



**Testimony before the Senate Foreign Relations Committee
Subcommittee on Near Eastern and South Asian Affairs**

**U.S. Foreign Policy, Petroleum,
and the Middle East**

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A Statement by

**Robert E. Ebel
Chairman, Energy Program**

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear before you today to discuss an extremely timely, somewhat complex and often misunderstood topic dealing with “U.S. Foreign Policy, Petroleum and the Middle East.” In your invitation to testify, Mr. Chairman, you identified three principal areas of interest:

- How has U.S. foreign policy been shaped by our need for affordable oil?
- What effect would greater energy efficiency and alternative energy sources have on U.S. foreign policy?, and
- The interaction between the Departments of State and Energy with respect to the handling of such issues.

As the State and Energy Departments are most ably represented here today, I will focus my remarks on the first two topics and also provide some general impressions and thoughts that are most relevant to this discussion.

Energy and Foreign Policy

Borrowing a characterization from Secretary Rumsfeld, let me begin a discussion of the energy and foreign policy issue by listing what I feel are some of the “known knowns” with respect to this topic:

First, as recognized by a wide range of officials ranging from President Bush and Alan Greenspan to Prince Abdullah and President Chavez – energy is a strategic commodity. It is the lifeblood of our economic well being, fuels the troops that protect our homeland, provides essential services in growing our crops, heating and lighting our homes, transporting goods to market, moving local, regional, national and international commerce, making information transfer via the internet possible, and providing us with the quality of life and mobility that we have come to enjoy and expect.

This is not a new phenomenon. But for the past 25 years or so, global surplus conditions (relative to demand) – in the case of spare oil producing capacity, global refining capacity, and in this country, natural gas production and power generation – have produced complacency and masked the critical role which energy plays in our everyday lives. It is only now when we are faced with conditions that threaten its reliability, security and affordability that we begin to more fully appreciate its importance.

As a consequence, energy policy formulation in this and other countries over the last quarter century has been, at best, a tepid attempt at balancing conflicting or competing economic, environmental, and foreign policy objectives – along with local political concerns – rather than a serious attempt to secure sustainable supplies on a forward looking basis. That era may now be over.

Secondly, globally speaking, the largest hydrocarbon reserve holders, at least in terms of conventional fuels sources – and this is true for both oil and natural gas – are

found in the Middle East, and also in Russia. This fact has several important implications:

1. Until we achieve the technological breakthrough that might make energy independence more than a political wish, we would do well to adopt policies and strategies that encourage interdependency and improve stability in various parts of the world; and
2. As we move to increase our dependence on LNG supplies from abroad as a means to satisfy our seemingly insatiable energy demand, consider the risks inherent in making our electric grid as import dependent as our transportation system.

For the past several decades, U.S. energy security policy, has been based on 4 pillars – encouraging the development of a wide variety of energy supplies at home and abroad; (periodically) promoting improved efficiency, conservation and the development of alternative energy sources; establishing the strategic petroleum reserve and the international sharing arrangement provided by the IEA (International Energy Agency); and relying on Saudi Arabia to act responsibly as the swing producer to moderate price and supply volatility. In addition, we have, at times, been moved to call on America’s military to defend facilities, protect transit routes and secure inhospitable areas.

In combination, these policy tools have worked reasonably well over the course of the past several decades. However, as the surplus conditions I referred to earlier have eroded and global demand has accelerated, energy markets and infrastructure have been greatly strained. The recent hurricanes in the Gulf have made that situation even more precarious.

Political Instability in Context

Much has been written about U.S. import reliance and how “undue” reliance on foreign oil imports from “unstable” parts of the world has undermined U.S. security. In point of fact, while it is frequently overlooked, Canada is the number one supplier of oil (crude and refined products) to America. And three of our top four suppliers (Canada, Mexico and Venezuela) are in the western hemisphere – and comprise over 48 percent of total U.S. petroleum imports.

Saudi Arabia currently supplies about 8 percent of total U.S. demand, although by any measure they remain the most prolific, reliable and secure source of oil for global consumers. With the exception of the targeted oil embargo of 1973, Saudi Arabia has been one of the very few highly reliable producer/exporters of the past 30 years. Their performance in providing the world with incremental supply in time of need (e.g., in the lead up to the 1991 Gulf War, during the 2002 Venezuelan strike, more recently in advance of the 2003 Gulf conflict and as prices spiked in the past two years) is unsurpassed.

While I recognize the focus of this hearing with respect to foreign policy choices in the Middle East, I would be remiss if I did not point out that the energy calculus is also in play with respect to security, foreign and economic policy choices made in other parts of the world and with global players as diverse as Canada, Mexico, Venezuela, Russia, China, Iran, Iraq, Nigeria, Sudan, and the Caspian.

One final note on this topic before moving on – and that relates to our definition of instability and conditions that affect continuous supplies. For all the hoopla surrounding the various centers of political unrest last year – and there were many – from concern about supply continuity in Russia in the wake of Yukos, the referendum in Venezuela, repeated sabotage in Iraq, strikes in Norway and Nigeria, the threat of unrest in Saudi Arabia – the single largest loss of global energy output in 2004 was the result of hurricane Ivan in the U.S. Gulf of Mexico. And I suspect that, barring any calamitous disaster occurring over the next quarter, the largest loss of production for 2005 will again be the result of hurricanes in the Gulf of Mexico.

Wealth Transfers from Oil Price Increases

The IEA and EIA (U.S. Energy Information Agency) have both projected huge increases in oil export revenues for all of the major producing/exporting nations. As collectively significant reserve holders, producers and exporters, this is particularly true for OPEC members and the GCC nations of the Middle East. Although it should be noted that Venezuela, Nigeria, Norway, Canada and Russia have also benefited greatly from higher energy export prices. EIA estimates that the GCC countries as a group will realize in excess of \$300 billion this year in oil export revenues. Over the course of that past 10 years, export revenues for all OPEC members have at least doubled, and in the case of Qatar, have tripled.

While I cannot comment on how this revenue is used by the host governments, I would only offer that given the enormous population, demographic, and social challenges faced by many of those countries in the coming years, one might well ask if this increased wealth can be more of a stabilizing or destabilizing factor. In short, would their plight and situations be improved if they were poorer?

Opportunities for Improved Efficiency and Use of Alternative Energy Forms

I have saved this last point until the end, because it represents the one area on which I would hope that this panel would have the most consensus. The question posed by the committee was whether and to what effect would improvements in energy efficiency and the development and use of alternative energy forms have on U.S. foreign policy.

As the energy market is global in scope, with producers and consumers engaging inter-regional trade, increases by one nation, even the United States as the largest energy

consumer, might not be enough to tilt the scale anytime soon. In fact, to the extent, the United States opted for a more costly energy form, freeing up lesser expensive conventional supplies to competitor nations, we could well find ourselves at a competitive disadvantage from an industrial point of view.

Alternatively, however, the prospect of increasingly ramping up global production to meet ever increasing demand and pitting strategic consumers against one another, competing for available and secure supplies is equally unappealing.

While not a supporter of the current hype associated with the increasingly pervasive “peak oil” theory, I recognize that as a world we are consuming conventional energy resources at a rate far in excess of replenishment. Therefore, we should welcome the addition of supplemental sources of supply, encourage the adoption of conservation and efficiency initiatives and promote the deployment of promising technologies for a wide variety of economic, environmental, health, trade, and security reasons.

The Stone Age did not end because we ran out of rocks. The oil age will likely be with us for decades to come. But we owe it to ourselves, our children and our children’s children to do better.