Petroleum Geopolitics at the Beginning of the 21st Century

*By Jean-Pierre Favennec**

Introduction

The Middle East possesses two-thirds of the world's liquid hydrocarbon reserves. This concentration, in a zone considered unstable in some circles, has led the consumer countries to diversify their supply sources, particularly after the oil crises. This is why North Sea, Alaska and offshore production has continued to grow despite higher costs than in the Middle East.

After September 11th, the United States sought to reduce its dependence on the Middle East and to increase its imports from other sources, such as West Africa and the Former Soviet Union.

New equilibria are taking shape: to what extent can Africa, Russia and the Caspian replace Saudi Arabia? This is the challenge today.

A strategic product par excellence, a base stock for motor fuels indispensable for daily life, oil is the central concern at the start of the 21st century. Will consumption explode or stagnate? Will the coming years see a shortage or a reasonable abundance of oil? Will the producing countries continue to favor cooperation or will they be prepared to use the "oil weapon" against consumers? Many questions need addressing, and uncertainties have been further aggravated by the terrorist attack on the World Trade Center and the Israeli-Palestinian conflict.

The Central Role of the United States

The United States remains by far the world's biggest oil consumer and importer. Faced with the threats of a shortage or embargo, American energy policy has repeatedly been the subject of debate. After the first oil shock in 1974, President Nixon launched the "Independence" plan, designed to permit the United States to recover the energy self-sufficiency that it lost in the late 1950s. "Let us set as a national goal", he said, "in the spirit of Apollo, with the determination of the Manhattan Project, to meet our energy needs without depending on any foreign source at the end of the decade". The project was unrealistic, but was nonetheless followed by similar initiatives up to the early 1980s. These projects enjoyed little success, and American dependence on foreign oil has still increased.

The oil aftershock and the decrease in the price of oil relegated concerns for security of supply to the background. But in 2000, the California crisis, the result of a deficit of power generation capacity in the west of the United States, degenerated into an American energy crisis: the price of electricity, as well as gas and home-heating oil, climbed to impressive highs. Unlike the crises of the 1970s, which resulted from the fear of an energy shortage, the crisis of 2000 was more the consequence of a botched deregulation of the energy markets. Two alternatives became available to the American electorate at the time of the 2000 presidential campaign: reduce energy consumption as proposed by Al Gore, the Democratic candidate; or increase supply, the program of George W. Bush.

George Bush won the race and proposed to open up new areas to oil exploration. But there was never any question of any sweeping change in American consumption habits. So the import of crude oil and finished products[1] simply continued.

In 2001, the United States consumed about 20 Mbd, produced 8 and imported 12 (crude oil and finished products). Four countries were the leading suppliers of crude and products: Canada with 1.3 Mbd, Mexico (1.1 Mbd), immediate neighbors and natural suppliers; as well as Venezuela (1.2 Mbd) and Saudi Arabia (1.5 Mbd). These four countries accounted for approximately 60% of American crude oil imports.

The attacks on September 11th drastically changed the situation. A drop in Saudi Arabia's sales to the United States was offset by a slight increase in supplies from Mexico. America demonstrated a marked determination to reduce its dependence on the Middle East. Yet the figures for American needs are implacable: the United States cannot do without Middle East oil. In late 2001, sales from Iraq to the United States actually increased.

The Deterioration of U.S./Saudi Relations

In 1932, Abd el-Aziz ibn Abderrahman al-Saud founded the kingdom that took his name. In 1933, he granted the first oil concession to Standard of California (Socal). The first oil discoveries occurred in the following years. Saudi Arabia's potential very quickly turned out to be considerable. In early 1945, President Franklin Roosevelt promised king Ibn Saud American protection. In exchange[2] the king supplied oil to the West and became a loyal ally of the Americans in the battle against communism, going as far as to back the Islamic opponents to the regime supported by the Russians in Afghanistan, from 1979 to 1988.

The alliance between the two countries is reinforced by their petroleum complementarities. The first obvious complementarity: since the 1950s, the United States imports and will continue to import increasing amounts of oil. Part of this oil will very probably continue to come from the Middle East. As a consensus on price: the United States, a big importer, does not want a high price, because this penalizes its growth, but an excessively low price is also disastrous. American production partly comes from a multitude of stripper wells, belonging to small proprietors[3]. An excessively low price of oil, as in 1986, can ruin thousands of Texan producers. Similarly, Saudi Arabia wants neither a low (because of the need for revenues) or a high (because of replacement of oil with orther energy sources) price.

Yet the alliance between Washington and Riyadh has made many circles unhappy. In Saudi Arabia, the presence of American troops is contrary to one of the first fatwas of the Omeyyad caliphs: to keep the "Land of the Prophet" free from infidels. It provokes the anger of certain Saudi quarters: in 1995, a bombing killed five Americans in Riyadh. In 1996, a second against American forces caused nineteen deaths at

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[1] See footnotes at end of text.

Dhahran.

The hostility of a fair share of the population of Saudi Arabia to the Americans is met by increasingly clear criticisms of a segment of American public opinion against the Riyadh regime. The Saudi monarchy is an absolute and virtually theocratic monarchy. The royal family, in power since 1932, bans any form of political opposition (no political parties, no voting rights, no unions). Only divine law – the Koran and prophetic tradition (Sunna) – could challenge the power of the king. This regime is the absolute opposite of American traditions.

American criticism has become much more violent after September 11th. Fifteen of the nineteen terrorists who hijacked the airplanes against the World Trade Center and the Pentagon were Saudi nationals. Ossama bin Laden is himself of Saudi origin. Hence the clamor of the American press against the Wahhabite kingdom.

The two countries, strongly bound by common interests in petroleum matters, are increasingly antagonistic. The United States is exasperated by the regime's lack of democracy and its close links with the most conservative Islamic circles. The Saudis are irritated by the lessons from the American press, U.S. support for Israel, and the "arrogant" policy of the U.S. administration. How can this dilemma be resolved?

The New Role of Russia and the Importance of Russian Oil

The fall of the communist regime brought about the collapse of oil production which, in the CIS (FSU minus the Baltic republics – the production of the CIS is, therefore, perfectly equivalent to that of the FSU) dropped to 7 Mbd in 1995, and to 6 Mbd in Russia at the same time. However, the reforms of 1998 (devaluation of the rouble) and the recovery of crude oil prices since 1999, have substantially improved the situation of Russian industry[4].

By virtue of its historic and geographic positions, Russia also plays a key role in the development of the Caspian. Five riparian countries share the resources of this region, Russia, Kazakhstan, Turkmenistan, Iran and Azerbaijan.

Many pipeline projects are on the boards, but they face many problems:

- pipelines routed towards Russia cross Chechnya, a very sensitive area today,
- Turkmenistan's oil and gas could be routed through Iran, but the United States is against this alternative,
- the routes terminating in the Black Sea entail transit through the Bosphorus, which is very narrow, and the Turkish authorities want to limit the traffic in this Strait.

September 11th altered the prospects. While the United States remains hostile to any routing of Caspian oil through Iran, routes across Russia no longer meet the same hostility. At the same time, Russian companies are participating in exploration in this region alongside private Western companies: thus Lukoil has declared its readiness to participate in the construction of an oil pipeline crossing Turkey and terminating at Ceyhan.

The New Equilibria after September 11th

Even if the solidity of the links between the United States and Saudi Arabia has been shaken by the attacks on September 11th, both countries continue to play a key role on the oil scene, and the petroleum geopolitics of the beginning of the XXIst century continue to be organized around the Washington-Riyadh axis.

The central question that exists is the following: can the United States manage without the Middle East? Some experts say, yes, drawing a parallel between the cost of the US presence in this area and the value of the imported oil. Yet the answer must be far more guarded. U.S. energy and oil requirements are considerable and steadily growing. Every American consumes 8 tons (oil equivalent) of energy and nearly 3 tons of oil annually. The potential for economies is considerable, since with similar levels of wealth, the Europeans and Japanese consume less than half of that energy. But the present choices of the American administration are clear: don't touch the "American way of life". Hence energy supplies must be increased without reducing consumption, and more oil must be imported in the coming years. Can imports from the Arabian-Persian Gulf be reduced? In principle, yes. Flows could conceivably be redirected so that the United States buys most of its supplies from Canada, Venezuela, Mexico, Russia and (North and West) Africa. Yet this energy independence would still not shelter the United States from the political upheavals of the Middle East. The oil industry is a world industry, and an incident on a field or on a refinery in the Middle East will affect oil prices throughout the world.

Furthermore, as brilliant as American power may seem, the United States needs the support of other countries, industrialized countries, as well as emerging countries, to deploy its foreign policy. This implies protecting the economic interests of its allies. Greater dependence of certain allied countries (especially Asian) on the Middle East countries will be the price to pay for lesser American dependence. This dependence can become critical for certain countries.

It must be remembered that in the Middle East, five countries own two-thirds of the reserves of the planet. Two of them form part of the "Axis of evil" according to the U.S. President: Iraq and Iran. Two others have very limited political clout: Kuwait and the United Arab Emirates. This leaves Saudi Arabia, an indispensable and unavoidable partner. A loosening of the links between Washington and Riyadh would mean a withdrawal of the United States from the Middle East, which is difficult to imagine.

Another country whose stature has changed since September 11th is Russia, which has profited from the repercussions of September 11th to accentuate its return to the group of nations that run the world. Criticism against Russian government action in Chechnya has been dispelled in the formation of the coalition against terrorism. After all, don't the Russians refer to the Chechens as terrorists? The Russian petroleum industry can benefit from the new situation. Although a rupture between the United States and Saudi Arabia is highly improbable, Russia, whose crude oil production is growing substantially, will certainly try to boost its market share and once again become a key player on the oil scene. The OPEC-non-OPEC debate concerning cuts in output has been transformed into an OPEC-Russia confrontation. Russian industry, reinforced by the control that it can exert on a good share of the resources of the Caspian region, will play a major role in the coming years.

However, without a major upheaval, the world will depend for several years to come on the Arabian-Persian Gulf

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