

43. Securing the U.S. Energy Supply

OIL and natural gas consumption and imports to the U.S. and around the world are growing as U.S.-based production is increasingly restricted by exhausted reserves and environmental regulations. Political destabilization and security risks in the Middle East and other oil-producing regions, including Iraq, West Africa, and Venezuela, and proclamations by al-Qaeda and other terrorist groups that U.S. and Western economies and their oil lifelines are legitimate targets are driving up energy prices. Moreover, the world produces oil at a greater rate than new deposits are found, and failed government policies in oil-producing states can lead to inefficient extraction and production, causing oil and gas shortages.

The security and availability of energy resources directly affect the U.S. economy. The U.S. should employ its full array of foreign policy and national security tools to ensure an uninterrupted flow of oil to the American economy. U.S. policies should enhance security, stability, and economic and democratic development in oil-producing countries to ensure that oil and gas resources remain readily available, ample, affordable, and safe, but the U.S. should also begin the process of transition to alternative transportation fuels.

Recommendations

1. Promote free-market policies in oil-producing countries. The United States and international financial institutions (IFIs) like the World Bank should champion the protection of property rights to enhance access to natural resources and prevent expropriation. Sustained property rights ensure unrestricted and fair competition, transparency, good governance, and political accountability. If applied, these principles will allow a significant increase of oil supply. The U.S. should seek full access for international oil companies to mineral rights in OPEC and non-OPEC countries, including development of oil fields and energy transport infrastructure. Privatization of national oil and gas companies and economic liberalization should be pillars of foreign and energy security policy for the G-8 and the Organisation for Economic Co-operation and Development.

2. Cooperate with oil-exporting governments to ensure economic stability, prosperity, and growth. The U.S. oil supply is threatened by

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civil wars, domestic instability, terrorism, insurgencies, and coups in oil-producing nations. The United States needs to encourage oil-producing governments, such as Nigeria's, to address security, social, and economic development challenges. It is also necessary to create conditions in Iraq for a significant increase in production. This involves supporting, training, and equipping Iraq's military and security forces to prevent scenarios that might destroy Iraq's oil industry, such as civil war and disintegration or the emergence of a hostile government.

3. Discourage protectionist policies in oil-producing states. Over-regulation and anti-market policies limit access by Western capital and technology to develop available resources. **OPEC and other production** quotas that cause commodity shortages and drive up energy prices should be discouraged.

4. Work with IFIs to promote political accountability. Many oil-producing countries are woefully lacking in good governance practices. To develop their economies, they need transparent parliamentary controls over oil and gas revenue and expenditure; transparent national oil funds to absorb excess oil revenues and prevent the crowding out of non-oil sectors; balanced budgets and low inflation, which attract domestic and foreign investment in oil economies; effective rule of law; democratic political control; and corporate transparency principles in handling oil revenue by government oil companies and energy/oil ministries. Such approaches prevent theft, fraud, and abuse and enhance political stability and economic development in energy-producing countries.

5. Increase the production and supply of domestic energy resources. The United States needs to bolster the Strategic Petroleum Reserves (SPRs), which help to absorb the shocks of sudden energy price spikes, to 1 billion barrels and encourage Europeans and Asians to increase their own SPRs significantly. It is necessary to continue developing domestic U.S. oil and gas resources, including ANWR on Alaska's Northern slope. Drilling along Atlantic and Pacific continental shelves should be allowed. To increase natural gas capacity, construction of safe terminals along both U.S. coasts should be accelerated to increase imports of liquid natural gas.

Facts and Figures

■ U.S. average daily oil consumption for FY 2005: 20,900,000 barrels per day.

■ U.S. imports of crude oil, November 2005: 307,961,000 barrels, an average of 10,265,366 barrels per day.

Notes

- Indigenous U.S. production of natural gas, 2005: 23.51 trillion cubic feet.
- Total U.S. imports of natural gas, 2005: 4.29 trillion cubic feet.
- Total consumption of natural gas, 2005: 21.98 trillion cubic feet (including stock changes).
- Projected U.S. natural gas consumption: 2017, 26.5 trillion cubic feet; 2030, 26.9 trillion cubic feet.

This chapter can be read online at issues2006.org/energysupply.

Notes

Additional Reading

Ariel Cohen, Ph.D., “Increasing the Global Transportation Fuel Supply,” Heritage Foundation *Executive Memorandum* No. 986, October 25, 2005, at www.heritage.org/Research/EnergyandEnvironment/em986.cfm.

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