U.S. Foreign Oil Dependence

Issue Brief

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Defining the Issue

There is little doubt that the United States is dependent on foreign oil. Consuming a remarkably high rate of almost 21 million barrels of oil a day and domestically producing a relatively low rate of just under 7 million barrels of oil a day, the United States is forced to depend on foreign nations for nearly 66 percent of the oil it consumes (Energy Information Administration [EIA], 2007). And there is little argument that this dependence has presented strategic challenges. Over the past 70 years, U.S. dependence on foreign oil has been shown to affect the nation’s economy, help shape U.S. foreign policy, affect national security, and influence international relations. These are all major problems for a nation that glorifies independence. Today, the debate surrounding the issue lies in the extent to which foreign oil dependence is problematic and what steps should be taken by the United States government to help ease these problems.

Defining the Extent of the Issue

Throughout the past 35 years, U.S. dependence on foreign oil has been shown to affect the national economy. With diminishing control over major global oil production, the United States has been forced to submit to oil prices dictated by the global nature of the oil market. As a result, any number of current events in the world can influence the price of oil, which in turn disturbs gas prices, as well as the industries that depend on oil as their main source of energy (Kiernan, 2006). For example, as a result of the nearly 300 recent terrorist attacks on oil installations, an estimated 1 million barrels of oil a day have been taken off the market. However, if these oil supplies had contributed to the market, oil prices could have lowered by almost $20 per barrel (Luft, 2005). But according to former Federal Reserve Chairman Alan Greenspan, “the U.S. economy has been able to absorb the huge impact of rising oil prices with little consequence to date because it has become far more flexible over the past three decades” (as cited in Oil Dependence and Economic Risk, 2006, p. 4). Greenspan argues that despite slight price shocks that occur naturally, especially in the oil industry, deregulation and globalization have enabled the U.S. economy to absorb oil price shocks and then bounce back. But American consumers have still experienced the consequences of these slight price shocks. While gas currently costs Americans an average of $3.185 per gallon, energy prices rose 12% in September of 2005 alone, “contributing to the highest monthly consumer inflation rate in 25 years” (Oil Dependence and Foreign Policy, 2005, p. 5). Moreover, some estimates show that “27,000 jobs [are lost] for every billion dollars of additional oil imports” (America’s Oil Dependence, 2005, p. 9). Currently spending over $200,000 per minute on foreign oil, that nation as a whole also experiences an economic penalty: “including loss of jobs, output, and tax revenues, between $297 and $305 billion annually” (NRDC, 2004, para. 1, 14). Including the impact global affairs have on U.S. oil prices, the effect of import spending on the national economy, and the price the United States pays to maintain foreign supplies, U.S. foreign oil dependence has a fairly extensive impact on the economy.

But foreign oil dependence has never been simply an issue of dollars. Since the 1940’s, U.S. dependence on foreign oil and the desire to secure global oil control have helped shape U.S. foreign policy. This type of oil-conscious foreign policy was formalized by President Jimmy Carter in 1980, when he declared that America would use “any means necessary, including military force” to protect U.S. oil security from outside forces (Oil Dependence and U.S. Foreign Policy, 2005, p. 3). Despite more recent denials from U.S. Secretary of Defense Donald Rumsfeld and the Bush administration that the Iraq war “has nothing to do with oil, literally nothing to do with oil”, critics believe the war is simply a continuation of the strategy the U.S. government is using to maintain oil
security in the region (Haley, 2004, p. 9-10). And this foreign policy the United States is believed to have pursued due to foreign oil dependence has had an impact on many people. According to the Iraq Coalition Casualty Account, approximately 3,974 U.S. soldiers have died since the war began (2007). In just the past three years of the war, over 28,000 Iraqi civilians and security forces have been killed. Furthermore, large sums of American tax dollars go towards funding the war in Iraq. Based upon estimates from the Congressional Budget Office, the National Priorities Project has recorded the costs to finance the war in Iraq to be over $500 billion, which is modest compared to some estimates of upwards to $1.2 trillion (National Priorities Project, 2008). Besides influencing military actions, U.S foreign oil dependence is also shown to affect U.S. foreign policy in that it discourages the U.S. from maintaining consistency with its primary foreign policy of bringing democracy and political reform to unstable nations. In testimony before the Senate Foreign Relations Committee, executive director of the Institute for the Analysis of Global Security Dr. Gal Luft (2005) reported that “only last month the Bush Administration waived sanctions against Saudi Arabia, Kuwait and Ecuador, three of the world’s worst offenders in human trafficking... In the global contest for oil the U.S. loses ground as a result of its pressure for government reform” (America’s Oil Dependence, 2005, p. 4). These recent events in U.S. foreign policy suggest that if nothing is done to alter the current dependence on foreign oil, U.S. foreign policy will be continue to be influenced by a desire for oil security in the future.

In more recent years, U.S. dependence on foreign oil has also been shown to disturb national security. In 1979, sixty-six American citizens were taken hostage and held captive for 444 days by Iranian militants (Farber, 2006). This was the first time U.S. national security was threatened due to conflict over oil, and it was threatened again on September 11, 2001, when al-Qaeda-motivated terrorists hijacked commercial airplanes and crashed into the World Trade Center’s towers and the Pentagon, killing 2,996 American citizens (Project 2,996, 2007). Though this devastating act of terrorism was committed as part of a political and religious war, it was also part of an ongoing economic war. Osama bin Laden and his followers have stated many times that they want to go after the U.S. economy, and they have also admitted that the best way to do this is to attack oil. “They realize that when they blow up a pipeline in Iraq or in Sudan or anywhere in the world, this translates immediately into a price rise in all the markets” (Luft, 2005, p. 2). Although U.S. dependence on foreign oil has not directly impacted national security, anti-American sentiments resulting from conflicts over oil, coupled with the manipulation of U.S. foreign oil dependence, have had an effect on national security.

In recent affairs, U.S. international relations and politics have also been influenced by foreign oil dependence. Due to its growing economy and population, China is rapidly becoming more and more dependent on oil. As a result, the nation is trying to gain political and economic control in the Middle East through oil-driven foreign policy, which presents challenges to oil security for the United States. Furthermore, China’s desire to secure oil control has proven to override its necessity for diplomacy. Despite U.S. and European efforts to mitigate Iran’s nuclear program, in 2004, China and Iran entered a $70 billion natural gas deal, so “China announced that it will block any effort to impose sanctions against Iran in the UN Security Council” (America’s Oil Dependence, 2005, p. 3) The United States experienced similar definitive, oil-motivated reactions from China during efforts to condemn the murder of hundreds of demonstrators in Uzbekistan and impress sanctions on Sudan regarding the issue of Darfur. According to Dr. Gal Luft (2005), “China has been a leading force in calling for the United States to remove all its military forces from Central Asia” (Luft, 2005, p. 3). These recent developments in the topic of U.S. dependence on foreign oil have been shown to affect international relations in new ways and present extensive and unexpected challenges for the United States.
Today, U.S. dependence on foreign oil is much more significant and much more complicated than it was when the United States initially extended foreign oil trade agreements. Analysis of the situation indicates that the extent of the issue will simply magnify in the years to come. Energy Information Administration predictions show that by 2025, “the U.S. is projected to consume 28.3 million barrels a day”, with dependence on foreign oil reaching 70 percent (as cited in NRDC, 2004, para. 10). If nothing is done to change the status quo, foreign oil dependence could continue to influence the economy, shape foreign policy, threaten national security, and adversely affect international affairs.

Defining the Issue as Public Policy

U.S. dependence on foreign oil is not an issue that the United States government can afford to ignore. There are many foreign policy and economic consequences of the issue that directly affect the American people. U.S. foreign oil dependence is a public policy issue that requires immediate government attention. More and more, “the cost of living, including the cost of gasoline and everything made and transported with petroleum, continues to grow faster than incomes”, which translates to money being taken out of the pocketbooks of low-income and medium-income American families (Oil Dependence and Economic Risk, 2006, p. 6) It is the average American who feels the absorption of the oil price shocks in the economy on a daily basis, but this could be limited with government intervention. Government action could also lessen the fear of anti-American terrorist acts, which results from continued dependence on unstable nations for oil. Since ‘only three of the world’s ten largest oil producers are democracies and only 9 percent of the world’s proven oil reserves are in the hands of countries ranked free by Freedom House’, many of the United States’ oil-supplying nations are in the midst of political turmoil and unrest (America’s Oil Dependence, 2005, p. 4). As foreign oil dependence continues to occur, it becomes an enhanced issue of public concern and safety. U.S. reliance on foreign oil not only presents many challenges for the government and economy, but also as a public policy issue, foreign oil dependence has negative implications for the average American consumer, as well as for the wellbeing of American citizens. Though past reforms have been unsuccessful in attempts to curb U.S. foreign oil dependence, government action and appropriate spending is still essential.

The History of the Debate

Throughout the second half of the 19th century and the beginning of the 20th century, the United States reigned as the chief oil producer for the world, producing “between 60 and 70 percent of the world’s oil supply...up until 1910” (Digital History, 2008, para. 5). During this period, as the primary exporter of oil, the U.S. began to establish oil trading relationships with foreign nations. But public concern was raised in 1956, when geologist M. King Hubbert predicted that U.S. domestic oil production would peak in the 1970s (Deffeyes, 2001, p. 14). Politicians, “convinced that the security of the U.S. economy would someday hinge on a steady and cheap supply of foreign oil”, began to develop a foreign policy that would ensure U.S. oil security (Haley, 2004, p. 10). U.S. dependence on foreign oil was beginning to become a topic that politicians and public officials were aware of, but at this point, it was not a pressing issue of concern. In 1970 though, Hubbert’s prediction was proved correct when the United State’s domestic oil production peaked at approximately 11.3 million barrels of crude oil per day (EIA, 2007, p. 25). Foreign oil imports skyrocketed to nearly 7 million barrels of oil per day, and domestic production dropped to almost 8 million barrels of oil a day (The Heritage Foundation, 2008). From 1971 onwards, U.S. dependence on foreign oil was an issue. And in 1973, U.S. dependence on foreign oil became a pressing issue.
and daily topic of political debate. "From October 1973 to January 1974, a boycott on oil sales to the United States was imposed by the Organization of Petroleum Exporting Countries (OPEC) in retaliation against U.S. support for Israel's October 6, 1973, invasion of Egypt and Syria" (Haley, 2004, p. 11). The U.S. economy took a huge hit with soaring oil prices, painfully long lines at the gas pump, and high economic inflation. The American people were forced to face the consequences of dependence on foreign oil, and a cloud of fear for oil security has hung over America ever since, influencing the development of the issue.

**Key Events**

- **1945** President Franklin D. Roosevelt makes the first official agreement for an oil exchange with Saudi Arabia, promising to "protect the kingdom in return for special access to Saudi oil" (*Oil Dependence and U.S. Foreign Policy, 2005, p. 3*)
- **1960** The Organization of Petroleum Exporting Countries (OPEC) is established in order to enhance control over world oil prices. (Randall, 2005, p. 271)
- **1970** United States domestic oil production peaks at 11.3 million barrels per day
- **1960-1975** U.S. energy consumption doubles, and reliance on imports increases from 23 percent to 39 percent (Randall, 2005)
- **1973** The OPEC oil embargo causes an "oil shock", in which oil prices shoot up from $5.12 a barrel to $11.65 a barrel in just four months, with long-lasting effects on the economy, including high unemployment, extensive inflation, and eventual contribution to a major recession (Haley, 2004, p. 11)
- **1974** President Richard Nixon establishes "Project Independence" with the goal of eventual achievement of complete oil independence from foreign nations (Randall, 2005)
- **1975** President Gerald Ford signs the Energy Policy and Conservation Act, establishes the Strategic Petroleum Reserve, and approves the regulation of oil prices (Randall, 2005)
- **1977** President Jimmy Carter signs the National Energy Act to establish a favorable tax environment that will encourage the research and development of domestic and alternative energy sources
- **1979** Sixty-six American citizens are taken hostage at the U.S. Embassy by Iranian militants and are held hostage for 444 days (Farber, 2006)
- **1979** United States enforces a ban on Iranian imports
- **1980** President Ronald Reagan signs the Energy Security Act
- **1990** President George H.W. Bush sends troops to Saudi Arabia in response to Saddam Hussein's Iraqi invasion of Kuwait, leading to the Gulf War
- **September 11, 2001** al-Qaeda-inspired terrorists fly hijacked planes into the two towers of the World Trade Center and Pentagon, a fourth plane crashing in Pennsylvania
- **2003** President George W. Bush invades Iraq to remove Saddam Hussein and his regime (Randall, 2005)
- **2007** President Bush issues the Energy Independence and Security Act of 2007 in efforts to reduce domestic energy consumption
- **January 2008** Crude oil prices hit record high of $100 per barrel

**Recent Trends**

Recent trends in data show an increase in U.S. foreign oil dependence, an increase in awareness and concern about the situation, and growing pressure to resolve the issue. According to the EIA, when United States domestic oil production reached its peak in 1970 at 11.3 million barrels per day, foreign oil imports rested at 3.2 million barrels per day. But by 1996, net imports surpassed domestic production, and by 2006, the U.S. produced just 6.9 million barrels per day, while importing 12.3 million barrels per day (EIA, 2007, p. 25). Furthermore, in 1973, the U.S. was only
30 percent dependent on foreign oil, today is almost 66 percent dependent, and is projected to becomes 70 percent dependent by 2025 (America’s Oil Dependence, 2005). Data supplied by the EIA shows that even though the United States was not always reliant on foreign oil, the past 45 years represent a period of increased dependence on foreign nations for oil supplies (Figure 1).

![Figure 1: US Oil Production and Foreign Oil Imports](source)

Source: The Energy Information Administration (as cited from The Heritage Foundation, 2008)

The number of dollars involved in the situation has also grown as foreign oil dependence has increased. In 2001, a barrel of oil was selling for $18. In less than four years, that price jumped to $70. Today that price has spiked at $100. In addition, the American Petroleum Institute reported that “from 2002 to 2005, profits for major oil companies more than quadrupled to almost $140 billion a year. But the really big winners are the oil-producing countries. In 2005, their oil revenues exceeded $750 billion, up from $300 billion in 2002” (as cited in Samuelson, 2006, para. 4). Oil prices have increased over time, as have oil industry incomes, illustrating the inflation of foreign oil dependence.

The effects of foreign oil dependence have also become enhanced over time. “As recently as four years ago, spare production capacity exceeded world consumption by about 10 percent. As world demand for oil has rapidly increased in the last few years, spare capacity has declined to less than 2 percent” (Oil Dependence and Economic Risk, 2006, p. 2). The decrease in the cushion between supply and demand has permitted a trend towards increasing capability of current events to affect the market. This can be seen through the analysis of oil price history, which shows a strong correlation between the dates of increases and peaks in crude oil prices and the dates of major catastrophic global events, especially events in the Middle East (Figure 2). The trend towards decreasing flexibility of oil supply puts the U.S. in a risky situation and puts even greater pressure on the U.S. government to resolve the issue.

![Figure 2](source)
Public opinion polls currently show that "over 90 percent of Americans view our energy dependence as a serious issue that needs to be addressed with urgency" (America's Oil Dependence, 2005, p. 7). There has also been a drastic increase in news coverage of U.S. foreign oil dependence from the 1950s to the present. These trends reflect the growth of public concern regarding foreign oil dependence, and predictions show that sentiments towards the issue will escalate more in the future.

Increased dependence, growing costs, decreasing flexibility in the global market, and increased public awareness all illustrate the intensification of the issue of U.S. foreign oil dependence over time. But this extent of escalation has not simply occurred on its own. Many nations, governments, companies and concerned organizations have influenced these trends.

**Key Stakeholders and Other Players**

The key stakeholders in the issue of U.S. foreign oil dependence have always been the United States and its oil-supplying nations. As chief oil supplier to the United States, Canada provides 17 percent of the oil imported into the U.S. and 11 percent of the total oil consumed by the U.S. Just behind Canada, Mexico supplies 13.2 percent of U.S. oil imports (EIA, 2008a, b). The other three top five U.S. oil-supplying nations are Saudi Arabia, Venezuela and Nigeria, each providing 10.7 percent, 10.4 percent, and 8.1 percent of U.S. oil imports, respectively. These five nations have a major stake in the United States' dependence on foreign oil, and despite U.S. reliance on their goods, these nations are also dependent on the United States' consumption. Of these nations, Saudi Arabia, Venezuela and Nigeria, in addition to Iraq, Algeria, Angola and many others, make up the OPEC nations, which have a major influence on oil price settings and accumulatively supply 40 percent of U.S. foreign imports (EIA, 2008a). Since their formation as a group in 1960, the OPEC nations have consistently dictated U.S. economic consequences of foreign oil dependence and have had a major hand in the development of the situation. In addition to the OPEC nations, the United States Congress, especially the Senate Foreign Relations Committee, and the U.S. Presidents from 1969 to the present have had a major influence over the development of the issue. These presidents, Nixon, Ford, Carter, Reagan, George H.W. Bush, Clinton and George W. Bush, and their congresses have passed laws, enforced regulations, dealt with oil-related crises, and implemented foreign policies that have established the extent of our current state of affairs in oil security. Their successes and failures as defenders of United States security have shaped the issue and produced the recent trends that are seen in foreign oil dependence. But besides these key stakeholders primarily consisting of
governments, other players in the issue include oil lobbyists, who influence the motivation for oil politics in Washington, the Seven Sisters oil companies, which have consistently provoked dependence on oil since before foreign oil reliance became an issue, and the U.S. military, which has gotten involved in the issue many times when ordered by the executive branch to use military force to ensure oil security in unstable regions. These key stakeholders and players in the issue have all provoked, shaped, and been affected by U.S. dependence on foreign oil, and they will continue to do so as they witness the growth of foreign oil dependence in the future.

The Future of the Issue

Predictions from the Energy Information Administration show that U.S. dependence on foreign oil is expected to escalate to 70 percent by 2025 (America's Oil Dependence, 2005). In the next thirty to fifty years, U.S. dependence on foreign oil will increase, as will its impacts on the economy, foreign policy, national security, and international relations. But the future state of foreign oil dependence will not be simply a magnification of the status quo.

There are many dynamics of the issue of U.S. foreign oil dependence that are just now beginning to be realized and will prove to have an influence on the future of the situation. China's increasing dependence on the Persian Gulf for oil, and thus its increasing involvement in the Middle East, is already starting to contribute to oil security challenges that the United States must confront. China recently signed very large trade agreements with unstable Middle Eastern countries, which will not only have implications of hurting U.S. oil security in the Persian Gulf region, but will also have implications of hindering U.S. geopolitical posture. Dr. Gal Luft (2005) testified before the Senate:

> Dictators who view democracy with suspicion don't like to be pressured to reform especially when U.S. pressure can bring an end to their regimes. They much more prefer selling their oil to countries which turn a blind eye to the way petrodollars are used and who are willing to pay top dollars for oil and not lecture to them on democracy and human rights (America's Oil Dependence, p. 4).

Essentially, as China's involvement in the global oil markets increases, there will very likely be an increase in the way in which international affairs are handled because China will work in accordance with the dictatorship nations that supply a majority of the world's oil, regardless of inhumane acts committed at a global level. This will have even an even broader influence on the issue of foreign oil dependence in the future as global dependence on the Middle East increases. By 2025, the global demand for oil is expected to increase by 33 percent (Securing America's Future Energy, n. date, p. 2). With more than 66 percent of the world's proved oil reserves, the Middle East is expected to account for 54 to 67 percent of U.S. foreign oil imports by the year 2020 (Randall, 2005). This increase in dependence on the Middle East is due to the fact "that reserves outside of the Middle East are being depleted at a much faster rate than those in the region. The overall reserves-to-production ratio outside of the Middle East is about 15 years comparing to roughly 80 years in the Middle East" (America's Oil Dependence, 2005, p. 1). In addition to the growing influence of China and an increase in Middle Eastern dependence, the future of U.S. foreign oil dependence will see an increase in alternative energy sources as solutions to the problem are developed.
Given the current extent of the issue and the challenges it presents for the United States, the prediction of a heightened magnitude of U.S. dependence on foreign oil in the future requires some degree of change in the status quo. Many policymakers have suggested solutions. Some advisors suggest a diversification of oil sources to more stable nations, which will not reduce the influence of Middle Eastern affairs on the price of oil, but should lessen U.S. involvement in the unstable region. Decreased consumption is obviously strongly encouraged, which policymakers believe should be supported by Congress with the establishment of concrete national goals. There are suggestions that this can be done by targeting the transportation industry since "passenger cars, minivans, SUVs and light trucks account for almost 50% of U.S. oil demand" (Oil Dependence and U.S. Foreign Policy, 2005, p. 7). Raising fuel economy standards and developing more efficient fuels would dramatically decrease foreign oil dependence. Policymakers also suggest an increase in alternative energy sources, emphasizing the biofuels industry and hybrid cars to make a difference in the transportation sector. According to Dr. Gal Luft, "if a plug-in vehicle [were] also a flexible fuel vehicle fueled with 80% alcohol and 20% gasoline, fuel economy could reach 500 miles per gallon of gasoline compared to 22 today" (America's Oil Dependence, 2005, p. 7). With the implementation of many of these possible solutions to U.S. foreign oil dependence, the future of the issue will not be nearly as dark as it is currently predicted to be.

If none of these solutions to resolving the issue of U.S. foreign oil dependence are adopted, though, there are implications of further conflicts in the Middle East, enhanced issues of national security, a weaker economy, and a greater impact on international relations. At this point, it is up to the United States government to take initiative, encourage other oil-dependent nations to do the same, and take steps towards resolving the issue of U.S. dependence on foreign oil.
Works Cited


