



Baker Institute Report: World Markets more Exposed to Potential Energy Crisis

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World oil markets are more exposed to disruption today than at any time since the 1970s, according to a comprehensive study of energy security and the Persian Gulf by the James A. Baker III Institute for Public Policy of Rice University.

The report suggests steps to reduce the risk of a major oil crisis, including accelerated development of alternate supplies outside the Persian Gulf, reassessment of U.S. sanctions against Iran and other countries, expansion of the International Energy Agency to include major Asian consumers, especially China, and intensified contacts with the younger generation of religious and political leaders in the Middle East.

The year-long study was conducted by Rice's Baker Institute and sponsored by the Center for International Political Economy (CIPE).

The study concludes that world leaders are too complacent about the ability of market forces to cover a disruption in energy supplies of the magnitude experienced during the Gulf War crisis of 1990-91.

"The ease with which markets accommodated the loss of production following the Iraqi invasion of Kuwait was the result of a supply glut that existed at the time," said Edward P. Djerejian, director of Rice's Baker Institute.

Research results were released today during a media briefing at Rice.

"Research included in our study shows no such major surplus of oil inventory and productive capacity exists today to shield consumers," Djerejian said. "There are real challenges ahead that could create another energy crisis. It's incumbent on the United States and other consuming countries to take a pro-active approach to avoiding this possibility."

The faculty of Rice University worked with oil industry representatives on the report, which was released today during a news media briefing.

"Decision makers tend to think of energy policy as taking care of itself," said Amy Jaffe, project coordinator for energy research at Rice's Baker Institute. "But there are great

challenges on the horizon both in the Middle East and Asia that could change the geopolitics of competition for oil supplies into the 21st century."

Policy recommendations contained in the research report include:

- U.S. policy toward the Persian/Arabian Gulf is being driven today primarily by a preoccupation with military concerns. While security in that region remains in the vital interest of the industrialized world, U.S. policy toward the region must look beyond the military issues to the emerging situations in each of the Gulf countries for economic, political, social and cultural change, with special consideration given to the role of religious groups. While the United States should be and is prepared to deter and defend against external aggression in the Gulf region, we must also assess what the United States can and should do in the face of generational and regime change in the Gulf and Iraq.
- The United States needs to gain a fuller understanding of the cultural and political transition period that will emerge in the next decade in the Middle East and the Gulf. Active engagement should be undertaken with potential leaders from the younger generation of political and religious elites to gain clearer understanding of their motivations and ideologies and to build bridges for long-term relations.
- U.S. policy makers must seriously reassess the costs and benefits of imposing oil sanctions on several oil producing countries simultaneously. Effectiveness of sanctions, especially unilateral sanctions, in meeting targeted goals should be rigorously examined and the policy of the dual containment of Iraq and Iran should be seriously reassessed. Iran's influence on the question of exports from Central Asia should also be revisited.
- The United States, with its global responsibilities, must maintain a firm and consistent policy on Iran. However, the United States must recognize that it has not been successful in bringing our allies to the same level of sanctions on Iran. The rhetorical use of the term "dual containment" by the United States is neither helpful nor an accurate description of policy.
- The International Energy Agency should increase its membership to extend beyond the Organization for Economic Cooperation and Development to include the emerging economies of Asia, including China.
- Energy policy makers should continue to identify and pursue options to promote the development of oil and gas resources outside the Middle East.

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