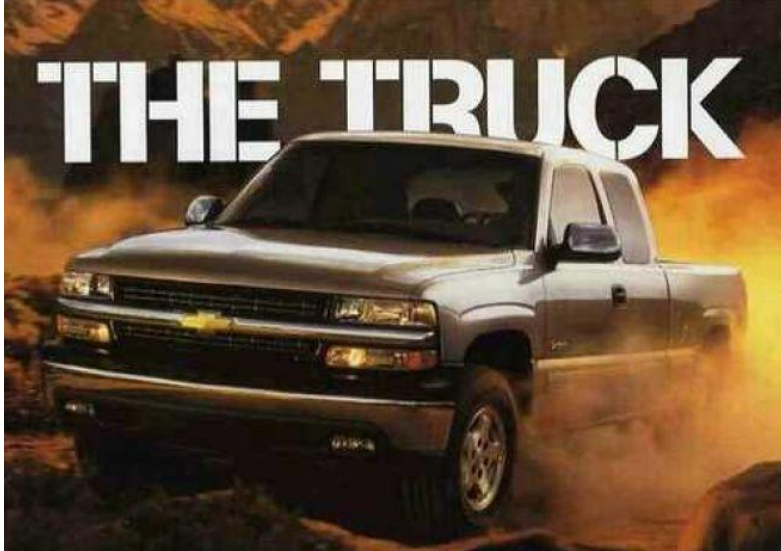


Oil in the US Foreign Policy III – After the Cold War

Martin Jirušek, Ph.D.

US oil policy after the Cold War

- End of bipolarity
- Oil price collapse in mid 1980s – apparent reluctance to use the oil weapon again (a double-edged sword)
- Era of oil abundance and low prices
- Opening ‘new oil sites’ behind the former iron curtain
 - South Caucasus
 - Caspian Basin
- US domestic consumption constantly rising despite growing efficiency and declining intensity
- Abundance of oil – energy supplies ceased to be an issue
 - 1990s - ‘lost decade’



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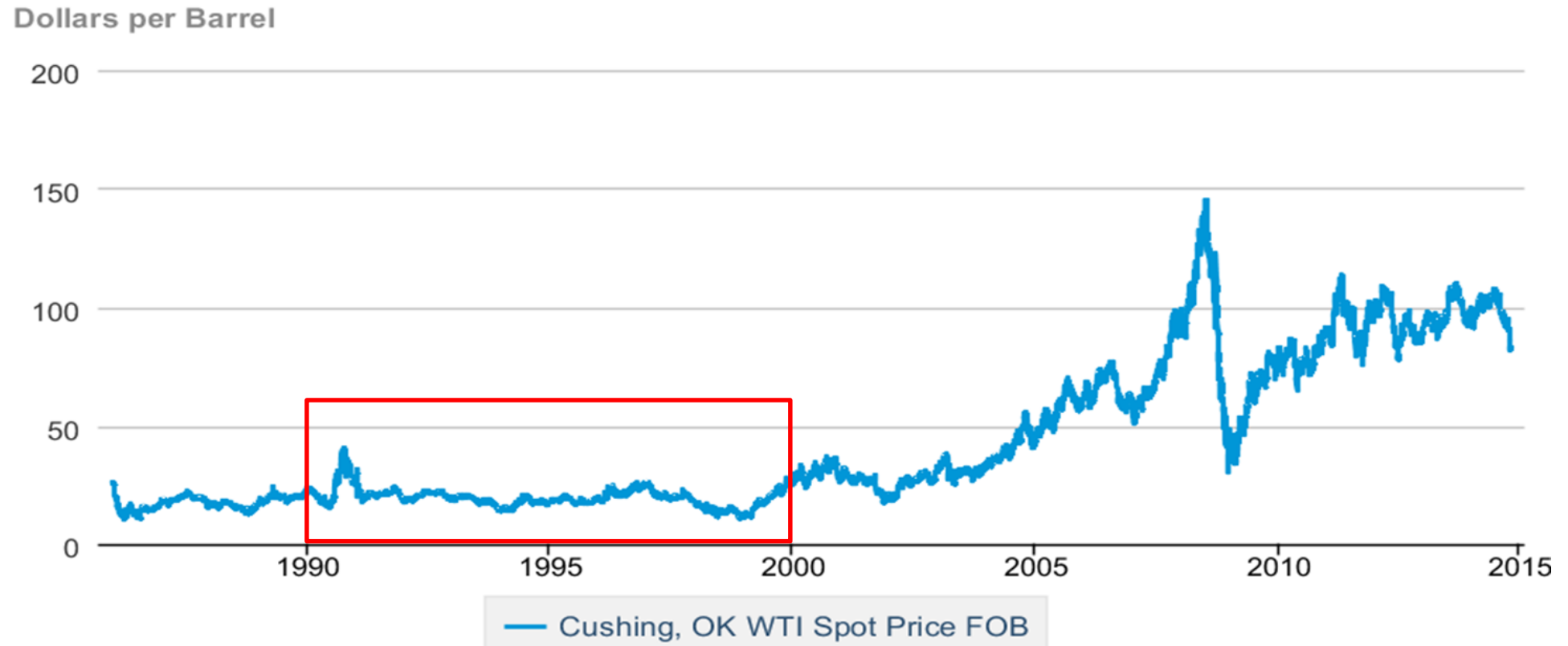
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Oil prices in 1990s (WTI)



US oil policy after the Cold War

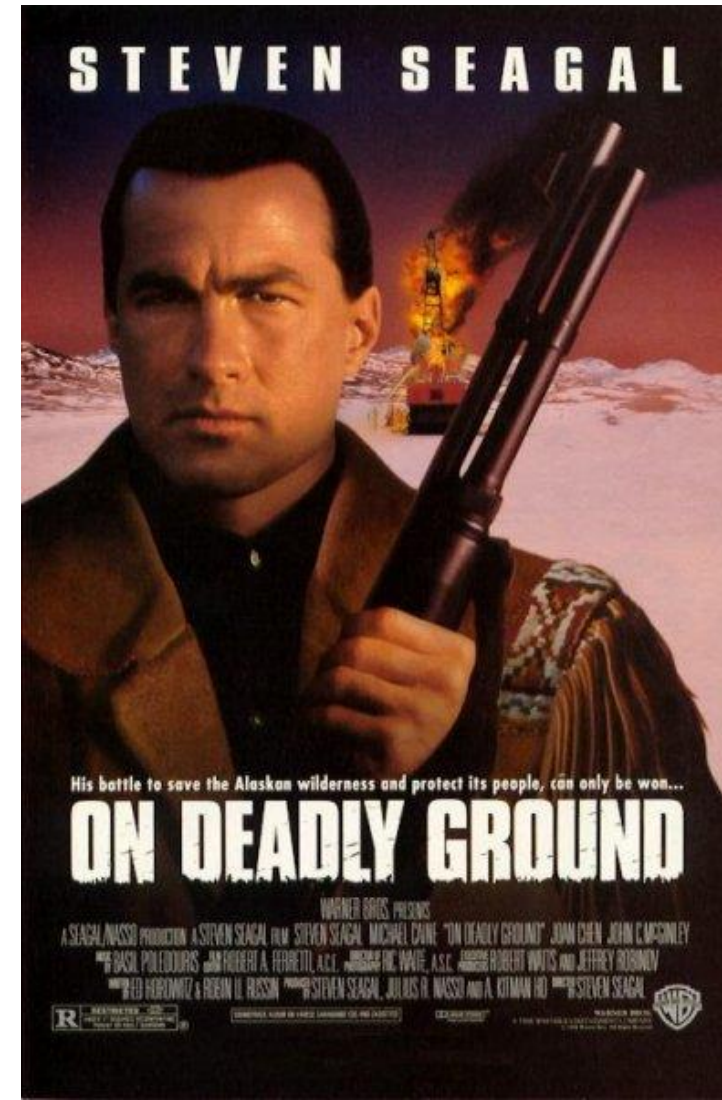
- US oil policy discourse in the 1990s: market forces and deregulation
 - started during Reagan's administration, continued during G. Bush sr., partly also during Clinton's presidency
- Energy Policy Act 1992 – complex bill (energy efficiency, renewables, alternative sources in transportation,...)
 - still little attention paid to the issue on the federal level
- Clean Air Act 1990 – efficiency measures for engines
 - during the administration of Bush sr. (!)

US oil policy after the Cold War

- Greater emphasis on environmental issues and higher taxation during Clinton´s administration
 - To offset governmental spending?
- Energy supplies and energy security **were not** on the agenda
- Congress dominated by the Republicans
 - hostile to regulations (e.g. BTU Tax, tightening CAFE standards, support to RES, etc.)
- Only minor increase of the fuel tax – no significant effect on total consumption
- Elk Hills (CA) privatization (1998) – part of the Strategic Petroleum Reserves
- Deregulation + low prices + increasing demand
 -  growing import dependence
 - cheap imports (e.g. Venezuela) aggravated position of domestic producers (independents)

Energy Policy Act of 1992

- Energy efficiency and RES: energy standards, tax reliefs and incentives for energy savings, alternative fuels and electricity in transportation, RES,...
- Tax reliefs for **independents** (oil & gas)
- **Restrictions on bigger projects**
 - especially in environmentally sensitive areas (Alaska, G. of Mexico)
- Incentives for R&D (RES, fuel cells, coal derivatives,...)
- Increase of SPR
- Incentives to investigate climate changes



US oil policy after the Cold War

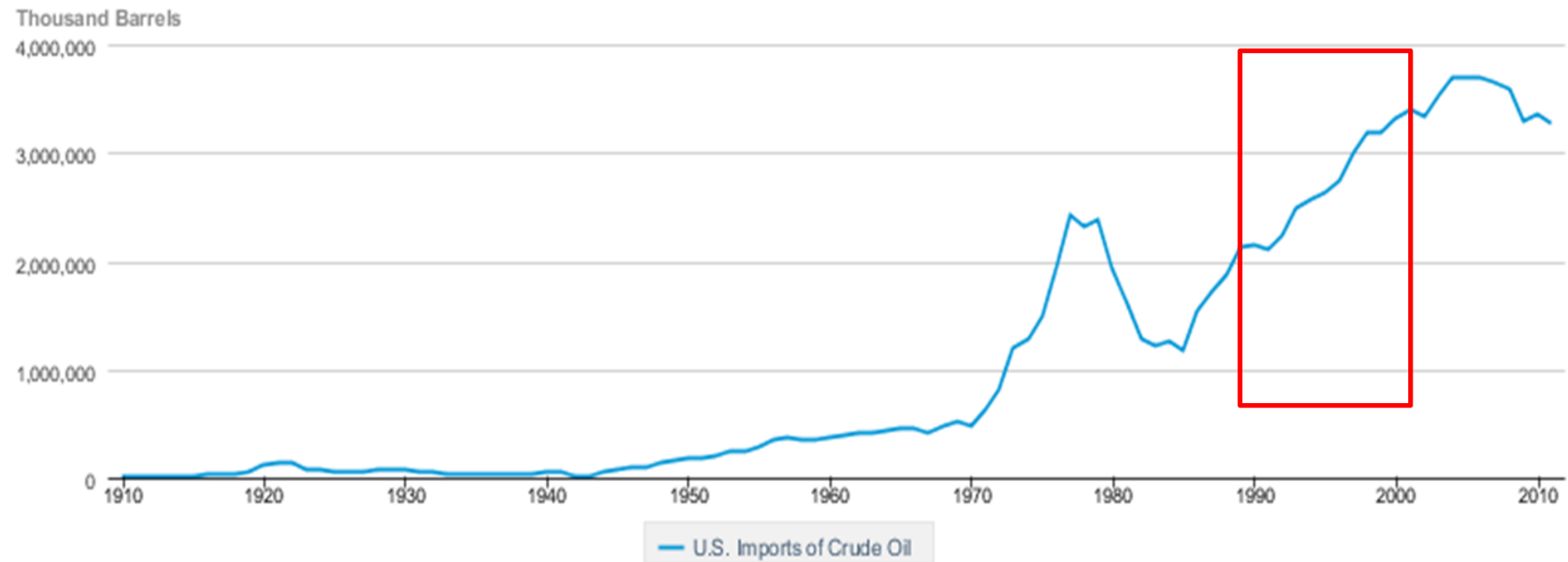
- Underinvestment in the energy sector as a result of low oil prices
 - especially damaging for mid- and downstream – roots of future problems
 - local supply curtailments and price shocks caused by lack of refining capacity and interconnection
(US – CAN: later issue of Keystone XL)
 - poor state, density... (e.g. lack of interconnections with Canada)
 - later: hurricanes Katrina and Rita (2005) as wake-up calls
- Domestic consumption covered mostly by increasing (cheap) imports
- Oil consumption rising despite decreasing energy intensity, increasing efficiency and decreasing share of oil in the TPES
- BUT: share of transportation on oil consumption increased 64% - 68% (today > 70%)

US oil policy after the Cold War

- Import increased **by 50%** between 1990 – 2000
- Domestic production decreased due to low prices and cheap imports from **CAN, VEN, MEX**, N Sea, Middle East (since mid-1980s)
- Restrictions and environmental measures imposed on existing and planned oil sites (Alaska – ANWR, the G. of Mexico)
 - **activities of independents exempted** from restrictions on federal lands (tax and royalty reliefs, etc.)
- Independents opposing cheap imports (from e.g. Venezuela)
- Partial turnover at the end of 1990s
 - producers (OPEC) dissatisfied with oil revenues, rise of nationalism (Venezuela), growing consumption in SE Asia, public unrest in Nigeria,...
- Subsequent price increase spurred domestic production

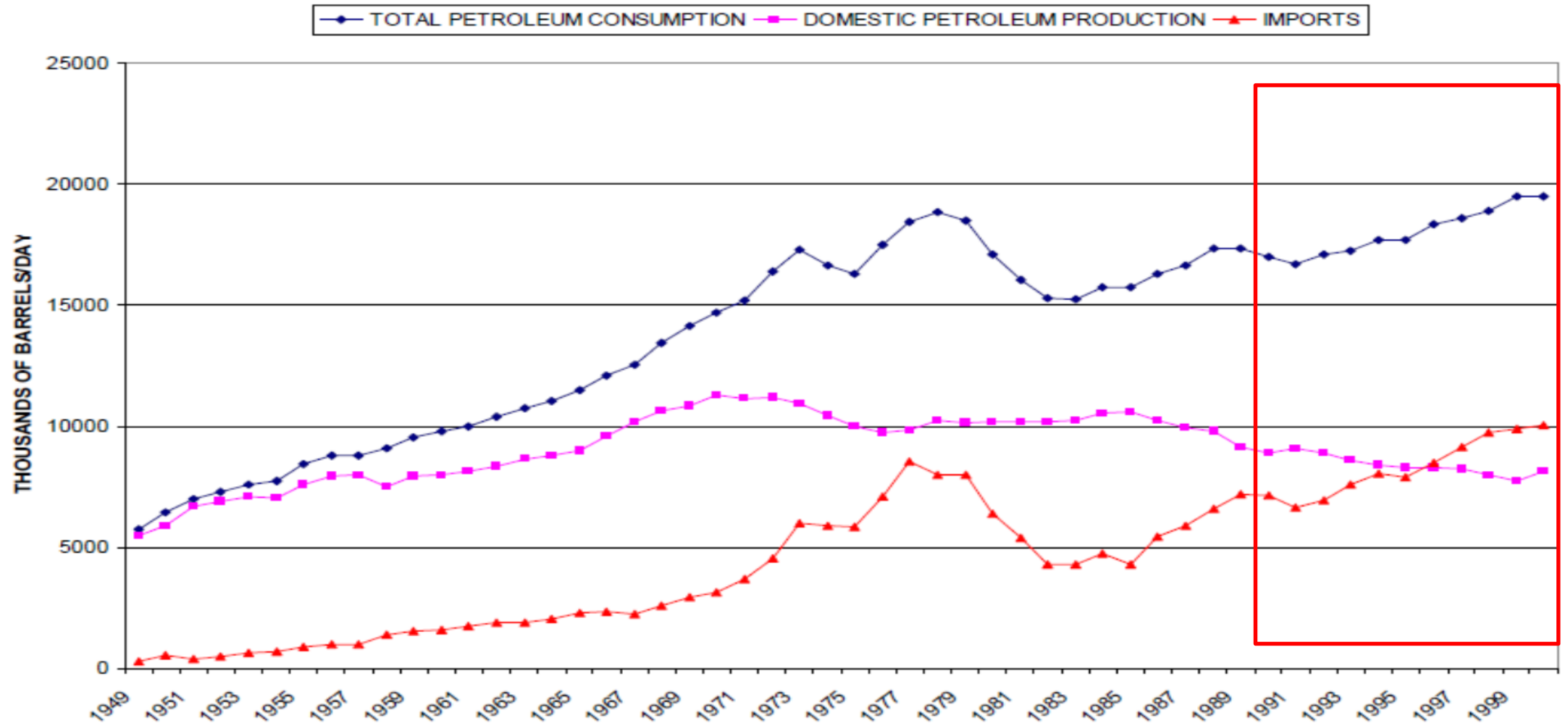
Oil Imports

U.S. Imports of Crude Oil



eia Source: U.S. Energy Information Administration

Consumption, domestic production and import



Key energy-related legislation 2005-2010

- ***Energy Policy Act of 2005*** –key energy-related bill updated: energy savings, efficiency, tax reliefs for RES and alternative fuels, tightening of emission restrictions in transportation, decrease of royalties related to deep sea drilling (G. Of Mexico), restrictions on drilling around great lakes, partial moratorium on upstream activities in Alaska and G. Of Mexico
- ***Energy Independence and Security Act of 2007*** – energy standards for federal buildings and newly built structures, new methods for assessing energy efficiency, consumption standards for federal institutions, incentives for increasing fuel production from RES, efficiency standards for home appliances
- ***Energy Improvement and Extension Act of 2008*** – economic reconstruction during and after the economic crisis – tax reliefs and incentives for RES and alternative fuels

Key energy-related legislation 2005-2010

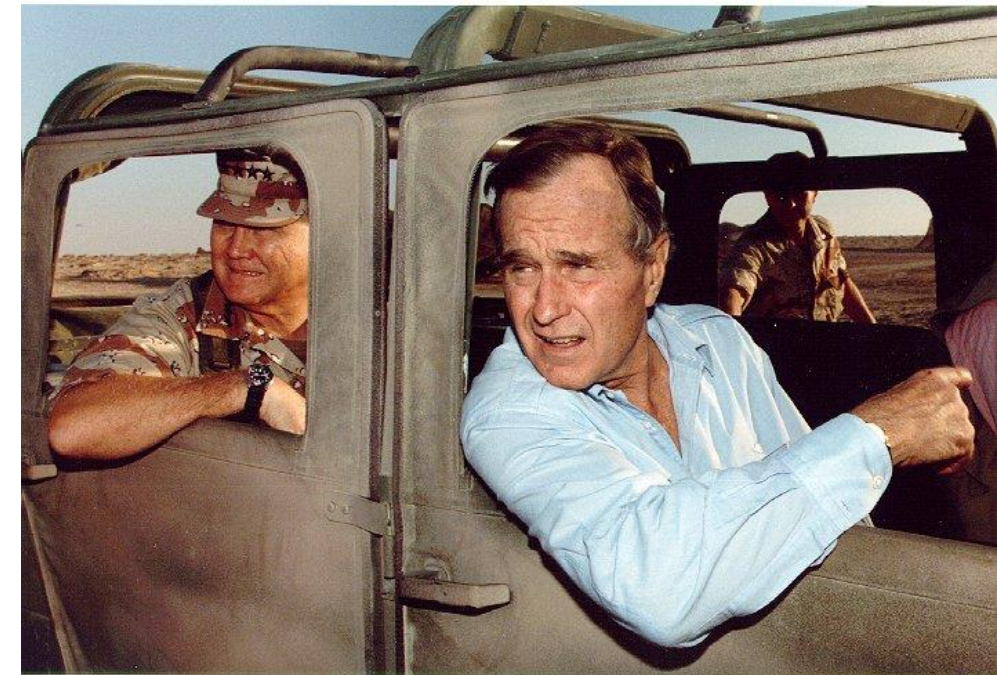
- ***American Recovery and Reinvestment Act of 2009*** - economic reconstruction plan after the crisis, increasing employment through investments into RES and related technologies – huge and controversial act including a **basis for the future Green New Deal**
- ***Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010*** a ***American Taxpayer Relief Act of 2012*** – tax reliefs and incentives for higher use of alternative fuels - Amendments to the EPA
- Est. of ***National Energy Policy Development Group*** (D. Cheney) (2001) – aimed on mitigating impacts of possible future energy crisis and decreasing of oil import dependence

1st Gulf War

- Aggression of Saddam Hussein
 - efforts to solve internal political issues
 - offset economic damage sustained during Iran – Iraq war
 - low oil prices damaging Iraq's economy
- Kuwait attacked 2.8.1990
- Iraqi oil stopped by transit countries (Turkey and SA) - oil sectors of involved countries affected, infrastructure damaged – oil price increased (8-9/1990 USD16 – 40/bbl)
- Only temporary increase – quick response of coalition forces and **increased production of other producers** (mostly SA) mitigated the impact

1st Gulf War

- Strong and decisive action of coalition forces
 - Iraq + Kuwait possessed almost 25% of world oil reserves
 - proximity of other important oil fields and producers
 - concerns about using oil weapon once again
- Hussein's potential domination over the Middle East as a major concern to US as well as other ME states
 - Carter doctrine
- Oil prices increased only temporarily
 - other producers filled in the supply gap
- Operations Desert Shield and Desert Storm – revival of safety guarantees between the US and SA



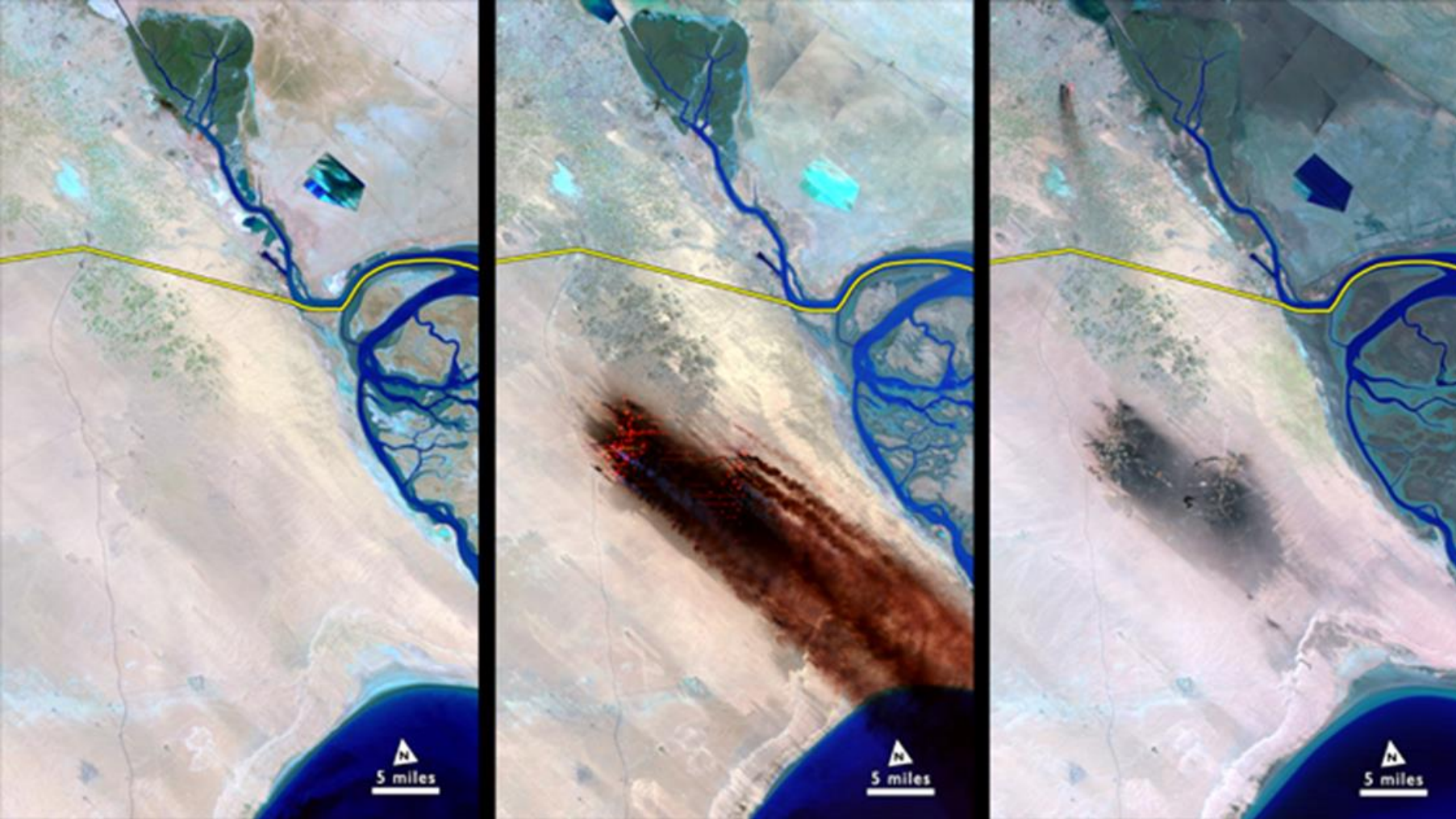
Highway of Death (Kuwait City – Basra)



Over 600 oilfields set afire – revenge of retreating Iraqi forces



1,5 bln barells released – the largest oil spill in the known history



2nd Gulf War

- 1990s - a low level war in Iraq (de facto containment)
 - keeping Hussein away from Kuwait
- Imposed sanctions and controlled airspace
- 2nd Gulf war as a continuation of events from the early 1990s?
 - a) a single war with an intermezzo?
 - b) two separated wars?
 - c) a definitive end to a threat to US interests in the region - WMD threat as an ignition?

2nd Gulf War – Oil as a motivation?

- Motivation for escalating the (low level) conflict – WMD, support of terrorism, threat to regional security/oil resources
- No clear connection between oil and US actions can be traced in official documents and announcements
- Oil as the main driving principle for the 2nd Gulf War?
 - great failure (Fettweiss)
- Change of US attitude – from passive guarantor to active enforcer



2nd Gulf War – oil as a motivation?

- Existence of studies confirming Iraq as the new centre of gravity of ME oil production
 - vast and untapped resources
 - Iraqi oil industry underdeveloped
- Removing the threat in line with US over-arching strategy (unrestricted flow of oil)
- Sobering experience in the caspian Basin
- Some governmental officials connected to US OCs and oil contractors (Dick Cheney)
 - alleged meetings between US OCs representatives and Iraqi opposition at the wake of US operations
(ExxonMobil, ConocoPhillips, ChevronTexaco, Halliburton)
- Not a direct supplies, rather opening the economy - significant activities of Chinese NOCs

Southern Caucasus and Central Asia after the CW



Southern Caucasus and Central Asia

- End of the CW – new opportunities for IOCs in Central Asia and Caucasus
- Uncertain situation at the beginning given the dissolution of the USSR – IOCs kept low profile
 - exception - agreement between a consortium of US OCs lead by Chevron on Tengiz field development – 6/1990)
- Russian sphere of influence – US administration proceeded carefully
 - initial steps – diplomatic activity aimed at Moscow, assurances that the CW is over, support for inner reconstruction of Russia
- US administration aimed on establishing relations mainly with Azerbaijan, Kazakhstan and Turkmenistan
- Importance of the region increased after the 1st Gulf War (the Gulf states assumed harder foreign policy discourse - Iran) and with the rise of China

Southern Caucasus and Central Asia

- 1990s dominated by activities of IOCs, US administration kept low profile
- Freedom Support Act of 1992 - establishing local chambers of commerce
- Diplomatic and business activities increased in mid-1990s
 - working advisory group for the Caspian region (R. Morningstar)
 - visits of KAZ and TURK presidents Nazarbayev and Nyiazov in Washington in 1997–1998 - Clinton assured both pres. about US commitments
- Region mentioned in National Security Strategy
- Military exercises with the CENTRAZBAT units in 1997 and 1998
- 1996 - U. S. – Azerbaijan Chamber of Commerce (dominated by prominent representatives of administrations and OCs – Kissinger, Brzezinsky, Armitage,...)
- Silk Road Strategy Act of 1999 (2006) – stabilization tool for investment environment, infrastructure, etc.
- Sensitive issue of mutual relations with non-democratic regimes

Southern Caucasus and Central Asia

- Majority of governmental activities were in form of humanitarian and development assistance until 2001, activities were growing rather slowly with increasing stability of the region
- 9/11 as a big spur to these activities (90% of support since then!)
- Key role of the region during the ‘War on terror’ (op. Enduring Freedom) and in efforts to diversify from ME oil
- Bilateral agreements with KAZ on energy and environmental issues, investment environment; improvement in relations with Azerbaijan,...
- Increased supplies of military and financial support and know-how,
 - US forces used airbases and airspace of Uzbekistan and Kyrgyzstan during their operations

Southern Caucasus and Central Asia

- Most of FDI related to upstream activities (e.g. Caspian Guard Initiative 2003) – often under Dept. of Defense
- The discourse has been kept also during Obama's administration despite proclaimed changes
- Aim: stabilizing the environment, enabling the country to fulfill its role in oil supplies
 - despite occasional incompatibility of individual countries with the western-type democratic principles
 - overlooking of authoritarian nature of local regimes, corruption,...

Southern Caucasus and Central Asia

- Increased support after 9/11 enabled local rulers to tighten their regimes
- Assistance aimed at training counterinsurgency forces, fight against drug trafficking, counter-terrorism, ...
 - within the Enduring Freedom operation
- Not without problems (expulsion of US forces from Uzbek military base in 2005, Russian conflict with Georgia in 2008)
- Still remarkable increase of US presence in the region after 2001

Resource Curse in the Central Asia?

- Close circle of elites ruling countries and earning revenues from resources gathered by state-owned companies
- Close ties strengthened by corruption or family relationships
- Stark differences between living conditions of the elites and other citizens
- Foreign investments rather cemented the inequality in wealth distribution – highlighted by the focus on energy sector
- Counterinsurgency assistance frequently leads to tightening of the authoritarian regimes

Infrastructural projects in the Central Asia and Caucasus

- Issues of remoteness, underinvestment and lacking infrastructure
- Existing infrastructure oriented on (former) USSR
- New infrastructural projects as a tool of anchoring western influence through activities of OCs
- Protection of infrastructure enabled US army to conduct extensive training programs including also private military contractors - e.g. Blackwater
- Politically sensitive - human rights, corruption,...



BTC Pipeline

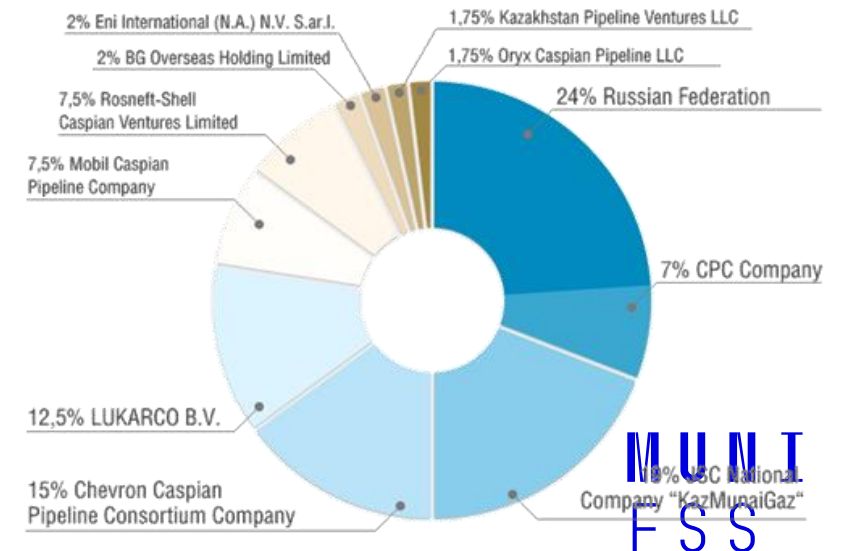
- Baku - Tbilisi – Ceyhan
- To transport oil from Azerbaijan while circumventing Russia and Iran
 - ending in NATO member country, avoiding environmentally sensitive areas of Bosphorus and Dardanelles
 - Proximity of Israel
- Oil from Azeri, Chirag and Guneshli fields developed by consortium of companies including Amoco, Unocal, ExxonMobil, ITOCHU, Statoil, SOCAR, BP (main operator), etc.
- Issues with commercial viability and sufficient supplies, 9/11 2001 as a spur
- In operation since 2005

BTC Pipeline



CPC Pipeline

- Pipeline bringing oil from the Tengiz oilfield to the Russian port of Novorossiysk
- Built 1999-2001
- Chevron and ExxonMobil part of the Caspian Pipeline Consortium
- Going through Russia – less preferred option
- Efforts to built underwater pipeline from Aktau (KAZ) to Baku
 - still economically unviable



CPC Pipeline



New 'Middle East'?

- Big initial expectations – sobering experience (if not outright disappointment)
- Initial expectations of 200 Bbbl reserves were later reduced to 1/4
- Stark differences between resources, proven reserves, and (economically) recoverable reserves
- Unfavourable conditions – high pressures, depths and acidity (sulphur content)
- Insufficient infrastructure, underinvestment, corruption
 - 3-4 x higher production costs compared to the Persian Gulf