Study: Implausible 'Oil Weapon' Constrains U.S. Policy in the Middle East

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U.S. policy in the Middle East is driven by baseless fears that an "oil weapon" can cut off our fuel supply, a Johns Hopkins researcher has concluded.

In a peer-reviewed journal article, Roger J. Stern argues that the decades-old belief that petroleum-rich Persian Gulf nations must be appeased to keep oil flowing is imaginary, and the threat of deployment of an "oil weapon" is toothless. His review of economic and historical data also shows that untapped oil supplies are abundant, not scarce.

Stern's analysis, titled "Oil market power and United States national security," appears in the Jan. 16-20 online Early Edition of *Proceedings of the National Academy of Sciences*. In the article Stern argues that the longstanding U.S. security concern that our oil supply could be threatened is wrong.

The real security problem, says Stern, comes from market power. Persian Gulf oil producers, he says, collude to command artificially high prices that could never exist in a competitive market. Excessive OPEC profits result, he says. These contribute to instability in the region, terror funding and the likelihood that a Persian Gulf superpower could emerge if one state captured the oil production of its neighbors. Because of these threats, the United States has concluded it must use military force to block state-on-state aggression in the region and to contain terrorism.

"U.S. appeasement of the oil market power not only helps create these problems, it makes them inevitable," said Stern, a doctoral student in the Department of Geography and Environmental Engineering. "Why do we follow this schizophrenic policy? We do it because we believe the 'oil weapon' might be used to reduce our supply if we somehow offend the OPEC countries. My research shows the oil weapon is completely implausible." According to the journal article, recent history shows that attempts to use an oil weapon have consistently failed. The idea, Stern says, dates back to the mid-1930s, when the League of Nations considered cutting off oil to Italy as punishment for its aggression in Ethiopia. The league realized the oil weapon couldn't work, however, because non-league nations could continue to supply Italy. Keeping oil out of Italy would have required a blockade, an idea dismissed as impossible to enforce. What was true for Italy then is true for the United States today, Stern says.

By the 1950s, Stern says, the low price of Persian Gulf oil imports jeopardized the profits of smaller U.S. oil producers. To restore shrinking market share, the U.S. oil industry successfully lobbied Congress to limit imports, arguing that reliance on foreign oil would undermine national security. U.S. producers argued that low-priced, abundant imports were dangerous because they might someday be withheld. "The oil weapon of U.S. politics descends from this confection," Stern writes in his article.

In the early 1970s, fear of the oil weapon moved to center stage once again. An influential article in Foreign Affairs predicted fuel shortages and economic disaster if the United States did not honor Middle East oil producers' wish that Israel's borders be redrawn. The United States defied this wish, and in 1973 Persian Gulf states unleashed the oil weapon in response. They vowed to cut supplies to the United States if Israel did not return to its 1967 borders. But because the United States could obtain fuel from elsewhere, Stern argues, and because the Persian Gulf nations were dependent on oil revenue, their "attack" was quickly abandoned. Panic buying kept prices high for a while, but actual supply fell only a small amount. Still, fear of a fuel cut-off remained. "Diplomats misread the market," Stern writes. "The oil weapon is impotent, but belief in it is not."

Stern's hypothesis is that "threats do arise in the oil market, but not from the oil weapon but from the (OPEC) cartel's management of abundance." Stern said his research shows that since 1970 the cost of extracting oil in Saudi Arabia has dropped by more than one-half, a clear sign of abundance. He argues that Persian Gulf oil prices are being kept artificially high in order to generate monopoly profits for these nations.

"Because of oil's enormous returns, Gulf states try to seize control of each others' fields," Stern says. "Iraq invaded Iran and Kuwait for this purpose. Our military is there today trying to keep regional peace and prevent a new superpower. Yet this policy allows aggressive oil states like Iran to grow ever-richer and more dangerous from the product they sell to us."

U.S. leaders, Stern says, must stop allowing fear of the oil weapon to dictate foreign policy. Instead, he says, they must find ways to reduce our fuel demand. "It's like we're holding a gun to our own heads: Our belief in the oil weapon constrains our concept of what we can and cannot do in the Middle East and in our own economy," he says. "It also blinds us to the huge opportunity to make ourselves more secure by reducing our oil consumption."

John J. Boland, an expert on utility economics and environmental policy who serves as Stern's faculty advisor, said the journal paper, part of Stern's doctoral thesis, raises important issues. "It's a pretty significant article," he said. "One thing Roger does is attack the perception that petroleum is scarce. That's a very unpopular position, one that is aggressively disputed by our government, even though other analysts have also raised this idea."

Added Boland, who is a professor emeritus in the Department of Geography and Environmental Engineering at Johns Hopkins: "This paper presents an unpopular perspective that has profound implications for our nation's energy policy and foreign policy."

Source: Johns Hopkins University