



Comments on the National Security Implications of the BP Amoco Proposed Acquisition of Atlantic Richfield

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Thank you, Mr. Chairman. My name is [Robert Ebel](#), and I direct the [Energy and National Security program](#) at the Center for Strategic & International Studies, a not-for-profit public policy research institution. I welcome the opportunity this morning to offer my thoughts on the national security aspects of the prospective acquisition by BP Amoco of ARCO.

Let me begin by asking, how do you define national security? National security may mean different things to different people. George Kennan some time ago offered perhaps the least complicated definition: "(National security) is the continued ability of this country to pursue its internal life without serious interference."

Generally in the United States, when we discuss national security and oil, we do so against the background of our rising dependence on imported oil, a dependence which presently exceeds 50 percent, and I know of no reasonable scenario which does not foretell further reliance on foreign oil in the coming years.

If we accept Kennan's definition, then oil imports do threaten national security, for the prospect of disruption, for whatever the reason, raises the prospect of serious interference in the ability of the United States to pursue its internal life. And the greater the dependence, the greater the prospect for interference.

However, for the general policy maker today, there is no discernible link between oil imports and national security. To the contrary, imports of comparatively cheap foreign oil are deemed advantageous to our economy. I cannot identify any particular interest in taking any actions which would slow down, or even reverse, our reliance on imported oil.

The world oil industry just passed through a year of change, characterized by a prolonged oil price weakness and by a number of mega-mergers. Is there something going on, not just in oil, but in the energy market in general? Is it temporary, or is it structural?

For the past several years, the growth in world oil supply has been outstripping growth in consumption, reflecting advances in technology and growth in production outside OPEC. At the same time, growth in the use of oil has slowed, especially in the markets of Asia. When the Asian flu has run its course, it is likely that future demand growth will be much slower than it was in the past.

We are in a period where energy supplies are more than adequate and may likely remain so for some time. To illustrate, there is probably some 7 million barrels per day of spare producing capacity available in the world today, the highest that I can recall. It won't be too long before new oil from the Caspian region of the former Soviet Union will be delivered to world markets in rather substantial volumes. Russia, despite its internal political and financial problems, is still a major player in world oil markets. It is able to export to buyers outside its borders more than 6 out of every 10 barrels of oil it produces.

Moreover, the day is not all that far away, at least in relative terms, when Iraq and Iran will be fully open to foreign investment, and eager to increase oil export-derived income as quickly as possible.

The prudent corporate planner, reviewing what the future may hold, does not know for certain what the future oil price levels will be. He only knows that he must try to get oil production costs down so that he will be able to compete in whatever the market offers to him. How best to reduce costs? Technological advances have done much for the oil industry in recent years in allowing for oil field exploration and development to be both quicker and cheaper. But in the search for cost-cutting, technological advances by themselves are not enough. Cost savings through consolidation has been a second approach.

Acquisition by BP Amoco of ARCO would put into the hands of that company, a transnational company, control of some 70 percent of Alaskan crude oil production. The question then arises, would that control work in some way to the detriment of U.S. national interests, to the detriment of U.S. national security?

In and of itself, that degree of control does not and should not have any impact on the national security of the United States, keeping in mind the definition of national security that I offered in my earlier comments.

BP Amoco is a commercial entity and its investment decisions reflect judgements on political risk, on investment returns, and on a diversified portfolio. Investments, wherever, are also very much dependent on the attractiveness of the investment climate. That is a point which must be kept in mind.

A diversified portfolio is just as important to BP Amoco as diversified sources of supply are important to an oil importing country like the United States. ARCO, for example, in recent years has sought to diversify away from its relatively high reliance on Alaskan oil to prospects outside the United States, to the former Soviet Union, for example.

Prior to its acquisition of Amoco, British Petroleum held 50.1 percent of the Trans-Alaskan pipeline, it was responsible for roughly one-half of Alaskan crude oil production and was the largest single oil producer in the lower 48. I am not aware of any instances where BP took actions jeopardizing the national security of the United States, a track record which would seem to indicate that we could expect BP Amoco to conduct itself just as responsibly the coming years as it has in the past.

BP Amoco expects that the acquisition of ARCO would support economies of scale, would lead to cost reductions, and to higher profits. Where then might these higher profits be directed? Again, the decision would be based on criteria cited above: portfolio diversification, political risk analysis,

and measure of return on investments, together with an attractive investment climate. These parameters are those of any major oil company, not just BP Amoco.

Looking at prospects for investment in Iran and Iraq, it would be my own personal opinion that unless and until both these countries become available for investment by any foreign company, including from the United States, BP Amoco might judge investment prior to that time to carry a political risk too high for management to accept. Indeed, I recall that BP has indicated it will continue to abide by those sanctions the United States has currently in place against Iran.

The question also arises whether the acquisition of ARCO by BP Amoco would limit competition, to the detriment of the state of Alaska and in turn to the detriment of the United States. It is my understanding that Alaskan state laws place a limit on the amount of acreage any one company can hold, which means that the proposed acquisition would lead to a certain relinquishment of acreage. That disposition could in its own way lead to enhanced competition by allowing other companies to secure positions, offshore and onshore, not previously available to them.

Substantial control of Alaskan oil production also implies control of a measurable share of total U.S. production, and in particular crude oil deliveries to the U.S. west coast. How would that impact on our national security?

This question implies, with regard to the West Coast, whether Alaskan oil might not be diverted to other markets. The West Coast oil market is an open market, and Alaskan crude must compete for a market share with crudes from other sources. As such, national security is not impacted. About 46,000 barrels per day or roughly 9 percent of BP North Slope production was exported in 1998. These volumes could be diverted, should the need, a national security emergency, arise. The combined BP Amoco-ARCO share of production of both crude oil and natural gas liquids outside the state of Alaska would be on the order of 11 percent. Does that in itself jeopardize our national security? No, it does not. The U.S. upstream market is highly competitive and any volumetric reduction in supply, for whatever the reason, could and would be quickly offset by supplies acquired from other sources.

Do we have international obligations which might be jeopardized by the BP Amoco acquisition of ARCO? Two obligations come to mind. First, the United States has an obligation to supply oil to Israel, should the need arise. I would emphasize that Israel's oil needs are quite small. In the unlikely event that our obligation would be triggered, adequate supplies could be made available with minimal effort.

Under the International Energy Program, which set up the International Energy Agency, it is possible that the United States would have a supply obligation as defined by the Emergency Sharing System. The United States would not be sending our domestic oil to some other country, however. Rather, we would be reducing our imports to a degree reflecting the oil supply disruption scenario. But for that reduction to come about, world oil supplies would have to be seriously disrupted for an extended period of time.

In closing, let me note that a certain complacency has set in with regard to the security of oil supplies for the United States. Imports are rising, and will continue so for the foreseeable future. We have the Strategic Petroleum Reserve to call upon in the event of a supply disruption, and we have the coordinated response mechanisms under the International Energy Agency to fall back on. Nonetheless, it seems to me that the best approach to enhanced national security is a healthy domestic oil industry, an industry where local, state, and federal governments can work together to offer an attractive framework for investments.

Mr. Chairman, that concludes my remarks, and I look forward to any questions you may have.