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The Simple Arithmetic of John McCain's Bogus Claims of Energy Independence



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"My friends, I will have an energy policy that we will be talking about, which will eliminate our dependence on oil from the Middle East that will prevent us from having ever to send our young men and women into conflict again in the Middle East" [John McCain, May 2, 2008](#)

Put aside, for the moment, McCain's suggestion that we invaded Iraq in 2003 because of oil. His energy policy "that we will be talking about" is nothing more than hot air. When he said it "will eliminate our dependence on oil from the Middle East" I could tell he was in way over his head. Here's a very simple primer on the global economics of oil, to demonstrate why McCain is, once again, way off base.

1. The U.S. imports 2/3 of the oil it consumes. That fraction will not dramatically change any time soon.

The United States has been a net importer of oil since the 1960s. In 1965, it produced 9 million barrels of oil a day, and consumed 11.5 million barrels daily. Then as now, we relied heavily on imports from other producers in the western hemisphere, notably Canada, Mexico and Venezuela. Back in 1965, the western hemisphere was more or less in balance, with 14.6 million barrels a day being produced, and 14.6 million barrels a day being consumed. But those days are long gone. Today the western hemisphere produces about 21 million barrels a day, but it consumes 30 million barrels daily.

Here's what global consumption looks like in 2006:

Oil Consumption

[millions of barrels a day]

US 21

Rest of Western Hemisphere 9

Middle East 6

Africa 3

Asia 25
Former Soviet Union 4
Rest of Europe 16
Total 84

And here's what global production looks like in 2006:

Oil Production

[millions of barrels a day]

US 7
Rest of West. Hemisphere 14
Middle East 26
Africa 10
Asia Pacific 8
Former Soviet Union 12
Rest of Europe 5

Total 82

In other words, if the U.S. reduced its consumption of oil down to 11.5 million barrels a day, to the levels of 1965, when we had a lot fewer people and fewer cars, we would still be importing 40% of our oil needs. Most politicians talk about *reducing* our dependence on foreign oil. The only way to *eliminate* our dependence on foreign oil is to drastically transform our car culture, or use a totally different technology for transportation. Unquestionably, we must reduce our consumption of oil. But the primary reasons for doing so are the global warming crisis and the need to improve our balance of payments position.

[A few clarifying points: Oil is used for transportation - gasoline, diesel, jet fuel - or as a feedstock for petrochemicals. Not for generating electricity. The hydrocarbons used for power generation are coal and natural gas. (Again, we are painting with a very broad brush here.) With regard to the numbers above, taken from the [BP Annual Statistical Review](#), I presume that the oil consumed, in excess of the oil produced, came from inventories on hand. Finally, it is possible that recent major discoveries off the coast of Brazil may eventually enable the western hemisphere to approach self-sufficiency, but that change has nothing to do with anything proposed by McCain.]

2. Oil is sold in a global market. When U.S. consumption or production changes, the global market adjusts.

For reasons that may seem obvious from the numbers above, oil is traded in a global market. When production is shut down in, say, Nigeria, tankers all over the world are diverted, so that the remaining supply is distributed as efficiently as possible. So the rising demand from China affects the price of oil in Texas. Similarly, oil produced by the Sudan, and purchased by China, adds to the global supply and indirectly contributes toward the overall lowering of market prices. In other words, the market does not care if the source of the supply or the source of the demand is from good government or a bad

government.

Suppose we did reduce our consumption of oil by 10 million barrels a day. What would happen? Would Middle East production suddenly become less important in world oil markets? No, because the region would not lose its competitive advantage. Oil is like every commodity-based business. The key to success is being a low-cost producer, and the Middle East remains the part of the world where oil can be extracted at the lowest cost per barrel.

So even if the United States imported less oil from the Middle East, the global economy would still be highly dependent on Middle East production. As a result, how important is it, from the perspective of energy security, that governments in the region be friendly to the United States?

3. Oil production generates huge amounts of cash flow in all price environments. And all governments, good and evil, want to maximize the current financial value of their oil production.

Once an oil well is drilled, the ongoing operating cost of lifting the oil is generally quite small, whether oil sells for \$20 a barrel or \$120 a barrel. Private oil companies almost never shut in production because they think the current price is too low. But again, most of the world's oil production is not controlled by private companies, like Exxon or Chevron, but by national governments, like Saudi Arabia and Mexico. And because there is so much money to be made from current production, a government makes absolutely sure that the oil remains flowing. Throughout all the turmoil of a 27-year civil war, Angola's oil production was never seriously disrupted.

Historically, the global swing producer has been Saudi Arabia, which dramatically ratcheted its production down and up during the 1970s and 1980s to meet its strategic goals of managing the price and supply. Since the late 1990s, Saudi production has been relatively stable, though trending upward.

Saudi Arabian Oil Production

[millions of barrels a day]

1970 4
1974 9
1980 10
1983 5
1985 4
1990 7
1996 9
2001 10
2006 11

These days, it doesn't look like any government is purposefully holding back on production, though some disruptions may be caused by civil unrest in places like Nigeria or Iraq.

4. There are two rationales for U.S. military action based on oil.

So if a government, of any stripe, wants to keep the oil flowing for the cash flow, and the oil production affects the global market, whether or not it's sold to the U.S., what is our strategic interest in maintaining governments in oil producing countries that are friendly to the United States? There are two possibilities:

a. We want governments that favor western oil companies and respect western investments.

Once the massive capital expenditure needed to bring an oil well into production is completed, the asset is a huge cash cow, and a foreign oil company remains at risk that the host government will expropriate the investment. Recently, we've seen variations on this theme in [Venezuela](#) and in [Russia](#). Historically, the U.S. has supported highly repressive governments -- Saudi Arabia and Equatorial Guinea come to mind -- that have favored U.S. oil company investments. However, there is not much precedent in recent times about the U.S. going to war because of a government nationalized U.S. investments.

b. Massive oil wealth in the wrong hands can accumulate power used for extortion against the rest of the world, or used against U.S. interests.

We have a clear-cut precedent that continues to shape U.S. policy: The use of oil as a weapon against Israel during the 1973 Yom Kippur War. Saudi Arabia and other Arab countries imposed an embargo against oil deliveries to the U.S. and the Netherlands after they extended support to Israel, causing supply disruptions and, through OPEC, causing the price of oil to [quadruple](#) within a period of months.

According to Alan Greenspan and other neocons, the invasion of Iraq was justified because Saddam Hussein had the wealth and power that came from his oil resources. The absence of WMD was not particularly relevant. He explained it all to [Charlie Rose](#) last September:

ALAN GREENSPAN: *I was not saying that the administration did not believe that there were weapons of mass destruction, and that was the motive for going to war. I have every reason to believe that that is, in fact, the case. They were wrong, obviously, but that was the motive.*

I was raising a different issue. To me, I always thought it was very important that Saddam Hussein be deposed.

CHARLIE ROSE: *But not because he was an evil tyrant, but because of what he could do with the oil weapon.*

ALAN GREENSPAN: *Absolutely. The problem basically was that if you looked at his history, he was clearly gravitating towards gaining control of all Middle East oil, specifically by finding a way to bottle up the Straits of Hormuz.*

CHARLIE ROSE: *But he had already been defeated in that effort. That is what the '91 war was about. He goes into Kuwait, and he talks about or he thinks or it was projected on him that he wanted to go to Saudi Arabia. In that case, you know, game over.*

ALAN GREENSPAN: *And he kept coming back and coming back and coming back. I mean, remember that there was no evidence, as far as I could see, that having been defeated in the first Gulf War...*

CHARLIE ROSE: *That he gave up ambition.*

ALAN GREENSPAN: *... that he gave up ambition. And the critical issue was I always suspected or thought fairly inevitable that he would be able to get one of the Soviet nuclear weapons, which I had said it`s inconceivable to me that during the chaos of the immediate fall of the Berlin Wall that they could protect all of those weapons.*

CHARLIE ROSE: *We believe they have.*

ALAN GREENSPAN: *Absolutely -- it looks to me as though they have, because if they hadn`t, somebody would have detonated one of those things -- some terrorist...*

CHARLIE ROSE: *Somebody would have sold it to somebody for a lot of money.*

ALAN GREENSPAN: *Yes. So that it always -- it was always my impression that he had, obviously a huge amount of cash. And that he would get a nuclear weapon, threaten all of his neighbors, blockade or control the Straits of Hormuz, and essentially blackmail the industrialized world. People do not realize in this country, for example, how tenuous our ties to international energy are. That is, we on a daily basis require continuous flow. If that flow is shut off, it causes catastrophic effects in the industrial world. And it's that which made him far more important to get out than bin Laden.*

As for the risk of nuclear weapons, the evidence showed [quite the opposite](#), and Greenspan's phrase, "if you looked at his history..." was a cheap rhetorical stunt. These days, every Republican is furiously invoking a "don't-blame-me" revisionism of the recent past.

But Greenspan's larger point is correct. Whatever McCain proposes, it will not change the strategic importance of the Middle East, in terms of global oil resources and in terms of a concentration of massive wealth, that can be used as a hammer to extort concessions against western allies. So in a very broad sense, the war in Iraq was about oil.

In the context of oil and in every other respect, the consequences the Iraq invasion have been devastating to our own interests. The ongoing civil war; the millions of refugees that crossed over to Syria, Jordan and elsewhere; the atrocities committed by Blackwater and other agents of the U.S. occupation; and the contempt we show for the Iraqi government, have all promoted radicalism in the region and increased the likelihood that oil will be used as a weapon against us.

Finally, McCain backtracked from his earlier statement with a separate [falsehood](#):

"The Congressional Record is very clear: I said we went to war in Iraq because of weapons of mass destruction."

In fact, McCain [advocated war](#) before the weapons inspectors were allowed to evaluate the evidence. So it was no surprise that Alan Greenspan publicly [endorsed](#) John McCain for president. And it was no surprise that [Andrea Mitchell](#) followed up by giving the senator a softball interview.