

World Affairs Council of Philadelphia

2006 Model Senate Foreign Relations Committee Hearings

Topic 1: United States: Oil Dependency and Economic Risks

Subcommittee on International Economic Policy Export and Trade Promotion

Chairman: Chuck Hagel (R-NE)

Ranking Member: Paul S. Sarbanes (D-MD)

Members: Lamar Alexander (R-TN)

Lisa Murkowski

Mel Martinez (R-FL)

George Voinovich (R-OH)

Christopher Dodd (D-CT)

John Kerry (D-MA)

Barack Obama (D-IL)

Joseph Biden (D-DE)

Overview:

Terrorism has become a common word in the American lexicon. While terrorism is not a new concept, the United States government has increased its awareness of terrorism since September 11th. United States security has been augmented by organizations with goals of preventing acts of terrorism towards the United States. Although there are programs in place to help control terrorism, one large security threat still lingers: the United States' dependence on foreign oil. American leaders are not unaware of this danger. Months before Sept. 11, 2001, President Bush warned of the dangers associated with growing United States dependence on petroleum imports from the developing world. "If we fail to act," he declared on May 17 of that year, "our country will become more reliant on foreign crude oil, putting our national energy security into the hands of foreign nations, some of whom do not share our interests."

US Senator Richard G. Lugar, chairman of the United States Foreign Relations Committee, stated "*Energy is vital to a country's security and material well-being.*"¹ His reasoning stems from observing domestic and international trends. The United States depends on many types of energy, in order to power buildings, move automobiles, and allow for the smooth functions of other electronic items. The United States' primary source of energy is petroleum. The United States consumes approximately 20 million barrels of oil in one day, a figure which continues to increase. Because the United States does not produce nearly enough oil to satisfy its demands, the result is an importation of foreign oil. According to the CIA World Fact Book, the United States imports two-thirds of the oil it uses. Countries with numerous oil fields are located in tumultuous areas of the world, often plagued with ethnic, religious, and socioeconomic conflicts. In addition, these areas are often ruled by authoritarian dictators, if the area has a stable form of government at all. The United States' vested interest in the oil-rich Persian Gulf, Africa, and Asia forces the United States to maintain amicable relations with these countries by tolerating the authoritarian governments' actions.

Background:

The first oil wells were introduced in Pennsylvania in 1859. Since then, several events occurred that would impact the future of United States oil dependency. Shortly after World War

II, industrialized nations began searching for other sources of oil. Because the United States drilled enough oil to satisfy domestic demand, American companies were able to profit from other oil-seeking countries. In 1960, a group of countries formed the Organization of Petroleum Exporting Countries or OPEC, due to cuts in oil prices. OPEC would be able to control the production of oil in order to regulate prices. By 1970, the United States began to heavily import oil from the Middle East, unbeknownst to many Americans. The Energy Crisis of 1973 forced a steep rise in oil prices. These shortages would wax and wane due to the unstable governments of the oil-producing countries, notably Iraq and Iran. In addition, the United States has not permitted construction of new refineries in 25 years which is another cause of the dependency on foreign facilities. Although the Middle East receives much attention from the United States, the largest exporter of oil to the United States is Canada.

Oil Dependency & United States Security

Critics argue the United States' dependency on oil is detrimental to overall national security. Areas rich in oil, including the Middle East and the Caspian Sea Basin, are run by what analysts view as the worst authoritarian dictators. Many of these countries house some of the world's worst dictators. Some of these countries are investing in terrorism, instability, or demagogic appeals to populism. Because the United States must maintain amicable relations with these countries, many compromises are made. Billions of dollars are transferred to some of the least accountable regimes in the world. As a result, the United States must deal with these other problems created by the United States directly and indirectly funding these leaders through purchasing the foreign oil.

Many areas rich in petroleum contain many problems. Take for example, the Middle East. The Middle East houses sixty-five percent of the world's known oil reserves, but it also houses some of the heaviest ethnic and religious problems, including Shiites and Sunnis, Arabs and Persians, and Muslims and Christians.² In African oil reserves, an intense gap exists between the tribes due to unequal distribution of oil wealth. In Nigeria, tribes from the North are taking control of the oil profits while the South does not receive as many economic benefits. As a result, the southern communities continue to live in poverty, while the North takes the oil profits. The ramifications of the North's actions result in the southern community threatening civil war and petroleum shutdown, unless the North funnels more money to the south. If the United States wants to export oil from these countries, they must also deal with the social problems of these countries.

Plans of Action

Changing energy policies within the United States could drastically reduce the amount of energy consumed in one year. Creating incentives for companies to find energy efficient vehicles and promoting the research of alternative fuel sources may help to weaken the United States' dependency on foreign oil. As more companies seek alternative means of energy, they are more likely to discover a long-term solution to foreign energy dependency.

Research has been conducted in the area of alternative fuel sources. These include the use of alternative types of fuel. Besides the traditional use of solar and wind power, there have been several lesser-known types of alternative energy including hydrogen, ethanol, and methanol, among many others. While the actual creation and market integration of these products may take several years, they are viable alternatives to a dependency on petroleum.

These alternative sources of energy also encompass some skepticism. Proponents of oil often state the downfalls of using other types of energy, including cost, reality, and efficiency.

One detractor of alternative energy sources includes Lee Raymond, the former CEO of Exxon. He stated “There are many alternative forms of energy that people talk about that may be interesting. But they are not consequential on the scale that will be needed, and they may never have a significant impact on the energy balance. To the extent that people focus too much on that — for example, on solar or wind...

Energy Dependency Witnesses

Thomas L. Friedman

New York Times: Foreign Affairs Columnist

Has written editorials criticized the U.S. dependence on oil and has encouraged the U.S. government to look for alternative fuel.

Rick Wagoner

Chairman and CEO: General Motors

GM is constantly chided for not developing automobiles that use less fuel.

Samuel Bodman

United States: Secretary of Energy

He could talk about the policy of the United States.

Lord Browne of Madingely

CEO: BP

He could talk about BP's use of alternative fuels and why the cost of oil is so high.

Rex W. Tillerson

Chairman and CEO: Exxon Mobile

He could talk about why the cost of oil is so high.

Katsuaki Watanabe

President: Toyota Motor Corporation

He could talk about Toyota's development of automobiles that use alternative fuels.

Jason S. Grumet

Executive Director: National Commission on Energy Policy

He believes that the government must share the burden of relieving our dependence on foreign oil could be through nuclear energy technologies.

Gary W. Yohe

Professor of Economics: Wesleyan University

He believes that we need to consider the economic costs of dependence on oil.

David B. Sandalow

Environmental Scholar: Brookings Institute

He believes that Brazil could serve as a useful example if we want to implement ethanol.

Luiz Lula Da Silva

President: Brazil

He has implemented alternative fuels such as sugar and ethanol in Brazil.

Daniel Yergin

Chairman: Cambridge Energy Research Associates

He is an expert on the great game of oil between countries.

Jerry Taylor

Senior Fellow: Cato Institute

He believes that companies have a right to make record prices and that ethanol and sugar are no solutions

Kelly Sims Gallagher

Director: Energy Technology Innovation Project at Harvard University

She could talk about the role china is playing in developing and making it harder for the U.S. to obtain oil.

Amory Lovins

CEO: Rocky Mountain Institute

He advocates a soft energy policy, which is that of conservation, but also focuses on building renewable sources of energy

Colin Campbell

Geologist

He predicts that oil production will peak by 2007

Matthew Simmons

Chairman: Simmons Company International

He believes that the United States might soon have to embrace coal and nuclear power.