

THE ARABIAN PENINSULA: WHY ARE WE THERE?

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"I stood on a rocky beach south of Khor Fakkan, in gray dusk, staring at a string of lights, evenly spaced about a kilometer apart, points of light streaming into the Indian Ocean darkness. Global peace and prosperity is decidedly tenuous, controlled as it is by these pearl necklaces of oil tankers gliding south on endless sea waves from the Arabian Gulf to assuage the ravenous thirst of the western world. I pitched a smooth gray alumina-stone into the Gulf of Oman shore drift, not foreseeing the imminent Kuwaiti invasion in my mind, only our lifeline, drifting on the sea" (from Khor Fakkan, L. C. Gerhard, August 1990).

There may be many reasons for hundreds of thousands of United States and other friendly nations' soldiers to be massed in northern Saudi Arabia. Some say that justice and world order demand that the Iraqis be forced from lands gained by aggression. Others recoil from the terrorist threats of chemical and biological warfare, travesties of human order that the Iraqis have not only employed, but directed against their own people. Potential nuclear warfare capability is yet another reason the world presses towards war with Iraq.

None of these are the reason that we, the United States of America, have our army in the Saudi desert. We are there to save the global economy, to save our economy from control by a single madman who cares little for pain and suffering of others. We are there simply because all Americans, even those who protest against the threatened use of force, even those who rail against the slightest degrading of the physical environment, use too much energy. Too much energy means too much oil. More than we own, more than we need to use. We are there simply to protect our and the western world's supply of oil. Period.

My argument transcends partisan politics, since continuous federal energy policy has been to create cheap energy, dating from early damming of rivers for hydroelectricity and encouraging of importation of foreign oil to the ruin of domestic producers as early as 1930.

All of us are to blame for the loneliness of hundreds of thousands of Americans dressed in battle fatigues in a strange land. Not our government of today, it is

our people of today, all of us, who must singly reconcile our unwillingness to pay our fair share of environmental costs, of taxes, of decreased independence of transportation. As former Secretary of the Interior and self-proclaimed "unreconstructed liberal democrat" Stuart Udall recently stated, "the interstate highway system may have been the greatest mistake the federal government has ever made." We did not look forward to the necessary energy sources to operate a single vehicle transportation net for the country. Our credo of one person, one car, cannot be supported by our energy resource base.

How does our demand for oil reflect itself in armies on the Arabian Peninsula? The United States is the largest consumer and importer of oil in the world, using about 17 million barrels of oil a day, of which nearly half is imported. Before the Kuwait invasion, we were importing over 50% of our oil. This means that about 8.5 million barrels a day came from non-U.S. sources, much of it from the Arabian Gulf region (note, please, use of the term "Persian Gulf" is an affront to the people of the region who are not Iranians).

Global oil production is about 64 million barrels per day. Of that, about 16.5 million barrels comes from the Middle East. Probably more than 50% of the world's reserves of oil are in the Middle East. The Middle East is the only region with substantially greater potential to produce more oil. Placed into a previously developed scenario (Fig. 1), non-Arabian Peninsula global oil production has peaked and is forecast to be falling off, at a .9% rate. The United States leads the global decline, having lost nearly 2 million barrels per day of domestic production through normal declines between 1985 and 1990, about 22% of its earlier production. Global production is forecast to peak at about 68 million barrels per day, although that forecast was before the Iraqi invasion of Kuwait and the consequent additional development of reserves in other countries and new infrastructure construction.

On the other hand, I have forecast a continuing 1.5% global annual increase in demand, which has been exceeded in each of the last two years. I assume that this trend will continue but will not accelerate unless external forces (supply interruptions, great price increases) mitigate demand.

If the total decline and demand increase are summed and compared to production, as plotted in Figure 1, it is clear that global supply and demand will be equal in late 1992, leading not to shortages, but to price stability at a moderate level, barring artificial manipulation of the price. If the global decline does not occur, but demand increases and global production stabilizes at about 68 million barrels per day, then the balance of supply and demand occurs in 1995.

My point is simply this: without the Kuwait/Iraqi problem, the global supply is becoming short and will soon balance supply anyway. No large amount of "extra oil" is available. Therefore, whoever controls a significant amount of oil may control the world market, and through that control, the economies of importing countries. Read "United States of America" here. Read "Western Europe" here. Read "Japan" here.

Back to Iraq: When President Bush ordered our army to Saudi Arabia, Iraq had conquered Kuwait and had placed its army on the Saudi Arabian border in position to invade. Saudi Arabia now produces about 8 million barrels of oil per day, the U.A.E., Bahrain, Qatar, and Oman produce about 3 million barrels. Totalling the Iraq-Kuwait 4 million barrels into our sum, control of the Arabian Peninsula spells control over 15 million barrels of oil a day, nearly 25% of the global consumption. That would mean total control of the U.S. economy by one madman. Our national security requires defense of the oil resource from unfriendly forces. Simply that. That's why we are there.

Let's continue to explore why we are in that position, and what the declining domestic industry means to Kansas in particular. Oil happens to be the easiest energy source to transport and use. It, with natural gas, is the most environmentally benign of the significant energy sources. Consequently, we use 8.5 million barrels per day in the United States simply for transportation fuel: gasoline, diesel, and jet fuel. That is over half of our current daily use of oil. Fundamentally, that is why we are in an energy jam and close to war. While the U. S. resource declines (Fig. 2), the domestic petroleum industry is unable to respond as it did in the 1970's, for a variety of federal and state policy reasons, which are not the subject of this discussion .

Kansas oil and natural gas liquids production peaked in 1984 at a little over 90 million barrels for the year. That same year, Kansas people consumed 141 million barrels. Surprise! Kansas is a net importer of petroleum liquids. There were over 15,460 people employed in the petroleum extraction industry. Severance and production taxes paid in the state were over \$243 million.

By 1989, Kansas production was down to 71 million barrels of liquids produced, demand was down to 91 million barrels, and employment was down to 8,141. Severance and production taxes were about \$171 million. There is a lesson in economics here. During a time of increasing national needs, federal energy policy has caused loss of over 7000 Kansas jobs and \$70 million in direct Kansas tax revenues (not counting the loss of income to royalty owners and the loss of income to over 7000 workers no longer employed). And many wonder where state revenues have decreased.

What can be done? Fundamental changes are needed in federal policy and perhaps, state policy. Both production, for the short term, and increased efficiency and conservation, in the long term, must be emphasized. First, domestic oil production must be encouraged by a combination of increased accessibility to federal minerals, price stabilization, and investment incentives. At this time, there is tax disincentive to invest in the highly risky petroleum industry. Second, the federal government must re-establish permanent programs in alternate energy and synthetic fuels development, scrapped as being too expensive in the early 1980's, but necessary to meet growing energy needs of our expanding population. Third, transportation fuels must be conserved, probably by adding significantly to taxes on highway use of gasoline and diesel fuels so as to reflect not only the resource cost, but also the social cost of the fuel. At the same time, mass transit systems must be funded, using the increased tax revenues as one part of funding. The long-term public need is for mass transit; Congress must bite the bullet and create the revenues to pay for it. Fourth, and finally, increased research and development must be done to get at the 325 billion barrels of oil remaining in place in known fields after initial recovery has been completed. Kansas alone has an estimated 11 billion barrels of oil remaining in existing fields after recovery of its remaining known reserves!

In summary, we are in Saudi Arabia because we have to be there. Our national welfare is at stake, and that of the western world. As long as we remain an energy-based economy and refuse to produce sufficient energy to sustain our economic base, we will continue to be vulnerable to every two-bit Saddam Hussein who rears his head. The fault lies with you and me, not with Congress or with the President - they simply reflect our own reluctance to face the real problems. We vote. They watch the polls.

Figure 1

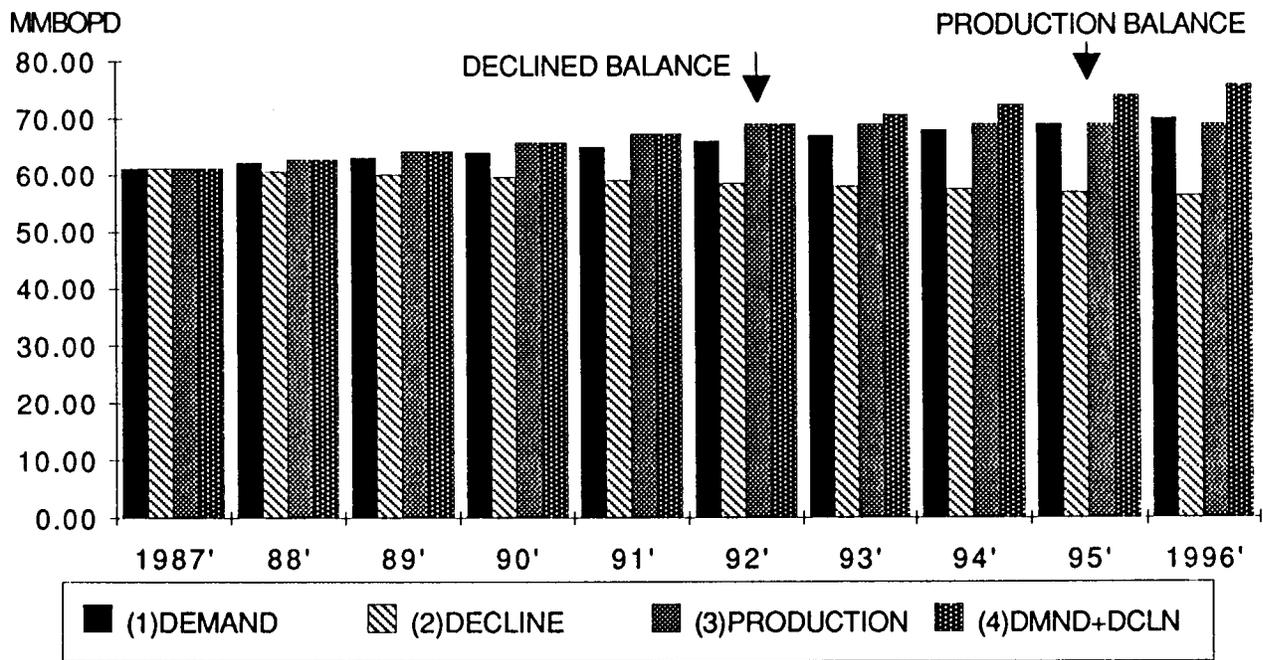


Figure 1 Explanation

1. Demand: Demand is the global demand escalated from the 1987 level of approximately 61.25 million barrels of oil per day (mmbopd) to 70.03 mmbopd in 1996, using a factor of 1.5% growth in demand per year.

2. Decline: Decline is calculated as 0.9% per year decline in non-Persian Gulf global supplies. This is based upon the high rate of decrease of United States production and the decrease in USSR production; increases in other localities do not offset major declines of the largest producers outside the Persian Gulf. This could amount to about 5.5 mmbopd decrease by 1996, barring significant discoveries and construction of production and transportation infrastructure.

3. Production: Global production is assumed to increase overall by 7.71 mmbopd by 1992, all of which is attributed to Persian Gulf increases. Assumption is that new production and facilities will not be constructed until the price justifies additional investment. No escalation is calculated for post-1992 through 1996, predicated on a lag time between production and demand balance and on-line new capacity.

4. Demand + decline (DMND + DCLN): Summation of demand increase (1) with reduced supplies because of non-Persian Gulf production declines (2). With this assumption in place, global demand balances global production at the end of 1992. Without assuming any decline in non-Persian Gulf production, balance occurs in 1995.

FIGURE 2

U. S. DEMAND AND PRODUCTION IN MILLIONS OF BARRELS PER DAY

