

The Catalyst

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The Energy Crisis

Economics and politics of oil

By Mark Bruzonsky

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King Faisal of Saudi Arabia was not long ago fond of telling his Western visitors that oil and politics didn't mix. It was a brilliant though rather simple strategy.

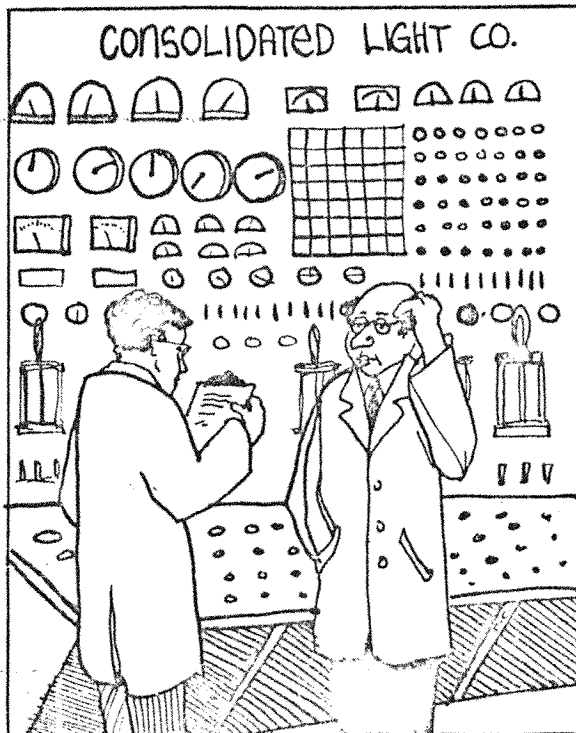
Many gullible visitors were eager to believe the King and avoid the complications involved in worrying about such a mixture. Hence a partial explanation to today's "energy crisis" — a situation where both politics and economics dictate competing interests between suppliers and consumers of oil.

The suppliers created a dependency situation and a cartel while the consumers, in disorganized disarray, (except for the private multinational oil companies) are still trying to figure out what has happened.

When the sale price of a basic commodity goes from about \$3 a barrel to about \$12 in a few months, and when the production price is measured not even in dollars but rather in cents, something was and remains drastically wrong.

The warnings have been loud and clear for a long time now. Over a year ago the situation was already so critical that one of the world's leading petroleum economists, Walter J. Levy, indicated that:

"We are in the midst of events of such explosive potential, and yet the governments of some of the most sophisticated states in the world appear incapable of commencing action. The time for action is now if not yesterday . . . The producing countries, and especially those in the Middle East, have acquired a tremendous potential for power . . . This accumulation of oil and money power brings



"ALRIGHT, WHO'S THE GUY WHO ORDERED 500 FRANKLIN STOVES!"

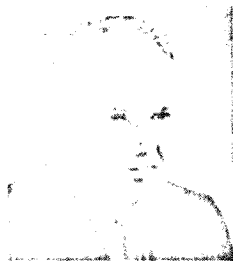
Conversation: Sohio's Frank Mosier

Frank E. Mosier was elected a vice president of The Standard Oil Co. in August, 1972 for supply and distribution. He had been manager of the supply and distribution department since 1971.

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How do you react to the fact that a majority of the people in the U.S. feel the energy crisis is a put on dreamed up by the oil companies to make more money?

You said how do I react to the fact that a majority of the people really feel that way. I'm sure there are a number who feel that way but I believe in recent months there are fewer and fewer people that have this viewpoint.



Frank Mosier

The attacks on the oil industry by the media, certain members of Congress and certain agencies of the government have proven time and time again to be false. Study of those attacks have shown that there is no conspiracy, that the crisis is not contrived and that many companies have not reached profit levels of the late 60s.

Do you have less crude available this year than last year?

Yes we have less. Last year we processed 360,000 barrels of crude a day which compares to a capacity of 385,000.

Why did you refine less than maximum capacity?

Lack of available crude. This year under the mandatory allocation program we will be able to process no more than 283,000 barrels a day. That is 76.6% of our reported capacity and a 15 to 20% reduction of processed oil.

Will shale exploration solve the energy problem?

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with it a tremendous and lopsided shift in the balance of power of a potentially explosive character."

However, the politics of oil is not only the story of how the Arab OPEC (Organization of Petroleum Exporting Countries) nations have gained a dominant and exploitative position over the consuming nations. When an industry becomes key to the economic functioning of nations, what happens to that industry becomes an issue of international politics in the largest sense.

It would be naive to think that the Soviet Union and the U.S. are not deeply competitively involved in the politics of oil. After all, what has the struggle for influence and domination in the contemporary world become if not a contest for control of resources, wealth, influence, and power. The modern world is one where politics and economics are meshed much more inseparably than ever before.

Three aspects of the current political jockeying over oil are key. First, the new terms of trade being coerced from the industrial world mean a shift in real wealth away from the industrial world to the countries rich in natural resources. The wealth pouring into the Persian Gulf is truly unfathomable and the implications for the international monetary system are unprecedented.

Never before has a group of nations been able to accumulate hundreds of billions of monetary reserves — the forecast for the Persian Gulf in the coming few years.

Since World War II the world has seen a decentralizing emphasis on nationalism and a gradual termination of the domination known as "colonialism" or "imperialism" be it of the military, political, or the more modern economic variety. It was only to be expected that economic nationalism would closely follow political nationalism and in fact this might well be why political nationalism had to be fought for so bitterly in so many areas of the world.

The rise of OPEC and the failures of the consuming nations to understand the process of economic nationalism and to plan for the consequences are probably the central reasons for today's "energy crisis." On the one hand there might well be agreement that the terms of trade have for too long been too generous toward the industrial world.

Still, such an analysis can hardly justify blackmail and embargo policies together with skyrocketing prices — especially after a dependency relationship has been fostered partly through deception.

No matter how the energy crisis is

worked out, it is vital that the consuming nations realize the deeper meaning of this situation. Not only is this crisis one based on economics as opposed to actual shortages of resources, and not only is the crisis independent of the Arab-Israeli controversy, it is a crisis whose basic implications extend to the very relationship between the industrial world, which is dependent on raw resources, and the developing (sometimes called "Third World") countries, where many of these resources are located.

The second area of political jockeying comes about because the Arabs have realized that all of their economic goals can be used to put pressure upon Israel as well. This brings greater unity in the Arab world, but more importantly, it provides a method of disguising the basic goals of more money and less output.

The Arabs have found a real pressure point for carrying their struggle against Israel to Israel's allies and sources of supply. As long as the Western World remains dependent upon Middle East oil and as long as OPEC operates successfully as a cartel, no one should be deceived that the oil weapon isn't loaded and of immense potential power. Under the circumstances, the ceiling price for oil has nothing to do with production costs or available supply.

In such a situation the only limit on price is the cost of alternative sources of energy and in the short-run no alternative sources are available anyway.

In the contemporary world political blackmail is more acceptable than economic blackmail. It is rather clear now that in October 1973 Israel became merely a convenient excuse to disguise Arab economic greed and to hide an apparent disregard on the part of the Arab states for the well-being of the industrial world.

Of course Israel had for years been used as the excuse for the failures of the Arab governments to provide for their own people and to aid the Palestinian refugees. Now, a policy of ruthless monopolistic exploitation was to be carried out with the multinational oil giants following OPEC's orders since the creation of an oil shortage was in their interest as well.

The basically false linkage between the Israeli-Arab controversy and the energy crisis was clearly pointed out in a statement by eight leading American economists, including all four Nobel laureates. They concluded that even:

If some perfect Middle East political settlement were reached tomorrow, the OPEC countries would not give up a cent of their

gains, and they would not cease to consider when and how much to raise prices. To suggest a connection between Arab-Israeli strife and the contrived scarcity of oil to drive up prices is to commit a non sequitur.

A recent Gallup Poll has indicated that the American public has shown a rather perceptive understanding of what the energy crisis is really about. Only 1% of Americans blame Israel when responding to the question "Who or What is responsible for the energy crisis?" The Nixon Administration rated a 19% response, with 23% indicating the Federal Government, and 25% the oil companies (presumably some people include OPEC here even though OPEC's central role in the crisis is not too well known).

Third, and possibly the most illusive of the major political aspects of the energy crisis are the gains being achieved by the Soviet Union in its perpetual quest to dethrone the West and overtake the United States.

It is thought that the Russians were originally instrumental in encouraging the Arabs to combine their campaign against Israel with their economic goals. More recently, Arabic radio broadcasts from the Soviet Union have urged the Arab nations not to lift the oil embargo and not to cooperate with the West in establishing reasonable terms of trade and supply levels.

There should be no doubt but that the Soviet Union is achieving real political gains through Western political division and impotence. The economic chaos and decline being experienced in most of the Western nations is quite beneficial to the Soviet Union as well, making the contrast of affluence and poverty between the two economic systems less clear.

The fantastic investment made by the Russians in the Middle East ever since the mid 1950s was never made benevolently (even the Arabs know this), and the Russian build-up of conventional weaponry and sea power, especially in the Mediterranean area, is designed to achieve further Russian hegemony which will definitely come at the expense of the United States and Europe.

"Detente" is an approach which must be given very close scrutiny especially when Russian desire for trade concessions is combined with a military build-up, repression at home, and world-wide economic policies harmful to the West.

This is only a brief look at the multiple dimensions of the politics of oil and the energy crisis. The world-wide political-economics of energy is a subject encompassing nearly all aspects of modern international relations.