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The Obama Presidency, Oil, and the Middle East

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unlikely, particularly given the U.S. predisposition toward pushing for a Syria-Iran split. Nevertheless, we do not know where Obama is going to come down.

Regarding Israel-Palestinian issues, looking at developments on the ground, it is difficult to see this as being a good time for making any progress on the Palestinian track. Still, there will be a new Middle East coordinator in this administration, and there is, I think, a predisposition to push on this track. I have a hard time seeing this as an initial priority of the administration given other pressing issues.

Nevertheless, I think the Obama administration will have an ambitious agenda. Its focus on diplomacy and coalition-building will benefit from a tremendous amount of international goodwill, at least initially, as well as the belief he can bring "hope" and "change." But I think that within a year, Obama, too, will have to deal with the realities of the Middle East.

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THE OBAMA PRESIDENCY, OIL, AND THE MIDDLE EAST

John S. Duffield*

During the presidential campaign, candidate Barack Obama described America's dependence on oil as one of the greatest challenges that the country has ever faced. He said that high oil prices threatened to drag down the U.S. economy. The transfer of wealth to oil-producing countries, "many of them hostile to our interests," was viewed as a threat to U.S. national security. And the combustion of oil, along with other fossil fuels, posed a serious threat to the environment.[1]

The campaign hinted that an Obama presidency would seek energy independence. But with regard to oil, it established and emphasized a much more specific and presumably achievable goal. Within 10 years, the United States would save more oil than it currently imports from the Middle East and Venezuela combined.

What would the achievement of this goal actually entail? According to the U.S. Energy Information Administration, the United States consumed approximately 20.7 million barrels per day (mbd) of oil in 2007. That same year, it imported 2.17 mbd from the Persian Gulf (of which Saudi Arabia provided more than two-thirds) and 1.36 mbd from Venezuela. If North Africa is included in the Middle East--since Libya and Algeria provide another 0.7 to 0.8 mbd of petroleum--U.S. imports from the two regions combined amounted to some 5.0 mbd, or almost 25 percent of U.S. oil consumption.[2]

How would the Obama administration achieve this goal? The first thing to note is that it does not actually require reducing U.S. oil imports from the Middle East or Venezuela, just reducing consumption by an amount equal in the size to those imports. Thus, the goal could be achieved while imports from those regions remained constant or even increased. In that sense, the goal is a more realistic one than attempting to restrict imports from particular countries. Given the fungible nature of today's oil market, it is difficult and sometimes economically inefficient to do so. But this reality also underscores the difficulty of achieving one of the avowed goals of an Obama energy policy: to reduce the transfer of wealth to hostile oil-producing countries. Unless the United States can engineer either a decline in those countries' exports or in the world price of oil, then they will continue to

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[1] "Barack Obama and Joe Biden: New Energy for America," Uhttp://www.barackobama.com/pdf/factsheet_energy_speech_080308.pdfU (accessed November 10, 2008).

[2] Energy Information Agency (EIA), *Annual Energy Review 2007*, Report No. DOE/EIA-0384 (2007) (Washington, D.C.: EIA, 2008), Uhttp://www.eia.doe.gov/aer/pdf/aer.pdfU (accessed November 10, 2008).

enjoy large financial inflows.

The Obama campaign emphasized two main approaches for reducing U.S. oil consumption: increasing the fuel efficiency of new vehicles and accelerating the use of alternative transportation fuels.

To raise fuel efficiency, the Obama campaign proposed a number of measures.

First, an Obama administration would increase U.S. fuel economy standards by four percent per year over a number of years. Indeed, as a senator, Obama sponsored legislation to that effect.

Second, the administration would offer $7 billion in tax credits for the purchase of more fuel-efficient advanced-technology vehicles, and it would provide $4 billion in loans and tax credits to domestic auto manufacturers so that they could retool factories in order to build more fuel-efficient cars.

Third, the government would invest directly in research and development in advanced vehicle technologies, especially batteries, and help to create a market for such cars by purchasing a large number of plug-in and all-electric vehicles. One overall goal would be to put one million highly fuel-efficient plug-in hybrids on the road by 2015.

To promote the use of alternative fuels, the Obama administration would mandate that all vehicles be manufactured with a flexible fuel capability by the end of its first term. It would also invest federal resources into developing the most promising sustainable alternative fuels and building the infrastructure to support them, with the goal of incorporating at least 60 billion gallons of advanced biofuels into the national fuel supply by 2030. A related measure would be to establish a low-carbon fuel standard to speed the introduction of non-petroleum fuels. Fuel suppliers would be required to reduce the carbon content of their fuel by 5 percent by 2015 and by 10 percent by 2020.

Several other proposed measures, while not directly aimed at reducing oil consumption, could nevertheless contribute to the achievement of that goal or at least to a reduction in U.S. oil imports. One is a proposed economy-wide cap-and-trade program to reduce carbon emissions. If this came anywhere near to achieving the goal of an 80 percent reduction below 1990 levels by 2050, it would necessarily result in a substantial cut in oil use, since the combustion of oil accounts for roughly half of all U.S. carbon emissions. Another is the plan to invest $150 billion over ten years in a clean energy economy. Much of this money would be targeted at measures that would result in lower oil consumption, such as accelerated commercialization of plug-in-hybrids and advancing the next generation of biofuels and fuel infrastructure.

Finally, the Obama administration would support increased U.S. domestic production of oil as a means of helping to prevent world prices from rising higher than they have. Although greater domestic production would not contribute to the goal of reducing oil consumption, it would reduce U.S. oil imports at least slightly. Nevertheless, the Obama campaign has been quick to emphasize that, given its small share of world oil reserves, the United States cannot drill its way to energy security.

Given the current state of the U.S. economy, however, the Obama administration is likely to put the goal of reducing oil consumption on the back burner in the short run. Indeed, policies designed to reduce oil consumption are likely to conflict with efforts to halt and reverse the recent economic downturn, and vice-versa. The Obama campaign previously proposed an emergency energy rebate of $500 to $1000, to be paid for by a tax on oil company profits. The rebate would offset the increased prices that Americans have been paying for gasoline and are likely to pay for heating oil this winter. But however necessary and well-intentioned, such a rebate would eliminate some of the incentive to cut oil consumption, and possibly reduce money available for investment by oil companies in exploration and new production capacity.

Even in the absence of the current economic crisis, moreover, one could question whether the policies proposed by the Obama campaign would be sufficient to achieve the goal of reducing oil consumption by 3.5 mbd within 10 years. For example, the Obama plan provides no intermediate targets for the introduction of biofuels. But even the current renewable fuels standard, adopted in 2007, would reduce oil consumption by only about 2 mbd no earlier than 2022. And its full implementation will depend on the development of cost-effective methods for the production of cellulosic ethanol and other advanced biofuels on a large scale, which do not yet exist.

Likewise, the introduction of more fuel-efficient vehicles and those with a plug-in capability will certainly help to reduce oil consumption over time. But given that the higher standards will be achieved only incrementally and the relatively slow turnover of the automotive fleet, traditionally about six to seven percent of vehicles per year, the full effects will not be felt for more than a decade. Even the immediate introduction of a million electric vehicles would reduce gasoline consumption by only a fraction of a percent, given that there are already more than 200 million automobiles and light trucks on the road.

It is worth noting, moreover, that the Obama plan does not include one measure that would be particularly effective at reducing oil consumption: a tax or a price floor to ensure that oil and gasoline prices remain high enough to encourage conservation and investment in alternatives. As recent experience has confirmed, high oil prices can have a big effect on consumption patterns. Yet a tax or price floor need not raise the price of gasoline as high as $4 per gallon in the short run in order to alter expectations sufficiently to induce sustained behavioral change.

Finally, it may be worth asking whether the goal of the Obama plan is sufficient or ambitious enough. Even a 17 percent reduction in oil use would leave U.S. consumption levels, whether measured in terms of GDP or population, well above those of most other advanced industrialized countries. At least in the longer term, the United States will probably have to reduce consumption by an even greater amount in order to mitigate the negative economic, environmental, and national security consequences of its oil dependence.

What implications could the Obama plan have for U.S. policy toward the Middle East? With the principal exception of the domestic responses to the oil shocks of the 1970s, U.S. policy has traditionally emphasized the use of foreign policy tools to address the concerns raised by American oil dependence, especially high oil prices and potential supply disruptions. As articulated during the presidential campaign, however, the Obama energy plan contains no explicit external dimension.

In the short term at least, the implications are likely to be minimal for two reasons. First, as noted above, until the United States emerges from the current economic crisis, the new administration will emphasize saving jobs and promoting growth rather than reducing oil consumption. If anything, the ready availability of inexpensive oil will be seen as a means to that end, and the administration is likely to work as necessary with sympathetic producers like Saudi Arabia to keep the price of oil in the low to moderate range.

Second, long-term concerns about maintaining stability in the Middle East for the sake of energy security have been at least temporarily eclipsed by the immediate challenges posed by Iraq and Iran. Although the evolution of the political situation in Iraq and the outcome of Iran’s alleged efforts to become a nuclear power will have potentially profound consequences for regional stability and thus the ability of the Persian Gulf to meet the world’s oil needs, the new administration will have to address these pressing issues on their own terms and necessarily give less consideration to the longer-term implications for energy security.

Once these immediate domestic and international concerns have been addressed, however, the Obama administration will have to turn its attention to the question of what type of relationship it wants with the oil-producing countries of the Middle East and the degree to which U.S. policy should be shaped by concerns about maintaining reliable access to adequate supplies of oil at reasonable prices. Even if the Obama administration is successful in reducing U.S. oil consumption by 17 percent or even more, the United States will continue to import oil from the Persian Gulf. More importantly, the rest of the world--and the health of the global economy--will remain heavily dependent on stable and perhaps even rising production levels in the region. Thus it will be difficult, if not impossible, for even an administration committed to change to break with the long-standing imperative to intervene in the region in order to ensure energy security.

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WHAT OBAMA SHOULD DO ABOUT RUSSIA IN THE MIDDLE EAST

Mark N. Katz*

Formulating an American foreign policy with regard to Russia in the Middle East will be complicated because some things Moscow is doing there are harmful to American interests while others are either not harmful or actually helpful.

Moscow's actions that are most harmful to American interests are its continued support for the Iranian nuclear program, and protecting it in the UN Security Council, as well as its arms sales to both Iran and Syria. Though less of an immediate threat, Russian cooperation with Middle East gas producers such as Iran, Qatar, and Algeria to form a "Gas OPEC" could have a negative economic and political impact on the West.

By contrast, Moscow's actions that are either not harmful or are actually helpful include: cooperating to some extent with U.S. and European efforts to prevent Iran from obtaining nuclear weapons, not providing Iran and Syria with the more advanced weapons systems that they want, and not supporting America's opponents in Iraq or Afghanistan. In addition, Moscow maintains good relations not just with Arab governments allied to the United States but also with Israel--a far cry from its behavior during the Cold War when the USSR actively sought to weaken or even overthrow these governments.

What the Obama administration obviously hopes for is that Moscow will cease those actions harmful to American interests while continuing those that are either helpful or not harmful. What it fears is that Moscow will continue or increase those actions that are harmful while ceasing those actions that are either helpful or not harmful.

Moscow, though, is not likely to do what Washington either hopes or fears, but continue its current policy instead. Among other reasons, supporting Iran and Syria is valued by Russia because America opposes it. Supporting them in defiance of the United States makes Russia appear to be a great power--not least in its own eyes. By contrast, ceasing to do so, especially at America's behest, would make Russia look weak and subservient at least in its leaders' own self-perception.

On the other hand, even if Russian-American relations deteriorate further than they already have, Moscow is unlikely to pursue policies that undermine America's Arab allies or Israel. For while Moscow sees America as an opponent, it also sees radical Sunni Islamism as one. The more powerful the latter grows in the Middle East, the more it can do to undermine Moscow's rule in the Muslim regions of Russia (including the northern Caucasus and Tatarstan). Pro-American Arab governments, Israel, and even the American presence in Iraq and Afghanistan (so long as this continues) serve to keep these forces at bay. Despite its resentment toward the United States, the Kremlin has no interest in weakening their ability to perform this function.