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*Comments on Oil Supply and Prices*

**By**

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**Committee on Energy & Natural Resources**

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**On the Subject of Oil Supply and Prices**

Mr. Chairman, my name is Robert Ebel and I direct the energy program at the Center for Strategic and International Studies, a not-for-profit public policy research institution. Thank you for the opportunity to contribute to a better understanding of world oil supplies and the prices that consumers pay for these supplies.

Mr. Chairman, I wish that I could inform you that the future for oil exporters and oil importers alike looked promising. Unfortunately, I cannot. That judgment is formed by the recognition that energy demand in the developing countries of the world is likely to exceed energy demand in the developed countries by the end of the next decade, if not sooner. And, where will supplies to meet this growth in demand originate? The growth in demand will be met by expanded production in the developing world. These circumstances, to me, do not offer a comforting future.

Because oil has become a truly international commodity, the United States, as do other oil consuming countries of the world, stands vulnerable to any event, anywhere, any time, that would affect oil supply and demand. These events, Mr. Chairman, can come in any form. Witness the Asian financial crisis of the late 1990s, which sent oil prices plunging. Today, oil prices have reached new highs, reflecting first the impact of the political crisis in Venezuela that removed several millions of barrels per day from the market, and second, the psychological impact of the coming military intervention in Iraq.

Our vulnerability, Mr. Chairman, is not necessarily found in the volumes of oil we import. Rather, it is the price we pay for the oil we consume, whether secured through imports or from our own oil fields.

The United States has long taken comfort in the fact that three out of the four leading suppliers of oil to our market were found in the Western Hemisphere, our hemisphere. I refer to Canada, Venezuela, and Mexico. Now, that comfort has been shattered by the loss of Venezuelan oil.

What surprise lies next on the horizon? Will it be Mexico, where continued failure to develop oil reserves might lead to a diminution of its capabilities to export? Might it be an expanded civil war in Nigeria, enveloping the oil fields themselves? Or might it be Saudi Arabia, where some observers question the state of health of certain of that country's major oil fields?

In my judgment, we are not likely to face physical shortages of oil in the coming years, setting aside natural or man-made interferences in the timely and adequate access to these supplies. Indeed, this is the decade for growth in production and exports by non-OPEC countries. OPEC understands that, and may patiently wait for the next decade, when non-OPEC growth diminishes and OPEC can then regain what market share it might have lost. For the future of oil is not defined by current levels of production. Rather, the future is defined by reserves in the ground, and where are these reserves? Saudi Arabia, Iraq, Iran.

But let us suppose OPEC is not content to wait, not content to stand idly by, watching its market share declining. Suppose that certain members of OPEC did not give way. Prices would decline, helpful to importers but damaging politically and financially to exporters.

Mr. Chairman, this development would only underscore that there is no oil-related scenario I might describe for you that does not lead to instability, somewhere.

Technology has allowed the quicker and cheaper discovery and development of oil and gas, under conditions unthinkable a decade ago. But these advances have a downside. For that technology also allows fields to be depleted faster. And that, in turn, translates into the need to find and develop oil and gas reserves in volumes greater than ever before—a challenge where success is more and more difficult.

To underscore that, consider the complaint of an active driller in our mid-continent region. Costs per well drilled were holding roughly constant, but the volumes of reserves found had declined to 60 percent of previous levels. In sum, we drill more and find less while the remaining oil and gas potential of our country is held out-of-bounds.

Mr. Chairman, we often speak of energy independence, but that independence can only come when the political will to take meaningful action is found. Let me explain. The political will to establish our Strategic Petroleum Reserve and to set CAFÉ standards came out of the 1973-74 oil supply crisis. Because of that political will, we are far better prepared today to respond to oil supply interruptions.

That then raises the unthinkable.  Might the forthcoming military intervention in Iraq play out in a way where our worse case scenario is realized, that is, where Iraqi oil is off the market for months and where the abilities of Kuwait and Saudi Arabia to supply oil to the market have been damaged by sabotage?  Would the resultant high prices, physical shortages, and probable economic recession  once again give this nation the political will to embark on an energy program of substance and impact?  Is that what it will take?

Mr. Chairman, late last year CSIS prepared a set of four scenarios describing the possible impact on oil supply and prices after an attack on Iraq.  One of the scenarios, our worse case scenario, I have just described for you in brief. I ask your permission to submit these four scenarios for the record.

Mr. Chairman, that concludes my oral testimony and I look forward to any questions you or members of your committee may have.

Thank you.