

foreign policy *in focus*



Interhemispheric Resource Center
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U.S. Oil Policy in the Middle East

Securing the flow of affordable oil is a cornerstone of U.S. Middle East policy. The U.S. strategy of dual containment of Iran and Iraq, designed to ensure that neither Iraq nor Iran is capable of threatening neighboring Gulf countries, is inextricably linked to Washington's oil policy. Currently, U.S. domestic oil production supplies about 50% of total U.S. consumption. Foreign sources provide the rest, primarily Canada, Venezuela, Mexico, and several African countries.

The U.S. is strongly committed to protecting Gulf oil, although only about 10% of oil used in the U.S. is imported from the region. During the cold war, U.S. strategy was primarily aimed at ensuring that Gulf oil

Key Points

- Controlling oil access is a cornerstone of U.S. Middle East policy.
- U.S. reliance on imported oil is very high.
- Oil from the Persian Gulf accounts for 10% of the oil used in the U.S.
- Dual containment of Iran and Iraq, along with a broader military engagement policy, is key to U.S. strategy in assuring the flow of oil.

did not fall into hostile hands. Gulf oil was and remains important because of its impact on the global economy. U.S. competitors in Europe and Japan depend much more on Gulf oil than the U.S. does: 30% of European oil imports and nearly 80% of Japan's come from the Gulf. The U.S. exerts significant influence on these countries through control of Gulf oil.

The Gulf Cooperation Council states (Saudi Arabia, Kuwait, Oman, Qatar, the United Arab Emirates, Bahrain), Iran, and Iraq

jointly possess 64% of the world's proven oil reserves.

The most important among Gulf states is Saudi Arabia, which alone controls 27% of the world's oil supplies.

Saudi Arabia's light crude is particularly sought after in the market by U.S. industries for sophisticated uses such as production of airplane fuels. Furthermore, money generated from Saudi oil sales to the U.S. often translates into Saudi arms purchases from U.S. weapons dealers.

Oil represents the backbone of the Saudi economy. But despite its small population and its oil revenues reaching \$45 billion, in the 1990-93 period Saudi foreign

and domestic debt climbed to \$70 billion. Most of this was the result of arms purchases, largely from the United States. Riyadh allocates 35% to 45% of its budget for military spending. The rise of opposition forces within Saudi Arabia is linked to this pattern of arms spending as well as the corrupt practices of the monarchy. To the opposition, U.S. imports of Saudi oil and Washington's role as guarantor of Saudi oil for Europe and Japan reflect U.S. support for the practices of the regime, including suppression of dissent, human rights abuses, and the exclusion of the population from political participation. In this sense, the clandestine Saudi opposition sees the U.S. as a partner to the regime and thus regards U.S. installations as legitimate targets for resistance.

For the last decade or so, Gulf monarchies have invested higher percentages of oil profits in land, hotels, real estate, factories, and other enterprises in the U.S., Europe, Japan, and elsewhere. As a result, increasing income of the oil-exporting states is linked to profits from unrelated businesses in oil-importing states rather than from the sale of oil itself. This gives the Gulf oil states some stake in keeping oil prices relatively moderate, since they share financial interests in the oil-importing countries. This diversification also provides the Gulf states additional leverage to manipulate oil prices and production. The result is that the monarchies can manipulate the world oil markets while remaining relatively protected.

The Gulf War made clear the U.S. commitment to the security of Kuwait and other Gulf states. While Kuwait and the other Gulf ministates provide only a tiny proportion of total U.S. oil imports, those smaller countries are still central to broader U.S. policy objectives in the region. Washington maintains military and naval installations in Kuwait, Oman, Saudi Arabia, and Bahrain, regarding the presence of these U.S. forces as central to keeping the pressure on Iran and Iraq to secure the flow of oil and prevent any threat to oil in the international waterways.

The U.S. consumes far too much oil. The absence of any clear policy to reverse this trend is dangerous. Increased pollution and environmental damage alone require a new policy toward oil dependence. The specific costs of relying on large percentages of imported oil are also enormous, both economically and strategically.

Before the overthrow of the Shah of Iran, the two legs of U.S. policy in the oil-rich Gulf region were Iran and Saudi Arabia. With the victory of the Islamic Revolution, reliance on Iran ended, and U.S. policy has still not regained its balance. Foremost among the problems with current U.S. oil policy is that the cost of protecting Gulf oil, with the U.S. insisting on a unilateral defense strategy, is too high.

Despite their high dependence on Gulf oil, neither Japan nor Europe plays a major role in strategic defense of the region, and as long as its partners ante up cash for major operations like Desert Storm, the U.S. is prepared to continue to keep strategic command. Even without a crisis of Desert Storm proportions, oil from the Gulf ends up costing more than its per-barrel price because of billions in defense costs.

The U.S. became painfully aware of the need for a new oil policy after the oil shocks of 1973-75 and 1978-80. In 1973, the per-barrel price of Saudi light crude was \$2.41. With the Arab oil embargo it quickly rose to \$10.73. Then, beginning in 1978, the price of a barrel of crude shot up from \$13.34 to \$32.81. Since then the U.S. has been publicly committed to reducing dependence on foreign oil. However, despite repeated promises by both Democratic and Republican presidents, the U.S. has actually increased that dependence.

Instead of trying to wean the country from Gulf oil, Washington has focused on military-strategic efforts to ensure dominance in the oil region. However, its major approach, dual containment, is fundamentally flawed. Its stated purpose is to protect the flow of reasonably priced oil, yet it was imposed when oil prices were plummeting and the oil states were frustrated because of a glut on the market. In this sense, the large U.S. military presence in the Gulf, supposedly preventing Iran and Iraq from threatening oil supplies, is unnecessary. Furthermore, the current U.S. military presence has negative political consequences for the stability of the oil regimes, as seen in the latest attacks on the U.S. military installation in Saudi Arabia.

In addition, U.S. policy ignores some fundamental realities.

First, neither the Iraqi nor Iranian regimes are likely to remain isolated forever. European countries, China, Russia, and other countries with interests different from Washington are all abandoning U.S. policy to consider trade with Iran and Iraq. Turkey, especially, is currently hurt by U.S. policy, deprived of the revenues generated when Iraq exported oil through a Turkish pipeline.

Isolating Iraq and insisting on the continuation of oil sanctions to weaken Saddam Hussein angers regional public opinion, since the Arabs perceive this policy as responsible for starving the Iraqi people. This anger will sooner or later be directed against regimes responsible for bringing U.S. troops to the region and could have grave consequences for oil flow and oil prices in Western countries.

Second, the attempt to exclude Tehran from influencing regional politics is unrealistic. The majority Shi'i community in Iraq, as well as oppressed Shi'i communities in other Gulf states with the capacity for destabilization, will certainly be influenced by neighboring Iran. The Saudi oil region is populated by Shi'i. Pushing Iran to the limits, coupled with the miserable conditions of the Shi'i in other countries, could bring about exactly the regional instability that the U.S. is trying to prevent. Saudi oil security, as defined by the West, is contingent on a pacified Shi'i population in Saudi Arabia's eastern province.

Uncritical U.S. support for autocratic Gulf monarchies and their human rights abuses have weakened both U.S. policy and the oil regimes. It undermines U.S. policy by demonstrating the hypocrisy in American rhetoric about democracy and human rights and weakens the regimes by creating the perception among Gulf subjects that their countries are being ruled in the interests of an outside power. Even members of the Gulf's ruling elite have a strong perception that the U.S. is forcing them to buy weapons that they don't need and not allowing them to diversify their weaponry by purchasing arms from Europe. This creates tension between the U.S. and its European allies regarding Gulf procurement.

Key Problems

- The U.S. is far too dependent on oil, and U.S. policy puts little emphasis on developing energy alternatives.
- Dual containment, the key component of U.S. strategy in the Gulf region, is expensive, inappropriate, and ultimately unnecessary to protect oil.
- The U.S. does not take into account its allies' human rights violations, arms spending, or political repression.

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