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Washington Wields the Oil Weapon

By Tom Engelhardt

October 9, 2014

You remember. It was the oiliest of administrations. The president was a (failed) West Texas oilman. The vice-president had been the CEO of the giant oil field services company, Halliburton, and before taking office, when speaking at the Petroleum Institute and elsewhere, was known to say things like, "The Middle East, with two-thirds of the world's oil and the lowest cost, is still where the prize ultimately lies." The national security adviser, Condoleezza Rice, long on the board of Chevron, had a double-hulled oil tanker named for her. They were a crew with the global flow of oil and how to control it on the brain. Just in case you forgot, and I know you haven't, the new vice president had barely taken office and set up an "energy task force" to develop future policy that he himself would chair when a parade of top oil executives began arriving at the White House to meet secretly with it.

And then, after 9/11, came the assault on the oil heartlands of the planet. I'm sure you remember how, amid the chaos of a burning Baghdad, American troops were ordered to guard only the buildings of Iraq's Oil and Interior Ministries, and… well, I don't really have to review all of that for you, do I? Then, of course, Americans put into office the guy who swore he was going to end oil wars and attend to our global warming future instead – a fellow named Barack Obama who, everyone knew, would step into office without an oil slick in his head.

That was then and this is now. The Barack Obama of 2014 is essentially running a drill-baby-drill White House in a country where oil consumption is actually rising. His administration has been opening up ever more coastal areas to exploration and drilling from the East to the Arctic waters of Alaska, while encouraging the creation of a "Saudi America" in the American frack lands. The result: a torrent of crude oil and natural gas and something else as well, as Michael Klare, TomDispatch's indispensable energy expert, points out today. Buoyed by the country's new energy wealth, our president has been putting oil to work abroad. He has been using energy as the spear of his already highly militarized foreign policy. The result has been a sophisticated weaponization of oil that puts the energy mavens of the Bush administration to shame. But let Klare tell you the whole grim tale. ~ *Tom*

Obama's New Oil Wars: Washington Takes on ISIS, Iran, and Russia
By Michael T. Klare

It was heinous. It was underhanded. It was beyond the bounds of international morality. It was an attack on the American way of life. It was what you might expect from unscrupulous Arabs. It was "the oil weapon" – and back in 1973, it was directed at the United States. Skip ahead four decades and it's smart, it's effective, and it's the American way. The Obama administration has appropriated it as a major tool of foreign policy, a new way to go to war with nations it considers hostile without relying on planes, missiles, and troops. It is, of course, that very same oil weapon.

Until recently, the use of the term "the oil weapon" has largely been identified with the efforts of Arab producers to dissuade the United States from supporting Israel by cutting off the flow of petroleum. The most memorable example of its use was the embargo imposed by Arab members of the Organization of the Petroleum Exporting Countries (OPEC) on oil exports to the United States during the Arab-Israeli war of 1973, causing scarcity in the U.S., long lines at American filling stations, and a global economic recession.

After suffering enormously from that embargo, Washington took a number of steps to disarm the oil weapon and prevent its reuse. These included an increased emphasis on domestic oil production and the establishment of a mutual aid arrangement overseen by the International Energy Agency (IEA) that obliged participating nations to share their oil with any member state subjected to an embargo.

So consider it a surprising reversal that, having tested out the oil weapon against Saddam Hussein's Iraq with devastating effect back in the 1990s, Washington is now the key country brandishing that same weapon, using trade sanctions and other means to curb the exports of energy-producing states it categorizes as hostile. The Obama administration has taken this aggressive path even at the risk of curtailing global energy supplies.

When first employed, the oil weapon was intended to exploit the industrial world's heavy dependence on petroleum imports from the Middle East. Over time, however, those producing countries became ever more dependent on oil revenues to finance their governments and enrich their citizens. Washington now seeks to exploit this by selectively denying access to world oil markets, whether through sanctions or the use of force, and so depriving hostile producing powers of operating revenues.

The most dramatic instance of this came on September 23rd, when American aircraft bombed refineries and other oil installations in areas of Syria controlled by the Islamic State of Iraq and Syria (ISIS, also known as ISIL or IS). An extremist insurgent movement that has declared a new "caliphate," ISIS is not, of course, a major oil producer, but it has taken control of oil fields and refineries that once were operated by the regime of Bashar al-Assad in eastern Syria. The revenue generated by these fields, reportedly $1 to $2 million daily, is being used by ISIS to generate a significant share of its operating expenses. This has given that movement the wherewithal to finance the further recruitment and support of thousands of foreign fighters, even as it sustains a high tempo of combat operations.

Black-market dealers in Iran, Iraq, Syria, and Turkey have evidently been assisting ISIS in this effort, purchasing the crude at a discount and selling at global market rates, now hovering at about $90 per barrel. Ironically, this clandestine export network was initially established in the 1990s by Saddam Hussein's regime to evade U.S. sanctions on Iraq.

The Islamic State has proven adept indeed at exploiting the fields under its control, even selling the oil to agents of opposing forces, including the Assad regime. To stop this flow, Washington launched what is planned to be a long-term air campaign against those fields and their associated infrastructure. By bombing them, President Obama evidently hopes to curtail the movement's export earnings and thereby diminish its combat capabilities. These strikes, he declared in announcing the bombing campaign, are intended to "take out terrorist targets" and "cut off ISIL's financing."

It is too early to assess the impact of the air strikes on ISIS's capacity to pump and sell oil. However, since the movement has been producing only about 80,000 barrels per day (roughly 1/1,000th of worldwide oil consumption), the attacks, if successful, are not expected to have any significant impact on a global market already increasingly glutted, in part because of an explosion of drilling in that "new Saudi Arabia," the United States.

As it happens, though, the Obama administration is also wielding the oil weapon against two of the world's leading producers, Iran and Russia. These efforts, which include embargoes and trade sanctions, are likely to have a far greater impact on world output, reflecting White House confidence that, in the pursuit of U.S. strategic interests, anything goes.

Fighting the Iranians

In the case of Iran, Washington has moved aggressively to curtail Tehran's ability to finance its extensive nuclear program both by blocking its access to Western oil-drilling technology and by curbing its export sales. Under the Iran Sanctions Act, foreign firms that invest in the Iranian oil industry are barred from access to U.S. financial markets and subject to other penalties. In addition, the Obama administration has put immense pressure on major oil-importing countries, including China, India, South Korea, and the European powers, to reduce or eliminate their purchases from Iran.

These measures, which involve tough restrictions on financial transactions related to Iranian oil exports, have had a significant impact on that country's oil output. By some estimates, those exports have fallen by one million barrels per day, which also represents a significant contraction in global supplies. As a result, Iran's income from oil exports is estimated to have fallen from $118 billion in 2011-2012 to $56 billion in 2013-2014, while pinching ordinary Iranians in a multitude of ways.

In earlier times, when global oil supplies were tight, a daily loss of one million barrels would have meant widespread scarcity and a possible global recession. The Obama administration, however, assumes that only Iran is likely to suffer in the present situation. Credit this mainly to the recent upsurge in North American energy production (largely achieved through the use of hydro-fracking to extract oil and natural gas from buried shale deposits) and the increased availability of crude from other non-OPEC sources. According to the most recent data from the Department of Energy (DoE), U.S. crude output rose from 5.7 million barrels per day in 2011 to 8.4 million barrels in the second quarter of 2014, a remarkable 47% gain. And this is to be no flash in the pan. The DoE predicts that domestic output will rise to some 9.6 million barrels per day in 2020, putting the U.S. back in the top league of global producers.

For the Obama administration, the results of this are clear. Not only will American reliance on imported oil be significantly reduced, but with the U.S. absorbing ever less of the non-domestic supply, import-dependent countries like India, Japan, China, and South Korea should be able to satisfy their needs even if Iranian energy production keeps falling. As a result, Washington has been able to secure greater cooperation from such countries in observing the Iranian sanctions – something they would no doubt have been reluctant to do if global supplies were less abundant.

There is another factor, no less crucial, in the aggressive use of the oil weapon as an essential element of foreign policy. The increase in domestic crude output has imbued American leaders with a new sense of energy omnipotence, allowing them to contemplate the decline in Iranian exports without trepidation. In an April 2013 speech at Columbia University, Tom Donilon, then Obama's national security adviser, publicly expressed this outlook with particular force. "America's new energy posture allows us to engage from a position of greater strength," he avowed. "Increasing U.S. energy supplies act as a cushion that helps reduce our vulnerability to global supply disruptions and price shocks. It also affords us a stronger hand in pursuing and implementing our international security goals."

This "stronger hand," he made clear, was reflected in U.S. dealings with Iran. To put pressure on Tehran, he noted, "The United States engaged in tireless diplomacy to persuade consuming nations to end or significantly reduce their consumption of Iranian oil." At the same time, "the substantial increase in oil production in the United States and elsewhere meant that international sanctions and U.S. and allied efforts could remove over 1 million barrels per day of Iranian oil while minimizing the burdens on the rest of the world." It was this happy circumstance, he suggested, that had forced Iran to the negotiating table.

Fighting Vladimir Putin

The same outlook apparently governs U.S. policy toward Russia.

Prior to Russia's seizure of Crimea and its covert intervention in eastern Ukraine, major Western oil companies, including BP, Chevron, ExxonMobil, and Total of France, were pursuing elaborate plans to begin production in Russian-controlled sectors of the Black Sea and the Arctic Ocean, mainly in collaboration with state-owned or state-controlled firms like Gazprom and Rosneft. There were, for instance, a number of expansive joint ventures between Exxon and Rosneft to drill in those energy-rich waters.

"These agreements," Rex Tillerson, the CEO of Exxon, said proudly in 2012 on inking the deal, "are important milestones in this strategic relationship… Our focus now will move to technical planning and execution of safe and environmentally responsible exploration activities with the goal of developing significant new energy supplies to meet growing global demand." Seen as a boon for American energy corporations and the oil-dependent global economy, these and similar endeavors were largely welcomed by U.S. officials.

Such collaborations between U.S. companies and Russian state enterprises were then viewed as conferring significant benefits on both sides. Exxon and other Western companies were being given access to vast new reserves – a powerful lure at a time when many of their existing fields in other parts of the world were in decline. For the Russians, who were also facing significant declines in their existing fields, access to advanced Western drilling technology offered the promise of exploiting otherwise difficult-to-reach areas in the Arctic and "tough" drilling environments elsewhere.

Not surprisingly, key figures on both sides have sought to insulate these arrangements from the new sanctions being imposed on Russia in response to its incursions in Ukraine. Tillerson, in particular, has sought to persuade U.S. leaders to exempt its deals with Rosneft from any such measures. "Our views are being heard at the highest levels," he indicated in June.

As a result of such pressures, Russian energy companies were not covered in the first round of U.S. sanctions imposed on various firms and individuals. After Russia intervened in eastern Ukraine, however, the White House moved on to tougher sanctions, including measures aimed at the energy sector. On September 12th, the Treasury Department announced that it was imposing strict constraints on the transfer of U.S. technology to Rosneft, Gazprom, and other Russian firms for the purpose of drilling in the Arctic. These measures, the department noted, "will impede Russia's ability to develop so-called frontier or unconventional oil resources, areas in which Russian firms are heavily dependent on U.S. and western technology."

The impact of these new measures cannot yet be assessed. Russian officials scoffed at them, insisting that their companies will proceed in the Arctic anyway. Nevertheless, Obama's decision to target their drilling efforts represents a dramatic turn in U.S. policy, risking a future contraction in global oil supplies if Russian companies prove unable to offset declines at their existing fields.

The New Weapon of Choice

As these recent developments indicate, the Obama administration has come to view the oil weapon as a valuable tool of power and influence. It appears, in fact, that Washington may be in the process of replacing the threat of invasion or, as with the Soviet Union in the Cold War era, nuclear attack, as its favored response to what it views as overseas provocation. (Not surprisingly, the Russians look on the Ukrainian crisis, which is taking place on their border, in quite a different light.) Whereas full-scale U.S. military action – that is, anything beyond air strikes, drone attacks, and the sending in of special ops forces – seems unlikely in the current political environment, top officials in the Obama administration clearly believe that oil combat is an effective and acceptable means of coercion – so long, of course, as it remains in American hands.

That Washington is prepared to move in this direction reflects not only the recent surge in U.S. crude oil output, but also a sense that energy, in this time of globalization, constitutes a strategic asset of unparalleled importance. To control oil flows across the planet and deny market access to recalcitrant producers is increasingly a major objective of American foreign policy.

Yet, given Washington's lack of success when using direct military force in these last years, it remains an open question whether the oil weapon will, in the end, prove any more satisfactory in offering strategic advantage to the United States. The Iranians, for instance, have indeed come to the negotiating table, but a favorable outcome on the nuclear talks there appears increasingly remote; with or without oil, ISIS continues to score battlefield victories; and Moscow displays no inclination to end its involvement in Ukraine. Nonetheless, in the absence of other credible options, President Obama and his key officials seem determined to wield the oil weapon.

As with any application of force, however, use of the oil weapon entails substantial risk. For one thing, despite the rise in domestic crude production, the U.S. will remain dependent on oil imports for the foreseeable future and so could still suffer if other countries were to deny it exports. More significant is the possibility that this new version of the oil wars Washington has been fighting since the 1990s could someday result in a genuine contraction in global supplies, driving prices skyward and so threatening the health of the U.S. economy. And who's to say that, seeing Washington's growing reliance on aggressive oil tactics to impose its sway, other countries won't find their own innovative ways to wield the oil weapon to their advantage and to Washington's ultimate detriment?

As with the introduction of drones, the United States now enjoys a temporary advantage in energy warfare. By unleashing such weapons on the world, however, it only ensures that others will seek to match our advantage and turn it against us.