



U.S.-Saudi Energy Relations in the Global Perspective

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Thank you Al (DeCrane, Chairman of the U.S.-Saudi Arabian Business Council). I welcome the opportunity to be with you this morning.

While it is always a challenge to speak on the complicated topic of energy before so many of you, who do this every day, all day, it is all the more challenging when you are speaking after Saudi Arabia's oil minister and the U.S. Secretary of Energy on a panel that includes Senator Bingaman.

As you know, recent events in the Middle East have taken an enormous toll: human lives lost, families shattered, economic activity frozen and mounting humanitarian distress. Israelis and Palestinians alike deserve lives free from fear of violence with the hope for a stable future and a chance for economic prosperity.

President Bush recently offered a powerful statement of America's determination to fight terrorism, end the violence, and move toward peace. His vision entailed Israeli and Palestinian states living side-by-side in peace and security. The President called on the Palestinians to reject violence and terrorism as a means to solve the conflict, and for the Israelis to bring an end to the current military operations.

Crown Prince Abdullah's peace initiative represents a courageous vision, and is a concrete example of the kind of Arab partnership of which President Bush spoke. We look forward to working with Saudi Arabia to realize this vision.

So a special welcome to my good friend Minister Naimi.

Given the events of the last few weeks, I can not think of a more timely and appropriate topic for the U.S.-Saudi Business Council, the Petroleum Industry Research Foundation and the Council on Foreign Relations. Iraq's futile attempt to damage the world economy -- its third attempt in less than two years -- reminds us that we live in a volatile and unpredictable world.

The National Energy Policy Framework

As one of its first priorities upon entering office, the Bush Administration addressed, and continues to place the highest priority on, the energy challenges facing our country and the world.

Almost a year ago, the Administration issued the National Energy Policy report, a comprehensive and balanced look at the energy issues facing the U.S. and the world, along with recommendations for dealing with these challenges.

I want to share with you some of the international aspects of this report, particularly those dealing with Saudi Arabia and our shared energy interests.

Our Shared Interest in Market Stability and Reliability

The United States and Saudi Arabia have shared interests in the stability and reliability of the international oil market.

The National Energy Policy highlights a number of policies that Saudi Arabia and the United States have taken to improve the stability and reliability of the oil market.

Saudi Arabia, the world's largest oil exporter, has been a linchpin of supply reliability to world oil markets. Saudi Arabia holds the world's largest oil reserves, and its oil policy reflects its own economic interests, which include maintaining the viability of oil as the world's leading fuel source well into the future.

As our National Energy Report makes clear, Saudi Arabia has pursued a policy of investing in spare oil production capacity, and diversifying its export routes to both of its coasts. These investments help make Saudi Arabia a reliable oil supplier, and can be likened to an insurance policy for the world economy.

The consequence of these enormous investments by the Kingdom of Saudi Arabia is that the Kingdom can credibly assure markets that it has the capacity to mitigate supply disruptions in any region. And, as recent events in the Western Hemisphere have shown, disruptions can occur in any region.

The United States, much like Saudi Arabia, is also a central market participant in the global energy picture.

U.S. influence in world energy markets is substantial in terms of production and consumption.

First, the U.S. is itself a leading energy producer. The United States produced 72 of the 98 quadrillion BTUs of energy that we consumed in 1999.

The United States is the world's second largest natural gas producer and its third largest oil producer.

And we are virtually self-sufficient in all energy resources except oil, of which we import 52 percent of our needs. In natural gas, we import just over 15 percent of our needs, primarily from Canada.

About half of our imported oil comes from just four countries, often led by Saudi Arabia. (Canada, Saudi Arabia, Venezuela, Mexico.)

So given our large energy sector, measures to enhance U.S. energy security must begin at home, of course, and this is an agenda we are vigorously pursuing on Capitol Hill.

You are no doubt familiar with our longstanding policy that market forces should set prices for oil in the global market. The National Energy Policy recognizes that the first step toward a sound and balanced international energy policy is to use our own capability to produce, process and transport the energy resources we need in an efficient

and environmentally sustained manner.

Progress has been made in improving exploration and production technology. And we know that we must also squarely address the issue of efficiency, and conservation. We have shifted to more efficient technologies. U.S. energy intensity (the amount of energy it takes to produce a dollar of GDP) has declined by 40 percent since 1970. We are working to assure that much more can be achieved in this area.

Just as the Saudis, as the world's largest oil producer, have invested in spare capacity, the U.S., as the largest importer, has borne the cost of major investments in strategic oil stocks. And our National Energy Policy report underlines our policy that these are to be used in case of actual, physical shortfall.

The United States has also made the decision to fill the Strategic Petroleum Reserve to its 700 million barrel capacity, in a deliberate and cost effective manner. In fact, the fill rate is currently close to 150,000 b/d.

Our International Energy Agency allies also maintain stocks. Together, consuming governments are ready to do their part to provide stability and reliability to the market, in the event of a major supply disruption.

Both producers and consumers know that the use of oil as a political weapon is unacceptable, and the lesson from instances in the past is clear, it does not work. We appreciate the recent statements by many OPEC countries that reject the use of oil as a political weapon.

Each country has its national interest, yet each country has interests that coincide and which are complimentary. Maintaining stability in world oil markets is just one of those interests.

Our Shared Interest in Enhanced Dialogue

In a global energy market, U.S. energy security can not be achieved in isolation from the rest of the world.

We enhance our own global security by working cooperatively with key countries to expand the sources and types of global energy supplies.

The National Energy Policy underscores the need to deepen our dialogue with major oil producers on information related to oil markets. This is consistent with Crown Prince Abdullah's call for deepened producer-consumer understanding.

This enhanced dialogue with oil producers can contribute to a well-functioning oil market. Together, we can improve the transparency, timeliness, and accuracy of the data that guide global oil markets. We all benefit from a better understanding of changes in demand and timely adjustments of supply.

Our Shared Interest in Open Energy Sectors

The United States welcomes the benefits and contributions that large international investments have made in our energy sector. Both producers and consumers benefit from ensuring that global energy supplies and infrastructure are sufficient and flexible to meet growing demand.

Many people would be surprised that a European company is the largest energy producer in the U.S., that a Russian firm has acquired one of our most recognized name-brands, Getty, and its robust retailer network. Saudi Arabia, Venezuela, and other major oil producers hold significant refinery and distribution ventures here.

U.S. openness to foreign investment has made us one of the world's most competitive economies, and has provided us with capital and jobs for our people. Investments by major producers also enhance our security of supply and their security of demand.

The United States has long been open to these major foreign energy investments. Saudi Arabia is now moving to open its own economy to more foreign investment.

The Crown Prince's Natural Gas Initiative was itself an important step forward in reinforcing and deepening the ties between oil producers and oil consumers. His visionary initiative is not only important for Saudi Arabia's economic development, but it is being watched by many other countries considering opening their own energy sectors.

The United States fully supports the Crown Prince's initiative. A prompt conclusion of ongoing negotiations will reinforce a message of confidence in Saudi Arabia's investment climate, and be a strong step forward in bolstering the commercial ties that bind Saudi Arabia with its many friends.

Our Shared Interest in Saudi WTO Accession

Given our close ties to Saudi Arabia and the important role it plays in the region's economy, we are eager to see Saudi Arabia take its place in the world community of trading nations by joining the World Trade Organization.

The types of policy measures Saudi Arabia -- and all other governments -- make to join the WTO make for stronger economies. They lead to enhanced trade and investment and to job creation.

The U.S. strongly supports and stands ready to assist Saudi Arabia in its bid to join WTO.

Conclusion

Our longstanding and productive energy relationship with Saudi Arabia is a good example of every producer-consumer dialogue that is rooted in common interests, and deepened by market forces. The United States remains committed to this energy partnership. Together, the world's two leading energy economies can take the steps that are needed to advance stability and reliability in the oil market, and to support the growth of the world economy and our respective national economies.

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