

## The oil reckoning

By Paul Rogers,  
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It now seems clear, some would say abundantly clear, that the Bush administration is intent on terminating the Saddam Hussein regime, and it is frankly difficult to see how war will be prevented. All of the political signals coming out of Washington indicate a conflict within the next three months, and there are numerous indications that the final phase of the build-up of military forces is imminent.

War is likely, whether or not the UNMOVIC staff make progress, and the immediate rejection of the Iraqi offer of access to the CIA is a further indication that the Bush administration will not be diverted from its purpose.

This does lead us back to one of the key questions surrounding this crisis – just why is Washington so committed to this path? Earlier articles in this series pointed to issues of weapons of mass destruction and the changes in US security policy when Bush came to power, but we also have to look closely at the significance of the region's oil reserves (see [article](#) [1] on 9 January 2002).

It is odd how little attention is being given to this aspect of the crisis, but this is partly because of a lack of understanding of the importance of Gulf oil reserves. This, in turn, relates to a question of timescales.

There is an argument that US control of Iraqi oil fields would diminish the importance of a potentially unstable Saudi Arabia and would also present a remarkable investment opportunity for US oil majors. A counter-argument is that any war raises the risk of a disruption to the oil markets, this being presumed to be bad news for the oil companies.

This is rarely the case in practice. During previous periods of rapidly rising oil prices, such as 1974 and 1979, many of the oil companies were able to return record profits. This was mostly due to their ability to put retail prices up almost immediately after they rose at the point of production, even though there could be a 100-day supply chain. For example, oil at source might rise 20% in price. This price rise is then passed on to the consumer within 15 days, leaving 85 days worth of oil in the supply chain which has been bought at the old price but sold at the new.

In most circumstances, primary energy companies tend to benefit from “bull” markets, so if the coming war does lead to a sudden oil price surge, we can expect very good oil company returns within a year.

Even so, the Iraq crisis does not just relate to short-term gains for oil companies, the oil connection is actually much more concerned with long-term trends.

To get an idea of the importance of Iraqi oil in the coming decades, look at it this way. Take the total known oil reserves for the Caspian Basin outside of Iran, then add the oil reserves of Siberia. Add to these the remaining North Sea oil reserves and then include the West Shetland fields. Finally, put in the entire oil reserves of the United States, including the Alaska fields that still have to be developed.

If we put all of these together, we get fairly close to 10 per cent of all the oil reserves in the world. Iraq alone has more than this, and adding the other Gulf States we get close to 70% of world reserves.

This does give us some sense of perspective but only in the form of a snapshot. What is much more significant is the nature of the long-term trends in reserves, production and consumption. When we include this, we get a clear indication of the steadily increasing significance of Persian Gulf oil relative to every other part of the world. Thirty years ago, the United States was virtually self-sufficient in oil supplies but it now imports over 60 per cent of its needs, with oil imports from the Middle East increasing steadily.

The recognition of this is nothing new – it was one of the deciding factors behind the development of the original Rapid Deployment Force nearly 25 years ago. Moreover, it was a situation that was clearly recognised by the Republicans who came to power with Ronald Reagan, 20 years before George W Bush, and was clearly demonstrated by one of the first pronouncements of the Reagan era.

Each year the committee of the US Joint Chiefs of Staff issues a *Military Posture Statement* (MPS) for the forthcoming financial year. The MPS for 2004, for example, will be published in a couple of months time. Back in 1981, immediately after Ronald Reagan had been elected, the 1982 MPS was eagerly awaited as a clear statement of the “re-arming of America” in the face of the perceived Soviet threat that had helped Reagan into office.

The MPS certainly had a lot to say about East-West relations but its opening chapter was, to the surprise of many, much more concerned with the increasing vulnerability of the United States to resource conflict. Map after map portrayed a world in which the US was increasingly dependent on imported resources – 93% for bauxite, 95% for cobalt, 97% for manganese and 98% for columbium and tantalum. Most of these meant little to the non-expert but they underpinned the workings of a major industrial economy, and the Reaganites were fearful of Soviet interference in Africa, Asia and other sources of supply.

Much more significant, and subject to more detailed analysis, was the concern over oil supplies. Remember, this was over 20 years ago when US dependence on imported oil was much less than now, yet the Posture Statement went into substantial detail about US vulnerabilities and the need to ensure Gulf security.

It is fair to say that much of this was in the context of the supposed Soviet threat to Persian Gulf oil supplies, but it was also in the immediate aftermath of the Iranian Revolution, and the Reagan security advisers were already becoming concerned over regional “threats” to Gulf oil, supplies.

Over twenty years later we see the trend towards increasing dependence on Gulf oil as a long-term phenomenon, stretching well into the future, but this was already recognised in the early 1980s. Moreover, many of the security hawks in the Reagan era of the 1980s are back in power with Bush, often in positions of greater influence.

There is, therefore, a deep and pervading recognition at the heart of the Bush administration that the most significant future vulnerability for the United States is its steadily growing dependence on Gulf oil. Mexico, Colombia and Venezuela may be useful sources of supply, albeit of a poorer quality, and the Caspian Basin and Siberia may help out somewhat. These, though, are essentially short-term answers to a persistent problem.

The Persian Gulf is where the oil is, and what has to be done is to make absolutely sure that the Gulf is securely controlled for many years to come. It is an unusual example of strategic thinking, not a common phenomenon in political circles, and permeates the Bush administration to an extent that is rarely acknowledged.

The crisis with Iraq which now seems to be coming to a head is part of a much larger game-plan concerning long-term influence over oil supplies. Recognising this enables us to see just how important it is, in the view of the Bush administration, that the Saddam Hussein regime must be terminated and replaced, to ensure a more acceptable overall framework of power in the region.

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