



Don't Be Crude

Why Barack Obama's energy-dependence talk is just demagoguery.

BY PRINCE TURKI AL-FAISAL | SEPT. / OCT. 2009



"Energy independence" has become a byword on the American political scene, and invoking it is now as essential as baby-kissing. All the recent U.S. presidential candidates employed it, and to this day, the White House Web site lists as a guiding principle the need to "curb our dependence on fossil fuels and make America energy independent." Expect a whole new round of such rhetoric when the global economic recovery begins, and with it, higher oil prices return.

But this "energy independence" motto is political posturing at its worst -- a concept that is unrealistic, misguided, and ultimately harmful to energy-producing and -consuming countries alike. And it is often deployed as little more than code for arguing that the United States has a dangerous reliance on my country of Saudi Arabia, which gets blamed for everything from global terrorism to high gasoline prices.

Saudi Arabia holds about 25 percent of the world's proven oil reserves, is by far the largest exporter of oil, and maintains the largest spare production capacity in the world. U.S. oil production started to decline in 1970, while U.S. energy needs have skyrocketed since that time, and the United States is now the world's largest oil consumer. There is no technology on the horizon that can completely replace oil as the fuel for the United States' massive manufacturing, transportation, and military needs; any future, no matter how wishful, will include a mix of renewable and nonrenewable fuels.

Considering this, efforts spent proselytizing about energy independence should instead focus on acknowledging energy *interdependence*. Like it or not, the fates of the United States and Saudi Arabia are connected and will remain so for decades to come. This realization need not strike fear into the hearts and pocketbooks of Americans. Saudi Arabia has a long record of specific actions that prove its strong commitment to providing the world with stable energy supplies. We have consistently pushed for lower prices than any other OPEC members have, and we sharply increased supplies after the Iranian Revolution, during the first Gulf War to replace the loss of Iraqi production, and immediately after the Sept. 11, 2001, terrorist attacks -- all in order to calm jittery global markets.

In fact, Saudi Arabia's oil policy has been consistent for the last 30 years: work to ensure the stability of the world's energy supply. Today, a barrel of oil generally costs around \$70. To put this into context, we should recall that even during the spike of 1973, the price of oil in 2008 dollars was just slightly over \$100.

High oil prices have undoubtedly given those calling for U.S. energy independence a new talking point. But here, too, it's important to understand what is really going on. Following the irrational and unsustainable price spike of the past few years, Saudi Arabia undertook investments to make sure the world would not be surprised by such a supply failure again. After investing almost \$100 billion to reach 12.5 million barrels per day of sustained capacity, today we hold about 4.5 million barrels per day of spare capacity (or more than 90 percent of the global total), enough to replace the second- and third-largest OPEC producers overnight if the world needed more oil.

We admit that, like the United States and other countries, we were surprised by the way prices escalated in recent years. Many people blame demand from China and other emerging markets. But the sad fact is that four oil-producing countries failed to live up to production expectations. In 1998, Iran, Iraq, Nigeria, and Venezuela were producing 12.7 million barrels per day. Everyone -- including major companies such as BP and our own planners at Saudi Aramco -- expected them to be producing 18.4 million barrels per day in 2008. Instead, due to civil strife, failed investments, or in the case of Iraq, a U.S. invasion, they were producing only 10.2 million barrels per day. That drove the price part of the way up. Then speculators, in the form of hedge funds, did the rest.

Another factor in rising oil prices is the shortage in the world's refining capacity. In the United States, for example, not one new refinery has been built in more than 30 years. Add to this problem another: "boutique oil," the different grades of gasoline required in different localities. I encountered one of these anomalies when I visited Chicago three years ago. There is an oil refinery 50 miles from Chicago, but it does not supply the city with gasoline because the grade does not comply with Chicago's standards. Instead, Chicago has to import its gas from the East Coast. Prices at the pump would be much lower if there were direct supplies from the refinery to the city.

There are many causes behind last year's oil price spike, but Saudi Arabia is not one of them. Unlike large oil companies, which have been slow to respond to the supply crunch with more capital investments, the kingdom realized that such investments -- even if they seem counterintuitive in the short term -- are essential to avoiding catastrophic energy shocks. We have proposed a billion-dollar fund to promote research into making fossil fuels more environmentally friendly and have promoted the International Energy Forum to bring together producers, consumers, and the oil companies that extract, refine, and sell oil. Although it has yet to get the full support of consumers, the forum has held regular meetings to discuss relevant issues.

But Americans don't hear all this from their political leaders. In one of his very first speeches as U.S. president, for instance, Barack Obama declared that "America's dependence on oil is one of the most serious threats that our nation has faced." He said that it "bankrolls dictators, pays for nuclear proliferation, and funds both sides of our struggle against terrorism," and announced what he called "the first steps on our journey toward energy independence."

The allure of demagoguery is strong, but U.S. politicians must muster the courage to scrap the fable of energy independence once and for all. If they continue to lead their people toward the mirage of independence and forsake the oasis of interdependence and cooperation, only disaster will result.

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