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Race Around the World: The 20-Year Contest for Oil

By Andrew Holland

The global oil market opened up, ending an 80-year period when the biggest concern was diversity of sources. Now, we face a new challenge: cost.



Sunrise over a new oil field in eastern Siberia / Reuters

This post is part of a 12-part series exploring how the U.S.-Russia relationship has shaped the world since the December 1991 end of the Soviet Union. [Read the full series here.](#)

Two events made 1991 an unusually important year for global oil production and energy security. The Persian Gulf War, started when Saddam Hussein's Iraq invaded Kuwait in August, 1990, ended on February 28, 1991. In late December, the Soviet Union, whose territory held the largest proven oil reserves outside of the Middle East, collapsed.

U.S. dependence on imported oil had been growing for 30 years when the Soviet Union fell. The U.S. imported 40% of its oil in 1991; 54% of oil imports came from OPEC members and 24% from the Persian Gulf. The oil crises of 1973 and 1979, and the hardship they caused in the U.S., were still in American memories.. Energy dependence was viewed, much like today, as a vulnerability.

Since then, American energy security policy has focused on efforts to extricate U.S. energy dependence from the political volatility of the Middle East. As Winston Churchill had said in 1913, "Safety and certainty in oil lie in variety and variety alone." In practice, this has meant importing from friendly nations, increasing global supplies, and integrating oil into a single global market.



In the two decades since the fall of the Soviet Union, global oil production has increased from 66 million barrels per day to almost 87 million; much of that increase from Russia and the former Soviet Republics. This almost certainly wouldn't have happened without the fall of the Soviet Union. For example, enormous new oil fields of Azerbaijan and Kazakhstan were only developed once foreign investors and technology were allowed in to make it happen.

Political and economic changes also brought new oil to market. The Baku-Tblisi-Ceyhan (BTC) pipeline brings crude oil drilled in the Caspian Sea to market through Azerbaijan, Georgia -- two former Soviet Republics -- and Turkey. The BTC pipeline, which opened in 2006, would have been impossible 20 years before.

The expansion of global oil production has been accompanied by oil market consolidation. Mergers of oil companies like Exxon-Mobil, Chevron-Texaco, BP-Amoco, along with significant infrastructure investments created the first truly global oil market. Oil contracts are traded in liquid commodity markets that create uniform oil prices around the world. Due to these changes, price differences in oil only reflect actual substantive differences in quality or transportation costs.

These developments were supposed to alleviate the energy security concerns that the U.S. faced after the 1970s. America would no longer be held hostage to supply shocks that could cut off our access to oil. American soldiers would no longer have to fight to protect sources of oil.

That has not proved to be the case. The U.S. today produces over 50% of the oil that it consumes, and a further 20% comes from our friendly neighbors, Canada and Mexico. Imports from the Persian Gulf have fallen to 9% of our consumption. In spite of these trends we still face concerns about energy security.

We no longer worry that our supply will be cut off, but we face an even more vexing problem -- price. It doesn't matter to the American consumer that the supply of oil that goes into his or her tank is diversified: gasoline is the same whether it comes from Canada, Venezuela, Nigeria, or Saudi Arabia. The integrated, globalized market that we have created means that the price of oil is set globally.

This past May, as civil war was spreading in Libya, global oil prices shot up to \$113 per barrel. The U.S. only imported about 70,000 barrels per day of oil from Libya (about 0.6% of total consumption), but the domestic price of oil, and the gasoline that American consumers depend on, shot up equally fast.

It is global demand -- not supply diversity -- that determines energy security in the modern world.

American policy is beginning to address demand, but too many policymakers still believe that we can ensure energy security just by producing more here at home or by importing more from Canada. The truth is that only by reducing American dependence on oil -- foreign and domestic -- can policymakers

break the oil market's choke-hold on the economy.

Only in 2007 did Congress pass legislation that increased fuel economy standards. The Obama Administration has continued on this path by proposing a rule that will double fuel economy standards to 54.5 miles per gallon by 2025. Another option, perpetually proposed and just as often rejected, is to reduce demand over the long term by increasing gasoline taxes -- as European and Japanese governments did in response to the 1970s oil crises.

The best way to ensure that oil is no longer strategically important to the United States may be to promote alternative forms of transportation. A sufficiently large fleet of electric or biofuel-based cars would reduce the influence oil has on American transportation. Such changes could enhance energy security far more effectively, though less dramatically, than even the collapse of the Soviet Union.

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