Dependence on Middle East energy and its impact on global security

"We do have to do something about the energy problem. I can tell you that nothing has really taken me aback more, as Secretary of State, than the way that the politics of energy is […] 'warping' diplomacy around the world. It has given extraordinary power to some states that are using that power in not very good ways for the international system, states that would otherwise have very little power." Secretary of State Condoleezza Rice, testimony before the U.S. Senate Foreign Relations Committee, April 5, 2006.

Throughout the 19-centrury nearly half of the world's crude oil supply came from the gushing oilfields surrounding the Azeri city of Baku. At that time, petroleum supplied only four percent of the world's energy, giving the Caspian region little strategic advantage in the international stage. But as the world economy embarked on a steep growth trajectory, dependence on petroleum grew significantly. Today, oil supplies about 40 percent of the world's energy and 95 percent of its transportation energy. As a result, those who own the lion share of the reserves of this precious energy source are at the driver's seat of the world economy and their influence is steadily growing. Since the 1930s the Middle East has emerged as the world's most important source of energy and the key to the stability of global economy. This tumultuous region produces today 37 percent of the world's oil and 18 percent of its gas. When it comes to reserves, the Persian Gulf is king. It is home to 65 percent of global oil proven reserves and 45 percent of its natural gas. The Middle East also controls a significant portion of the hydrocarbons that are yet to be discovered. According to the U.S. Geological Survey over 50 percent of the undiscovered reserves of oil and 30 percent of gas are concentrated in the region primarily in Saudi Arabia, Iran, Iraq, Kuwait, UAE and Libya.

The concentration of so much of the world's hydrocarbons in this geographical location means that as long as the modern economy depends on the supply of oil and natural gas, the Middle East will play a key role in global politics and economy. As it is, most of the world's countries are heavily dependent on Persian Gulf oil. In 2006, the Middle East supplied 22 percent of U.S. imports, 36 percent of OECD Europe's, 40 percent of China's, 60 percent of India's, and 80 percent of Japan's and South Korea's. Even oil-rich Canada is dependent on the Middle East. Forty five percent of Canada's oil imports originate in the region.[1] Barring a major technological transformation, global dependency on the Middle East is only going to grow. According to the International Energy Agency, from now to 2030, world oil consumption will rise by about 60 percent. Transportation will be the fastest growing oil-consuming sector. By 2030, the number of cars will increase to well over 1.25 billion from approximately 700 million today. Consequently, global consumption of gasoline could double. The two countries with the highest rate of growth in oil use are China and India, whose combined populations account for a third of humanity. In the next two decades, China's oil consumption is expected to grow at a rate of 7.5 percent per year and India's 5.5 percent. (Compare to a 1-3 percent growth for the industrialized countries). As a result, by 2030 Asia will import 80 percent of its total oil needs and 80 percent of this total will come from the Persian Gulf. The reason why

[1] Energy Information Administration, http://www.eia.doe.gov/imp/imports.html

Persian Gulf countries' share of the world's energy pie is likely to increase has to do not only with geology but also with resource management. While non-Middle East countries pump at full speed, Middle East producers, many of them members of the Organization of Petroleum Exporting Countries (OPEC), stick to a quota and produce well under their capacity. This means that non-OPEC oil is running out almost twice as fast as OPEC's. Exxon Mobil Corporation has estimated that non-OPEC production--this includes Russia and West Africa--will peak within a decade, making recoverable oil left outside the Middle East world scarcer and scarcer.[2] On the other hand, the reserve-to-production ratio among Persian Gulf producers ranges between 80 and 100 years, allowing those countries to stay in the race decades after their competitors have depleted their reserves. This is likely to lead to global dependence on the region of unprecedented scale with considerable implications for global security and economy; as the Chief Economist of the International Energy Agency put it: "We are ending up with 95 percent of the world relying for its economic well being on decisions made by five or six countries in the Middle East."[3]

Conventional wisdom, concerned only with smooth functioning of the market, says that ownership of oil is meaningless, that it does not matter much if most of the world's oil is owned by one regime or the other. But in the case of the Middle East resource ownership does matter. The region is riddled with deepening ethnic and political tensions, terrorism, corruption and authoritarianism. In addition, there are problems that have no solution in sight and that will no doubt directly affect the supply of energy from the Middle East, among them a growing rift between Sunnis and Shiites, tension between the West and an increasingly radicalized Muslim world, increasing terrorist activity against oil facilities, protectionism, lack of investment, unresolved border disputes and the growing uncertainty about the political stability of key energy producers like Saudi Arabia, Iran, and Iraq. The energy security and national security problems resulting from reliance on a single energy resource that is primarily located in such a volatile area are likely to be intensified as demand for oil grows. The region's problems will no doubt impact not only the world's economy and security but also consuming nations' attitudes and policies toward the region's producers as well as toward each other.

Impact on the war on radical Islam

Despite promises by the Middle Eastern governments to stop terrorist financing, six years after September 11, wealth generated by the region's oil rich countries continues to flow to terrorist organizations and organizations promoting radical Islam. It is impossible to precisely know the extent of the phenomenon, but there is no doubt that portion of the petrodollars sent to the Middle East finds its way – through official and unofficial government handouts, charities and well-connected businesses – to the jihadist movement. In this, the most problematic country is the region's lead oil producer Saudi Arabia. Prior to September 11, Saudi nationals were the largest contributors to al Qaeda and its affiliates. To forestall open condemnation by its fundamentalist Wahhabi religious establishment, the Saudi regime has for many years placated the clergy by bankrolling its growth while striking an unspoken deal with the radicals: go wreak havoc anywhere you

[2] "Exxon president predicts non-OPEC peak in 10 years," *Oil and Gas Journal*, December 13, 2004.
[3] "Energy Agency Sets Grim Oil Forecast," *Wall Street Journal*, November 8, 2005.

want as long as you keep us out of your harm's way. This deal entailed a constant infusion of money into thousands of mosques and madrassahs that preached hatred and intolerance throughout the world. With a little over one percent of the world's Muslim population the Saudi Wahhabis support 90 percent of the expenses of the entire faith, overshadowing other, more moderate traditions within Islam.[4] In July 2005, U.S. Undersecretary of the Treasury in charge of fighting terrorist financing Stuart Levey noted: "Wealthy Saudi financiers and charities have funded terrorist organizations and causes that support terrorism and the ideology that fuels the terrorists' agenda. Even today, we believe that Saudi donors may still be a significant source of terrorist financing, including for the insurgency in Iraq."[5] More recently, Levey said in an interview: "If I could snap my fingers and cut off the funding from one country, it would be Saudi Arabia."[6] Another Middle Eastern country that thrives on the current oil bonanza is Iran. The Islamic Republic's theocratic regime is known to support and provide training to terrorist groups like the Shiite Hizballah as well as to Sunni radical groups like such as the Palestinian Hamas and the Taliban in Afghanistan. It also supplies weapons to Shiite insurgents who fight the U.S. and its allies in Iraq.

Growing dependence on the Middle East means further enrichment of the corrupt and dictatorial regimes in the Persian Gulf and continued access of terrorist groups to a viable financial network which allows them to remain a lethal threat to the West. It would also necessitate increased Western military presence in the region to ensure access to oil. But such presence would only strengthen the xenophobic and anti-Western sentiment among the jihadists and increase their motivation to fight the infidels. Furthermore, continuous infusion of money to radical Islamic educational institutions creates a new generation of radicalized youth, making reconciliation between the West and the Muslim world more difficult to achieve. This vicious cycle can only be broken through massive political reforms that the oil regimes currently seem to resist.

Impact on human rights and democracy promotion

Studies show that countries rich in easily extracted and highly lucrative natural resources that do not have well developed democratic traditions do not sufficiently invest in education, productivity, or economic diversification. In addition, such resource-rich governments do not feel obligated to be accountable or transparent to their people and they deny them representation. They also have no imperative to educate women and grant them equal rights. While their oil wealth allows them to be the strategic pivot of world politics and economy, these "trust fund states'" record on human rights, political stability and compliance with international law is abysmal. Although Persian Gulf countries have made an effort not to repeat the reckless spending policies that accompanied previous spikes in oil prices, diversifying their investment portfolios and strengthening their non-oil sector, they still continue to use oil revenues as a means to maintain their power, allowing freedom and democracy to advance at an extremely slow pace if at all. In some places the petrodollars influx only causes a reversal in the progress toward freedom. As New York Times columnist Thomas Friedman noted in what he calls "the first law of

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[4] Lawrence Wright, *The Looming Tower: Al Qaeda and the Road to 9/11*, (Knopf, 2006), p. 149.
[5] Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, July 13, 2005.
[6] "U.S.: Saudis still filling al Qaeda's Coffers," *ABC News*, September 11, 2007

petropolitics," the price of oil and the pace of freedom always move in opposite directions in authoritarian countries highly dependent on oil and gas for their GDP.[7] If democratization makes any significant progress in the Middle East it only happens in countries that do not rely on energy exports like Jordan, Bahrain, or Morocco.

Impact on regional stability

Despite the high visibility of the Arab-Israeli conflict, historically, wars among Muslim countries in the Middle East have caused far bigger losses in terms of both blood and treasure. Such conflicts have been a destabilizing factor for the global energy market. Both the Iran-Iraq War and the 1990 Iraqi invasion of Kuwait caused energy crises which were followed by recessions. In such a combustible environment feeble and insecure regimes flush with petrodollars feel the need to arm themselves to the teeth, fueling a regional arms race which only contributes to the general sense of insecurity. This problem is now being exacerbated by the deepening rift between Sunnis and Shiites as it expresses itself in Iraq. While Sunnis constitute the lion share of the Muslim world as a whole, in the Persian Gulf, Shiites comprise a 70-percent majority. This means that the divide between Sunnis and Shiites will inescapably affect the oil market. Increasing sectarian violence and inability to reach an acceptable wealth sharing compromise is taking a heavy toll on the Iraqi oil industry with profound implications for the global oil market. Four years after the U.S.-led invasion, Iraq has not been able to match its pre-war crude production level of 2.5 million barrels per day. Due to non-stop sabotage taking place in the north, Iraq was barely able to produce 2.1 million barrels per day in 2006. Perhaps the biggest casualty of a spillover of Muslim sectarianism would be Saudi Arabia. The eastern province of Saudi Arabia is home to most of the Kingdom's giant oil fields and export terminals. It is also the home of the bitter Saudi Shiite minority. Shiites make up roughly 15 percent of Saudi Arabia's population of 25 million. They are treated as second-class citizens and they harbor strong antagonism against the Kingdom's Wahhabi establishment which considers them heretics. Should an Iranian inspired Shiite revolt break out, the damage to the Saudi oil industry and the world economy at large could be incalculable.

A second destabilizing factor with certain impact on the oil market is the looming crisis with Iran. While the U.S. and the European Union are trying to forge a diplomatic strategy to halt Iran's nuclear program, Iran seems determined to pursue its nuclear ambitions. In an effort to foil Western attempts to isolate it diplomatically, Iran strengthened its relations with Russia and other energy producing Central Asian countries and it has also utilized its energy resources to purchase diplomatic protection from China and India, a third of the human race. Tehran's diplomatic dance with China, the number one oil and gas importer from Iran, is the one Iran counts on most. The two countries are bound by energy deals reaching a total value of roughly $100 billion, guaranteeing that China will use its veto power to block any American effort to impose strong economic sanctions against Iran in the UN Security Council. Iran's continuous defiance could produce two undesirable outcomes. In the near term it could escalate to a military confrontation between Iran and the U.S., an eventuality that will no doubt disrupt the free

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[7] Thomas L. Friedman, "The First Law of Petropolitics," *Foreign Policy*, May/June 2006. http://www.foreignpolicy.com/story/cms.php?story_id=3426

flow of oil through the Strait of Hormuz and send oil prices to unprecedented level. If Iran does succeed in becoming a nuclear power, the long run consequences could be far more severe. A nuclear Iran will not only be a threat to the region—Iran's President Mahmoud Ahmadinejad is a strong advocate of the destruction of Israel—but it also guarantees that other Middle Eastern countries follow suit. Many regional actors including the Gulf Cooperation Council (GCC), Yemen, Egypt, Jordan and Morocco have already declared their intention to develop nuclear capabilities albeit "for peaceful purposes." But such peaceful projects are often harbingers of nuclear military programs. Some predict that the nuclearization of the Middle East could result in a more restrained behavior by its countries as was the case of the balance of power between the U.S. and the Soviet Union during the Cold War years. But considering the history of miscalculations and erratic behavior by some of the Middle East's regimes, it may be a leap of faith to expect the same composure and restraint that was exhibited by the great powers. Hence, a nuclear Iran enabled by the new energy reality and in particular the Chinese and Indian dependence on its energy should be perceived as one of the most destabilizing developments of our time.

Impact on global security

As nations become increasingly dependent on oil, it becomes strategically imperative for them to secure their access to the Middle East. This means building strong alliances with the region's suppliers, providing them with diplomatic support and military aid and often turning a blind eye to their human rights transgressions. Since the famous 1945 meeting between U.S. President Franklin D. Roosevelt and the Saudi King Abdul Aziz ibn Saud aboard the USS *Quincy* in Egypt's Great Bitter Lake, it was the U.S. that served as the guarantor of security and stability in the Persian Gulf. In fact, the use of military power to ensure free flow of oil from the Persian Gulf has been a tenet of U.S. national security strategy. According to the Carter Doctrine, put forth by President Jimmy Carter in 1980, any effort by a hostile power to block the flow of oil from the Persian Gulf to the U.S. will be viewed as an attack on America's vital interests and will be repelled by any means necessary including military force. Since then, the U.S. has exercised the Carter doctrine several times. When, during the Iran-Iraq War, Iranian forces attacked Kuwaiti tankers, President Ronald Reagan authorized "reflagging" and provided them with U.S. Navy protection. Then, following Iraq's invasion of Kuwait in 1990 President H.W. Bush authorized military action aimed to defend Saudi Arabia's oil fields and restore Kuwait's sovereignty. In the decade between the Gulf War and the 2003 Operation Iraqi Freedom, the U.S. strengthened its military presence in the region, building bases in Qatar, Bahrain, and Kuwait. At a cost of $50-$60 billion per year it patrolled the waters of the Gulf, imposed no-fly zone in Iraq and provided training and equipment to the region's militaries. Throughout the Cold War years, the Pax Americana in the Middle East was rarely challenged. The Soviets had strategic interests in the region but being oil rich their economy was hardly dependent on Middle Eastern oil. All this is going to change with the economic ascendance of oil poor China and India. In the coming decades, the Middle East will turn increasingly to Asia to market its oil and gas. By far the most important growth market for countries like Iran and Saudi Arabia is China, which is today the world's second largest oil consumer and which by 2030 is expected to import as much oil as the U.S. does today. To fuel its growing economy, China is following America's footsteps, subjugating its foreign policy to its energy needs. China attempts to gain a foothold in the Middle East and build up long-term strategic links with the region's producers. Though some optimists think that China's pursuit of energy could present an opportunity to enhance cooperation, integration and interdependence with the U.S., there are ample signs that China and the U.S. could already be on a collision course over oil. For China, the biggest prize in the Middle East is Saudi Arabia, home of a quarter of the world's reserves. Since September 11, tension in U.S.-Saudi relations has provided the Chinese with an opportunity to win the heart of the House of Saud. As mentioned before, to Washington's dismay, China has also set its sights on Iran, announcing that it will not support sanctions against Iran in the UN Security Council. No doubt that as China's oil demand grows so will its involvement in Middle East politics. China is likely to provide the region's energy exporters not only with diplomatic support but also with weapons, including assistance in the development of WMD. India is no less of a challenge. Unlike China whose geography allows oil imports from neighboring Russia, India's only nearby source of oil and gas is the Middle East. In recent years, India has grown increasingly interested in signing energy deals with Iran, Saudi Arabia and the UAE. Just like China's, India's engagement with Iran provides the Islamic Republic an economic lifeline at a time when the West is trying to isolate it. Such growing bonds have already compromised India's relations with the U.S. All this means that in the long run, as China and India's dependence on the Middle East grows, they are likely to increasingly challenge U.S. policy in the Middle East, turning the region from a unipolar region in which the U.S. enjoys a near uncontested hegemony into a multipolar system in which more and more global powers vie for influence.

Impact on global economy

In 2005-2007, despite political instability, hurricanes and unquenchable demand from developing Asia, OPEC refused to increase production, maintaining a band ranging between $60 and $90 per barrel in comparison to earlier part of the decade when oil prices fluctuated between $20 and $30. This caused a transfer of wealth of historical proportions from the world's consumers to the coffers of Middle East producers. As President Bush said in April 2004, U.S. dependence on overseas oil is a "foreign tax on the American people." Indeed, oil imports constitute a third of the U.S. trade deficit and are a major contributor to the loss of jobs and investment opportunities. The transfer of wealth resulting from the cartel's greed is reshaping the world economy. Flushed with petrodollars, oil producers are using their money to buy critical nodes of the West's economies including equity firms, banks, stock exchanges, media conglomerates and retail chains. Altogether overseas acquisitions from the Arab world amounted to $68 billion in 2007 and additional tens of billions of dollars are still awaiting a place to park. Such holdings enable Arab governments unprecedented influence on the West's economy and politics.

For energy importers the rise in oil prices means slower growth rate, inflation, loss of jobs and burgeoning trade deficits. The biggest casualties are the developing nations some of whom still carry debts which go all the way back to the oil crises of the 1970s. The recent change of the trade patterns of the Arab oil producers could potentially bring about the decline of the U.S. dollar as the main reserve currency, a process that may already be on its way. Arab countries have grown more dependent on imported goods from Europe and Asia rather than the U.S. Since it is now Euros and Yens that need to pay for the Arabs' imports, Arab governments think more and more in terms of non-dollar currencies. At a time when the U.S. dollar is weak and U.S. national debt is at a historical high the specter of OPEC countries oil dropping the dollar in favor of other currencies while being a boon to Europeans, is a great threat to the U.S. economy.

Further drain on economic resources caused by imports of expensive oil could occur should supply fall sharply due a catastrophic terror attack against the region's energy installations. Throughout the world jihadist terrorists and other rogue elements attack oil and gas installations almost on a daily basis with growing impact on the world economy. What makes oil interesting for terrorists are the unique conditions that have been created in the oil market in recent years. Until 2002, the oil market had sufficient wiggle room to deal with occasional supply disruptions. Such disruptions could be offset by the spare production capacity owned by some OPEC producers, chiefly Saudi Arabia. This spare capacity has been the oil market's main source of liquidity. But due to the sudden growth in demand in developing Asia, this liquidity mechanism has eroded from seven million barrels per day in 2002 which constituted ten percent of the market to about two million barrels per day today, less than three percent. As a result, the oil market today resembles a car without shock absorbers: the tiniest bump on the road can send a passenger to the ceiling. Without liquidity, the only one mechanism left to bring the market to equilibrium is rapid and uncontrolled price increases. This reality plays into the hands of terrorists who want to hurt Western economy. Osama bin Laden's strategy is based on the conviction that the way to bring down a superpower is to weaken its economy through protracted guerilla warfare. We "bled Russia for ten years until it went bankrupt and was forced to withdraw [from Afghanistan] in defeat. […] We are continuing in the same policy to make America bleed profusely to the point of bankruptcy," bin Laden boasted in his October 2004 videotape. Striking oil, which jihadists call "the provision line and the feeding to the artery of the life of the crusader's nation" is easy and effective. Terrorists can cause enormous economic damage by hitting energy targets at the generating points, where they enjoy strong support on the ground. Politically motivated attacks on oil pipelines in Iraq have denied the global oil market over one million barrels per day. Had this oil been in the market, the price per barrel would have easily dropped by $10-$15. For the U.S., an importer of more than 11 million barrels a day, the terrorist premium alone costs $40-$60 billion a year. Should terrorists successfully target one or more of the mega-facilities in Saudi Arabia, as they have tried to do several times, oil prices could easily climb to $150 a barrel, causing incalculable economic losses and even greater transfer of wealth to Middle Eastern governments.

Impact on the transatlantic relations

To understand how dependence on the Middle East affects the transatlantic relations we must first understand the difference in approach to energy security between Europe and the U.S. EU countries import much of their electricity in the shape of Russian natural gas – 40 percent of EU gas imports originate from Russia, 30 percent from Algeria and 25 percent from Norway; By 2030, over 60 percent of EU gas imports are expected to come from Russia with overall external dependency expected to reach 80 percent -- and are therefore susceptible to supply disruptions, extortion and price manipulations. So when Europeans talk about energy security their think primarily about electricity and more specifically natural gas, Russian gas. The U.S. on the other hand, at least when it comes to electricity generation, is virtually energy independent, relying on its vast domestic resources like coal, natural gas, nuclear power and renewables, primarily hydroelectric power. Furthermore, the U.S. has almost no energy relations with Russia. Its relations with Moscow are focused on other areas of concern like nuclear proliferation, missile defense and issues like democracy promotion in East Europe and Central Asia. Hence, when Americans think about energy security they think primarily about the transportation sector, 97 percent of which is petroleum dependent. And while only a quarter of their oil imports originate in the Middle East there is strong recognition that the region holds the key to their economic security.

While both American and Europeans agree that stability in the Middle East is a prerequisite to global energy security, they somewhat differ on how to achieve it. As mentioned before, the U.S. advocates an energy policy which includes the use of military force to pacify volatile energy producing regions and secure energy supply lines. The European response to the energy challenge is less muscular. By and large, Europeans are reluctant to use military force, preferring to see market forces and economic interdependencies as the main guarantor of energy security. Some Europeans even see the U.S. militarization of energy security and its military presence in the Middle East as a disruptive factor which only builds tension and undermines energy security. Such an approach is not well received among Americans who believe that left to their own devices aggressive Persian Gulf dictators are likely to bully their neighbors, attempt to take over their energy resources and disrupt the flow of oil in the Strait of Hormuz. Saddam Hussein's unprovoked attacks on Iran in 1980 and Kuwait in 1990 are a testimony that this concern is not baseless. Which is why American administrations are willing to spend annually tens of billions of dollars in order to maintain the military capabilities necessary to protect Persian Gulf oil while Europe, a major consumer of Persian Gulf oil, have contributed very little to the security effort. One manifestation of the transatlantic disagreement regarding the effectiveness of the use of force is the debate on what should be the role of NATO in energy security. After years of deliberations within the alliance, NATO Secretary-General Jaap de Hoop Scheffer declared recently that "energy Security is a NATO-relevant subject," and the Alliance finally embraced in its 2007 Riga Summit energy security as one of its core issues. But what should be NATO's exact role and mission in addressing the growing challenge is far from being in consensus. While the U.S. prefers that the Alliance commit itself to preparing a range of options for jointly deterring the use of energy as a weapon and responding if such an event occurs, most EU members are reluctant to expand the Alliance's responsibilities, expressing concern that an increased role for NATO on energy security would send the wrong signal to Russia.

Hence, European preoccupation with Russian energy prevents the EU from adopting a more militaristic approach to energy security. Furthermore, the U.S. and Europe also differ on how to achieve stability in the Middle East. By and large, Americans believe that the key to stability in the region are social, political and economic reforms which would reduce some of the inherent domestic tensions among the region's societies.

Europeans, for their part, tend to highlight the role of the Arab-Israeli conflict holding that without reconciliation and a permanent solution to the Palestinian problem the Middle East will never be peaceful. Indeed, since the establishment of the State of Israel in 1948 the Arab-Israeli conflict has been a sore wound to Muslim societies and a recurring source of tension in the region. To be sure, even within the U.S. there are many who hold the European view. Sixty years ago U.S. Secretary of State Edward Stettinius opposed the creation of the state of Israel stating "it would seriously prejudice our ability to afford protection to American interests, economic and commercial […] throughout the area." More recently, The Iraq Study Group argued for a more aggressive U.S. role in the Arab-Israeli conflict as a way to mitigate regional tension and stabilize the situation in Iraq. Friends of Israel in the U.S. prefer to de-link the Arab-Israeli conflict from the region's other ailments, arguing that, while being a good thing in and in itself, resolution of the Arab-Israeli conflict will have little impact on the behavior of Persian Gulf regimes and the social illnesses from which the region's population suffers. The differences of opinion regarding Israel's impact on regional stability could deepen should another war break out between Israel and its neighbors and should the Arab countries decide to use the energy weapon as they did in 1973. Many believe that the oil weapon is obsolete and will not be used again. This view may be overly optimistic in light of the fact that since September 11, several major energy exporters including Saudi Arabia, Iran, Iraq and Venezuela rattled the oil saber when tension with the U.S. deepened. In October 2002, Mahathir Mohamad, then Malaysia's prime minister and chair of the Organization of the Islamic Conference explained: "Oil is the only thing Muslim nations have which is needed by the rest of the world. If they can cut back on supply, people will not be oppressive on them. […] It can be used as a weapon to protect the interest of Muslims." Earlier that year, Iran's supreme leader Ayatollah Ali Khamenei warned that "if the west did not receive oil their factories would grind to a halt. This will shake the world!" To many, those statements seem hollow. However, they indicate a deepening understanding within the oil producing community, and particularly within the Muslim world which owns nearly 75 percent of the world's oil reserves, that the use of energy as a political weapon is a legitimate strategy. Hence, just like in 1973, the world's oil consumers could one day be asked to rescind their support for the Jewish state in order to ensure their energy supply. As things stand now, in such a case, Europeans would be more easily pressed to lean toward oil while the U.S. is more likely to take a pro-Israel position.

Conclusion

Despite the above differences between Europe and the U.S., in recent months we have witnessed an increased convergence in the trans-Atlantic dialogue on energy security. This has much to do with the soaring oil prices and the decline in Norwegian oil production which makes Europe increasingly dependent for its oil on the Middle East. Hence, there is a clear understanding on both sides of the Atlantic that due to the global and strategic nature of the challenge, improving our ability to manage and conserve finite resources, diversifying energy portfolios, protecting energy facilities and building sufficient mechanism to deal with inevitable disruptions are in the best interest of all parties. A transatlantic consensus exists for better management of strategic petroleum reserves and for strengthened energy dialogue with emerging energy consumers in the developing world, primarily China and India, with possible future inclusion of those two emerging Asian giants in the International Energy Agency regime. There is also a growing consensus on the need for diplomatic and economic support for ways to curb the Middle East's influence by developing alternative supply sources and alternative energy routes from Central Asia and Africa. But since oil is a fungible commodity which is traded in the global market, diversifying away from the Middle East to other suppliers would be, at best, a stop gap solution. As long as the world's transportation system depends on oil to the degree that it does today, dependence on the Middle East will grow and so will the economic and security burden associated with such dependency. The key should be to reduce demand for oil period, and since two thirds of the world's oil is used for transportation this means reducing oil use through increased fuel efficiency and through a shift from a petroleum dependent transportation system to one that relies on next-generation fuels, meaning non-oil based transportation fuels such as methanol, ethanol, biodiesel, electricity and others derived from abundant domestic energy resources such as coal, nuclear power, biomass, and municipal waste. Yet, the challenge ahead is how to reconcile environmental and security considerations. Both Europe and the U.S. are well endowed with coal, yet both are reluctant to expand its role in their energy portfolio and convert coal to liquid fuels. Though nuclear energy is a near zero emissions energy source, in both Europe and the U.S. the nuclear industry is suffering from stagnation. Germany announced that it will phase out nuclear power by 2020. In the U.S. not one nuclear reactor has been built for three decades and political agreement on what to do with nuclear waste is not on the horizon. This policy will have to be reviewed as electricity begins to play a bigger role in the transportation sector.

Resolving all the problems associated with the shift from oil to alternatives will take enormous effort and a long period of time. In the interim, Persian Gulf countries are becoming wealthier and more powerful than ever. This means that, at least in the foreseeable future, energy security will require careful management of the relations with the Middle East. The only way consumers can check the region's influence and anti-free market behavior is by putting their collective weight together and acting in a unified manner to counterbalance OPEC and bring the cartel to adopt the policies conducive to energy security and necessary to bringing down oil prices: an increase in production capacity, greater openness and more hospitable investment climate without which international oil companies will not be able to operate in the region.

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