

An Energy Pearl Harbor?

A Near Miss in Saudi Arabia Hints at Future Shocks

By Gal Luft

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"We call our brothers in the battlefields to direct some of their great efforts towards the oil wells and pipelines. . . . The killing of 10 American soldiers is nothing compared to the impact of the rise in oil prices on America and the disruption that it causes in the international economy." -- A jihadist Web site

The two cars that exploded a week ago outside the inner perimeter of Abqaiq, an oil processing facility in Saudi Arabia that is the world's largest, could have caused more loss of life and economic devastation than the two planes that crashed into the World Trade Center on Sept. 11, 2001.

Had the terrorists succeeded in penetrating the guarded facility and detonating their bombs inside, they might have turned the complex into an inferno, releasing toxic chemicals that could have killed and sickened thousands of locals and expatriates, including many Americans, who work and live nearby.

The damage to the world economy also would have been severe because the oil market today resembles a car without shock absorbers: The tiniest bump on the road could send consumers and prices bouncing off the ceiling.

That wasn't always the case. Once there was enough wiggle room in the oil market to deal with occasional supply disruptions. As recently as 2002, some oil producers, chiefly Saudi Arabia, had the spare production capacity to provide liquidity to oil markets. But due to the sudden growth in demand in developing countries in Asia and continuing profligacy in industrialized nations such as the United States, oil output is largely spoken for. In 2002, there were about 7 million barrels a day of spare production capacity, or about 10 percent of world consumption. Today, spare capacity amounts to about 1 million barrels a day, less than 2 percent of world consumption.

That's a lot less than what would have been lost if the car bombers had succeeded at Abqaiq. The attack would have removed 4 million to 6 million barrels a day of supply from an already tight oil market. That loss would have exceeded all of the oil taken off the market by the Organization of Petroleum Exporting Countries during the 1973 Arab oil embargo. Depending on the extent of damage to the site, it could have taken months or even years to fix the facility, where two-thirds of Saudi crude oil is processed. Without extra supplies, the only mechanism left to restore the market to equilibrium would be a rapid and uncontrolled increase in prices.

This vulnerability isn't lost on radical Islamic terrorists. They have identified the world energy system as the Achilles' heel of the West and have made attacking it a central part of their plan.

Osama bin Laden's strategy is based on the conviction that the way to bring down a superpower is to weaken its economy. We "bled Russia for 10 years until it went bankrupt and was forced to withdraw [from Afghanistan] in defeat," bin Laden boasted in his October 2004 videotape. "We are continuing in the same policy to make America bleed profusely to the point of bankruptcy." His logic, feasibility aside, is simple: Bring the United States to a point where it can no longer afford to preserve both its military and economic dominance. Then, as the United States loses standing in the Middle East, the jihadists can gain ground and topple regimes they view as corrupt and illegitimate, while defeating other infidels who inhabit the land of Islam.

Striking oil, which jihadists call "the provision line and the feeding to the artery of the life of the crusader's nation," is relatively easy and effective. Terrorists no longer need to come to the United States to wreak havoc here. They can hit our energy supply near the source, where they enjoy strong support on the ground.

Politically motivated attacks on oil pipelines in Iraq have kept more than 1 million barrels per day off the global oil market. Had this oil been in the market, the price per barrel would have been \$10 to \$15 lower, according to most energy analysts. For the United States, an importer of more than 11 million barrels a day, the terrorist premium alone costs \$40 billion to \$60 billion a year. Higher oil prices mean a transfer of wealth of historical proportions from oil-consuming countries -- primarily the United States -- to the Muslim world, where 70 percent of global oil reserves are concentrated. The windfall also benefits jihadists as petrodollars trickle their way through charities and government handouts to madrassas and mosques.

How vulnerable is the Saudi oil industry to kamikazes bent on sacrificing their lives for the sake of disrupting the world economy? Despite Saudi assurances that their facilities have the best protection in the world, the terrorists were still able to penetrate the outer perimeter of Abqaiq before they were killed.

And what about an air attack? A suicide terrorist hijacking an airplane in Kuwait or Dubai in an attempt to crash it into one of the facilities would leave the Saudis very little time to respond. Al-Qaeda's statement following the Abqaiq attack that "we shall not cease our attacks until our territories are liberated" must be taken seriously.

To compensate for the erosion in OPEC's spare capacity, major oil-consuming countries need to create new cushions against possible oil shocks. At its current capacity of 700 million barrels, the Strategic Petroleum Reserve (SPR) can mitigate supply disruption to the U.S. market, but it isn't big enough to tide over the global economy if there were a severe disruption of oil supplies. If, however, the SPR were expanded and Europe and Asia encouraged to establish similarly large oil banks, the oil-consuming nations could withstand a catastrophic failure of the Saudi system. It would make the oil weapon less effective, and less alluring to terrorists.

Reducing petroleum consumption, especially in the transportation sector, where two-thirds of U.S. oil is consumed, could also help restore some wiggle room to oil markets. By shifting to domestically produced transportation fuels like ethanol and methanol, or by driving more efficient hybrid vehicles, Americans can reduce their vulnerability to supply disruptions. Plug-in hybrid electric vehicles could tap into the grid and use made-in-America electricity; unlike in the 1970s, today only 2 percent of U.S. electricity is generated from oil. In many cases of national security, the best defense against foreign foes begins at home. Technology may not be able to wean us from oil altogether, but it can reduce U.S. vulnerability to an energy Pearl Harbor.

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