
Redefining Energy Security in the Persian Gulf

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Modern society has grown dependent on energy for almost all human activities. Different forms of energy are essential in the residential, industrial, and transportation sectors. Energy is also crucial in carrying out military operations; indeed, the attempt to control oil resources was a major factor in Second World War. Global demand for energy is projected to grow at an average rate of 1.6 percent per year in the next two decades. In short, our increasing reliance on energy has heightened the importance of energy security.

The first oil shock in the aftermath of the 1973 Arab-Israeli war put energy security—and more specifically, security of supply—at the heart of the energy policy agenda of most industrialized nations. Ever since, policymakers and analysts have sought to define the concept of energy security and establish its implications. These definitions, however, tend to focus more on the security of supply and less on the security of demand. Giacomo Luciani, for example, defines it as “the guarantee that all the energy volumes demanded by customers will be available at a reasonable price. If we lift any restriction on the movement of prices, the issue of security of supply simply evaporates.”¹ Barton *et al.* define energy security as “a condition in which a nation and all, or most, of its citizens and businesses have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service.”²

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THE DYNAMICS OF ENERGY SECURITY

Energy security refers to sustainable and reliable energy supplies at reasonable prices. Growing global interdependence on the energy market, however, argues for a more nuanced definition that takes into account the following complex array of factors.

Any definition of energy security should distinguish between geological and geopolitical threats. Most energy analysts agree that there are enough physical reserves to meet the global demand for energy. The ex-

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ploration, development, and transportation of these resources, however, pose significant financial and political challenges that need to be addressed.

Countries concerned about energy security should take steps to ensure their own energy efficiency. Controlling and reducing energy demand should be

addressed on local, national, and global levels. Energy efficiency depends on informed choice by individuals and not just legislation. Appropriate price signals are essential for improving energy efficiency.

Security involves achieving a state where the risk of rapid and severe fluctuation of energy prices is reduced or eliminated. Oil prices vary from country to country depending on several factors, including the quality of crude product, destination, taxes, exchange rates, and refining capacity. It is important to emphasize that sustained high prices hurt both consuming and producing countries in the long term. Although higher prices mean higher profits for oil producers in the short term, high oil prices tend to hinder global economic prosperity, encourage conservation, and prompt switching to other fuels. In other words, from the producer's perspective, supporting high prices would be like "killing the goose that lays the golden egg." Thus, consumers and producers share a common interest in ensuring stable supplies at "reasonable" prices.

Political stability helps secure these stable energy supplies. Energy security depends on sufficient levels of investment in resource development, generation capacity, and infrastructure to meet growing demand. The availability of funds for such investment is strongly linked to prices, but the flow of private and foreign investment depends to a great extent on political stability in the producing country.

Spare capacity has traditionally played a significant role in temporary, but severe, interruptions of oil supplies. A few Persian Gulf producers,

Saudi Arabia in particular, have deliberately maintained spare capacity to ensure stability in global markets. Global economic growth, particularly in Pacific Asia, has subjected the oil market to an unexpected demand shock that has practically eliminated spare capacity, taking the international oil industry into a period of fundamental change. In the mid-2000s, spare capacity is at one of its lowest recorded levels.

Security of supplies can be enhanced by an overall geological diversification of supply. In other words, the development of several producing regions leads to more stability in international oil markets. Thus, increasing supplies from Russia, the Caspian Sea, West Africa, and other regions would reduce the vulnerability associated with overdependence on any one region.

From the producer perspective, demand security also merits attention. Major resource holders have voiced concern regarding long-term security of demand for their oil. This concern is based on two factors: the cyclical growth patterns and policies that dampen the demand for oil and favor other sources of energy, and the failure of Persian Gulf states to diversify their economies and their consequent continued heavy dependence on oil revenues. Thus, they are anxious to secure markets for their primary source of income. Rather than focusing solely on the dependence of consumers on producers, it is more instructive to talk about mutual dependence and to recognize that the degree of interdependence between energy producers and consumers will further increase in the future.

To sum up, the globalization of the oil market suggests that the rhetoric regarding the goal of self-sufficiency in energy is obsolete. Energy security is an international issue that necessarily entails growing interdependence between major producers and consumers. It would be a mistake to pay too much attention to the geographical or national origin of energy supplies. No country or region can achieve a state of energy security on its own. Indeed, import dependence does not necessarily entail greater insecurity. Diversification of both energy mix and energy sources is the main route to energy security. Major industrialized countries should seek to enhance the reliability of those producing nations on which they are bound to depend for many years to come.

REDEFINING SECURITY IN THE PERSIAN GULF

Given its geological structure and strategic location, the Persian Gulf has always occupied the driver's seat in the energy industry. The roots of the oil industry in the Persian Gulf go back to 1908 when oil was discovered at Mesjid-e Suleiman in southwest Iran. In the following year, the

Anglo-Persian Oil Company was formed. (In 1935 the company was re-named the Anglo-Iranian Oil Company and in 1954 the name changed again to British Petroleum.) The company took charge of the extraction and marketing of Iranian oil for the next several decades.

The beginning of World War I contributed, among other developments, to the rapid expansion of oil facilities in Iran. Oil was discovered in Iraq shortly after the war. In the 1930s it was discovered in Bahrain, Kuwait, and Saudi Arabia and later in the other Gulf States. By World War II, the Persian Gulf's share of world oil was not significant, but the region's potential capabilities and reserves were apparent. The materialization of these capabilities, however, was not realized until the end of the conflict. In the decades following World War II, the Persian Gulf producers became prominent players in the global oil market. The acceleration of oil exploration and production in the Persian Gulf was necessary for the economic recovery of Western Europe and Japan throughout most of the 1950s and 1960s.

With approximately 62 percent of the world's proven oil reserves, the Persian Gulf region is the world's leading oil producer and exporter. The world's largest onshore oil field, Ghawar, and the world's largest offshore oil field, Safaniya, are both in Saudi territory. In addition to these substantial proven reserves, the Persian Gulf region enjoys several advantages. First, the cost of production is one of the lowest in the world: less than \$1.50 per barrel, compared to the global average of about \$5 per barrel. Second, Persian Gulf oil producers consume only a small portion of their production. By comparison, other large producers such as the United States and Russia consume either all or a large portion of their production. This gives Persian Gulf producers added influence in global oil trade. Third, Persian Gulf producers have free access to the sea. The region's export pipeline infrastructure is extremely well developed, linking crude fields with marine export terminals and loading platforms on the Persian Gulf and the Red Sea. Fourth, most of the world's spare productive capacity is located in the Persian Gulf, mainly in Saudi Arabia. This is an important strategic asset for the kingdom; whenever a sudden interruption of supplies occurs, the kingdom can fill the gap in a very short time. Fifth, in addition to oil, the Persian Gulf region holds enormous proven natural gas reserves (approximately 40 percent of the world's resources). The region's production is expected to triple in the next two decades.

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Major energy producers and consumers share a mutual interest in promoting the stability of the global energy market. Unilateral actions and confrontation will not create stability. Calls for “energy independence” and “reducing imports from the Middle East” are only good for political rhetoric. Equally important, the use of economic sanctions against major energy producers has a destabilizing effect on global energy markets. Rather, cooperation and dialogue between producers and consumers would serve both parties’ interests and enhance global economic prosperity. The dominant characteristic of energy policy has been, and will continue to be, interdependence between consumers and producers. ■

ENDNOTES

- 1 Giacomo Luciani, “Security of Supply for Natural Gas Markets: What Is It and What Is It Not?” *Center for European Policy Studies*, <<http://ceps.be>> (accessed July 29, 2004).
- 2 Barry Barton, Catherine Redgwell, Anita Ronne, and Donald N. Zillman, *Energy Security: Managing Risk in a Dynamic Legal and Regulatory Environment* (Oxford: Oxford University Press, 2004), 5.

