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## Oil. Geopolitics Reborn: Oil, Natural Gas, and Other Vital Resources

Michael T. Klare  
*Hampshire College*

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# Geopolitics Reborn

## Oil, Natural Gas, and Other Vital Resources

*Michael T. Klare*

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*Competition over vital resources is a potent source of international friction among nations and within states. The result is the increasing interplay of international and internal struggles and the growing militarization of the global energy resource quest.*

**E**ver since the end of the Cold War, conflict analysts have sought to identify and explain the main sources of friction and strife in the international system. Until that point, most violent conflict was assumed to reflect or embody the global rivalry between the United States and the Soviet Union. With the termination of that great struggle, however, it has become more difficult to explain the crises and wars that have erupted in different parts of the world. Various theories have been advanced to satisfy this need, many revolving around identity politics and the “clash of civilizations,” as Professor Samuel P. Huntington of Harvard University would have it. Since 9/11, moreover, the emergence of incendiary anti-Western politics within the Islamic world has also been cited as a major source of disorder. But while identity politics and Islamic extremism certainly represent important sources of strife, they do not provide a full explanation for the outbreak of violent conflict in the current period or for the growing friction among the great powers. Clearly, other sources of rivalry and aggression must be at work. It is the author’s view that intense competition for control over vital resources — oil, water, land, minerals, diamonds, old-growth timber, deep-sea fisheries, and so on — is an especially potent source of international friction and disorder.<sup>1</sup>

The pursuit of valuable resources has, of course, long been recognized as a major source of conflict. Indeed, the competitive pursuit of overseas colonies was a major source of friction between the major European powers

*Michael T. Klare is Five College Professor of Peace and World Security Studies based at Hampshire College and author of Resource Wars: The New Landscape of Global Conflict and Blood and Oil: The Dangers and Consequences of America’s Growing Petroleum Dependency.*

between 1500 and the outbreak of World War I — a struggle that led to periodic wars between these powers as well as to prodigious slaughter in the colonies themselves. World War II also entailed resource-driven aggression, particularly in the oil-rich Caucasus and Dutch East Indies — the first a major objective of Germany's 1941 invasion of the USSR, the second a target of Japan's 1941 foray into Southeast Asia. During the Cold War, however, material interests of this sort were accorded second place to ideological struggle; a nation's allegiance to either Washington or Moscow and not its resource endowment, was the major determinant of its role in world affairs. But with the end of the Cold War, resource competition has again assumed its accustomed role as a major source of rivalry and conflict.

The competition for access to major sources of critical materials has also emerged as a major source of friction *within* states. Many of the disputes identified in the Western press as ethnic or religious disputes — such as those in Afghanistan, Angola, Congo, Indonesia, Liberia, Nigeria, Sierra Leone, and Sudan — are, in fact, struggles between competing warlords, militias, and government factions for control over valuable mines, oil fields, timber stands, and other key resources. Outside powers and the giant multinational corporations often become entangled in these struggles, notably when they side with one faction or another in an effort to maximize their extraction of critical resources.

From a global perspective, then, we are witnessing the emergence of an increasingly complex and volatile interplay of international and internal struggles over the control of vital resources. On one side of this equation are the major powers — the United States, Russia, China, Japan, and Western Europe — that seek dominion over major resource-producing areas, such as the oil and natural gas fields of the Persian Gulf and Caspian Sea basins. On the other side are local factions — warlords, tribal chieftains, militia leaders, and so on — that aim to monopolize the revenues generated by particular resource deposits while enjoying the continued protection and support of their great-power patrons. The result, all too often, is the accelerated intrusion of arms, advisors, troops, and mercenaries into areas that are already bedeviled by internecine conflict.

Historically, international competition and conflict of this sort — aimed at the control or occupation of critical geographic features (rivers, harbors, islands) and vital resource sites — has come under the heading of geopolitics. Once a respectable analytical term, geopolitics fell into disrepute when employed by the militarists in Germany and Japan to justify the acquisition of *lebensraum* in Europe in the one case and an imperial domain in Asia in the other. The term further lost legitimacy during the Cold War era, when noble principle — and not material interest — supposedly governed the behavior of both superpowers. But no expression better captures the policies and behavior of the United States, Russia, China, and other major powers in the Persian Gulf, Central Asia, and other areas of mutual competitive interest.<sup>2</sup>

Perhaps no area better illustrates this trend than the Caspian Sea basin, consisting of the former Soviet republics of Azerbaijan, Georgia, Kazakhstan, Turkmenistan, and Uzbekistan plus Iran and Russia. This area is thought to harbor vast reserves of oil and natural gas, but is also the site of numerous ethnic conflicts, religious antagonisms, and territorial disputes. To further complicate matters, the Caspian itself is landlocked, and so any oil exiting the area for markets elsewhere must travel by pipeline through contested or wartorn areas before arriving at ports in stable countries. Within this region, for example, are the embattled ethnic enclaves of Chechnya, South Ossetia, Abkhazia, and Nagorno-Karabakh. Despite this, the leaders of Russia, China, and the United States all seek to exercise a degree of control over developments in the region and thereby gain access to its valuable energy supplies. This, in turn, has led to an infusion of arms and military advisers into the region, and to the establishment of new military bases. (I will say more about this later.)

The reemergence of geopolitical competition of this sort in the current era and the growing risk of conflict over vital resources is the product of many factors. Four, in particular, merit our attention: first, a relentless increase in the demand for energy supplies and other vital materials; second, indications that the global supply of these materials may not grow fast enough to satisfy surging demand or may in fact decline; third, a growing reliance on materials obtained from chronically unstable areas of the developing world; and fourth, an increasing tendency to view resource scarcities and disputes through the lens of military policy and to act accordingly. Because the first, second, and third of these factors are not likely to abate in the years ahead, the fourth can only grow more pronounced. It behooves us, then, to examine each of these factors in greater detail, focusing in particular on oil and natural gas.

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### **Insatiable Demand**

Economies — all economies — run on energy. Energy is needed to produce food and manufacture goods, to power machines and appliances, to transport raw materials and finished products, and to provide heat and light. Since World War II, economic growth around the world has been fueled largely by abundant supplies of hydrocarbons: petroleum and natural gas. Since 1950, worldwide oil consumption has grown eightfold, from approximately 10 to 80 million barrels per day; gas consumption, which began from a smaller base, has grown even more dramatically. Today, hydrocarbons provide 62 percent of the world's total energy supply — approximately 250 quadrillion BTUs out of a total supply of 404 quads. But no matter how important today, hydrocarbons will prove even more critical in the future: according to the U.S. Department of Energy (DOE), oil and gas will account for a larger share of world energy in 2025 — 65 percent — than they do today.<sup>3</sup> And because no other source of energy is currently available to

replace oil and gas if these resources become scarce, the future health of the world economy rests on the planet's ability to produce more and more hydrocarbons.

The future availability of oil and gas also affects another key aspect of the global economic equation: the growing challenge to the older industrialized nations posed by dynamic new economies in East Asia, South Asia, and Latin America. At present, the industrialized countries account for approximately two-thirds of total world energy use. Because these countries, for the most part, possess mature and efficient economies, their demand for energy is expected to increase by a relatively modest 35 percent between 2001 and 2025, a conceivably manageable rate of increase. But demand in the developing world is growing at a much faster rate than in the older industrialized countries, and so their share of total world consumption will rise to nearly half by 2025, and when their added demand is combined with that of the industrialized countries, the net world increase jumps from 35 to 54 percent over this period — a much more demanding challenge to the global energy industry.<sup>4</sup>

The developing countries are especially hungry for increased oil and natural gas supplies. According to the DOE, oil consumption by the developing world will increase by 96 percent between 2001 and 2025, while consumption of natural gas will rise by 103 percent. For China and India, the rate of growth is even more dramatic: China's oil consumption is projected to jump by 156 percent over this period and India's by 152 percent.<sup>5</sup> The struggle by these countries and other developing powerhouses like South Korea and Brazil to obtain additional oil and gas for their growing economies will naturally pit them against the older industrialized countries in the competitive pursuit of energy. As suggested by Secretary of State Condoleezza Rice after the Crawford, Texas, meeting between President Bush and Crown Prince Abdullah of Saudi Arabia, on April 25, 2005, "Obviously, with the states like China, India, and others coming on line, there is concern about demand and supply."<sup>6</sup>

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### **Uncertain Supply**

Accommodating the growing demand from China, India, and the others would not be a significant problem if we had great confidence that the global energy industry is capable of generating the necessary additional supplies. And, in fact, the U.S. Department of Energy wants us to believe that this is, indeed, the case: that future oil and gas supplies will be more than sufficient to satisfy anticipated world demand. But many experts dispute this view. World oil and gas supplies, they argue, will never achieve the elevated levels promised by the DOE. This is true because much of the world's known hydrocarbon reserves have already been exhausted and

because not enough new fields have been discovered in recent years to make up for the depletion of older reservoirs.

Take the case of oil. The DOE predicts that global petroleum output will reach 120.6 million barrels per day in 2025 — 44 million more than at present and just a tad shy of anticipated world demand of 121 million barrels per day.<sup>7</sup> For this to occur, the major oil firms must discover massive new reserves and substantially increase their output from existing fields. But few large fields have been discovered during the past forty years, and only one — the Kashagan field in the Caspian Sea — has been found in the past ten years. At the same time, daily production at many older fields in North America, Russia, and the Middle East has significantly declined. As a result, many geologists now believe that the global petroleum industry will not be capable of rising to the 120 million barrels level projected by the DOE, but instead will “peak” — reach maximum sustainable yield — at a level far below that number.<sup>8</sup>

Predictions that global oil output will peak between now and 2025 and fall far short of the DOE’s projections are highly controversial, with some experts insisting that petroleum will remain plentiful in the years ahead and others asserting that peak oil has already arrived.<sup>9</sup> This is not the place to assess these competing claims. But one way to get at this issue is to look at the all-important case of Saudi Arabia, the world’s leading supplier and the best prospect for higher production in the future. According to the DOE, Saudi Arabian oil output will more than double between 2001 and 2025, jumping from 10.2 to 22.5 million barrels per day.<sup>10</sup> If Saudi Arabia can, in fact, raise its output by this amount we can have some degree of confidence that total world supplies will be adequate to satisfy anticipated demand at the end of this period. But there are growing indications that Saudi Arabia is *not* capable of raising its output by this amount, or anything close to it. In a much-discussed 2004 article in the *New York Times*, industry analyst Jeff Gerth reported that “Oil executives and government officials in the United States and Saudi Arabia . . . say capacity will probably stall near current levels, potentially creating a significant gap in the global energy supply.”<sup>11</sup>

In response to Gerth’s assertions, Saudi officials insisted that their country is fully capable of boosting daily production by a sufficient amount to satisfy anticipated world requirements. “Should [higher world demand] actually materialize . . . we’re going to be ready to meet it,” Saudi Oil Minister Ali I. Al-Naimi declared in February 2004. In particular, “we have looked at scenarios of 12 million [barrels per day] capacity, we have looked at 15 million capacity, and those are all feasible.”<sup>12</sup> These and other such pronouncements have provided some relief to those alarmed by Gerth’s 2004 report in the *Times*. But note that Al-Naimi spoke only of “scenarios” for reaching 12 or 15 million barrels per day, not an ironclad guaranty; and even this increase falls far short of the 22.5 million barrels projected by the Department of Energy. Many energy analysts have suggested, moreover,

that any drive by Saudi Arabia to boost its daily output above 10 million barrels for any length of time will cause irreparable harm to its fields and result in an inevitable drop in production. As noted by one senior Saudi oil executive, an attempt to reach 12 million barrels per day would “wreak havoc within a decade.”<sup>13</sup>

The question of Saudi Arabia’s future oil output is vitally important to this discussion because it is highly unlikely that any other supplier (or combination of suppliers) can make up the difference between Saudi Arabia’s sustainable yield of 10–12 million barrels per day and the 22.5 million barrels projected by the DOE for 2025. Other big suppliers — Iran, Iraq, Kuwait, Nigeria, Russia, and Venezuela — will have a hard enough time maintaining their own output at current levels, let alone fill in for the missing Saudi oil. This being the case, it appears highly unlikely that the global oil industry will be capable of satisfying anticipated world demand in the years ahead; instead, we should expect chronic petroleum shortages, higher prices, and persistent economic hardship.

It is precisely because of this prospect that many national leaders are now placing greater emphasis on the acquisition of increased natural gas supplies. Because gas was developed later in the industrial cycle than oil, its principal sources of supply have not yet been fully exhausted, while new fields, such as those in Iran and the East China Sea, await full-scale development. Like oil, natural gas will eventually reach a global peak in output, but this will not occur until a decade or so after oil has peaked. As petroleum output declines, therefore, natural gas is expected to take up some of the slack, but only some, because there is not enough gas in the world to fully replace petroleum in all its myriad uses. And it is for this reason that many governments seek to gain control over or access to major gas reserves *now*, before they are locked up by someone else.

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### **Unstable Suppliers**

While the timing and severity of the coming energy crunch remains a matter of conjecture, there is no such debate regarding the next most critical factor in the global energy equation: the historical shift in the locus of world oil production from the industrial nations of the global North to the developing nations of the global South. This is a natural consequence of the fact that commercial oil production began in the United States, Canada, and Europe (including Romania and the Caucasus region of the Russian/Soviet empire), and only gradually spread to the developing world. With the passage of time, the earliest fields to be exploited — including those in the United States and Europe — reached their maximum sustainable output and began an inevitable decline. But because the giant fields in the developing world came into production later, they have not yet reached their peak capacity and are still on the upswing. Hence, while two-thirds of world oil produc-

tion was concentrated in the North in 1950 and only one-third in the developing world, today the ratio is almost exactly reversed, with approximately two-thirds of world oil coming the South and only one-third from the North.

This shift in the locus of oil production has enormous geopolitical consequences, as virtually all of the newer producers — mainly countries in the Persian Gulf area, West Africa, the Caspian Sea basin, and the Andean region of South America — are riddled with corruption and subject to recurring political, ethnic, and religious disorder. In Nigeria, for example, ethnic minorities in the oil-producing Delta region are battling entrenched elites in the federal capital of Abuja; in Venezuela, an ongoing struggle between supporters and opponents of President Hugo Chávez has impaired national oil output; and in Iraq, anti-American insurgents are attacking pipelines and refineries on a near-daily basis. It is these and other such disturbances, that is primarily responsible for the current surge in oil prices.<sup>14</sup>

It is possible, of course, that order will be restored in these countries and their oil output increased. It is far more likely, however, that the unrest will intensify and spread to other producers, further curtailing the global availability of petroleum. This is not due to a lack of oil in the ground, but rather to the inherently unstable nature of Third World oil producers, many of which emerged from the colonial era with feeble political structures and large pockets of ethnic unrest. “Unlike past concerns,” Federal Reserve Chairman Alan Greenspan observed in October 2004, “the current situation reflects an increasing fear that existing reserves and productive capacity have become subject to potential geopolitical adversity.” Such concerns “are not frivolous,” he noted, “given the stark realities evident in many areas of the world.”<sup>15</sup>

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### **The Militarization of the Global Energy Quest**

The advent of “geopolitical adversity” in the energy-producing regions leads to the fourth and final factor in the global resource equation: the growing militarization of international efforts to secure foreign sources of oil and natural gas. Rather than rely on market forces alone, the United States and other major consumers are increasingly committed to the use of military force to protect overseas pipelines and refineries, guard extended tanker routes, defend beleaguered oil producers, and otherwise ensure the safe flow of energy. This has already led to the establishment of a large U.S. military presence in the Persian Gulf region, and is now being followed by the introduction of American forces in oil-producing areas of the Caspian Sea region, West Africa, and Latin America. Other great powers, including Russia, and China are behaving in a roughly analogous fashion. The stage is being set, therefore, for recurring conflicts over access to foreign energy supplies.



The use of force to protect oil is not, of course, an entirely new phenomenon. The British government first viewed the protection of foreign oil supplies as a major military priority during World War I, when oil-powered ships, tanks, and planes first made their appearance on the battlefield. After the Great War, Britain extended its military reach to the oil kingdoms of the Persian Gulf, including Iran, Iraq, and Kuwait; the Soviet Union followed a similar path in the Caucasus region, then a major producing area.<sup>16</sup> The United States got into the act after World War II, when it sought to establish a protectorate over Saudi Arabia and to deny the Soviet Union access to the greater Gulf region. In 1980, the protection of Persian Gulf oil was made an explicit goal of U.S. security policy when President Jimmy Carter told Congress that the United States would use “any means necessary, including military force” to block efforts by hostile powers to cut off the flow of petroleum. This principle was later cited by President George H. W. Bush to justify U.S. intervention in the first Persian Gulf conflict (1990–91) and provided the underlying rationale for the 2003 U.S. invasion of Iraq. Today, the United States maintains a vast military presence in the Persian Gulf area, and this presence is likely to remain so long as oil is considered vital to the U.S. economy.<sup>17</sup>

But while the Persian Gulf remains the major focus of American concern, it is not the only oil-producing region to elicit this sort of interest: the United States is also building up its military presence in other oil-producing areas, including the Caspian Sea basin, Colombia, and West Africa. As a result, the U.S. military is being gradually transformed into a global oil-protection service.<sup>18</sup>

The process is most advanced in the Caspian Sea basin. The United States first took a significant interest in this area in the early 1990s, when the former Soviet republics of the Caucasus and Central Asia declared their independence from Moscow and sought to establish ties with the West. Eager to lessen America’s dependence on oil from the Persian Gulf area, President Clinton eagerly supported efforts by U.S. energy firms to acquire concessions to promising oil and natural gas fields in the region and to construct new pipelines from the land-locked Caspian to the West. Fully aware of the region’s inherent instability — a product of age-old ethnic rivalries and the traumatic legacy of Russia/Soviet imperialism — Clinton also sought to protect these new energy assets by bolstering the military capabilities of the Caspian countries and by enhancing America’s ability to conduct military operations in this area. This process began well before 9/11, but has been accelerated since then by President Bush and now entails the maintenance of permanent U.S. military bases in the region along with substantially increased military aid to friendly local powers.<sup>19</sup>

A similar trajectory can be detected in Colombia and Africa. Claiming that the protection of Colombia’s highly vulnerable oil infrastructure from guerrilla attack is an integral part of the government’s drive to restore order in the countryside, the Bush administration has authorized the deployment

of U.S. Special Forces specialists in Colombia to train and advise the government troops now helping to guard the Caño Límón pipeline in the northeast against guerrilla attack. Other U.S. advisers are working with Colombian forces assigned to protect oil-exploration operations in the Putomayo province, another insurgent stronghold. Slowly but surely, the United States is becoming involved in a protracted counterinsurgency campaign in Colombia — and it is the protection of oil, not the war on drugs, that appears to be driving this process.<sup>20</sup>

The projection of U.S. military power is less well advanced in West Africa, but is no less troubling. At present, there are no American troops permanently assigned to Africa, but U.S. military instructors are helping to enhance the combat capacity of friendly nations and the Department of Defense is looking for possible basing locations in the area.<sup>21</sup> These efforts are typically described as a response to the presence of terrorist groups in Africa, but one Pentagon official told the *Wall Street Journal* that “a key mission for U.S. forces would be to ensure that Nigeria’s oil fields, which in the future could account for as much as 25 percent of U.S. oil imports, are secure.”<sup>22</sup>

Nor is the United States alone in seeking geopolitical advantage in the major oil-producing areas. Russia and China, for reasons of their own, are following a similar course. Russia, which once incorporated the Caspian basin into its imperial territory, now seeks to reassert its control over the area, using both economic and military means to achieve its objectives. China, for its part, seeks to acquire an ever increasing supply of oil and natural gas from this region, and so aims to establish close ties with the key governments involved. In pursuit of their goals, both countries have provided arms to friendly regimes and deployed military advisers in the area. China has also extended its geopolitical reach to Africa and the Persian Gulf, in some cases aiding countries like Iran and Sudan that are viewed as potential adversaries of the United States. As a result of all this, more and more arms are flowing into these areas and the groundwork is being laid for a continuing series of regional oil conflicts.<sup>23</sup>

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### **The Emerging Security Environment**

What can we expect from this intensifying struggle over valuable sources of oil and gas? As the episodes described earlier suggest, national leaders are placing greater emphasis on the competitive pursuit of energy than ever before. In her jaunts around the world — in India, Russia, and, most recently, Latin America — Condoleezza Rice has raised the energy issue at every turn, pressing America’s allies and business partners to supply us with more oil and to ignore the appeal of “rogue” producers like Iran and Venezuela. Many other world leaders, like Vladimir Putin of Russia and Junichiro Koizumi of Japan, have behaved in a similar fashion, albeit with an energy-dictated agenda of their own.

What is so striking in all of this is the degree to which the quest for energy has been elevated to a *national security* matter, on an equal plane with efforts to combat nuclear proliferation and international terrorism. Thus it was the president's national security adviser, not the Secretary of Energy, who briefed reporters on the outcome of Bush's April 25 meeting with Crown Prince Abdullah, and it is the Secretary of State, Condoleezza Rice, who is leading the charge for the administration's global energy policy. The difficulties arising from inadequate supply, she declared, "have to be addressed, not by jawboning, but by having a strategic plan for dealing with the problem."<sup>24</sup> Anyone familiar with Bush administration lexicology cannot help but be a bit concerned by this call for a "strategic plan" to obtain additional energy — redolent, as it is, of the administration's bellicose, preemptive strategy for dealing with terrorism, "rogue states," and weapons of mass destruction.

What is true for the United States is also the case for other major oil-importing countries. Warning that China has outperformed India in the pursuit of new oil and gas reserves, Indian Prime Minister Manmohan Singh declared in January that New Delhi would have to accelerate its efforts in this area. "I find China ahead of us in planning for the future in the field of energy security," he told a convention of Indian oil and gas executives. "We can no longer be complacent and must learn to think strategically, to think ahead, and to act swiftly and decisively."<sup>25</sup>

Japanese leaders, too, have stressed the need for decisive action. Tokyo's decision to proceed with drilling in contested areas of the East China Sea is just one indication of this outlook. Equally striking is Japan's effort to extend a new oil pipeline in Siberia to Nakhodka, on the Sea of Japan, rather than to Daqing, in China. Originally, Moscow had planned to terminate the pipeline in China, as part of a plan to strengthen Sino-Russian energy cooperation. But after Prime Minister Koizumi flew to Moscow and offered billions of dollars in additional aid and technology to Russia, President Putin indicated a preference for the Nakhodka route, which will facilitate oil deliveries to Japan. This has not deterred Chinese leaders from seeking a reversal of this decision, claiming that the "strategic partnership" between Moscow and Beijing outweighs the purely mercantile interests of Japan.<sup>26</sup>

So far, none of these efforts has led to more than verbal sparring, bidding wars, and the occasional outbreak of street protests, as in the anti-Japanese demonstrations that erupted in Shanghai and Beijing in the spring of 2005. But if history is any guide, such friction — when combined with other sources of animosity, like China's smoldering resentments over Japanese atrocities during World War II — can lead to more violent forms of competition. This is certainly the case in the East China Sea, where Chinese and Japanese planes and gunboats have already made threatening passes at one another. Tensions are sure to rise, moreover, when (and if) Japan commences drilling in waters claimed by China. "If real exploration starts, we

cannot totally exclude the possibility of Japanese private company ships having to face Chinese military ships,” said Junichi Abe, an analyst at the Kazankai Foundation in Tokyo.<sup>27</sup> And if this were to occur, the Japanese government would come under enormous political pressure to protect those private vessels with planes and warships of its own, thereby setting the stage for an armed confrontation with China, whether intended or not.

Similar escalation could occur in other cases of disputed energy claims. In the Caspian Sea, for example, Iran seeks control over offshore oil and gas fields also claimed by Azerbaijan, an ally of the United States. In July 2001, an Iranian gunboat steamed into the contested area and chased off an oil-company exploration vessel operating there under Azerbaijani auspices. In response, the United States has pledged to help Azerbaijan build a small Caspian navy, to better protect its offshore energy claims. On April 11, John J. Fialka of the *Wall Street Journal* revealed that the U.S. Department of Defense will spend \$100 million over the next few years to establish the “Caspian Guard,” a network of police forces and special-operations units “that can respond to various emergencies, including attacks on oil facilities.”<sup>28</sup> Russia is also expanding its Caspian Fleet, as it, too, presses its claims to offshore fields in the region. It is all too easy, then, to imagine how a minor confrontation, such as the 2001 incident involving an Iranian gunboat, could erupt into something much more serious, involving some combination of American, Russian, and Iranian forces.

Territorial disputes of this sort with significant energy dimensions can be found in other areas, including the Red Sea, the South China Sea, the Persian Gulf, the Gulf of Guinea, and the Bakassi Peninsula (a narrow stretch of land claimed both by Nigeria and Cameroon). In each of these areas, opposing claimants have employed military force on occasion to assert their control or to drive off the forces of a challenger. None of these incidents has led to a full-scale conflict, but lives have been lost and the risk of renewed fighting persists. As the global struggle for energy intensifies, therefore, the danger of escalation will grow.

How all of this will play out cannot be foreseen. But it is important to recognize that energy-related pressures are bound to increase as global demand continues its upward course and the supply of oil and natural gas fails to keep pace. At present, these pressures are being mediated by market forces and diplomacy; presumably, this will continue to be the case. But, once a problem has become tagged as a matter of national security, as is now the case with energy, it passes from the realm of economics and moves into the realm of military policy. With this, the generals and strategists get into the act, and begin their ceaseless planning for assorted “contingencies” and “emergencies.” No one may intend to go to war over oil or gas, but it is in this sort of an environment that small incidents evolve into crises and crises into wars.

## Notes

1. I first advanced this argument in Michael T. Klare, *Resource Wars: The New Landscape of Global Conflict* (New York: Metropolitan Books, 2001).
2. The author first advanced this argument in Michael T. Klare, "Geopolitics Reborn: The Global Struggle over Oil and Gas Pipelines," *Current History* (December 2004): 428–33.
3. U.S. Department of Energy, Energy Information Administration, *International Energy Outlook 2004* (Washington, D.C.: DOE/EIA, 2004), Table A1, 163. (Hereinafter cited as DOE/EIA, *IEO-2004*.)
4. Ibid.
5. Ibid., Table A4, 167.
6. Quoted in "Bush-Saudi Oil Talks Focus on Long-Range Oil Plan," Reuters, April 25, 2005, as posted at [www.reuters.com](http://www.reuters.com) on April 25, 2005.
7. Ibid., Table D4, 216.
8. For background and discussion, see Kenneth S. Deffeyes, *Hubbert's Peak* (Princeton: Princeton University Press, 2001); David Goodstein, *Out of Gas* (New York: Norton, 2004); Paul Roberts, *The End of Oil* (Boston: Houghton Mifflin, 2004).
9. For discussion, see Jeffrey Ball, "As Prices Soar, Doomsayers Provoke Debate on Oil's Future," *Wall Street Journal*, September 21, 2004.
10. DOE/EIA, *IEO-2004*, Table A4, 167.
11. Jeff Gerth, "Forecast of Rising Oil Demand Challenges Tired Saudi Fields," *New York Times*, February 24, 2004.
12. Quoted in Bob Williams, "Saudi Oil Minister Al-Naimi Sees Kingdom Sustaining Oil Supply Linchpin Role for Decades," *Oil and Gas Journal* (April 5, 2004):18.
13. Quoted in Gerth, "Forecast of Rising Oil Demand Challenges Tired Saudi Fields."
14. For discussion, see John J. Fialka, "Search for Crude Comes with New Dangers," *Wall Street Journal*, April 11, 2005.
15. Quoted in Edmund L. Andrews, "Greenspan Not Too Worried By the Rise in Energy Prices," *New York Times*, October 16, 2004.
16. Daniel Yergin, *The Prize*, 150–64, 184–206.
17. For background and discussion, see Michael T. Klare, *Blood and Oil: The Dangers and Consequences of America's Growing Petroleum Dependency* (New York: Metropolitan Books, 2004), 26–55, 74–112; David S. Painter, *Oil and the American Century* (Baltimore: Johns Hopkins University Press, 1986); Michael A. Palmer, *Guardians of the Gulf* (New York: Free Press, 1992); Michael B. Stoff, *Oil, War, and the American Security* (New Haven: Yale University Press, 1980).
18. The author first made this argument in Klare, *Blood and Oil*.
19. For background and discussion, see Klare, *Resource Wars*, 81–108.
20. See Juan Forero, "New Role for U.S. in Colombia: Protecting a Vital Pipeline," *New York Times*, October 4, 2002; James Wilson, "U.S. Goes Deeper into Colombia Conflict," *Financial Times*, January 30, 2003.
21. For background, see Klare, *Blood and Oil*, 142–45. See also Michael Klare and Daniel Volman, "Africa's Oil and American Security," *Current History* (May 2004): 226–31.
22. Quoted in Greg Jaffe, "In Massive Shift, U.S. Is Planning to Cut Size of Military in Germany," *Wall Street Journal*, June 10, 2003.
23. For background and discussion, see Klare, *Blood and Oil*, 146–79. On China's interest in Central Asia, see Bates Gill and Matthew Oresman, *China's New Journey to the West* (Washington, D.C.: Center for Strategic and International Studies, 2003).
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# The Geopolitics of Oil and Natural Gas

*Alan Larson*

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*Ensuring the reliability of global energy supplies will call for policies that both encourage the use of newer, cleaner energy technologies and address the political challenges posed by the world's growing demand for oil and natural gas. U.S. policy seeks to encourage expansion and diversification of world energy supplies and to promote the transparency and democratic institutions that help energy-producing countries make the most productive use of their resources.*

**E**nergy is the vital ingredient in the world economy. While we are working hard on energy efficiency and investing to develop new energy technologies, oil and natural gas will remain critical for many years to come. Economic development around the world means global demand for oil and gas will continue growing in the near term. Most significantly, China's rapid growth and increase in overall energy demand continue to affect energy markets. Some analysts estimate that China could account for as much as one-third of the world's marginal increase in oil demand in the coming years.

As a result, the world must find and develop more reliable supplies of oil and gas at prices that permit sustained economic growth. Unfortunately, it is almost an axiom in the petroleum business that oil and gas are most often found in countries with challenging political regimes or difficult physical geography.

Several realities shape our thinking about energy security and how we should build reliability into our energy supplies:

- Two-thirds of the world's known oil reserves are in the Middle East.
- Imports supply roughly half of the oil and 15 percent of natural gas consumed by the United States, and an even greater share of the needs of some of the United State's most important allies and economic partners.

*Alan Larson is former Undersecretary for Economic, Business, and Agricultural Affairs, U.S. Department of State. The article that follows was written in May 2004.*

- Oil-supply shocks in any region of the world will have an impact on the U.S. economy through the instantaneous operation of international oil markets.

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### **Reliability through Diversification**

Energy investments are costly and risky, requiring long-term commitments. Recognizing this reality, U.S. energy policy seeks to encourage expansion and diversification of energy supplies. A number of regions are attracting increasing interest from energy companies in the United States and elsewhere. We see interesting prospects for expanded oil and gas production in the Caspian region, Russia, West Africa, and North and South America, as well as the promise of increased oil and gas production in the Middle East. In each of these regions, our policy aims to support private sector-led development of energy resources by reducing the political uncertainty that otherwise might hinder needed investment.

### **Russia and the Caspian Basin**

Russia already is an energy superpower. To achieve its full potential, Russia needs to strengthen corporate governance and the legal/regulatory framework for business, improve its foreign investment climate, allow competition in the transportation system, open up the gas and oil companies Gazprom and Transneft to reform and competition, improve its technological capabilities, and move domestic energy prices to world levels.

The Caspian Basin has tremendous potential, offering the possibility of production increases from 1.6 million barrels/day (b/d) in 2001 to 5.0 million b/d in 2010. The key issues in Caspian energy development at the moment are to: 1) complete the second pillar of the East-West Energy Corridor by developing the South Caucasus natural gas pipeline; 2) improve the investment climate throughout the region; and 3) bring Kazakhstani oil into the East-West corridor.

Multiple pipelines that economically bring Caspian resources to the world market strengthen the sovereignty and economic viability of the new nation states in the region. U.S. efforts in the Caspian are intended to complement — not detract from — U.S. support for Russia's efforts to develop its energy export potential.

### **Africa**

Africa is playing an increasingly important role as an energy supplier to U.S. and global markets. In 2003, both Nigeria and Angola were among the top ten suppliers of oil to the United States. Oil production generates substantial revenue in countries such as Nigeria, Angola, Gabon, Equatorial Guinea, Republic of Congo, Chad, and Cameroon. São Tomé and



Mauritania also may become oil suppliers in the coming years. Foreign direct investment is needed to develop African energy resources as most new fields are in deepwater offshore environments that require advanced capital-intensive facilities for development. Growing oil and gas production could be a powerful engine for national economic development in these countries. However, the Niger Delta experience of 2002, in which protesters stormed oil facilities and caused their temporary shutdown, shows that oil can also be a disruptive force if a country's oil revenues are not managed in a fair and transparent manner. Nigeria has learned from its experience in the Niger Delta and is setting an example on transparency and economic reform enabled by oil revenues that the United States hopes other countries in Africa will follow.

### **North America**

The most important and reliable sources of energy for the United States are its neighbors and we are strengthening our energy cooperation with Canada and Mexico. Senior energy experts from Canada, Mexico, and the United States recently released a North American *Energy Picture* report that, for the first time, jointly measures energy stocks, trading balances, and energy flows. What often goes unrecognized is that North American energy trade is a two-way street. Mexico is becoming an important source of U.S. oil imports. At the same time, the United States is a net natural gas exporter to Mexico, and U.S. refineries supply over 15 percent of Mexico's refined petroleum products.

The reliability of North American energy trade is enhanced by geographic proximity. More important than geography, however, are the rule of law and predictable investment conditions created by the North American Free Trade Agreement, integrated pipeline networks, and long-term reliable supply relationships. We are continually working to enhance this framework of rule of law and predictable investment conditions in North America even as we seek to build similar frameworks in other regions.

### **Venezuela**

Venezuela and the United States have enjoyed strong historical energy ties. Venezuelan oil policy, until recently, has been built upon a reputation of reliability. Unfortunately, actions and statements by parties from all sides over the last 18 months have called into question the priority Venezuelans place on their reputation as a reliable supplier. The United States will continue to work to help Venezuelans resolve their political differences. But until a constitutional, democratic, peaceful, and electoral solution is achieved, and the level of rhetoric lowered, world energy markets simply cannot view Venezuela with the same certainty that they once did. When

the Venezuelan parties show a commitment to reconciliation, they will find a willing and ready partner in the United States.

### **Saudi Arabia and the Gulf Producers**

The Middle East holds some two-thirds of proven world oil reserves. The size of its reserves, combined with its low production cost, guarantees that the Middle East will continue to play a pivotal role in the world energy market. Saudi Arabia plays a key role in global oil markets as the world's largest oil exporter. Moreover, Saudi Arabia supports international energy security by maintaining considerable excess production capacity that can be brought on line quickly in the event of a serious supply disruption anywhere in the world.

Diversifying global oil supplies should not be interpreted as diversifying “away” from Saudi Arabia or other Gulf producers. Gulf producers will continue to have an indispensable role in the world market, and the United States encourages them to increase foreign investment and steadily expand supplies. What we seek is better balance and a more flexible, resilient oil market that responds to price signals.

In this regard, Gulf producers could reap greater benefits by opening their economies to more private investment so that oil and gas capacity could grow and energy supplies could respond more fully to shifts in demand. Investment in natural gas is one sector where this process is beginning. Once only for local or regional use or wasted through harmful flaring, natural gas in the form of liquefied natural gas (LNG) has become an increasingly globally traded energy source for key markets. Qatar is working with major international energy companies to become a leading LNG exporter.

In the United Arab Emirates, the successful Taweelah power and water privatization project is another example of the dynamic role foreign investment can play in the energy sector. The United States supports these positive private investment initiatives because they expand and diversify its energy sources, provide opportunities for U.S. companies, and foster economic growth in energy-producing nations.

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### **Promoting Transparency and a Good Investment Climate**

Promoting transparency and good governance is a key part of the U.S. strategy of encouraging diversification. Oil and gas projects are controversial in many developing countries because revenue flows are hidden, or diverted, and average citizens feel they receive no benefit from their country's natural wealth. The United States wants oil-producing countries to invest energy revenue in solid and sustainable economic development for their populations, not only because it is the right thing to do, but also be-

cause it builds political support for the further development of energy projects. Democratic processes and the development of responsive governing institutions promote political and economic stability, the use of mineral wealth for poverty reduction and economic development, and the reduction of oil-related conflicts in energy-producing countries around the world.

A comprehensive approach to transparency is particularly important. At the June 2003 Group of Eight (G-8) Summit, President Bush and the other leaders endorsed a comprehensive action plan on *Fighting Corruption and Improving Transparency*. The core of this approach is forging a partnership to give willing host countries technical and political support to strengthen domestic institutions and enhance transparency and accountability. We want to focus specifically on budget, procurement, and concession-letting transparency, including G-8 support for technical needs identified by experts.

In addition to support for developing country action plans in these areas, the G-8 leaders committed to:

- denying safe haven to corrupt leaders and their assets by, among other things, denying visas to corrupt officials
- pushing for accelerated implementation of the Organization for Economic Cooperation and Development's Anti-Bribery Convention
- encouraging the World Bank and other international financial institutions to insist on greater transparency in the use of funds by borrowing countries

G-8 countries are supporting voluntary compacts among governments, the companies operating in those countries, and civil society to improve transparency in public financial management and accountability. These compacts outline both the political commitment of the G-8 and host governments to achieve specific mutually agreed transparency objectives, with assistance from the G-8 and international financial institutions, and a specific concrete action plan to achieve those goals.

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## **Conclusion**

In the long run we need new technologies such as hydrogen and carbon sequestration that can fuel our economy while increasing energy security and minimizing the environmental impact of energy use. In the interim, our international energy policy must address the familiar challenges posed by a hydrocarbon-based economy where oil reserves are concentrated in various challenging regions of the world. Transparency and good governance are increasingly important to sustaining international investments in energy development in regions of opportunity for energy production. The United States will continue to engage intensively with energy partners all over the world to diversify supplies, improve investment opportunities, and assure that market forces work as transparently and efficiently as possible.

# Fueling the Superpowers

## Nexus of Foreign Policy and Energy Security

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*This article by Jack Blum is taken from the proceedings of the EPIIC Symposium at Tufts University, February 2005*

In the year 1968, Senator Hart of Michigan sent me to the State Department to do something that I believe no one who has handled energy policy on the government side has ever done before or since — I read the entire State Department archive from 1900 to 1968: fifteen, five-drawer file cabinets with every memorandum of conversation, every presidential speech on the subject, all the run-up material, all of the background material.

What I found was an archive that showed that the government had people with minimal knowledge on the subject, who got their information about problems from the people in the industry, and who would manipulate the information to get the result they wanted. And when things would get out of control, they would offer advice to steer the solution in a direction that would best serve the economic interests of the industries.

The first and most important thing for you to understand is that for at least fifty years in the history of the oil industry, its biggest problem was too much oil — I reiterate, *too much oil* — because the price of oil goes down like a rock in a situation of oversupply. The price of oil in the United States of America, actually went below zero during the time of the Great Depression, when the big fields in Texas came in and gushers spilled out on fields damaging crop land, because there was no storage.

The oil industry has been terrified by new supplies of oil, which would be so cheap they would undercut the value of existing production. So if you are an oil company and you have oil that is being produced at 10 dollars a barrel and some fool finds a field in Saudi Arabia where the oil costs, literally, eight cents a barrel out of the ground when it is first discovered, you are going to want that Saudi oil not to be produced. And that's exactly what happened.

*Jack Blum is former consultant, United Nations Centre on Transnational Corporations and former special counsel, Committee on Foreign Relations for the U.S. Senate.*

In every one of these cases where new oil was found, there were profound and long negotiations and cartelization to prevent cheap production from knocking down the world price of oil. There's a marvelous story of the Iraq Petroleum Company, which will give you the history of why we are in a war in Iraq today.

There was in Iraq a company put together by the major oil companies. It was part of a cartel. The whole story is laid out by the Federal Trade Commission in a 1940 report that was held until after World War II because all antitrust action was suspended for the duration of the war. The major oil companies had come together in a meeting and had decided who would produce oil where. In the Iraq Petroleum Company, the oil was jointly owned by the Americans, Brits, and French. They all had a vote on how much would be produced, and it was agreed that they would not bring on new production unless they were all involved in equal degrees.

The problem with Iraq Petroleum Company was it was the result of the coup in 1957 and the oil was nationalized. The governments of the United States and the United Kingdom and, for a while, the French, said, "That's our oil. We're going to make it impossible for you to sell it anywhere in the world," and they shut the Iraq Petroleum Company's production down cold.

The French began to cheat. They went backstairs to the Iraqis and said, "Look, we'll cut a deal with you. Forget the embargo these guys are running. We'll go behind their backs and we'll help you sell the oil on world markets." The Americans and the Brits used diplomatic pressure on the French not to do it, and we punished the Iraqis for nationalizing the oil.

At the time it was clear to the American companies that the reserves in Iraq were greater than those in Saudi Arabia. And our interest in Iraq was in keeping very cheap Iraqi oil off the market.

But the real problem is not Iraq, it is Saudi Arabia. Saudi Arabia is the elephant in the closet. In 1945 after Yalta, President Roosevelt and King Saud met. Harold Ickes had developed a proposal to turn the Saudi Arabian reserve over to an American company, called the Petroleum Reserves Corporation, which would be owned by the federal government. Ickes perceived that if this reserve was left in private company hands, it would be developed to suit the needs of private companies not the national interest, but that debate was never had in public.

The companies took the reserve and we entered into a marriage, with the devil — a family that says, "We own the country. We get to keep all the money that comes out of these reserves, no matter who else lives in the place. And, by the way, we are going to run the country as a thirteenth-century monarchy. And you, by God, are going to keep it that way and protect us in that job in perpetuity."

So we have a problem here. And it was the same problem we had in Iran. When you set up such a situation: a dictatorial, non-Democratic, vicious government, and you get them in power and you give them all that money, they figure out that they can use the money to manipulate your government.

So they buy in: they buy into your politicians; they buy into your consulting firms; they buy into your political systems; they buy into your advisors.

The Shah did it. The Saudis do it. And, by God, as long as the money is flowing back, which was Henry Kissinger's contribution to this mess, you don't care, because it's coming back and being invested in your own country. So, the attitude is, forget about the deficit. That's not important. The question is, are they buying our bonds? And as long as they are, who really cares?

But the money is here, not there. And the guys who run that country think they own it. And we, of course, are sufficiently delusional to believe that the guys who run that country will listen to us when, in fact, they figure they bought us and we have to listen to them. Again, it is a marriage with the devil and a very serious problem.

Now here's the real nexus. The Iraq war comes because this has been the elephant in the closet for American foreign policy for the last thirty years.

Every administration has been on its knees praying that the corrupt Saudi government will not collapse on their watch, that the thirteenth-century government will stagger through another four years, and that the problem that results when that government goes will be the next administration's problem. Because, the truth is, there are two politically unacceptable propositions in American politics. One, gas lines, which destroyed Jimmy Carter, would destroy anybody else who had to confront them. Two, an unacceptably high price of oil would cause riots, economic disruption, and all kinds of other problems. So what happens if there is a real disruption in supply? There is economic chaos. There is political chaos. Nobody wants it.

What happens if the government collapses in Saudi Arabia? There is the prospect of real chaos and the situation has been getting more and more untenable as time has gone by, with 22 million people in Saudi Arabia, two million slaves, God knows how many tribals who don't get a cut of the action, a bunch of Shia who are working in the oil fields who aren't part of the royal family and won't get the cut.

Essentially two million people get the wealth of the country, and everybody else is cut out. This is not a long-term security situation.

The invasion of Iraq is a reflection of this insecurity. Because had Saddam Hussein continued in power and the Saudi government collapsed, we'd be in a real mess, because then all of the oil in the Middle East would be out of our control. None of it would be sold by American companies. And that is really the bottom line issue: our American companies selling world oil outside of the United States. Think about that.

Now I want to say a couple of other things about reserves which are a function of place and time. Nobody looks for more oil than they reasonably expect to use in the next fifteen years. Period. Because once you've got fifteen years of reasonable supply, if you're a corporation, why the hell do you spend more money looking for more oil to use thirty years from now?

The second point is about price. At a certain price there is enough oil to take care of the world, even with wildly escalating demand for hundreds of years into the future. The question is, at what price? There are such things as tar sands and artificial ways of producing oil. We've got the stuff, the problem is price. It gets too high. The real constraints are environmental.

And finally I have a story that came from my investigation in the seventies, when I was able to look at any document I wanted to see inside the Chevron Corporation. For reasons that I can't go into, we (the Foreign Relations Committee) issued a subpoena and as a result were invited to, as the Chevron Corporation said, "Come search. Look for what you are looking for. You can see anything in the place."

I found in that place the corporation's forward planning documents. All their economists were doing exactly what economists always do: take a point here and project it to infinity. It's a very simple kind of proposition. We expect annual growth at blah, blah, blah, and here is the curve. And they had different cases, high growth, medium growth, low growth. They had all the usual projections. And then there was one future planning document that showed no growth. What was this? What was this document about? And I met with the Chairman of Chevron and said, "What happened here? Why did you propose this?" And he responded, "Well, you know, there was a story of the grain of gold and the emperor. When asked what he wanted he said, 'All I want you to do is take this chessboard and put one grain on the first square and then for the next year put two grains and then keep multiplying, geometrically each year until we get to the last square at which point it would be clear that all the gold in the world was on the chess board.'"

What he was saying was this: "We cannot keep infinitely expanding the growth of the use of petroleum." It just is not possible. There is not enough capital unless we want all the capital in the world to be used to produce energy. And that is the core problem.

I have listened to many somewhat glib statements about converting other energy sources. And it sounds wonderful. But the turnover for the U.S. vehicle fleet is a minimum of ten years. If we started tomorrow, with hydrogen or something else, figure minimum ten years. Assuming everybody went out in their usual time to buy a new car, we'd get there in ten years, maybe. Then there is a problem of supply. Think about the universality of the availability of gasoline.

And then ask yourself, what kind of infrastructure would it take to provide similar universal availability for an alternative fuel. Then think about the dumb way we have constructed our suburbs, which require the use of fuel, and ask yourself what the cost of correcting that stupid mistake will be.

And the dumbest of these easy solutions is, "By the way, we will use corn." I would say that we are committed as far as continuing to use petroleum. And it is important to acknowledge that a major use of petro-

leum for which there is no substitute is aircraft fuel. You can't go to coal or natural gas. Over 20 percent of the current use of petroleum is to fly airplanes, and there's no good alternative fuel for that.

In the long term the things we have to worry about are continuity of supply, protection through the strategic reserve, and then finally, how to break this terrible cycle of going to bed with the devil. And that's our deal with Saudi Arabia. It's our deal with Equatorial Guinea. It's our deal with one little dictatorship after another.

The crooks who run these countries take the money, put it in our banks, use it for their own personal purposes, and as long as it is invested here, we're happy and they're happy. We get that oil.

But it all has to stop, because it's not sustainable.



## Fueling the Superpowers

## Russia as a Player in World Energy

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*This article by Theresa Sabonis-Helf is taken from the proceedings of the EPIIC Symposium at Tufts University, February 2005*

**M**any have lamented the lack of a coherent, strategic energy policy in the United States. The good news is that someone does have a coherent, relatively integrated approach to energy as a strategically significant commodity. Perhaps you will consider it bad news that the nation with such a strategy is Russia. In oil, gas, and even electricity, Russia is giving clear signals that it intends to become and remain a player in world energy politics. Nor is this the first era in which Russia has been an important player of “power politics.” Shortly before its collapse, the Soviet Union was the largest oil producer in the world, extracting 11 million barrels of oil a day in Russia alone, and 12 million overall.<sup>1</sup> In that era, the USSR played power politics in two ways. Moscow strove to be a reliable, nonpoliticized supplier to non-allies at world prices, while using heavily subsidized prices to discipline and reward allies. Hence, as a supplier to Europe, the Soviet Union earned a reputation for being a reliable, commercial supplier, following economic rather than political objectives when the two conflicted.<sup>2</sup> At the same time, however, the Soviet Union used variable quantities of subsidized energy exports to discipline its Eastern European allies.<sup>3</sup> The strategic question for the future is; which pattern from its Soviet experience will Moscow follow?

The answer matters because, although Russia today is extracting less oil than it was in 1989, since its economy is less energy-intensive, it is exporting more — making Russia the second largest oil exporter after Saudi Arabia. Russia has been in the top two producers since shortly after September 11, 2001. At that time, Russia flooded world markets with cheap oil, for two main reasons. The first was to prove they could. Nearly a decade had been invested in revitalizing the infrastructure that Russia inherited in the wake of the Soviet Union’s collapse, and they were ready to compete for

*Theresa Sabonis-Helf is professor of National Security Strategy at the National War College.*

a larger share of the world market. The second reason they hit the world market hard after 9/11 was to demonstrate solidarity with the United States. They were signaling that, regardless of what response the United States crafted to 9/11, the Middle East didn't have the power to use the oil weapon with devastating effect at that moment. Russia was also hoping that this display of solidarity would win support from the United States for their taking a new role in world oil markets: before 9/11, U.S. foreign policy had focused more on shoring up the sovereignty of the non-Russian successor states with oil, Azerbaijan and Kazakhstan, than it had on encouraging Russia to arise again as a world oil power.

Russia has maintained the market share it captured in the post-9/11 world, producing 9.0 million bbl/day to Saudi Arabia's 9.5 million in September 2004.<sup>4</sup> Currently, Russia is more limited by its ability to export — that is, by its lack of pipelines — than by any other factor, and Russia is negotiating to build a wide array of new pipelines. There are many problems with pipeline construction, including a persistent tension between market forces and state intervention, but in the current era of high prices and growing demand, Moscow is free to use the politics of scarcity in allocating room in its limited pipelines: oil companies in favor with Moscow have more access to pipelines. Oil companies out of favor are compelled to use rail transit, a much more expensive way to bring oil to market.

There has been much discussion about pipeline construction, but there is a question more fundamental than which lines to construct in which directions: Is Russian oil extraction really sustainable? Russian oil costs approximately \$15/bbl to get to market (for those with access to a pipeline), while Saudi oil costs a mere \$3/bbl. If Russia is not careful with its federal budgeting, it will also share Saudi Arabia's vulnerability to price swings — debt. Saudi Arabia currently counts on at least \$15 per barrel in debt service to remain solvent. When you factor this in, the breakeven price for Saudi Arabia (\$3 extraction plus \$15 debt service) was actually higher than it was for Russia back in fall 2001, since the Russian budget at that time did not assume high oil revenues. That is how Russia managed to force Saudi Arabia to the negotiating table, and how it won its place as the second largest exporter in the world. I concur with those analysts who doubt that oil prices will return to price bands below \$30, but Russia certainly remains vulnerable to drops in oil prices because its cost of extraction will remain high, and its budgetary reliance on oil has grown dramatically since 2001. The U.S. Department of Energy estimates that a \$1 change in oil prices causes a \$1.4 billion change (in the same direction) in Russian revenues at this time.<sup>5</sup>

However, what will limit Russia regardless of its fiscal behavior is its reserves. While the Middle East enjoys some 56.5 percent of proven world reserves in oil, the entire former Soviet space has but 6.4 percent, a significant portion of which is located in Azerbaijan and Kazakhstan. So if Russia has such limited reserves, why is it playing such a tough game in oil? The

answer may well lie in the gas sector. Although Russia's proven oil reserves are meager compared to the Middle East, its gas reserves are quite competitive. In fact, 35.5 percent of proven gas reserves in the world are in the former USSR, much of it in Russia. The Middle East has only 35.9 percent. Russia has approached Turkmenistan, Kazakhstan, and Azerbaijan in an effort to engage them in a gas suppliers' cartel. Although this cartel is currently very poorly defined (and all three post-Soviet states may opt out of such a cartel), Russia is clearly learning how cartels work through its negotiations with OPEC. Russia need not establish a global cartel in order to have some success. Unlike oil, which is a global commodity, natural gas is a regional commodity. Oil is supply driven — meaning that, wherever it is found, it will be extracted and sent to a waiting market. Gas, by contrast, is demand driven. Reserves are not exploited until an end-user is found, and long-term agreements are established, because gas is more difficult to store and transport than oil. This may change in the longer-term future, if LNG is developed on a larger scale, but for now exploitation of gas depends on a proven market. So who is the buyer for Russia's gas? Europe. Demand for gas, as Europe retires nuclear power plants and also pursues lower greenhouse gas emissions, is growing dramatically. Russia is well aware that Europe needs Russian gas to make its transition to lower emissions without damaging productivity, and so far European states have been willing to sign long-term contracts with the Russian state gas company, Gazprom, in spite of the fact that it has a reputation for being very nontransparent and closely linked to Kremlin politics. Europe has no reason to believe that Gazprom's style of business is changing any time soon. Putin told Schroeder directly in 2003, "We are not going to break up Gazprom. The European Commission should have no illusion: they are going to be dealing with the state in the natural gas industry."<sup>6</sup>

The Khodorkovsky trial suggests that oil in Russia will, over time, become more like gas, rather than the reverse. Russia is increasingly taking a heavy state hand in the energy sector. The government's stabilization fund, established in January 2004 for windfall oil profits, now holds an estimated \$16.7 billion,<sup>7</sup> and is likely to be spent at least in part on buying up additional energy infrastructure.

Putin has long held reconsolidation of the state's power in Russia as a key goal of his administration. From a Western perspective, this reconsolidation is cause for concern, but consider for a moment Putin's position. By 2000, according to a well-known Russia analyst, "Collectively, the economic power of Russia's twenty-five richest men far outstripped that of the Russian state."<sup>8</sup> The majority of these so-called oligarchs have their fortunes in the energy sector. Putin's goal has been to return the state to a position of primacy, and energy is a key component in his strategy.

Perhaps the most significant outlier in energy is electricity — a sector in which the Russian state also has strong interest, but which is managed somewhat differently. Russian electricity, specifically the Russian Joint-

Stock Company — Unified Energy Systems of Russia (RAO-UES), is a corporation in which the government has a majority share. But it has a reputation for being the most transparent of the energy sectors, and the energy sector in which Russian state interests are not always closely reflected in the parastatal's business behavior. Anatoly Chubais, an architect of the privatization program in the early 1990s and one of the energy oligarchs, is CEO of RAO-UES. He is openly proud of the fact that, under his leadership, all of the former Soviet republics began operating on a parallel grid in fall 2003. Parallel grid operation for the entire former Soviet space is particularly notable because it was never achieved during the Soviet era.<sup>9</sup> RAO-UES completed significant purchases in the Caucasus in 2003 and in Central Asia in 2004, largely through debt-for-equity swaps. Although nations like Georgia had reservations about portions of their systems being bought up by a Russian parastatal, there are some clear advantages. An integrated grid increases the quality and reliability of electricity, by ensuring that shortfall in one area can be supplied by another area, and that surplus electricity in one area can be exported rather than wasted.

RAO-UES made the purchases, hoping to export power through the former Soviet space into desirable markets including Turkey, Iran, and Afghanistan. It has already begun such exports. It has also reduced disputes over debt and theft of power. Most importantly, however, RAO-UES has, through these purchases in the CIS, positioned itself better for links to a larger European grid by way of Turkey, and to markets in Pakistan and China.

Electricity is more value-added than export of raw materials such as oil or gas and may prove to be an increasingly attractive energy export for Russia. Interestingly, if Russia seeks to play a larger role in electricity markets, the energy security of the southern tier near abroad may be enhanced, since these states are rapidly being transformed from end-of-the-grid consumers to strategically important transit states. This enhanced security of former Soviet states may come at the expense of Europe's energy security. The key question in electricity is whether Putin will continue to tolerate Chubais's relative independence in such a strategic sector.<sup>10</sup> If he moves against RAO-UES, he risks losing access to European electricity markets, as electricity in Europe is more transparent than the oil or gas sectors.

In short, Russia has oil, gas, and electricity, and is using oil windfalls to increase the state's holdings in all three sectors. The sectors are not being developed along Western lines, but rather in a manner that enhances Russian state political power, and potentially increases Russia's strategic significance to Europe, and its leverage with Europe. Russia has a vision of providing power in various forms to Europe, and thereby remaining a power in Europe. It remains to be seen if economic rationality will dominate or be subordinate to political logic in Russia's energy export strategy.

## Notes

The views expressed in this article are those of the author and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the U.S. Government.

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2. See Chapter 8 of Thane Gustafson, *Crisis Amid Plenty: The Politics of Soviet Energy Under Brezhnev and Gorbachev*, (Princeton: Princeton University Press, 1989).
3. See William Reisinger, *Energy and the Soviet Bloc: Alliance Politics After Stalin* (Ithaca: Cornell University Press, 1992).
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10. As of May 2005, Putin called for criminal charges to be brought against Chubais in connection with a major failure of the electricity grid in five oblasts. See Anatoly Medetsky, "Power Goes off in Moscow, Four Regions," *Moscow Times*, Thursday May 26, 2005,1.

## **Fueling the Superpowers**

## Potential Hazard for U.S.-China Relations

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*This article by Travis Tanner is taken from the proceedings of the EPIIC Symposium at Tufts University, February 2005*

**I**n February 2005 crude oil futures prices jumped to exceed \$51 a barrel. In conjunction with terrorist risk premiums, China's surging demand for oil is a major driver behind the soaring prices. In fact, since the beginning of 2000, China has accounted for 40 percent of the growth in world oil demand.

Oil is an essential ingredient in China's successful formula for economic growth, especially owing to the fact that China is at an oil-intensive stage of development. It is critical for driving industrial activity, generating power, constructing infrastructure projects, and fueling the rapidly growing number of automobiles on Chinese roads. Today there are 25 million vehicles on the road and that number is projected to double by 2010 and reach 150 million by 2020. China's domestic oil production is flat, and therefore, in order to meet its growing appetite, China has been a net oil importer since 1993. Today, imports comprise 35 to 40 percent of China's total oil consumption, growing 31 percent in 2003, and by 2020 some estimates put China's dependency on foreign oil as high as 70 percent. As the rapidly growing economy further expands and the populace becomes wealthier, demand for oil will continue to swell.

Oil consumption in the United States, the world's largest consumer of petroleum, is expected to grow nearly 50 percent over the coming twenty years. Beijing, also on the fast-track to oil dependency, is currently on a search to secure energy sources across the globe. This quest, in addition to China's heavy reliance on Middle Eastern oil (roughly one-half of its imports come from there), suggests a potential rivalry between the United States and China over access to oil-rich regions. Many analysts argue that the trajectories of the world's two most voracious oil consumers will inevitably lead to a clash over the scarce resource.

*Travis Tanner is Deputy Director and Assistant Director of Chinese Studies, the Nixon Center, and author of The Oil that Troubles U.S.-China Waters.*

Will the United States and China actually square off in a war for resources sometime during the first half of the century? The potential for a coming collision over the world's limited oil reserves does, in fact, exist. But several essential considerations must be examined before drawing such a conclusion.

First, until recently, China's energy strategy has appeared disjointed, often fixed on multiple mutually exclusive objectives and quite often designed to meet political ends at the expense of economic considerations. As a result of instability in the Middle East and the need to maintain economic growth as a means to achieve social stability, however, Chinese authorities have recently approached the nation's energy policy in a fundamentally new way. Foremost, in contrast to the long-standing strategy of advocating self-reliance supplemented by oil imports from the Middle East, Beijing has embarked on a diversification strategy both in terms of the development of alternative fuels and the establishment of new oil-import markets. In the PRC's State Council November 2003 report, it was officially declared that China plans to pursue an energy development strategy focused on securing "a diverse energy mix."

Examples of Beijing's desire to reduce its dependence on foreign oil and to expand its energy mix include the following: the recent move to solicit bids on four newly proposed nuclear power reactors, increased oil imports from its current importers, such as, South Africa, Iran, Oman, Sudan, Angola, Vietnam, Yemen, Indonesia, Russia, Kuwait, with special focus on boosting imports from Central Asia, Russia, and Africa. Additional examples include: the ongoing construction of three large liquid natural gas projects along the Chinese coast, plans to establish a strategic petroleum reserve, plans to increase offshore exploration, and continued interest in the construction of a number of pipelines (Kazak; Russia; Turkmenistan). CNPC has acquired oil concessions from Kazakhstan, Venezuela, Sudan, Iraq, Iran, Peru, and Azerbaijan.

One example that clearly illustrates Beijing's relatively recent shift toward and focus on energy security policy is the recent decision to move forward on construction of the Kazakhstan-China oil pipeline. In 1997, at the time the original agreement was made, the 3,000-kilometer pipeline from Kazakhstan to China made little commercial sense when compared to the alternative of having oil imported from international markets and delivered to China's eastern coast via tanker. The deal instead was part of Beijing's strategic efforts to partner with Central Asian nations to protect against potential proindependent uprisings along the Xinjiang border as well as to counter growing U.S. presence in the region. In fact, after seven years, only the first 400 kilometers of the pipeline had been completed. The recent push to finish up the second, much larger, section of the project demonstrates Beijing's latest yearning to lock in new energy supplies and diversify away from Middle Eastern oil.

Second, technological advances in the oil industry and the development of alternative energy sources will allow, over time, energy users to become more efficient and decrease their overall reliance on oil. As China's economy expands further, competitive enterprises will develop and adopt new technology, which will result in more efficient energy use. Presently, China is well behind the United States in energy efficiency. In 2001 China's energy users spent \$151 billion, approximately 13 percent of GDP as compared to the United States where energy use comprised only 7 percent of GDP.

No one knows when Earth's remaining oil deposits will dry up, but almost all experts agree that before mid-century the world's oil supply will "peak" — marking a change from an increasing supply of cheap oil to a dwindling supply of expensive oil. Therefore, the technological advances required shifting away from oil reliance toward substitutes such as natural gas, hydropower, biomass, and other renewables are not only welcome but necessary. In the future, when the cost of developing and utilizing alternative energy sources equalizes with the cost of oil use, simple economics will drive rapid progress in these areas. Oil dependency will decline as it becomes more economical to take advantage of alternative energy sources. In fact, the United States Department of Energy forecasts a decline in oil prices from current prices well over \$40 a barrel today to \$27 in 2025 as a result of new exploration and production technologies as well as alternative sources of energy.

The third factor to be contemplated when analyzing the likelihood of a future U.S.-Sino oil clash is the dynamic bilateral relationship these two powers share. Since dialogue began in the early 1970s, progress on strategic, political, cultural, and commercial levels has flourished and resulted in a very strong, mutually beneficial relationship. As a sidebar, it is interesting to note that Colin Powell remarked on several occasions that U.S.-China relations are the best they've been in thirty years; while in China recently, I had several officials and scholars comment that the current state of U.S.-China relations has reached a level of maturity not previously obtained. During the Bush administration, two strategic points of convergence have arisen: North Korea and terrorism. For example, in the realm of commercial ties, the United States has become China's second largest trading partner while China has become the United States' third largest trading partner. The large number of shared interests not only provides incentives for avoiding a showdown over a single limited resource, but also provides multiple spheres in which cooperation and diplomatic arrangements can be worked out. In fact, last summer the two nations agreed to launch the U.S.-China Energy Policy Dialogue, which will expand energy related interactions and cooperation between the world's two largest energy consumers.

So the question remains: Will growing demand for oil sour the U.S.-China relationship to such a degree that a collision is inevitable? I contend that



China's newly evolving energy strategy, technological progress in the oil industry and the increasingly robust bilateral relationship make this claim unlikely.

I do believe the potential for this rivalry certainly exists and that energy concerns could prove to have a significant negative impact on the relationship. I'd like to enumerate a couple of points that illustrate this:

- 1) In its current pursuit to secure energy resources, China has adopted a mercantilist or almost zero-sum approach. Beijing perceives the United States as encircling and pursuing a containment strategy against it. It is worried about sea lane security — for example, were a crisis to break out in the Taiwan Strait, it fears the United States would cut off vital sea lanes — such as the Straits of Malacca — which would cause major oil supply disruptions. Furthermore, China is concerned by the large and likely long-term United States presence in the Middle East — to a degree, it buys into the argument that the United States was driven by oil concerns to invade Iraq; China sees itself operating outside the large multinational oil corporations based in the United States and is afraid of the implications of this. Moreover, Beijing views the relatively new and robust American military bases in Central Asia and long-standing U.S.-Japan alliance as potential threats and part of an effort to contain China. There are mixed messages in the Chinese response to the Angarsk to Nakhodka pipeline on the one hand and the Kazak-China pipeline on the other. This perception of being threatened and encircled by the United States is aggravated by energy concerns and has detrimental effects on the state of the bilateral relationship and if continuously fueled, over a considerable amount of time, could develop into a serious hazard for bilateral ties.
- 2) Another geopolitical consideration is China's increasing involvement with nations the United States deems unfriendly like Sudan and Iran. The Chinese signaled strong opposition toward the proposal in the UN Security Council in 2004 to implement sanctions on Sudan. In light of the fact that China and Iran recently signed a \$75-100 billion oil and gas deal, what would be the implications for U.S.-Sino relations if the United States were to propose taking similar actions toward Iran? This is a hot spot that has the potential to flare up and cause major damage to the relationship.
- 3) Certain Americans have found China's recent efforts to secure energy resources in Canada and Venezuela (the United States depends on both for one-quarter of its oil imports) as a Chinese attempt to sneak into the United States by a back door and deemed this behavior as potentially threatening to U.S. national interests. Additionally, CNOOC has considered purchasing Unocal — an American oil company — a move that could add fodder to the "China threat" fire in the United States. The proposition really makes sense because the company mainly does business in Asia but this could stir up a backlash on Capitol Hill.

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**What Can the U.S. Do?**

- 1) First and foremost, it's not in the United States' interest to have an energy- starved China.
- 2) The United States can help China slow down its demand growth — should cooperate on new technology and promote efficiency. U.S.-China Energy Policy Dialogue is a step in the right direction. The forum's aim will be to increase collaboration in high energy and nuclear physics, fossil energy, energy efficiency and renewable energy, and energy information exchanges (pollution-free hydrogen; nuclear fusion; natural gas; oil recovery technology).
- 3) Move forward and encourage regional cooperation in Asia to reduce angst over supply disruption. The United States should promote the formation of an entity like an Asian IEA.
- 4) The United States should also take steps to further strengthen the existing bilateral relationship across the board including the realms of economics/ commercial; diplomacy; cultural; security. Should take whatever additional measures needed to dispel the notion that the U.S. is encircling China.

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**What Can China Do?**

- 1) Tax fuel consumption more effectively.
- 2) Leapfrog to cleaner cars.
- 3) Tighten up restrictions on vehicle efficiency.
- 4) Migrate to gas as soon as possible.

Maintaining a robust economic growth is seen as a top priority by the leadership in Beijing. Economic growth is key to job creation, job creation is key to maintaining social stability, and, of course, social stability is key to ensuring the CCP's authority and legitimacy.

# Fueling the Superpowers

## What Role for Iran?

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*This article by Hossein Askari is taken from the proceedings of the EPIIC Symposium at Tufts University, February 2005*

**L**et me begin by stating some myths about Muslims and Iranians, taking a brief look at the history of U.S. relations with Iran and then giving you five building blocks for moving forward.

Some of you here have said that the Middle East is unstable. A majority of people in the United States think it is something about Muslims. We are unstable folks, as Bernard Lewis has led you all to believe. And we are deviants. There is something wrong with our religion. We Muslims are, somehow, not to be trusted. These are all myths. Myths that are propagated by people who don't know Muslims, have amnesia when it comes to history, and, in the case of Iran, people who do not go regularly to Iran and interact with all segments of society. Hopefully you will agree with me when I am done.

Now let me tell you a little bit about this unstable part of the world and in particular about Iran. After the Second World War, Northern Iran was occupied by the Soviet Union. America was wonderful and got the Russians out. Iranians were very, very grateful. But then something happened — now you must understand that people in the Middle East are not fools, we get degrees, we understand what goes on in this world — but America conspired with Great Britain to oust the democratically elected prime minister of Iran, Mohammed Mossadegh, to obstruct Iran's nationalization of its oil, something it had the right to do under international law. America did this and yet America preached and continues to preach the benefits of democracy.

We Iranians went our way for the next few years and the United States brought the Shah back in 1953. (Norman Schwarzkopf, by the way, spent

*Hossein Askari is the Iran Professor of International Business and International Affairs at the George Washington University. His latest book is The Middle East Oil Exporters: What Happened to Economic Development? He is a weekly guest columnist for the Iranian national daily newspaper Etemad-e-Melli.*

his youth in Iran where his father came to train the Iranian police. He has spoken of his very fond memories of growing up there.) And then for quite a long time the Shah was America's greatest ally in that part of the world. Of course, there were people who grumbled about some of the things that the Shah did. People used to go to jail, but nobody cared about that. That was all democratic! Interestingly, the United States and the Europeans at that time blessed Iran's acquisition of nuclear power with the German company Siemens taking the lead. Why was nuclear power okay then? Iran was in the U.S. camp and it did America's bidding. The answer is that simple.

Then, if you recall, a revolution occurred, and in that revolution Iran did a horrible thing — Iran took hostages. This was a terrible mistake on Iran's part. But, you know, I don't believe one American died in Iran. Perhaps there was one who died in an oil field, but that death was unrelated to politics.

Again, let me emphasize that it was a horrible thing what this little, insignificant country did to the United States by taking hostages. But then Iraq invaded Iran, if you recall. Now, you have something called the United Nations and we mustn't undermine that. Absolutely. But if we want to also stand for the rule of law, we should say that what Iraq did was not right. But we didn't. The United States wanted Iran threatened, humbled, and punished and so it was okay to undermine the UN. Any thinking person should have said that this would have ominous implications for the UN and for Iran's relations with its neighbors and with the U.S. The results were predictable. The UN lost its credibility in Iran. Now the UN Security Council has no moral sway in Iran. It is an instrument of U.S. policy. That's it. You cannot turn the credibility tap on and off.

But, no, the government did not exactly care about the rule of law and the UN because there were those fifty-two hostages. And so the United States allowed Iraq to invade Iran, and over 500 thousand Iranians died. I'm not going to go through what happened to the Iraqis and all the others. I will just speak about one little country, Iran. Over 500 thousand Iranians died.

Then, if you recall, the Iraqis got pushed back and Iran was very close to taking over Basra in 1982–83. When the United States saw that this was happening, the United States looked the other way and encouraged Saddam Hussein to use outlawed biological and chemical weapons to push back the Iranians; all other sorts of U.S. support, including battlefield intelligence, was given to the Iraqis. And the United States looked the other way when chemical weapons were sold by Germany to Iraq, then by France and Great Britain; yes, the U.S. even has the receipts! Chemical and biological weapons hurt more Iranians than any other group since the Second World War. Today there are many, many Iranians breathing from oxygen tanks (over four thousand in Tehran alone according to the *New York Times*) and seated in wheelchairs. You see the misery of war in the streets of all major

Iranian cities. Do you see why and how the United States has lost the moral high ground?

A wonderful thing about the Iranian people is they don't hold it against the Iraqis at all. They blame it all on Saddam Hussein. I am proud that Iranians reacted to the war in that fashion. They don't blame it on the Iraqi people, but on Saddam Hussein. And, of course, as you will see in my conclusion, they blame some of it on the United States. The United States sold and allowed the Germans and others to sell Iraq chemical and biological weapons. The U.S. could have even stopped the war from getting started, but it did not. Is it realistic for Iranians over thirty years of age to trust U.S. intentions and believe in U.S. propaganda for the rule of law and its drive for democracy?

Iran could not acquire any weapons. And what Iranians had to do — I know that first hand. The people who were involved told me about it — they had to engage third parties to buy conventional weapons. And 80 percent of the time they got cheated because you can't go to somebody and say the equivalent of, "I wanted to buy cocaine from this guy," and then complain "but he didn't deliver."

Iranians fought. And they lost all these people. It was U.S. national policy to do that. Iran complained about the use of outlawed weapons to the UN. But again the United States did not stand up for the rule of law. The U.S. argued that there was insufficient evidence when it had the receipts of biological and chemical weapons sales to Iraq!

The Iran-Iraq War is etched into the psyche of Iranians over thirty years of age who lived in Iran during those eight terrifying years. Iran was bullied and massacred because they had taken fifty-two hostages and because U.S. interests appeared to be threatened in the Persian Gulf. Do you see why Iranians feel insecure?

Then Saddam Hussein invaded Kuwait. Iran opened its borders to Kuwaitis to flee Saddam's wrath, Kuwait the country that along with Saudi Arabia and the United Arab Emirates had bankrolled Saddam's invasion of Iran. Iranians were magnanimous in Kuwait's hour of need. Iran was also generally cooperative with the coalition forces because admittedly it was also in Iran's interest.

Then after the war, the United States said, "Let's have national security for the Gulf Region, but we'll bring in Egypt and leave Iran out." The Iranians said, "Egypt? What has Egypt got to do with this? Has the world map changed?" But the United States said, "Look, these are evil people, these Iranians. There are 70 million of these guys. We've got to do something about it. We must keep the Iranians out and bring in Egyptians to neutralize them." And you will see what the future implication of this is for the United States in a moment.

Then came 9/11. Iranians held spontaneous demonstrations in sympathy for the U.S. Then the U.S. went into Afghanistan. And that was a wonder-

ful, interesting example of another U.S. policy. Who created Osama bin Laden? But you all know that, so I'm not going to go over it again. And, of course, the Saudis helped.

And here were these Iranians, these terrible folks who helped the Northern Alliance. Now everybody has conveniently forgotten about that. But when the United States went in there, who helped? The Northern Alliance did most of the on-ground fighting. The U.S. relied on them, these allies of Iran. Instead of reaching out to Iranians, Mr. Bush labeled them as a founding member of the "Axis of Evil." That was Iran's reward! The United States seems to have a convenient memory loss at critical times. Zalmay Khalilzad wrote an article in the *Wall Street Journal*, I think that is where it was, praising the Taliban, the good guys. Then he became the U.S. ambassador to Afghanistan (and later to Iraq)!

Then we have the invasion of Iraq. Now add this up in the mind of an Iranian and other Middle Easterners. When somebody comes to you before the invasion of Iraq and says, "We're for democracy. We're against this man Saddam, the mad man, having chemical weapons." Are they credible? There is something that doesn't quite ring true. Now that things have gone wrong in Iraq, who is to blame? Call out the usual suspect. Put the blame on Iran's doorstep!

Now we are saying that these Iranians are acquiring nuclear weapons. For a nation that has got the United States on its left, on its right, to its south, to its north . . . just put yourself in their position. A nation that is threatened every which way by the United States on a constant basis. The long and the short of it is this: Iranians feel insecure. The underlying reason for their insecurity is the history of U.S. aggression, the fact that the U.S. and the UN do not uphold the rule of law, the U.S. has surrounded Iran on every side and the U.S. threatens Iran with regime change, invasion, and more. What would you do?

But let's first face the nuclear issue head on. The Non-Proliferation Treaty is clear about the rights and obligations of its signatories. Signatories that were not nuclear powers when the treaty was adopted have the right to peaceful nuclear power development, including: enrichment, research, and light- and heavy-water reactors. Moreover, signatories would receive technological and safety-related support in their quest to develop peaceful nuclear power. In return, the signatories agreed to forego nuclear weapons and to open up their facilities to IAEA inspection and safeguards. In turn, the nuclear powers agreed to reduce their nuclear arsenal and in time to eliminate all such weapons. In the case of Iran, the United States has argued that Iran has lost its rights and privileges under the NPT for the following reasons: in the past it did not fully disclose its nuclear program, it is pursuing nuclear weapons, it has so much oil and gas that it does not need nuclear power, and the regime in Tehran cannot be trusted and is dangerous.

It is true that in the past Iran did not disclose all of its nuclear facilities, but Iran gives a credible reason for its nondisclosure: its facilities would have been attacked before they were constructed — a justification supported by Iran's experience with international duplicity (as briefly outlined above). Still Iran has not technically violated the terms of the NPT. Moreover, there is not a shred of hard evidence to support the assertion that Iran is developing nuclear weapons. Further, Iran has now opened up its facilities to IAEA inspection that goes beyond legal IAEA requirements and IAEA inspectors have found traces of highly enriched uranium, which seem to have come from secondhand equipment bought by Iran.

In wake of the Iraq War, the world can hardly believe U.S. assertions on the basis of hard evidence “that cannot be disclosed for fear of harming confidential sources.” Iran's reserves of oil and gas are indeed expansive but this is totally irrelevant to the legal interpretation of the NPT. Interestingly, the United States did not criticize and threaten the Cooperation Council for the Arab States of the Gulf (GCC) — consisting of six countries with one-third of Iran's population and about three times Iran's oil and gas — for its announcement earlier in December to develop peaceful nuclear power.

This naturally leads to the fourth U.S. justification for taking away Iran's right to peaceful nuclear power: that the regime in Tehran is dangerous. But that rationale would, again, contravene the treaty, which does not disqualify certain regimes from its provisions.

Why was Iran's nuclear program under the Shah acceptable, but not under the current regime? Doesn't the right of peaceful nuclear power belong to a people, Iran, as opposed to a particular regime, a shah or a mullah? Moreover, do not regimes change over time, for good or for bad? Would the United Nations allow peaceful development with a regime subjectively considered “good” and then approve of the destruction of facilities when a “bad” regime comes to power? Is Saudi Arabia's regime a “bad” regime? If so, on what grounds? What should the world community do about a country (say, Pakistan) that has nuclear weapons and some consider to be ruled by a “bad” regime? Does a so-called bad regime become, by virtue of some policy alchemy, an accepted nuclear power once it has acquired the weapons and a delivery system?

For the United States and the other nuclear powers that blame Iran for alleged transgressions, we have to ask a simple question: have the nuclear powers kept up their end of the bargain to reduce and eventually eliminate their nuclear weapons as called for in the NPT? The simple answer is no. While that standard was upheld during the Reagan era — as both the United States and the Soviets reduced their nuclear arsenals — under the Bush Administration the United States is building new classes of nuclear warheads; China is still increasing the number of its nuclear weapons; Britain recently announced a new nuclear weapon program; and France has been building new weapons. The United States is affording India, a non-

signatory to the NPT, all the privileges of signatories, although India has developed nuclear warheads outside the NPT and will not have to open all of its nuclear facilities to IAEA inspection. In short, the nuclear powers clearly have not adhered to the NPT and the treaty did not grant the Security Council, or any of its members, the right to deny nonnuclear signatories their rights and privileges on the basis of their oil, gas, or coal reserves — or on the acceptability of their regimes.

If the Bush Administration is sincere in its quest for global nonproliferation, and is not simply trying to leverage legitimate concerns on proliferation to single out a regime it dislikes, then why did it vote against two resolutions, introduced by Arab countries, at the IAEA annual meeting on September 21. The resolutions, both of which were supported by Iran, called for converting the Middle East into a nuclear-free zone, and for all Middle East countries to accept IAEA safeguards. The United States and its allies defeated the first resolution by a vote of 45 to 29, in favor of taking no action. The second resolution passed by a vote of 89 to 2, with the United States and Israel being the odd couple.

Now, if I, this good little boy who left Iran at the age of nine, were running Iran, I would have done things differently. I would have a strong Iranian economy, which the mullahs don't have, and I would already have peaceful nuclear power in place; and with that in place, the outside world would be less likely to resort to Iran-bullying because they might feel that Iran could acquire nuclear weapons if threatened again. It is in Iran's interest to acquire nuclear technology and nuclear power. It is a popular policy in Iran. And if the mullahs had sense, they would acquire nuclear power because the Iranian people want it, and that is a fact. Iranians feel insecure. So if you want to understand Iran, don't get up every morning and bash it, try instead to understand why they feel insecure and deal with that.

One final point before my conclusion: the mullahs are very much like the Republicans. I'm serious. Think about it. You could do business with these guys. You sit around here in the United States and say, "These guys are fanatics." But the fanatics are in Saudi Arabia in Najd, not in Iran. You've got it all wrong. Iranians are not fanatics. The mullahs understand moolah! The United States has got to appreciate that they understand money. They understand business. And I'm not saying that is wonderful for Iran, by no means.

Now in this very brief history of Iran-U.S. relations, I will come to my five, very simple conclusions that might help to understand Iran and to move forward and one prediction.

The first conclusion: you can't have it both ways. There is something called guilt by association: as my grandmamma used to say, "If you sleep with people who have fleas, you will catch fleas." The United States has supported all of these dictators and undermined the rule of law all these years and now says, "We're for democracy and for the rule of law!"



Lesson two: democracy is not a tap that you can turn on. The United States has brought democracy to Iraq, yet supports Musharraf, Mubarak, the Al-Sauds, and many of these guys! And then the U.S. says, “Iran is tyrannical.” I’m sorry, by anyone’s reasonable conclusion, Iranian elections are flawed. I absolutely agree and I’m willing to admit that. But Iran is more democratic than any other Middle Eastern country (let’s leave Israel out as I don’t want to have that discussion). It is a duplicitous thing to bash Iran and call these other guys democratic. Iran has a vice president who is a woman. Women vote. I hate that they force anyone to wear any kind of veil. And yes, I agree with you, in Iran, they do many very restrictive things. In the Arab countries they are way behind on that. So don’t bash Iran and say, “These guys are fanatical.”

The third conclusion: the United States has lost the moral high ground in the Middle East. There is no doubt. It is gone. It is bye, bye. Adios. That’s why the United States is not popular in the Middle East; in this region the United States is most popular in Israel, followed by Iran. Yes, Iran! And when people ask me why this is so I say, “Because the U.S. hasn’t had anything to do with Iran. That’s why.” If the U.S. had anything to do with these guys it would have been the kiss of death. The U.S. hasn’t touched them, hasn’t supported the mullahs, and that is why Iranians like the United States (not the U.S. government).

The fourth conclusion: I firmly believe that economic progress requires stability. And stability requires economic progress. Oil has been a curse. The conflicts in the Middle East over the last twenty-five years have cost that region more than all their oil revenues.

Let that sink in. So we say that the Persian Gulf has had over \$3 trillion dollars worth of oil revenues from 1975 to 2004, yes, but the damage from wars and instability — infrastructure, lost economic output, GDP — has been more than that. And that is why, if you look over the last thirty years, the Middle East has been the worst performing region of the world. This is not my data, but World Bank and World Development Indicators. In terms of real growth, on per capita real terms, the only part of the world that is worse off since 1975 than the Middle East is sub-Saharan Africa.

And conclusion five: Islam-bashing is stupid. The Islam that you get exposed to is not Islam. The two main tenets of Islam are spread the faith and economic and social justice. If you read the entirety of the Koran, that is what it is. I can pick anything from the Bible and make Christianity or Judaism look bad. And you can pick one phrase out of the Koran out of context and do likewise. Economic and social justice is the second most important thing in Islam. Now, tell me which Muslim country has that? None. So don’t blame Islam. Blame the corrupt governments and dictators in the Middle East that the United States has supported. It is not Islam. And let me tell you something, Islam will be there when we are all dead. Islam will be there when oil has run out. Islam will be there when United States becomes a third-world power. So you had better get used to it. Do not try to

say, “We don’t like Islam and we’ve got to do something about it.” Understand what is true Islam and that some people have perverted it, distorted it, and used it for their own legitimacy. That is what has happened in that part of the world.

Now let me give you my prediction. As I’m a betting man, I’m even willing to give you odds that Iraq will, in fact, become stable — it will take time — and Iran and Iraq will become allies. They are natural allies. Yes, they are. They don’t hate each other. This guy from Iraq sitting in the audience is my friend. I love him. I didn’t like Saddam Hussein; nor did my friend. But Iran and Iraq are natural allies. It was Saddam who made all this happen. Iran and Iraq will combine.

And the frightening irony is this, and I’m being serious, that America’s blood and treasure has been spent to make this happen. That is going to be a weird situation. Iraq is said by some to have more oil than Saudi Arabia. And when Iraq and Iran combine, nobody is going to stop them. That was the nightmare of the United States when it thought that Iran would conquer Iraq. But Iran and Iraq are going to become allies and U.S. actions will have joined the two countries! Now that’s a real nightmare for U.S. policymakers!

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