Does Imported Oil Threaten U.S. National Security?

Concerns about the economic, geopolitical, and national security consequences of U.S. imports of oil have triggered arguments for adopting policies to reduce oil imports. Many members of Congress have advocated "energy independence" for the United States.

A RAND Corporation study evaluated the risks to national security associated with U.S. imports of oil and assessed the costs and benefits of policies to address these risks. The study was sponsored by the Institute for 21st Century Energy, which is affiliated with the U.S. Chamber of Commerce.

Abstract

The major risk to the United States posed by reliance on oil is the economic costs of a disruption in global oil supplies. RAND researchers found no evidence that oil exporters have been able to use embargoes to achieve key foreign policy goals to stop terrorist groups that depend on oil revenues to launch attacks. The U.S. government would reduce the costs to U.S. national security of importing oil by supporting well-functioning oil markets and imposing an excise tax on oil.

Some National Security Concerns About the Risks of Importing Oil Are Overblown

RAND researchers evaluated several common concerns about U.S. dependence on imported oil, including the likely economic impact on the United States of a precipitous drop in the global supply of oil, attempts by oil exporters to manipulate exports to influence the United States or other countries in ways that are harmful to U.S. interests, and the role of oil-export earnings in supporting terrorist groups. The researchers also estimated the costs of protecting the supply and transit of oil from the Persian Gulf. The study found the following:

- An abrupt and extended fall in the global oil supply and the resulting higher prices would seriously disrupt U.S. economic activity, no matter how much or how little oil the United States imports.
- Oil-export embargoes have been ineffective in advancing the foreign policy goals of oil exporters.
- Oil-export revenues have enhanced the ability of rogue states, such as Iran and Venezuela, to pursue policies contrary to U.S. interests.
- Terrorist attacks cost so little to perpetrate that attempting to curtail terrorist financing through measures affecting the oil market will not be effective.
- The United States might be able to save an amount equal to between 12 and 15 percent of the fiscal year 2008 U.S. defense budget if all concerns for securing oil from the Persian Gulf were to disappear.

The United States would benefit from policies that diminish the sensitivity of the U.S. economy to an abrupt decline in the supply of oil, regardless of its import dependence. The United States would also benefit from policies that would push down the world market price of oil by curbing demand or increasing competitive alternative supplies. U.S. terms of trade would improve, to the benefit of U.S. consumers; rogue oil exporters would have fewer funds at their disposal; and oil exporters that support Hamas and Hizballah would have less money to give to these organizations. The United States might also benefit from more cost-sharing with allies and other nations to protect Persian Gulf oil supplies and transport routes. The United States could encourage allies to share the burden of patrolling sea-lanes and ensuring that oil-producing nations are secure.

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Summary of Potential Links Between Imported Oil and U.S. National Security

Potential Link	Risk or Cost
Economic	
Large disruption in global supplies of oil	Major
Increases in payments by U.S. consumers due to reductions in supply by oil exporters	Major
Political	
Use of energy exports to coerce or influence other countries in ways detrimental to U.S. interests	Minimal
Competition for oil supplies among consuming nations	Minimal
Increased incomes for rogue oil exporters	Moderate
Oil-export revenues that finance small terrorist groups	Minimal
Oil-export revenues that finance Hamas or Hizballah	Moderate
Military	
U.S. budgetary costs of protecting oil from the Persian Gulf	Moderate

The adoption of the following energy policies by the U.S. government would most effectively reduce the costs to national security of importing foreign oil.

Cushion Disruptions in the Supply of Oil

Support well-functioning oil markets and refrain from imposing price controls or rationing during times of severe disruption in supply. Well-functioning domestic and international petroleum markets are a primary means by which the economic costs of disruptions in the supply of oil can be minimized. Energy prices that are free to adjust to changes in supply and demand, undistorted by subsidies or price controls, offer the most effective mechanism for allocating petroleum in a time of increased scarcity.

Expand Domestic Supply

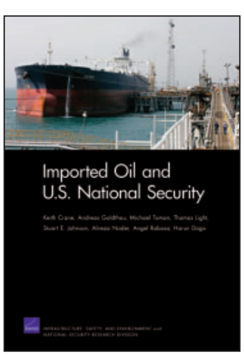
Initiate a high-level review of prohibitions on exploring and developing new oil fields in restricted areas in order to provide policymakers and stakeholders with up-to-date and unbiased information on both economic benefits and environmental risks from relaxing those restrictions.

Ensure that licensing and permitting procedures and environmental standards for developing and producing oil and oil substitutes are clear, efficient, balanced in addressing both costs and benefits, and transparent.

Reduce Domestic Consumption of Oil

Impose an excise tax on all oil, not just imported oil, to increase fuel economy and soften growth in demand for oil. Raising fuel taxes is the most direct way to curb U.S. consumption of oil. Despite their merits, fuel taxes have been politically unpopular in the United States, even though it has the lowest fuel taxes of any industrial country. How tax revenues from increased fuel taxes would be used would affect their overall economic impact and political opposition as well.

Because oil is traded through a global market, the U.S. economy will continue to be vulnerable to global shifts in the supply and demand for oil for the foreseeable future, regardless of how much oil or what percentage of its oil the United States imports. However, these policies, if adopted, should serve to reduce the national security risks the United States faces from importing oil. ■



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