, including eroding the solidarity of NATO.

Finger-pointing between Washington and Moscow could, however, complicate efforts to handle energy security, the main theme of the G8 Summit in St Petersburg Russia in July 2006. Moreover, it could jeopardise US efforts to win the backing of Russia for a tough resolution on Iran's nuclear programme at the United Nations. Washington is trying to persuade Moscow to drop objections to a resolution giving Tehran a deadline to stop sensitive nuclear activities or face possible sanctions.

But Moscow places a high priority on preserving its agreement with Tehran to complete construction of a nuclear power plant in Bushehr because Iran has, in effect, saved Russia's nuclear power sector. The industry in Russia faced an uncertain future after it lost customers following the collapse of communism, and the deal with Iran provides tens of thousands of Russian companies with most of their work.

In October 2003 the United States persuaded Russia to delay delivery of fuel rods to Bushehr; this has slowed down the Iranian programme, and inauguration of the US$800 million reactor was recently postponed until October 2006. Meanwhile, Russia and Iran remain in protracted negotiations over the construction of three to five additional facilities at a cost of US$3.2 billion.

Meanwhile, the opening of the Baku-Tblisi-Ceyhan (BTC) pipeline in October 2005, which will bring Caspian oil to world markets, marks a major US foreign policy success. The pipeline stretches from Azerbaijan's offshore oil fields to the Mediterranean port of

Ceyhan in Turkey, via Georgia, bypassing Russia, which dominates all other routes to western markets for oil from the Caspian and Central Asia. The United States championed the project as a means to enhance the independence of former Soviet republics from Moscow.

Latin America
Instability in the Middle East has made Latin America's energy resources more strategic to the United States than ever before. Colombia produces more oil than some countries in the Persian Gulf, and exports most of it to refineries in Texas and Louisiana. The stability of Colombia is therefore the top US security priority in Latin America. In fact, US strategists have long feared that instability in Colombia might spill over and destabilise neighbouring Bolivia, Ecuador, Peru and Venezuela, all current and/or future suppliers of energy to the United States. This provided an important rationale for American financial support for 'Plan Colombia', a six-year plan to bolster Colombian stability. Since the United States began support for Plan Colombia under President Bill Clinton in 2000, US aid to Colombia has totalled US$4.5 billion, making it the world's top recipient of US financial assistance after Israel and Egypt.

Meanwhile, neighbouring Venezuela is the fourth-largest supplier of oil to the United States after Saudi Arabia, Mexico and Canada. Venezuela sends around 60% of its oil exports to the United States, amounting to approximately 1.5 million barrels per day. Some of the most important outlets for Venezuela's state oil company are the CITGO refineries in the United States that use Venezuelan heavy crude oil as feedstock. Because few refineries of this kind exist anywhere else in the world in numbers sufficient to make Venezuelan crude oil imports economically viable, Venezuela continues to be a dependable supplier of oil to the United States, despite periodic threats to the contrary.

West Africa
West Africa has often been touted as a possible substitute for America's growing dependence on crude exports from the unstable Middle East. Indeed, in his May 2001 National Energy Report, US Vice President Dick Cheney said that: 'West Africa is expected to be one of the fastest growing sources of oil and gas for the American market. African oil tends to be of high quality and low in sulphur, making it suitable for stringent refined product requirements, and giving it a growing market share for refining centres on the East Coast of the United States'.

In fact, the nations of West Africa (also known as the Economic Community of West African States –ECOWAS–) now supply the United States with approximately 18% of its annual crude oil imports; this figure is expected to increase to 25% by 2015. The region holds nearly 40 billion barrels of proved oil reserves, or about 3% of the global total. Taking into account unproved reserves, West Africa's share rises to some 7% of the world's total. In its efforts to promote greater diversity in oil supplies, the Bush Administration has courted six African countries: Angola, Chad, Congo, Equatorial Guinea, Gabon and Nigeria.

Nigeria is by far the largest oil producer in Africa, pumping about 2 million barrels of oil a day (about the same as pre-war Iraq), and it is the fifth-largest supplier of oil to the United States. Nigeria also has huge natural gas deposits. However, up to one quarter of Nigeria's daily production has been shut-in at times due to ongoing instability in the oil-rich Niger Delta. Nigeria also has border disputes with several countries over control of potentially oil-rich territories, conflicts which threaten onshore and offshore oil development. And since Nigeria is a member of OPEC, its crude oil exports are also limited by the oil cartel's policy restrictions.

Moreover, Nigeria is politically unstable and lurching towards disaster. With a restive population of around 130 million (some 250 ethnic groups in all) Nigeria faces the prospect of domestic unrest in advance of the presidential elections in 2007. President Olusegun Obasanjo is barred from holding the top office for a third term due to constitutionally-imposed term limits, and the future succession of the government remains highly uncertain.

Nigeria's problems are compounded by corruption. During the last 25 years, Nigeria earned more than US$300 billion in oil revenues, but annual per capita income plummeted from US$1,000 to US$390. The UN Human Development Index ranks Nigeria has having one of the worst standards of living, below both Haiti and Bangladesh. According to the World Bank, some 80% of the country's oil wealth goes to 1% of the population.

Indeed, Nigeria's problems are so ominous (many analysts call it the largest failed state on earth) that they may eventually entangle the United States. In fact, an American intervention remains a distinct possibility. In 2002, the White House declared that the oil of Africa is 'a strategic national interest', meaning that the United States would use military force, if necessary, to protect it.

Throughout West Africa, volatility constrains the region's role in improving America's energy security. In July 2005, the Washington-based Centre for Strategic and International Studies (CSIS) published a report titled 'A Strategic US Approach to Governance and Security in the Gulf of Guinea'. Given the rising US interests in the region's energy sector, the report recommended that the 'United States should make security and governance in the Gulf of Guinea an explicit priority in US foreign policy toward Africa and promulgate a robust, comprehensive policy approach to the region'.

In this context, the Pentagon has been increasing the US military footprint in the region. In 2005, the United States launched the Trans-Saharan Counter-Terrorism Initiative (TSCTI) with nine African countries, the objective of which is to introduce a more comprehensive approach to regional security by training and equipping national military forces. The Pentagon has also been studying the possibility of establishing military bases in a number of African countries, including Ghana, Kenya, Mali and Senegal, where access to ports and airfields are of increasing strategic importance.

Energy Independence or Energy Security?

In his State of the Union Address of January 2006, President Bush unveiled an Advanced Energy Initiative (AEI) which urges spending on technologies 'to break' America's addiction to oil. He went on to say that the United States should 'move beyond a petroleum-based economy'. Noting that oil is often imported from unstable parts of the world, Bush also set a goal of replacing more than 75% of US oil imports from the Middle East by 2025. (By contrast, during the 2000 presidential campaign, when high gasoline prices were already a political issue, Bush pledged to press Persian Gulf producers to pump more oil.)

In August 2005, Bush signed into law the first National Energy Plan in more than a decade. The plan is designed to encourage energy efficiency and conservation, promote alternative and renewable energy sources, reduce American dependence on foreign sources of energy, increase domestic production, modernise the electricity grid and encourage the expansion of nuclear energy.

But American political observers have been quick to point out that in 1971 President Nixon created 'Project Independence' designed to make the United States self-sufficient in energy by 1980. And in 1979, President Carter said that the nation would 'never again use more foreign oil than we did in 1977'. Moreover, for most of his presidency, Bush's top energy priority has been to increase domestic oil and gas production, but today the United Stated depends on foreign oil as never before.

In fact, between 1990 and 2005, US oil imports increased by six million barrels per day, higher than the oil consumption of all other countries in the world except for China, and equal to total Chinese demand. The US transport sector alone accounts for almost 70% of American oil consumption. Automobiles use about nine million barrels of the 20 million barrels the United States consumes each day. Trucks, heavy machinery and some power plants consume the rest. Overall, Americans are projected to spend some US$600 billion on petroleum-related purchases during 2006. And the Energy Information Agency forecasts that in 2030 America will consume 36% more oil for transport than it does now because there will be more cars travelling more miles.

Moreover, many analysts argue that although energy self-sufficiency is a worthy goal, it cannot insulate the United States from events elsewhere. For example, even if the United States were to overcome its energy reliance on the Middle East, other countries would still depend on oil from the Persian Gulf and therefore would be sympathetic to the political concerns of governments in the region. This dependence on the Middle East by consuming nations creates a political vulnerability for the United States, in that Washington may find it more difficult to persuade consuming nations to cooperate on political initiatives to which oil producers in the Middle East object, such as promoting democracy or sanctioning Iran.

Other analysts point out that because oil is traded in a global market, even if the United States was zero-dependent on oil from the Middle East, it would have little practical effect because oil prices are determined by global supply and demand, rather than bought from one country by another. Thus the United States will remain economically vulnerable irrespective of how much Middle Eastern oil it consumes.

Some economists argue that the only solution to the US energy problem involves a sharp change in the behaviour of American consumers. For example, the non-partisan Congressional Budget Office in 2004 estimated that a gasoline tax of 46 cents a gallon (4 litres), up from today's federal tax of 18 cents, would reduce gasoline consumption by 10% over the next 14 years. But Bush has opposed any effort to impose a higher gasoline tax because such a measure remains politically unpopular.

In any case, the benefits of Bush's National Energy Plan to end America's 'addiction to oil', such as more money for federal energy research into technologies that might reduce oil consumption, will be maximised only over the long-term, possibly 20 or more years into the future. Meanwhile, the most immediate problem facing the White House is that a confrontation with Iran over its nuclear programme could send oil prices skyrocketing.

Thus energy security still trumps energy independence in American foreign policy. And this implies that the world's most important energy relationship in the future will be the same one that has really mattered for more than half a century: the one between the United States and Saudi Arabia. But as non-OPEC sources dwindle, and Saudi output soars sharply, the kingdom will become increasing vulnerable to radical Islamic terrorists who have identified oil as the Achilles heel of the West.

Therefore, Saudis today understand what King Abdulaziz and President Roosevelt understood in 1945: the United States is the only country in the world with the capacity to protect Saudi oil. This implies that the United States will maintain a robust military presence in the Middle East for many decades to come. The more things change, the more they stay the same.

Conclusion: The underlying premise of American energy policy is that access to secure, reliable and affordable energy sources is fundamental to national economic security. But most of the world's oil is concentrated in places that are either hostile to American interests or vulnerable to political upheaval or terrorism. Indeed, from Iran to Iraq and China to Russia, oil lies at the heart of many of America's most pressing foreign policy challenges. This implies that until the United States moves beyond a petroleum-based economy, oil security will continue to be one of the primary drivers of US foreign and military policy.

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