Crude Joke

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Bush and Cheney's not-so-well-oiled machine.

If there was one thing George W. Bush and his clique were supposed to know, it was oil. That, at least, was the widespread consensus back in 2000, when Bush first sought the White House, and it was easy to understand why. Bush's grandfather was an oilman. His father was an oilman. He himself had worked in oil. His vice presidential nominee, Dick Cheney, was the former CEO of energy giant Halliburton. His campaign's chairman, Donald Evans, was CEO of the oil company Tom Brown. And his top foreign policy adviser, Condoleezza Rice, had served on the board of Chevron--which named an oil tanker after her.

Oil executives were practically salivating at the prospect of a Bush presidency. As one told Fox News in October 2000, the way to fix our energy policy was to turn to "people that know something about the business, and, of course, that's George W. and Dick Cheney." Liberals, by contrast, were alarmed. "This is the first time in history Big Oil has had two men at the top of the ticket," warned Al Gore's deputy campaign manager. But, whether you viewed the Republican candidate's ties to the energy industry as a blessing or a curse, one thing seemed beyond dispute: that, when it came to oil, President Bush would know what he was doing, for better or for worse.

If only that had proved true. Six years later, no one--not even oil executives--could plausibly claim to be impressed with Bush's handling of energy issues. The administration has presided over a threefold increase in oil prices, the growing power of foreign oil and gas producers at the expense of American ones, and a rise in oil nationalism that threatens to freeze U.S. companies out of foreign oil fields. Bush has also contributed to political turbulence in energy-producing countries and inflamed a growing oil rivalry with China and Russia that seems to be turning nastier by the day. "Some of us thought that, after the Clinton years, we had an administration with the Cheneys and Bushes and Evans coming in that understood the energy sector better," former Chevron executive Edward Chow told me. "We thought there would be a more thoughtful, nuanced policy, and that it would open more windows of opportunity in Mexico or even Iran, and a more productive relationship with Russia that would lead to real investments and real benefits economically. Whether it was 9/11 or something else, it certainly didn't work out."

To their credit, Bush officials have belatedly come to understand that they have a problem on their hands--a big one. Hence Bush's complaint in his 2006 State of the Union address that America is "addicted to oil" and his call in this year's speech for the country to "increase the supply of alternative fuels." And hence Rice's admission last April to the Senate Foreign Relations Committee that "nothing has really taken me aback more as secretary of state than the way that the politics of energy is--I will use the word `warping'--diplomacy around the world."

But it's one thing to recognize the problem and quite another to do something about it. To dig himself out of the hole he has created, Bush is now pursuing risky strategies on energy policy in both Central Asia and the Middle East. And, far from compensating for the failures of the last six years, these gambits may only be making things worse.

It seems like a distant memory now, but perhaps the biggest story in Washington during Bush's first eight months in office was energy--specifically the energy task force led by Dick Cheney. The Cheney group's controversial report appeared in May 2001 and was primarily devoted to parroting the domestic agenda of oil companies, which wanted, as always, less government regulation. Only a single chapter--the last--delved into international energy policy. Its focus was on "diversification"--that is, reducing U.S. reliance on Middle Eastern oil.

Presidents have been trying to "diversify" America's oil supply since the Arab boycott of 1973. Bush's initial strategy for diversification emphasized--incredibly, in retrospect--Russia and Venezuela. Cheney's report touted "bilateral working groups" and "private investment opportunities" with the Russians and "incentives for increased investment" with the Venezuelans.

And, initially, that strategy seemed to work. During Bush's first 18 months in office, he and the Russians got along swimmingly. Moscow even declared its commitment--sought by the Bush administration--to undercutting opec's oil pricing. But, since then, relations between the two countries have become increasingly fractious, as Russia has turned toward nationalization and away from foreign investment. Moscow has thrown roadblocks in the way of investments by ExxonMobil and Royal Dutch Shell in the Sakhalin natural gas fields in the western Pacific, while rejecting offers by Chevron and ConocoPhillips to invest in the Shtokman field in the Barents Sea. The Kremlin has also blocked a U.S. plan to build an undersea pipeline across the Caspian Sea that would carry natural gas from Kazakhstan to Azerbaijan and across Turkey to Europe--bypassing Russia entirely. Explains Martha Olcott, a Central Asia expert at the Carnegie Endowment for International Peace, "Any company that moved gas undersea would be closed out of Russia."

Some of Russia's moves were in response to high oil and gas prices caused by growing international demand. And Vladimir Putin clearly saw his country's newfound oil and gas wealth as the means to reviving Russia's great-power status. But part of the fault for this situation also lies with Bush. While Putin initially sought a good relationship with the United States, Bush kept testing the limits of his goodwill. The administration championed nato's expansion up to Russia's borders; abrogated the anti-missile treaty; backed anti-Russian governments in the Ukraine and Georgia; invaded and occupied Iraq, Russia's longtime ally; and threatened to cancel Russian oil contracts with Iraq. And, to top things off, there were the U.S.-backed efforts to build pipelines bypassing Russia. In response, says Flynt Leverett, a former member of the Bush National Security Council, Russia decided to "push back."

During its first year, the Bush administration also enjoyed relatively amicable relations with Venezuela. At an October 2001 event in Washington, Department of Energy official Vicki Bailey lauded America's "strengthened partnership" with the Venezuelans. The country, Bailey noted, had been one of the first oil producers to express its condolences and to promise increased output to prevent a spike in oil prices after September 11. And the Venezuelan energy ministry had begun working with the Bush administration and with U.S. companies on expanding production of natural gas. But it wasn't long before the partnership disintegrated, with Venezuela, like Russia, turning toward oil nationalism and becoming hostile to U.S. investment. Even though the Venezuelan oil industry has always been focused on exporting to the United States, Venezuelan President Hugo ChAvez struck deals with the Chinese that could eventually divert crude oil from the United States to China. He also raised taxes on, and demanded renegotiated contracts from, foreign producers. Recently, he threatened to nationalize four oil ventures in the Faja region that are funded by Chevron, ConocoPhillips, and ExxonMobil. Meanwhile, ChAvez has used his country's oil wealth as leverage to organize international alliances against the United States--and with some success in Latin America, where Bolivia and other countries now generally follow Venezuela's geopolitical lead.

Here again, Bush must shoulder a portion of the blame. ChAvez was never a fan of the United States--during the Clinton administration, he broke off cooperation on joint narcotics operations--but, in his first years in office, he at least cooperated with U.S. oil companies. That ended in April 2002, when the Bush administration called the abortive coup against him a "victory for democracy" (despite the fact that his would-be successor seemed inclined toward authoritarianism). Bush then proceeded to create sympathy throughout Latin America for ChAvez's anti-American stance. In February 2003, American officials tried to strong-arm U.N. Security Council members Chile and Mexico into backing the unpopular U.S. invasion of Iraq. When the presidency of the Organization of American States opened up in 2005, the administration conducted what The Washington Post called "heavy lobbying" for Francisco Flores, the former president of El Salvador, whose principal distinction was that he had backed the Iraq war. Latin American countries, offended by U.S. pressure, chose ChAvez's pick, Chilean Jose Miguel Insulza, instead. Davidson College political scientist Russell Crandall, a Latin America expert who served on the National Security Council in 2004 and 2005, says the United States "played into Chavez's hands." "It's just a cold war administration," he explains. "After they took office, it was all about getting Castro, and ChAvez was, by extension, Castro, and they didn't understand that the region had evolved." According to Crandall, when the White House wasn't decrying the Venezuelan leader's influence, it was simply ignoring Latin America. "When I was there, you couldn't get anyone to focus on the region until there was a crisis. It was another consequence of the Iraq war."

Other administration efforts to diversify America's oil supply fared almost as badly. In Central Asia, the United States increasingly ran into hostility from former Soviet states and competition from China. According to Olcott, the only country in the region where U.S. influence has increased is Tajikistan, which produces a miniscule amount of natural gas. In West Africa, the Chinese are using development aid and indifference to human rights to cut into American standing. "We are going to see U.S. firms evicted out of West Africa, because they are not offering what the Chinese or Indians are offering," predicts Paul Michael Wihbey, president of gwest, a

Washington, D.C., energy consulting firm and a past adviser to the Bush administration. With the chill that set in after September 11 and the invasion of Iraq, the administration wasn't even able to convince President Vicente Fox to allow U.S. investment in Mexico's oil industry.

It's true that U.S. oil companies have enjoyed large profits during the Bush years. But oil executives realize that their long-term prospects depend on investment in countries with plentiful oil and gas reserves. And, in that respect, the Bush era has been an unmitigated disaster.

Of course, the United States isn't just responsible for filling the coffers of U.S. oil companies. Since the end of World War II, the United States has also assumed primary responsibility for the smooth working of the international economy, which depends very much on stable oil supplies. By that measure, too, the Bush years have been an abysmal failure. Nowhere is that more evident than in the Middle East.

Many antiwar activists have insisted that the United States invaded Iraq to seize its oil. The facts, however, don't support this explanation. By most accounts, the decision to depose Saddam Hussein, made sometime in early 2002, was precipitated directly by September 11 and was aimed, as much as anything, at making the Middle East inhospitable to movements like Al Qaeda.

But, while it would be wrong to call oil the primary impetus behind the Iraq war, it would be equally wrong to pretend that it was not a consideration. Bush, like his father and Bill Clinton, wanted to prevent a hostile power from acquiring hegemony over the oil-rich Middle East, and he feared that Saddam, armed eventually with nuclear weapons, would pose a threat to the region's other oil-producing states. As one State Department official told me on the eve of the invasion, "If the Gulf produced kumquats, would we be doing this? I have my doubts."

And so, as the plans for war solidified, administration officials began to think about what could be done with Iraqi oil. Paul Wolfowitz and other Pentagon officials argued that profits from Iraq's oil industry could finance the country's reconstruction after the invasion. That was the reason U.S. troops expended so much initial effort securing Iraqi oil fields from sabotage and protecting the oil ministry from looters. Administration officials also imagined that, once the Iraqi oil industry was revived by foreign investment, it could flood the market, undermining opec efforts to maintain high prices. Such dreams were dashed by the rise of the insurgency and, eventually, the onset of civil war.

To be sure, administration officials still hope to get U.S. companies into Iraq. The country's new oil law--written with help from BearingPoint, a McLean, Virginia-based consulting firm--will facilitate private investment. Iraqi officials are still wrangling over the details of how revenue will be distributed, but it has been widely reported that the law will contain a generous profit-sharing arrangement to lure foreign investors. And Chevron and ExxonMobil are already negotiating with the Iraqi government to build a $3 billion petrochemical plant.

But the administration's energy strategy in the Middle East no longer revolves around hopes of undermining opec. Instead, it centers on a new challenge: the prospect that a hostile Iranian regime, strengthened by America's misadventure in Iraq, could eventually dominate the region, threaten the House of Saud, and disrupt the stability of the international oil market.

Sometime after the 2004 election, perhaps sensing it had made a mess of things, the White House began to revise its international energy strategy. The most important factors were the administration's failures in Russia, Venezuela, and Iraq. But Bush officials also had been caught unawares by the rise in oil demand from China and India, which helped push up prices. Oil experts now foresaw a coming supply-demand crunch that could precipitate a steep rise in prices and perhaps an international recession. Worries about global oil supply "peaking" sometime in the coming decades also began to surface within the administration. In February 2005, the Department of Energy warned that "at peaking, unless adequate substitute fuels and transportation-efficiency policies have been implemented well in advance, the price of oil will increase dramatically with severe adverse national and international economic consequences."

Bush was also provoked by growing concern among policy and business elites, some of whom were close to the White House. These included former Secretary of State Henry Kissinger; Robert Gates, who would later become secretary of defense; and FedEx founder and CEO Frederick Smith, a key Bush fund-raiser. Kissinger warned, in June 2005, that the clash over access to oil and gas was leading to a revival of the "great game"--the nineteenth-century contest among imperial powers for control over Central Asia. Gates joined a group of former high-ranking officials to simulate how the government might respond to an oil supply crisis.
Their report, presented in January 2006 at the Davos World Economic Forum, warned that "political unrest ... in key oil producing countries may pose a greater threat to the long-term stability of the world oil market than terrorism." For his part, Smith co-chaired a policy group, the Energy Security Leadership Council, which, in December 2006, called for an "aggressive campaign to reduce our dependence on oil and increase domestic and global energy security."

The administration has not responded to these concerns with a single comprehensive strategy but with what Wihbey calls a "hodgepodge," proceeding haphazardly on three different fronts. First, it has proposed reducing domestic oil consumption by raising fuel efficiency standards for cars and trucks and by encouraging alternative fuels like ethanol.
Second, it has taken an aggressive stance against Russia and China. (It still hasn't figured out what to do about Venezuela.) And, third, it has adopted a Saudiinstigated strategy for dealing with the threat of Iranian hegemony over the oil-rich Middle East. The first of these strategies is uncontroversial, except perhaps among the Big Three automakers, but the second and third represent high-risk ventures that could put America's--and the world's--energy supply at even greater peril.

To warn Russia and China against monopolizing oil sources in the developing world, Bush has opted for a confrontational approach. Cheney fired the opening salvo when he attacked Russia's human rights record and its use of oil and gas as "tools of intimidation and blackmail" in a speech in Vilnius, Lithuania, last May. The next day, he traveled to Kazakhstan, where he expressed "admiration" for its authoritarian government and where Assistant Secretary of State Richard Boucher, who was traveling with Cheney, urged Kazakhstan to ship more of its natural gas to Europe through a pipeline that bypasses Russia.

The administration has taken a similarly heavy-handed approach to Chinese investments in Central Asia, West Africa, and Latin America. To be sure, Bush officials are not of one mind on China. Some, like Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke--who recently traveled to Beijing to begin a "strategic economic dialogue" that would include energy--clearly want to work with China. Others, however, do not. In its revised National Security Strategy, released last March, the White House suggested war might break out if China's leaders diverge from a "peaceful path" by "acting as if they can somehow `lock up' energy supplies around the world" and by "supporting resource-rich countries without regard to the misrule at home or misbehavior abroad of those regimes."

Predictably, the administration's approach seems to be backfiring. Washington's hostility toward the Russians and Chinese has united the two countries--longtime rivals--against the United States, particularly in Central Asia. In 2005, the Shanghai Cooperation Organization--a group consisting of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan--called on the United States to withdraw its troops from Central Asia. This year, the countries plan to conduct joint military exercises with members of the Collective Security Treaty Organization, an alliance consisting of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan. As Joshua Kurlantzick argued in these pages last year ("Crude Awakening," October 2, 2006), these strengthened ties signal the emergence of a new alliance--consisting of energy-producing states, plus China--that may seek to limit Western access to Central Asian oil and gas. Here again, the Bush administration's energy strategies appear to be coming up empty.

In the Middle East, the United States has abandoned its attempt to democratize the region, including the Saudi monarchy, and is now focused on preventing Iranian hegemony. According to two oil experts who have excellent sources within the administration--Wihbey and Ariel Cohen of the Heritage Foundation--Bush has taken his cue from the Saudis. Cheney met with Saudi officials, including King Abdullah, in November in Riyadh; and, sometime in December, according to these sources, White House officials met Prince Bandar, the Saudi national security adviser and former ambassador to the United States, when he made one of his unannounced visits to Washington. That month, Bandar won a power struggle when Prince Turki, his successor as ambassador to the United States, resigned. While Turki backed the position of the Baker-Hamilton Commission that the United States should negotiate with Iran, Bandar favored an attempt to isolate Saudi Arabia's rival to the east.

And, apparently, that was exactly what he persuaded Bush to do. The Saudi strategy consists of getting the United States to join a coalition with two other Sunni-dominated states, Egypt and Jordan, against Iranian influence in the region. "The Saudis are putting a lot of pressure to crack down on Iranians," says Gal Luft, executive director of the Institute for the Analysis of Global Security, an influential energy think tank. "What worries them is that a conflict in the Persian Gulf will awaken the Shiite community, which sits atop of oil in Saudi Arabia as well as Iraq. We don't want that to happen as well." The Saudis propose using their excess capacity to bring down oil prices to the detriment of the Iranian economy. The United States, for its part, would undertake an offensive in Iraq that would send a message to the Iranians not to interfere in that country's politics. According to Wihbey and Cohen, both of whom have advised the Bush administration on energy, Bandar was the driving force behind Bush's acceptance of the surge strategy in Iraq. Wihbey says the surge was "heavily driven by Saudis trying to undermine Iranians any way they can. When Bandar was here, the message he gave was, `If you Americans pull out, we--the Saudis, Egypt, and Jordan--are going to send money to Sunnis, and there is going to be a Sunni-Shiite conflict in that area that is going to spill over into the Persian Gulf. You'll end with a recession.' That is really what Bush was listening to when he thought of the surge. Bandar is one of the few people who can talk to Bush and tell him he is wrong."

If these reports are accurate--and the recent downward movement of oil prices suggests they are--then Bush has undertaken a dangerous tack in the Persian Gulf. Instead of attempting to bring Iraq's neighbors, including Iran and Syria, into a settlement, he is allying the United States with the Sunni side in a regional conflict--while continuing to work with some pro-Iranian Shia in Iraq. If this strategy works, it could restore Saudi and U.S. hegemony in the Persian Gulf. If it fails--if the United States is forced to withdraw from Iraq and if the insurgency spreads outward--then we will have lost ground in a region that contains two-thirds of the world's proven reserves. It would be the worst failure yet in a six-year span that has seen the United States commit some mind-boggling blunders on energy policy. Maybe the Bush people didn't know as much about oil as everyone thought.