Outcome Grim at Oil War Game
Former Officials Fail to Prevent Recession in Mock Energy Crisis

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The United States would be all but powerless to protect the American economy in the face of a catastrophic disruption of oil markets, high-level participants in a war game concluded yesterday.

The exercise, called "Oil Shockwave" and played out in a Washington hotel ballroom, had real-life former top U.S. officials taking on the role of members of the president's Cabinet convening to respond to escalating energy crises, culminating in $5.32-a-gallon gasoline and a world wobbling into recession.

"The American people are going to pay a terrible price for not having had an energy strategy," said former CIA director Robert M. Gates, who took on the role of national security adviser. Stepping out of character, he added that "the scenarios portrayed were absolutely not alarmist; they're realistic."

The exercise began with ethnic unrest in Nigeria, leading to the collapse of the oil industry in that west African nation. Then al Qaeda launched crippling attacks on key energy facilities in Valdez, Alaska, and Saudi Arabia.

But the war game's participants -- including former CIA director R. James Woolsey, former Marine Corps commandant Gen. P.X. Kelley and former EPA administrator Carol Browner, soon realized the U.S. government had few options in the short term to prevent an economic crash in this country and worldwide.

When the exercise's planners first met last year, oil was in the $40-a-barrel range. As they fantasized where oil prices would be for the war game's start in an imagined late 2005, they said, they set them at $58 but worried they were being absurdly pessimistic. Yesterday, the closing price for a barrel of oil was $59.42.

The war game players also referred several times to other real-life events of today. A major feature of the exercise was how China's voracious appetite for oil is driving up world prices, and only yesterday it was announced the Beijing government, in a bold and unprecedented act, is bidding to buy the U.S. oil company Unocal.

The exercise was organized by two nonprofit groups that focus on the national security implications of U.S. dependence on foreign oil: the National Commission on Energy Policy and Securing America's Future Energy (SAFE). The scenarios were dreamed up by a team of former oil industry executives and government officials, including Rand Beers, a White House counterterrorism official who quit in 2003 to protest the Iraq war.
The underlying situation dramatized in the exercise -- and accepted by most energy analysts -- is that tolerances are so tight between supply and demand, that even small disruptions in the delivery of oil and natural gas can cause cascades of unpleasant developments.

The war game contemplated that when oil prices spiked and the Cabinet met to consider its options, it realized it had almost no clout to influence events.

The standard response, drawing on the Strategic Petroleum Reserve, was symbolic at best. The president should not give in to Saudi offers that the kingdom would lower prices if he stopped pressing for Saudi democracy, the participants agreed. Within weeks conditions were worsening -- the Valdez oil terminal was on fire, as was a major Saudi oil port, and Western technicians were being killed there.

Foreign oil firms soon pulled tens of thousands of workers out of Saudi Arabia. Suddenly lacking technical expertise, Saudi facilities could no longer play their decades-long role of guaranteed "swing" provider of oil in response to disruptions elsewhere. As the global recession deepened, there was no "central banker" of oil to smooth out temporary dislocations.

The participants concluded almost unanimously that they must press the president to invest quickly in promising technologies to reduce dependence on overseas oil, such as hybrid cars powered by gasoline and plug-in electricity; and cars that run on fuels derived from prairie grasses, animal waste and other products. They all agreed these projects would take years to yield any benefit but should not wait for the kind of crisis they were dramatizing.

"If you want to put a frown on the face of [Saudi] Wahhabis, talk about 100-mile-per-gallon vehicles," Woolsey said. "We don't need a Manhattan Project to do it."