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## Energy Supply, al Qaeda, Iran and business continuity Preparedness is still key to minimizing costly disruptions

*Through most of the 1990s, when energy supplies were plentiful and prices were low, U.S. foreign policy and domestic concerns generally accorded little attention to energy, except for special situations such as the location of the strategic pipelines in Central Asia. Times have changed, however, and President George W. Bush, in this year's State of the Union address, warned of an addiction to imported oil and its perils. Because the U.S. both consumes and imports more oil than any other country, the strength of the American economy is especially at risk were ulterior forces to disrupt the flow of this important commodity.*

*The United States has just 4.6 percent of the world's population, yet consumes 25 percent of the world's oil. The U.S. relies on the global market for oil, much of which comes from politically unstable parts of the world. In 1973 America imported 35 percent of the oil it used; today that figure is greater than 60 percent. The U.S. is very vulnerable to the interruption of its imported oil supply. This dependence on oil has a huge effect on our foreign, military and economic policies. During the next two decades, it is unlikely that the U.S. will be able to make a sharp reduction in its dependence on imports, which currently stands at 63 percent of consumption. The U.S. Department of Energy estimates that U.S. oil consumption will grow from 20.7 million barrels daily in 2004 to 27.7 million barrels daily in 2030. Most of the oil used in the U.S. is for transportation, and oil fuels 96 percent of all transportation needs. This is the fundamental reason why oil is so important in the U.S. economy. The availability of low-cost oil resources is expected to decline and the industry will have to develop resources in more remote areas where the costs of production and transportation are likely to rise. One example of this eventuality is the huge investment during the past several years by ExxonMobil in developing oil fields on Sakhalin Island in the Sea of Okhotsk in the Russian Far East. So while the world will not run out of oil anytime soon, these new supplies are almost surely going to be more difficult and expensive to produce than in the past. Consequently these supply chains could be more easily disrupted and more difficult to secure.*

*Adding to this uncertainty is the fact that energy markets operate neither transparently nor within perfect economic conditions. For example, the Organization of Petroleum Exporting Countries (OPEC) seeks to act as a cartel. State-run companies control three quarters of the world's oil reserves. Some of the national owned companies (NOCs) are undeniably inefficient or corrupt. Some even control the resource and the revenues for purposes detrimental to the U.S. economy and interests. In recent years, with oil prices high, some countries such as Russia and Venezuela have expropriated more privately owned companies and have increased the authority of these nationally owned companies. One unavoidable implication of the dual realities that as U.S. oil production keeps falling and U.S. oil consumption keeps rising is that the volume of oil that we import from abroad has steadily risen. This amounts to \$300 billion a year in oil imports, a phenomenal transfer of wealth. The influence that Saudi Arabia can buy with this money seems likely to have played a part in the radicalization of Islam around the world.*

Gas prices are spiking again, to an average of \$3.22 a gallon, and close to \$4.00 a gallon in many states. Oil executives are now warning that the current shortages of fuel could become a long-term problem, leading to sustained higher prices at the pump. The current cost of gas – which in real terms is approaching the old peak of \$1.42 a gallon in March 1981, or \$3.31 adjusted for inflation – has renewed concern regarding the availability of this precious commodity. The sharp increase in oil prices over the past three years has been the result of supply and demand forces: the worldwide demand for oil has grown, notably in the United States, India and China, while oil production capacity has not risen as rapidly. Normal market pressures on availability are enough to cause concern, but tendentious efforts by hostile elements like al Qaeda and rogue states like Iran multipl the devastating consequences for the American economy and standard of living. The high price of oil imposes real costs on the U.S. economy, lowering the living standard of American households. Energy disruption and deprivation like natural disasters, criminal and terrorist activity and even the avian

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pandemic should be considered in business continuity and security plans.

The United States and the private sector must address the threats to national security created by energy dependence. There must be a common interest in reducing infrastructure vulnerability, whether to terrorist attacks or natural disasters, from hurricanes Katrina and Rita to a recent major attack attempted on the Saudi oil processing facility at Abqaiq.

### Enter al Qaeda

In February 2006, terrorists linked to al Qaeda attempted, but failed, to destroy the Abqaiq processing facility in Saudi Arabia, where 6.8 million barrels of oil are processed every day for export. This amounts to two-thirds of the total Saudi production. It is certain al Qaeda will try again as experienced at the World Trade Center in New York City in 1993 and 2001. An al Qaeda cell plotted to attack Saudi Arabia's Ras Tanura, the world's largest offshore oil loading facility through which a tenth of the global oil supply flows daily. In October 2002, al Qaeda attackers badly damaged the French supertanker Limburg off the coast of Yemen. Additionally recent militant attacks on oil tankers en route to deliver fuel to U.S. and NATO troops in Afghanistan have led Pakistani suppliers to halt shipments from the Attock oil refinery. Twenty-three tankers have been destroyed on the road between Attock, Pakistan and Afghanistan in the past month due to the "lack of any security network." Here we have examples of al Qaeda orchestrated attacks on refineries, offshore loading platforms and tankers. The security of these elements in the pipeline to pump process is crucial.

Recently four alleged members of al Qaeda confessed they were planning to participate in terrorist attacks on oil facilities in the Middle East that would have been equal in scale to the September 11 attacks. The four suspects arrested last year confessed that they were ready to attack oil facilities in areas like Ras Tanura and Jubail in Saudi

Arabia but were told by al Qaeda's leadership to wait for a direct signal from Osama bin Laden so that they could coordinate their attacks with a larger plot to attack multiple oil facilities in Kuwait and the United Arab Emirates. The suspects were told it would take several months to get bin Laden's approval, as al Qaeda was planning multiple strikes on oil facilities in the Middle East. "They said it would be a huge operation, equal to the September [11] strike and its impact will be on a global level, affecting oil prices" All four suspects were among the 170 suspected terrorists arrested by the Saudi authorities after the failed suicide bombing attack on the Abqaiq oil facility in February 2006.

Additionally, in November 2006 the group known as al Qaeda of Jihad Organization in the Land of Yemen claimed credit for attacking oil facilities in the Hadramawt area of Yemen.

Al Qaeda is a more dangerous enemy today than it has ever been before. The organization now has a solid base of operations in the badlands of Pakistan and an effective franchise in Western Iraq. Their support group, the Taliban, is making a comeback in parts of Afghanistan. Its reach has spread throughout the Muslim world, where it has developed a large cadre of operatives, and in Europe where it can claim the support of some disenfranchised Muslim locals and members of the Arab and Asian diasporas. Osama bin Laden has mounted a successful propaganda campaign to make himself and his movement the primary symbols of Islamic resistance worldwide. His ideas now attract more followers than ever. The innumerable continuing conflicts in the Middle East: the crisis in Lebanon, the Hamas-Fatah split, the Israeli-Palestinian dispute and the Sunni-Shiite war in Iraq all have produced converts to the al Qaeda movement. His disciples have also effectively moved into India, Bangladesh, Somalia, Turkey and Algeria. One newer group, al Qaeda in the Islamic Maghreb, has recently attacked oil targets and police stations, hoping a spectacular series of assaults, especially on Western targets, could reignite the civil war in Algeria.

Bin Laden's goals remain the same. He seeks to "provoke and bait" the U.S. into "bleeding wars" throughout the Islamic world; he wants to bankrupt the country much as he thinks he helped bankrupt the Soviet Union in Afghanistan in the 1980s. The demoralized "far enemy" would then go home, allowing al Qaeda to focus on destroying its "near enemies," Israel and the "corrupt" regimes of Egypt, Jordan, Pakistan, and Saudi Arabia. Then al Qaeda would strike the U.S. homeland again. Naturally, the disruption of the energy regime in the Middle East would fit into bin Laden's scheme.

Much has been done to protect our infrastructure since 9/11. While vulnerabilities remain, it is apparent that energy infrastructure is emerging as a primary target. Terrorists see attacks on the world's energy system as a certain way to disrupt the global economy. The possibility of energy terrorism does not generate the same attention as potential chemical, biological or nuclear terrorism, but the economic implications of an attack are potentially enormous and long lasting.

What is particularly ominous for the U.S. is the radicalizing of the second generation Muslim youth from India and Pakistan residing in the United Kingdom. Al Qaeda's relocation to Pakistan has provided new opportunities for the group to expand its reach to the West. Pakistani-born Britons can readily travel to Pakistan and back, facilitating recruitment, training, and communication for jihadists. These individuals can also travel to the U.S. without visas because of their United Kingdom citizenship. This is similar to the 15 Saudis involved in 9/11 who took advantage of vulnerabilities in the visa program. In November 2006, the director general of the British Security Service, known as MI5 said that some 200 networks of Muslims of South Asian descent were being monitored in the United Kingdom. These terrorists were further described as resilient groups directed from al Qaeda in Pakistan. The plot foiled last August, in which would-be terrorists sought to destroy ten commercial airliners en route from the United Kingdom to the United States has been connected to this Pakistani-British network. Al Qaeda's

growing connection to Europe has made the United States more vulnerable. FBI Director Robert S. Mueller recently stated that Osama bin Laden is likely still communicating with al Qaeda cells. Also, based on current intelligence, Mueller suspects that some form of al Qaeda cells exist in the U.S. and that bin Laden is desperate to procure nuclear weapons and detonate them in U.S. cities, with New York City and Washington, D.C. the most likely targets.

### **Iran**

The ascendancy of Islamic parties has pushed the Middle East to the brink of chaos, and the Islamic Republic of Iran stands in the midst of this mess. Iran now lies in the center of the Middle East's major problems, from the civil wars in Lebanon and Iraq to the security challenges of the Persian Gulf. A significant volume of Middle Eastern oil flows through the Strait of Hormuz in the Persian Gulf. Meanwhile Tehran's power is being steadily enhanced by its nuclear program. In order to increase tensions and remain on the offensive, Iran recently arrested three Iranian-American academics and charged them with spying. Iran has accused the U.S. of backing "spy networks" operating in Iran, and retaliation for these perceived acts is not unthinkable.

Iran continues to support terrorism and is ruled by prominent radicals. Iran's support for Hezbollah and Hamas gives Tehran a voice in the area beyond its military reach. In particular Ahmadinejad and his allies see the United States as "the Great Satan": a source of cultural contamination and a rapacious capitalist power that exploits indigenous resources. Iran is also a major producer of oil and is strategically located in the region to disrupt the flow of oil.

### **Security and business continuity**

American and European dependence on oil from unreliable sources such as Saudi Arabia, Venezuela, Iran, Iraq, Nigeria and Russia to name a few, creates serious security vulnerabilities that, if exploited, could result in widespread economic

dislocation and increased global instability. Even a small reduction would result in tremendous national security and economic problems. In view of this fact, the situation will continue for the next two decades, until new technologies are developed and local sources of energy are located there is an acute necessity to maintain and secure the existing sources of energy and the supply chain. An independent task force report prepared by the Council on Foreign Relations recommended the following steps to protect U.S. security and economic interests: (1) increase efficiency of oil and gas use; (2) switch from oil-derived products to alternatives; (3) encourage supply of oil from outside the Persian Gulf; (4) make oil and gas infrastructure more efficient and secure; and (5) increase investment in new energy technologies.

Those entrusted with security of assets of the energy industry should make diligent attempts to ensure the U.S. oil and natural gas infrastructure is made less vulnerable to disruption caused by natural disasters or terrorist attacks. Planning for such events must involve risk analysis not just for an oil-producing facility but for the supply chain and components of production. Even these indirect results can have enormous consequences: after Katrina and Rita, refineries and pipelines were shut down in part because electricity was not available to power these facilities.

## **The Time for Urgency is Now®**

Prudence and best practices dictate the necessity for an assessment of the effects of an attack or a disruption before it happens. In view of the resurgence of al Qaeda, the continuing dependence on oil from unstable or hostile areas and the illustrated efforts of al Qaeda to attack the supply chain for severe economic dislocation in the West, it is prudent to take the necessary steps to minimize the damage. Many businesses feel that 9/11 was a one-off event and terrorism poses a serious threat only to government facilities, especially in the Middle East. This view is contrary to available statistics that demonstrate that international terrorism is clearly a global issue with business accounting for almost 50 percent of the targets. Because of increased counter terrorism preparedness on the part of the government, the terrorists are now increasingly looking for soft targets, including parts of the country's energy infrastructure and facilities. Terrorists find it easier to go after energy because the targets are often convenient and have a high impact. Terrorists seeking to cause disruption to business

activity have found that attacks on parts of the energy supply chain have the largest impact of any sector. Hitting the energy sector has a substantial ripple effect on almost every other sector. Businesses have an obligation to be aware of the consequences of failure to properly prepare for the possibility of a catastrophic event. Asset damage, which may be significant, is only one effect of an attack. Business interruption, loss of key staff, company reputation and company value could substantially outweigh the physical damage to a facility.

*The first step in the risk management process is to evaluate the risk from terrorism or natural phenomenon. This process includes a facility assessment to identify potential target assets, identifying the hazards involved in the surroundings, layers of protection and target attractiveness. A threat assessment is also an important part of the risk management process. The threat assessment includes the consideration of possible threats. This requires historical and current event information and the opinions of local, regional and national intelligence experts. A vulnerability assessment is also necessary to identify the vulnerabilities taking into account the effectiveness of the countermeasures. Appropriate enhancements to the security countermeasures should be recommended and implemented. Understanding the true terrorism risk exposure allows for the implementation of a strategy for emergency planning, crisis management, business continuity and disaster recovery planning. An important risk reduction strategy is facility protection that can be measured on a cost benefit basis.*

*Maintaining security from the pipeline to the pump has always been essential. Now that the energy sector has been named among the industries considered "critical infrastructure" in the war on terrorism, it is more important than ever for security professionals to try to achieve that objective.*



**The Lipman Report Editors**