

**BREAKING AWAY: REDUCING THE MIDDLE EAST'S
STRANGLEHOLD ON WESTERN ECONOMIES AND
DIPLOMACY**

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SUMMARY

The September 11 attacks on the World Trade Center and the Pentagon, the recession, and OPEC's response must permanently alter long-term energy planning.

Prior to September 11, the world's industrialized nations had planned to rely heavily on exports of oil from the Middle East. A Department of Energy forecast predicted that oil exports from the Persian Gulf would increase from 17 million barrels per day (MBD) in 1998 to 35 MBD in 2020.¹ After September 11, skepticism has arisen regarding the trustworthiness of Saudi Arabia. This skepticism has been supported by new and troubling revelations regarding Saudi diplomatic actions. For example, Retired General Ralph Peters wrote recently, "...the Saudis foment instability that leads to still-greater oppression, backwardness, and bigotry. By funding religious extremists from Michigan to Mindanao, the Saudis have done their best to destroy democracies, turn back the clock on human rights, and deny religious freedom to Islamic and other populations..."²

¹ US Department of Energy, International Energy Outlook 2001, Washington, DC.

² Ralph Peters, "The Saudi Threat," *The Wall Street Journal*, January 4, 2002, p. A14.

Prior to September 11, most economists and experts supported free trade in energy. Following September 11, a consensus has developed that trade in energy must be restricted if globalization is to proceed. Conservative economist Martin Feldstein, President Reagan's former adviser, has written, "The United States can and should reduce its dependence on imported oil with the goal of achieving complete oil independence by 2020." He concludes: "We cannot change the fact [that] the Saudis and other Persian Gulf states have most of the world's oil reserves. But with the right policies we can make that fact irrelevant."³

Prior to September 11, the United States, Europe, and Japan viewed developments in the energy sector with some interest, but there were concerns that a legal framework for increased investment was still not in place, particularly in Russia. After September 11, Russia has become one of the strongest allies in the war against terrorism. Russia is now seen as a major energy ally for the industrialized nations.

Prior to September 11, conservation was viewed as "a sign of personal virtue but not the foundation of a national energy policy," to quote Vice President Cheney. Following September 11, conservation has emerged as an important focus. *The New York Times'* respected international columnist, Thomas L. Friedman writes: "The most obvious bold national project that Mr. Bush could launch now — his version of the race to the moon — would be a program for energy independence, based on developing renewable resources, domestic production, and energy efficiency."⁴

Prior to September 11, consuming countries tried to cooperate with the members of OPEC to achieve stability in world oil markets. After OPEC's November 2001 meeting it became clear that oil-exporting nations had no interest in the economic health of consuming countries. OPEC's successful effort to coerce cooperation from non-OPEC nations provided a clear warning that Middle Eastern oil-exporting nations had no concerns regarding the economic health of consuming nations.

In this new energy environment, policies that had been rejected or discarded are once again being reviewed. These include conservation, protective tariffs, international cooperation, fuel taxes, and even rationing.

It may also be time to consider new strategies to limit or neutralize the market power of Middle East oil producers. One such strategy could be an "Energy Common Market," which would function like the European Union and the North American Free Trade Agreement (NAFTA) by establishing an "energy free trade area" and by developing "trust reserves" that would stabilize prices and give non-member countries the opportunity to avoid ECM tariffs.

³ Martin Feldstein, "Vouchers Can Free Us from Foreign Oil," *The Wall Street Journal*, December 27, 2001, p. A12.

⁴ Thomas L. Friedman, "Let's Roll," *The New York Times*, January 2, 2001, p. A25.