

**Behind the Gas Pump: Implications of our Dependence on Mideast Oil  
U.S. Oil Security and National Energy Policy: Realities and Disconnects**

A Presentation by

**Dr. Herman Franssen**

**President International Energy Associates**

University of Houston, 17 January, 2003

“As the 21<sup>st</sup> century opens, the energy sector is in critical condition. A crisis could erupt at any time from a number of factors and would inevitably affect every country in today’s globalized world. While the origins of a crisis are hard to pinpoint, it is clear that energy disruptions could have a potentially enormous impact on the US and the world economy, and would affect US national security and foreign policy in dramatic ways”

Baker Institute 2001

The above is a quotation from a 2001 report by the Baker Institute and the Council on Foreign Relations entitled “Strategic Energy Policy Challenges for the 21<sup>st</sup> Century”. It addressed different aspects of US domestic and international energy policy and made recommendations on how to enhance US energy supply; reduce energy demand growth; find long-term solutions to US electricity and natural gas supplies and infrastructure; and, how to coordinate energy and foreign policy in order to secure access to oil from producing countries.

The release date of the report was very timely; oil prices in 2000 had been very high and global spare capacity was low; in the winter of 2000/2001, US natural gas prices had reached \$ 10/mmbtu at the wellhead; there were serious problems all along the oil and gas supply chain; and, California was in the midst of a serious electricity crisis. The incoming Bush Administration was presented with a grim picture of future energy prices.

Looking back over the past quarter of the century (and even before) since the first oil crisis of 1973, the impact of energy reports calling for energy policy changes have been the greatest whenever the country was in the midst of an actual or perceived energy crisis. Candidate Bush actively campaigned for a new energy policy in 2000 because oil, gas and electricity prices were having an adverse impact on consumers. In the second half of the 1990’s

when US economic growth was high, the US energy infrastructure for most fuels showed serious bottlenecks and gasoline prices had risen 20 percent in three and a half months during the campaign. Candidate Bush accused the Clinton Administration that it had not done enough to use our goodwill to persuade Saudis and Kuwaitis to increase oil production in order to bring oil prices down and, domestic production has suffered from a shortage of available acreage for oil and gas exploration and development.

President Bush called on Vice President Cheney early in the new Administration to develop a new comprehensive energy plan, the first such a plan since the Carter Administration in the 1970's. The plan which was released in the summer of 2002, had 105 recommendations to increase energy supplies (ANWR and additional offshore leases for oil and gas drilling), modernize energy infrastructure (streamlining permitting for energy projects), address conservation environmental protection and the use of alternative fuels. The plan also called for expansion of the SPR and for EPA to explore ways to better coordinate State policies on fuel specifications.

On international policy, the plan called for a review of sanctions policy; a focus on Northern Hemisphere oil and gas; promotion of Caspian oil and gas developments (including pipelines); encouraging Middle Eastern and other countries to open up areas of their energy sector to foreign investors; and, it called upon Asian countries to build strategic oil inventories.

When the plan was released, President Bush said: "If we fail to act, this great country could face a dark future, a future that is unfortunately, being previewed in rising prices at the gas pump and rolling blackouts in the great state of California".

The high oil prices of 2001 made place for lower prices in early 2002 and natural gas prices at the wellhead fell from \$ 10/mmbtu back to below \$ 3 per mmbtu. While Vice President Cheney called for the construction of one electric power plant a week to meet a pending national power crisis, scores of power plants have been cancelled since the middle of 2001 and spare capacity of electrical power has increased in most states. The California electricity crisis appeared to have been a victim of mismanaged deregulation coupled with mischief-making by suppliers. This does not mean that the problems the President talked about, have disappeared. Political attention, however, is quickly diverted to other issues ones the crisis disappears. Many

of the same energy problems addressed in the Baker Institute study of 2001 and the Cheney Plan of 2002, are still with us but, our attention has shifted to other issues when the immediate crisis vanished. The US Congress failed to pass an energy bill in 2002 and OPEC was faced with a weak oil market until December of 2002 when the Venezuelan crisis erupted.

## **Previous Energy Policies and Their Impact**

### President Nixon

In what he referred to as the first comprehensive energy message to Congress, President Nixon in 1971 announced a national goal to complete a Liquid Metal Fast Breeder Reactor by 1980. Half a year before the October 1973 oil shock, President Nixon established the Energy Policy Office in the White House, responsible for formulating and coordinating energy policies at the Presidential level.

On November 7, 1973, President Nixon launched the famous Project Independence, with the goal of achieving energy self-sufficiency by 1980. Recalling the Manhattan Project, Nixon declared that American science, technology and industry can free the US from dependence on foreign oil. A month later he replaced the Federal Energy Office with the Federal Energy Administration and *assigned them the task to control oil and gasoline prices and, to allocate petroleum supplies to refiners and consumers.*

In 1974, Nixon created the Energy Research and Development Administration, the Nuclear Regulatory Committee and the Energy Resources Council, a very active energy policy- agenda for a Republican President. Most surprising for a Republican President was the move to oil price controls.

President Ford, sworn in August 1974, created the Energy Research and Development Administration; the Nuclear Regulatory Commission; and, the Energy Resources Council. He signed the Energy Policy and Conservation Act, extending price controls in 1979, mandating fuel economy standards and, authorizing the creation of the SPR in December 1975.

President Carter, a liberal Democrat, announced the gradual decontrol of oil prices following the Iran Revolution of 1978 in an effort to increase oil production. Carter also introduced the National Gas Policy Act, which was aimed at unifying and deregulating the natural gas market. He did, however,

propose to offset some of the corporate financial gains from oil decontrol by proposing a windfall profit tax. President Carter established the Department of Energy in 1977 and signed the comprehensive National Energy Act a year later. Carter declared energy to be the immediate test of our ability to unite the Nation (equivalent of war) and proposed a \$ 88 billion decade-long program to enhance production of synthetic fuels from coal and shale oil reserves.

President Carter believed that unless his program was accepted, the world would soon run out of oil. Introducing his National Energy Policy, President Carter said: “The oil and gas we rely on for 75 percent of our energy are running out. In spite of increased efforts, domestic production has been dropping steadily at about six percent a year. Imports have doubled in the last five years. Our nation’s independence of economic and political action is becoming increasingly constrained. *Unless profound changes are made to lower oil consumption, can produce*”. *we now believe that early in the 1980’s the world will be demanding more oil than it can produce*”.

To prevent this from happening Carter set the following goals for 1985:

- Reduce energy demand to less than 2 percent per year;
- Reduce gasoline consumption by 10 percent from 1977 levels;
- Cut oil imports in half to 6 mbd;
- Establish an SPR of one billion barrels;
- Increase coal production by one third to 1 billion tons;
- Insulate 90 percent of the American homes;
- Use solar energy in 2.5 million homes;
- Promote light water reactors and abandon the fast breeder program.

While the oil industry did not like some of President Carter’s policies, they did agree that global oil production was close to peaking and Exxon’s last published annual global energy forecasts called for a massive program to produce some 6 mbd equivalent of synthetic fuels by 2000. In hindsight, It is easy to criticize President Carter’s energy program. However, he was faced with the impact of the massive oil price rise of 1973/74 and on top of that the impact of another three-fold price increase following the Iran revolution of 1978. Policy-makers, the energy industry and most energy experts had no idea of how the economy could adjust to such vast oil price rises. No one had projected the extent of actual conservation, fuel efficiency, development of new energy-savings and energy production technologies and, the response

by the oil and gas industry to the high prices of the late 1970's and early 1980's.

The combination of lower economic growth; the impact of higher oil prices on conservation, efficiency, fuel switching, development of new technologies and, oil and gas exploration and development, reduced the demand for OPEC oil by some 10 mbd in the first half of the 1980's, making life easier for Presidents Reagan, Bush (41) and Carter. High prices coupled with the effects of energy policy implementation had reduced oil demand, increased non-OPEC supplies. By the mid 1980's OPEC had shut in about 50 percent of productive capacity and demand for OPEC oil was still falling. OPEC shifted policy from defending price to defending market share in December 1985. OPEC no longer had the power to raise prices at will without suffering unacceptable volumetric losses; OPEC's power to set prices had weakened significantly for years to come.

President Reagan could afford to have a hands-off energy policy under the new oil market conditions. Reagan decontrolled natural gas through Administrative initiatives and the Wellhead Decontrol Act of 1975. President Bush continued the hands-off policy of President Reagan and his Administration issued the National Energy Policy Act of 1992, addressing issues such as competition among electric power generators and tax credits for wind and biomass energy production. In 1991, at the outset of the Gulf War, SPR action was taken to help mitigate the sharp rise in oil price in the run-up period to the war.

President Clinton's Administration focused mainly on the environmental impacts of energy use. His National Energy Policy Plan of 1995 states the goal of the Administration's energy policy, i.e. sustainable energy policy. Implementation was largely left to the private sector. Clinton de-emphasized drilling for oil and gas but favored funding of energy conservation and renewable energy R&D. The Government entered into a partnership with Detroit to build a new generation of vehicles aimed at improving mileage of today's models by a factor three. This policy has continued under George W. Bush and aside from macro-economic factors, may make the biggest single contribution to future oil demand savings.

### **Impact of Energy Programs**

In the past forty years most US Administrations have perceived an energy crisis or at least an energy problem. Energy plans were designed to solve the perceived problems with a variety of regulatory and legislative changes. Results have been limited and cannot easily be differentiated from the impact of price increases on demand and fuel switching. Ambitious plans to reduce oil import dependence all failed and today we are more import dependent than we have ever been. While US natural gas demand is still largely met from domestic sources, natural gas imports are expected to rise considerably later in this decade and the future of US natural gas supply to meet rising demand from the electric power sector, is in doubt.

Abundant US coal reserves received a boost from most US governments since the 1970's. However, even though the coal industry has reduced fly ash, sulfur and other emissions, coal is considered a major contributor to greenhouse gasses. Nuclear power, the hope of several Administrations in the 1970's and 1980's, is not now competitive with natural gas for the production of electric power and new nuclear power plants are difficult to finance. Renewable energy sources are not expected to make much of a contribution for the next few decades.

On the positive side, higher prices, a changing US economy and government policy, has made the US economy much more energy efficient. In 1973 it took 18,380 BTUs of energy to produce \$ 1 of real GDP; in 2002 it took only 10,570 BTUs. For oil and gas, the record is even more impressive. Between 1973 and 2000, consumption of these fuels fell from 13,910 BTUs to about 6,580 BTUs per \$1 of GDP, more than 50 percent increase in energy efficiency.

Since 1973, while GDP has risen 125%, total energy use has only risen 30%, from 75.8 quads to 98.5 quads, a reduction beyond even the wildest dreams of conservationists in the 1970's. The US is now among the most energy efficient countries in the OECD in terms of energy use per unit of GDP.

## **Oil Use**

In 1973, the year of the first oil shock, the US oil consumption was 16.8 mbd, production of crude oil and liquids was 10.9 mbd and net imports just about 6 mbd (about 37% of consumption). Only 13% of US oil imports in 1973 were from the Middle East (versus almost 4 mbd or 67% from the W.Hemisphere).

By contrast, Western Europe's oil consumption was 14.2 mbd; production 0.4 mbd and net imports 13.8 mbd of which 68% or 10.4 mbd came from the Middle East. Japan consumed 5.4 mbd all of which was imported (75% from the Middle East).

Due to higher oil prices and energy policy since 1973 (CAFÉ standards in the US and fuel switching in all OECD countries), US oil consumption had fallen by 1.6 mbd to 15.2 mbd (lowest was 1982 at 14.8 mbd); production at 10.4 was slightly lower than in 1973 and imports at 4.8 mbd (or 31% of oil consumption) were lower than in 1973.

In terms of oil imports, Western Europe performed even better than the US between 1973 and 1985. Consumption fell by 2 mbd to 12.2 mbd and with the North Sea being developed on the back of high post-1973 oil prices, oil production rose by almost 3.5 mbd to 3.960 mbd and oil imports fell to just over 8 mbd. Japan's oil consumption fell by about 1 mbd to 4.4 mbd, all of which was imported.

While oil imports fell in all of the three OECD regions, the largest cuts were in Europe largely due to the development of North Sea oil. US dependence on Middle East oil rose from 13 % of total imports to 17% in 1985. In contrast, Europe's oil dependence on the Middle East fell from 68% in 1973 to 55% in 1985 (due to North Sea development) and Japan's dependence fell from 75 to 66% in the same period.

The rise in US oil dependence on the Middle East by 1985 went more or less unnoticed because overall oil import volumes were down; oil prices were under downward pressure; and, the Reagan Administration left oil price developments pretty much to the free market.

In the five years between 1985 and 1990, rising US oil consumption and stagnation production, increased oil imports from less than 5 to over 7 mbd in 1990 (the year of the Iraq invasion of Kuwait). In contrast Europe's net oil imports remained unchanged at 8 mbd and Japan's rose to 4.8 mbd. Dependence on Middle East oil rose to 29% for the US; was unchanged in Japan at 67% and fell slightly to 50% in Europe.

A decade later, in 2001, US net oil imports had increased further to 10.7 mbd ; European imports had risen to 9.7 mbd and Japan's imports rose to 5.2

mbd. Import dependence on the Middle East in the 1990's increased in Japan, fell marginally in the US and significantly in Europe. US oil imports from the Middle East in 2001 were 26% of total net oil imports versus 36% for Western Europe and 81% for Japan.

Throughout the past 30 years, the US has been less oil import dependent than either Europe or Japan and considerable less dependent on oil imports from the Middle East as shown in the table below.

### **Oil Import Dependence 1973-2001 (%)**

<b>1973</b>	<b>US</b>	<b>W.Europe</b>	<b>Japan</b>
Oil Imports (% of total oil cons.)	36	97	100
Oil Imp. Dep. On M.East	13 (0.8mbd)	<b>75</b> (10.4 mbd)	<b>75</b> (4.4 mbd)
 <b>1985</b>			
Oil Imports (% of total Oil cons.)	32	66	100
Oil Imp. Dep. On M.East	17 (0.9 mbd)	55 (3.5 mbd)	66 (2.7 mbd)
 <b>1990</b>			
Oil Imports (% of total Oil Cons)	43	61	100
Oil Imp. Dep. On M.East	29 (2.0 mbd)	50 (4.0 mbd)	67 (3.2 mbd)
 <b>2001</b>			
Oil Imports (% of total Oil Cos.)	55	61	100
Oil Imp. Dep. On M.East	26 (2.5 mbd)	36 (3.7 mbd)	81 (4.2 mbd)

Despite calls for reducing oil imports and the need for diversified sources of oil supplies, US oil imports from the Middle East gradually increased from 0.8 mbd in 1973 to 2.5 mbd in 2001. Between the mid 1980's and early 1990's the share of US oil imports from the Middle East rose sharply from 17 to 29% of oil imports but remained fairly stable thereafter. In contrast

Japan's dependence on Middle East oil has hovered between 70 and 80% for most of the past three decades. At the time of the first oil shock in 1973, W.Europe was as dependent on Middle East oil as Japan. North Sea production in particular and regional diversification of oil imports steadily reduced Europe's dependence on Middle East oil to about 36 percent of total oil imports in 2001. *Measured in percentage of total oil imports or in volume, Europe and Japan have always been more dependent on the Middle East than the US.*

The Asian Pacific region excluding Japan is almost as dependent on the Middle East as Japan. In 2000, the region (excluding Japan) imported 19 mbd of oil of which 11 mbd or 58% originated from the Middle East. *Of all the major oil consuming parts of the world the US is currently least oil import dependent and least dependent on oil imports from the Middle East.* If current demand and US production trend continue, US oil import dependence may reach current European level by 2010 but dependence on Middle East oil imports is still projected to be less than in Europe.

Oil import dependence was an issue in the 1970's following two major oil price shocks. Presidents Nixon, Ford and Carter pledged to reduce oil import dependence and even make the US self-sufficient in oil (Project Independence). When oil prices began to fall in the 1980's and OECD oil imports were falling (and oil prices collapsed in 1986), the next three US Administrations paid little attention to the oil dependence issue. Only after 9/11 did the mood change in the Administration. There was a new determination to reduce vulnerability to oil supply disruptions (SPR fill) and reduce dependence on Middle East oil. 9/11 also changed attitudes towards reliance on Middle East oil. Regime change in Iraq became a priority foreign policy issue. Neo-conservatives in the Bush Administration hoped that regime change in Iraq would signal the beginning of dramatic geo-political changes in the Middle East.

### **Does Dependence on the Middle East Matter?**

About 65% of world oil reserves are located in the Middle East but the region only produces one third of world oil output. The reason is simple; all major Middle East producers are members of OPEC, the organization to which member states have entrusted supply management. If the five major Middle East oil producers decided that market share would be more

important than price, they could produce volumes closer to their production potential but, at much lower prices. Since oil is the main source of income for government budgets and constitutes the bulk of foreign trade, OPEC countries need oil prices in excess of \$ 20 per barrel. However, If they could afford to shift strategy from maintaining relatively high oil prices to gaining a higher market share, investments in high cost non-OPEC oil reserves would be significantly reduced; non-OPEC production would soon fall; and, OECD (and US) dependence on the Middle East would rise considerably over the next decade.

OECD countries have encouraged oil developments around the world and in particular outside of OPEC and have for years called for diversification of oil imports to lessen vulnerability to potential oil supply disruptions. Encouraging exploration and development of petroleum resources around the world along with high oil prices has kept OPEC's market share at about one third of global oil production.

### **Will Reducing Middle East Oil Dependence Protect the US from High Oil Prices?**

Efforts by the US to lower dependence on the Middle East have not and will not protect the US against the adverse effects of possible oil supply disruptions. The US, which was only marginally dependent on oil imports from the Middle East in 1973 suffered as much from the adverse impact of the 1973 oil shock as its more oil import dependent OECD allies.

Many US politicians believe that reducing oil imports from the Middle East will somehow offer better protection against the impact of another potential oil shock. Even if the US did not import any oil from the Middle East, a serious disruption of oil exports from the region would cause oil prices to rise to levels which would impair global economic growth. Unless the US were to return to crude oil price controls, higher oil prices caused by a major Middle East supply disruption will hurt the US economy as much as the economies of Europe and Japan which are more dependent on Middle East oil. As a commodity, oil is fugible and will move to those buyers willing to pay the higher price. Low income developing countries will bear the heaviest burden of major oil price hikes.

### **Can Oil Supply Disruptions Happen Again**

The current Venezuelan crisis, which has almost halted oil exports from one of the largest suppliers to the United States. Few had expected the size and duration of the Venezuelan oil supply disruption, which has removed some 2.5 mbd from the world market. Fortunately, the damage has so far been contained by the ability and willingness of other OPEC countries with spare capacity, to increase oil exports. If the disruption had happened in the winter of 2000/2001 when global spare capacity was lower than it is today, oil prices might have risen even higher. There is sufficient OPEC spare capacity to meet global demand at the higher end of OPEC's desired price range of \$ 22- \$28/barrel. It is impossible to say when Venezuelan oil production will return to normal. The strike could wind down in February but, it is also possible that confrontation will worsen in the weeks to come. The outcome remains uncertain.

If a US-led war against Iraq were to break out before Venezuelan oil exports show signs of recovery, the global market could be short of 5 mbd, which could create a serious supply problem with the potential of sharply escalating oil prices. The US and other IEA could take oil from their strategic stockpiles but, the possibility of a prolonged supply disruption of Iraqi oil exports could create a very nervous oil market philosophy and lead to actions causing oil prices to rise considerably above the current level. Moreover, it cannot be excluded that war against Iraq could trigger acts of sabotage against oil producing facilities in other countries. *No country in the Middle East or elsewhere is likely to use the oil weapon deliberately as in 1973 but, oil supplies could be disrupted by acts of sabotage, revolutions, wars or other major disturbances.*

In some ways supply disruptions are easier to deal with today than in the past. In 1973 OECD countries were not at all prepared to cope with a major supply disruption and the consequences of the 1973/74 and 1979/80 proved disastrous. Today we have mechanisms and institutions, which can reduce the impact of a major oil supply disruption. These include risk management instruments, the US and other IEA strategic storage and, OPEC and in particular Saudi spare capacity. Moreover, oil markets today are much more transparent than in the 1970's and industry and governments have gained experience in dealing with supply disruptions. On the negative side, since the 1970's oil use has been concentrated in the transportation sector where short-term fuel substitution is not possible.

### **The Special Role of Saudi Arabia**

For the past quarter of a century, Saudi Arabia and the United States have been close allies. The US guaranteed the integrity of the Saudi state against potential foreign threats and Saudi Arabia provided the global market with sufficient oil to maintain oil prices within a reasonable price range and maintain (at considerable cost) the bulk of the world's spare productive capacity. Saudi Arabia has always been able and willing to use its spare capacity in case of supply disruptions such as during the Iran-Iraq War, the Gulf War of 1990/91 and more recently, the Venezuelan oil strike.

Some oil analysts have argued that Russia might be able to challenge the Saudi predominance in the global oil market but, it is unlikely that Russia will ever be able to play a role similar to that of Saudi Arabia. In the first place its oil reserves are only 20 percent of Saudi reserves. Russia's productive capacity is about 3 mbd lower than Saudi productive capacity; Russia's net exports in 2001 were 4.5 mbd versus 7.4 mbd in Saudi Arabia. Russia has no spare capacity, while Saudi Arabia maintains some 75% of global spare capacity, a unique feature in the world of oil. While Russian oil production undoubtedly will rise over the next few years, it is not clear how much more Russia will be willing to produce post 2005. Russia is unlikely to be able to rival Saudi productive capacity, export volumes, development and production costs and, ability and willingness to develop and maintain huge spare productive capacity.

Global oil supply security since the 1970's has rest on two pillars, i.e the pillar of the US and other IEA strategic reserves to cope with short term oil supply disruptions and, Saudi spare capacity to cope with short and medium term oil supply disruptions. There is no substitute for the Saudi role in the global oil market and no single oil producing country is likely to match the unique features of Saudi Arabia in the world oil market.

### **Disconnect Between US Energy Policy and Foreign Policy**

Ever since the Nixon Administration, US governments have developed energy policies aimed – among others - at reducing US oil imports and in particular imports from the Middle East. Despite thirty years of efforts to curb oil imports, the trend has continued to be upward.

Despite application of new advanced exploration and production technologies, US oil production is down about 3 mbd from the 1984 peak of 10.5 mbd. Deepwater developments in the Gulf of Mexico may slow or even stop production from falling for several years into the future but, the trend is for US production to stagnate and fall in the future. This trend can be slowed by government leasing policy of the OCS and Federal lands in Alaska (ANWR) and the Rocky Mountains region.

The Bush/Cheney energy plan proposed to increase prospective Federal lands in Alaska (ANWR), the OCS and the Rockies but, Congress was unable to pass an energy bill in 2002. The Republican Congress will probably try this year again to pass an energy bill containing some of the same oil supply features as were proposed last year. However, the chances that ANWR and sensitive prospective areas off Florida and even some sensitive acreage in the Rocky Mountains will in fact be made available to the oil industry for development, are slim.

Despite remarkable overall energy efficiency gains and almost a quarter of a century of CAFÉ standards, US oil consumption kept rising in the past two decades. Consumer preference for SUV's and RV's have seriously weakened the overall efficiency of the car fleet and until hybrid vehicles make a major inroad in the car market, gasoline demand will continue to rise. US oil consumption has continued to grow steadily and in fact the US has only been just behind Asia in terms of oil consumption growth in the 1990's. Hence, oil imports are expected to rise further.

US and global dependence on the Middle East will rise slowly over the next few years but it is expected to rise significantly towards the latter part of this decade and thereafter when non-OPEC production may peak, according to most industry forecasts.

The Middle East is a troubled region in need of socio-economic change and political participation to solve the regions problems arising from demography, slow economic growth, unemployment, inability to diversify the local economies, inadequate educational system. To solve these and other problems, participation of the people in the political process is inevitable. It is happening in most of the Gulf countries but the pace of change is perhaps too slow. Leaders need time and peace to make the necessary changes in their societies.

While most governments in the region abhor Saddam Hussein's regime, the perception in the region is that war against Iraq and in particular a US-led war without specific UN authorization, will have disastrous repercussions on the entire region. The outcome of a war against Iraq is not in doubt; the peace process thereafter is. Other countries in the region could become seriously destabilized, leading to potential future oil supply disruptions. Rulers and ruled in most countries in the Middle East would like to see regime change in Iraq but not in the form of a US-led invasion which they believe will result in unnecessary suffering of ordinary Iraqis. Also, there are serious concerns about the plans of neo-conservatives in the Administration to radically change the geo-politics of the region.

Compounding the problem is the perception that the US has given up any semblance of even-handedness on the Palestine issue in particular after 9/11. Previous Administrations, while not perceived even-handed either, were seen to make genuine efforts towards an acceptable solution of the Palestine issue. The military response of the Sharon Government to the Al Aqsa intifada has enraged Arabs throughout the Middle East and created the strongest anti-American sentiments in the modern history of the region.

Arabs do not believe that the US main reason for regime change in Iraq is WMD. Instead they believe that the US is out to control the oil resources of the Middle East and guarantee Israel's military superiority by destroying its potential enemies. If the US attacks Saddam's Iraq without a second UN resolution and without any indication of progress towards a just settlement of the Palestine issue, anti-Americanism may reach crisis proportions, resulting in a long period of instability in the region and a major upsurge in global terrorist attacks against US and other Western targets. Under such conditions, oil supply disruptions could once again become a reality.

The current perception in the Middle East among the political and business elites is that the US wants regime change in Iraq as a first step towards major geo-political changes in the region, which will create a Pax Americana in the Middle East; provide access to cheap oil; maintain Israeli strategic dominance in the region and marginalize the Palestinian people.

The US has failed in the past quarter of a century to reduce oil import dependence. Oil import dependence in a stable Middle East is not a major issue as long as the geopolitical status quo is not violently upset. US policy towards the Israeli-Palestinian conflict and possible unilateral US military

action in Iraq could trigger political earthquakes damaging the very fabric of Middle Eastern societies already weakened by failed socio-economic and political developments.

The inability of the US to curb oil import growth coupled with an adventurous Middle East policy with potential disastrous regional geopolitical consequences, may lead to major oil supply disruptions in the future with potentially disastrous consequences for the US and global economy.

0-0-0-0-0