

9. ENSURING ENERGY INDEPENDENCE

In a period of great volatility and uncertainty in world energy markets, the term “security” is not always easily understood. When speaking about national security in general, George Kennan offered the definition that perhaps best applies to energy security policy today: “the continued ability of this country to pursue its internal life without serious interference.”¹

By Kennan’s definition, our reliance on foreign energy imports, and petroleum specifically, clearly threatens our national security. The prospect of a continued disruption, for whatever the reason, raises the prospect of serious interference in the ability of the United States to pursue its internal life and national interests.² Although the United States controls just 3 percent of the world’s oil reserves, we currently consume 25 percent of the world’s oil. As a result of this imbalance, we are heavily reliant on foreign oil, much of which comes from the conflict-ridden Middle East.³ “As long as we depend on oil, we will depend on Middle East oil,” says Fareed Mohamedi, chief economist at PFC Energy.⁴ The doubling of Chinese demand for oil over the last ten years has increased the volatility of the energy market. China has now overtaken Japan as the world’s second-largest consumer of oil, behind the United States. Chinese decisions on imports and trading links, for both oil and natural gas, will continue to be a major influence on the world energy scene.⁵

Since the 1973 Arab oil embargo, American political leaders have often promised action to reduce U.S. dependence on imported oil. Their efforts have clearly not succeeded. Today, the United States imports more than half of its oil. Since 1973, oil imports have doubled and natural gas imports have increased fourfold. Domestic oil production has declined 15 percent over the past decade; as a result, imports are expected to grow.⁶ The bottom line: The greater our dependence on foreign oil, the greater our exposure to the will of other nations and terrorists. World events in 2004, including violence in Iraq, terrorist attacks in Saudi Arabia, and political maneuvering in Russia, all strongly affected the price of oil and,

more important, demonstrate the vulnerability of the United States. As oil demand in North America and China continues to climb, we must assess the future stability of the U.S. oil supply.

SAUDI ARABIA

According to the *Petroleum Economist*, “The consequences of a disruption to Saudi oil supplies amid already tight supply and demand conditions would be devastating for the global economy.”⁷ Saudi Arabia takes the security of its oil very seriously. Although details of the kingdom’s security budget are classified, analysts estimate the Saudis spent around \$5.5 billion in 2003 and increased security expenditures by 50 percent this year. According to a recent assessment in *Jane’s Intelligence Review*, in the past two years the Saudi government has allocated an extra \$750 million to enhance security at all its facilities. Although this may seem comforting at first glance, basic economics teaches us that those costs will clearly be transferred to the biggest consumers, particularly the United States.

In the spring of 2004, however, the growing band of jihadists in Saudi Arabia succeeded in sending shock waves through the global energy industry without even firing a single shot at any physical oil infrastructure. A twenty-five-hour rampage of attacks on foreign oil-workers in Al-Khobar, the heart of Saudi refining operations, topped a month of increasingly bloody attacks that seemed to mark an intensification of the militants’ campaign against Western interests in the kingdom.

Maritime attacks offer probably the best chance of disrupting the export of oil supplies in a prolonged way. A string of al Qaeda-linked attacks since 1999 suggests a willingness to use sea routes to go after key targets. In 2000, al Qaeda operatives succeeded in launching a suicide attack on the USS *Cole* warship, anchored off Aden, Yemen. In October 2002, al Qaeda militants attacked the French-registered oil tanker *Limburg*.⁸

RUSSIA

In 2002, Russia became the world’s largest oil producer, pushing Saudi Arabia into second place, by extracting some 7.28 million barrels per

day, compared to the desert kingdom's 7.19 million.⁹ In light of that fact, President Bush in 2002 launched discussions with Russian president Vladimir Putin aimed at increasing U.S.-Russian energy trade. Events in Russia since then illustrate that Russia not only exerts significant leverage on world energy security but will continue to build its influence.

During the last two years, President Putin has consolidated state control over critical energy assets. The state's recent acquisition of a majority share in Gazprom gives Putin and his coterie a powerful lever over both domestic and world energy policy. According to the *Economist*, "Putin's energy policy allows Russia to play its neighbors like an orchestra." China and Japan have vied for years to be the destination for an oil pipeline out of Siberia.¹⁰ Gazprom has subsidiaries, wholly or partly owned, throughout the former Soviet Union and in most European countries. The mere threat of cutting off or rerouting oil and gas supplies sends petroleum futures climbing. For example, when Putin announced in September 2004 that Russia would need to temporarily halt exports to China, prices immediately rose. Furthermore, the ability of Chechen terrorists to implement multiple attacks, including the massacre in Beslan, demonstrates that energy supplies from Russia could easily be disrupted.

Because U.S. dependence on Middle East oil complicates our response to security issues in the region, the U.S. government should appropriate significantly more funds to subsidize a rapid shift to energy sources that do not rely upon oil and gas. Market forces have not adequately shifted U.S. reliance upon foreign fossil fuels and are unlikely to do so in a sufficiently timely manner to reduce the risks posed to the U.S. economy and national security.

The completion of the presidential campaign, the inauguration of a new administration, and the convening of a new Congress present an opportunity to rethink fundamentally how we have been fighting against the jihadists. Despite the lack of a major terrorist attack within our borders since 2001, evidence is abundant that the ranks of the jihadists have grown significantly. They have been conducting far more attacks worldwide than before 2001—a clear warning sign that our policies are not working and may even be counterproductive in some cases.

The plan of action laid out in this report is ambitious, complex, and expensive. But the challenge posed by the jihadists fundamentally threatens our nation and the world order, and seems sure to be with us for

more than a generation. During World War II and the Cold War, the United States and its allies triumphed over comparably grave threats through fortitude, ingenuity, and substantial sacrifice. We will triumph again over the jihadists. But to do so will require a much greater demonstration of our national strengths than we have put forward to date.