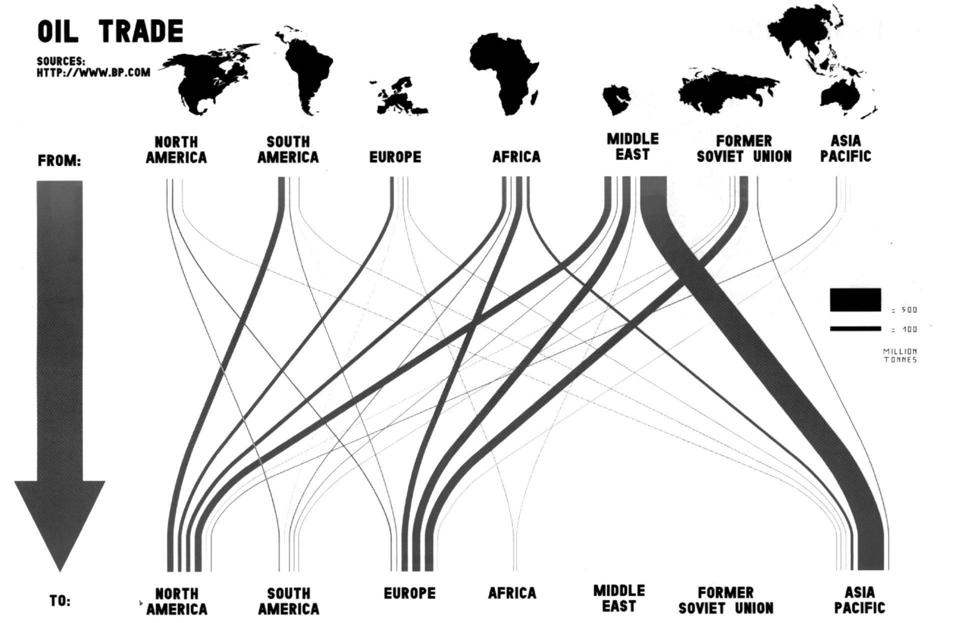
so-called ‘energy crisis’



According to the BP Statistic Review, the USA is in no way dependent on the availability of oil depots from the Caspian region and much less dependent on the Gulf Region than are other countries. While the US in the year 2001 imported only 25% of its oil from the Near East, and no mentionable amount from the Caspian region, 38% of EU and Eastern European imports come from the Near East. Japan is most dependent, with 85% of its imports coming from the Golf Region. For the long term, the Gulf Region will remain the most important exporter of oil in the world. Control of these oil fields guarantees the US political control of energy as well as economic policy control of other oil buyers, especially if the US itself must not be serviced directly by these fields. This guarantees the stability of the dollar, whose value has been dependent on the price of oil since the mid-1970s.

- Behrooz Abdolvand and Matthias Adolf, “The ‘Oil War’ in the Context of the Impending Bipolar Currency” (“Der ‘Ölkrieg’ im Kontext der kommenden Währungsbipolarität”), in *Blätter für deutsche und internationale Politik*, 2/ 2003.

Energy frees capital from labor

Though oil is a concrete and tangible substance, it is also slippery and volatile, one which evades analysis as much as touch.

Oil has been one of the world’s most important commodities in the post-World War II period and so the story of its use and trading is very nearly the story of capitalism. Concretely, oil is a material substance that is pumped from earth, refined, and burned in factories, cars and kerosene stoves. Beyond its specific applications, oil’s primary and general use is a replacement of labor. Simply put, energy frees capital from labor. But oil is much more since it is also a commodity whose buying and selling greatly controls the global levels of prices, wages and profits. Oil figures into the production of almost all other commodities; as the price of oil goes up or down, all other prices tend to rise or fall accordingly.

What determines the price of oil? Many people assume that the market’s “invisible hand” controls the price. However, this ignores the fact that oil is actually a prime instrument of capitalist planning and its price determined by various political struggles. These struggles have gone through several historical phases.

Oil: From the Keynesian Deal to the Oil Price Shocks

From WW II until the early 1970s, capitalist planning in the West was based upon the Keynesian strategy, named after the economist J.M.Keynes. This involved increasing wages and working class consumption along with increasing the productivity of factories — a strategy that required relativly cheap oil. This was the basis for the growth of the automobile-based economy in the US, the auto deal: more gas for the autos and more energy for the labor process which produced the autos. The price of oil was kept relatively stable through the 1950s and 1960s, and this reflected the stability of the keynesian deal during those years.

Since much of the world’s oil was owned, processed and sold by seven Western (mainly US-based) oil companies, the so-called Seven Sisters, it was not much of a problem for Western economic planners to set the price of oil so that it accorded with the general growth of the auot deal. From the early years of the post-WW II period until 1973, the ration of profits that went to the petroleum and auto industries was almost fixed (see graph#1). In the planet’s most productive oil producing region, the Mideast, these companies owned large tracts of land and paid only nominal tax to the local governments. When the governments of oil producing countries demanded more tax revenue or more control over the oil within their borders, they were quickly sabotaged or overthrown by the US (e.g., Iran 1953, Iraq 1963, Indonesia 1965).

Within the US, the entire post- WW II economy and culture came to revolve around the auto and the assembly-line production process. Automobile production in the US jumped from three million per year in 1946 to eight million in 1950, subsequently rising to an annual average of about 10 million in the 1970s. (...)
The mass availability of the car caused a quantum leap in geographical mobility. Cities were redesigned to accomodate auto traffic and new form of housing mushroomed: the suburb. Today, the very spatial structures of US cities nearly requires auto transport. As the leading icon of mass culture, the car came to be endowed with eroticism, machismo and freedom.

The Energy Crisis of 1973-74

The end of this auto era came in the late 1960s and early 1970s when working class struggles internationally broke the wage/productivity deal of Keynesianism. The response of capitalist planners to this attack was, in the US, to impose a generalized austerity, shrink the industrial proletariat and expand the labor market through increased immigration. In Europe, there has also been a corresponding decline in the labor intensity of manufacturing industry and an increase in immigration, along with chronically high rates of unemployment.

In the oil-producing states, anti-colonial struggles and working class demands forced capital to accede to the nationalization programs. But multinational oil companies still retained control over refining, distribution and technical capability as well as a powerful role in oil pricing policy. Oil-producing states from Venezuela and Nigeria to Lybia and Saudi Arabia also began to fragment and expand their own working class by turning to the pools of multinational labor power in Latin America, Africa and Asia.

The key mechanism for the reorganization of the working class and the production process in the US, Europe and the oil-producing states was the increase in oil prices, the so-called “energy crisis.” (...)

The energy crisis of 1973-74 is customarily blamed upon OPEC; indeed it was OPEC that raised the price it charged the oil companies for crude oil. The OPEC decicion, however came only after the assent of the Saudi Arabian government. Other OPEC countries had been demanding price rises for years but could not effect them because of Saudi opposition. Saudi Arabia, as the largest producer within OPEC, had (and has) virtual power to set short-term price levels unilaterally through decisions about its own production. Being dependent upon US political support, the Saudi government has always made its production and pricing decisions in collusion with US economic planners. The central Saudi bank (SAMA) is managed in coordination with the US Treasury Department. Up until 1980, the Saudi state oil company, Aramco, was run by a team of US oil companies. After 1980, it was completly nationalized but is still managed in partnership with the same oil companies and much of its management is US an European.

The Saudi decision to back higher prices for crude oil in 1973 came only after the US government gave the Saudis the go ahead. The US government, in 1971, began telling Saudi Arabia, and OPEC as a whole, that the price of crude oil should increase
(The US role in pushing up the oil price has been well documented. See V.H.Oppenheim, “Why Oil Prices Go Up: The Past, We Pushed Them,” Foreign Policy 25, Winter 1976 and Pierre Terzian, OPEC: The Inside Story (London: Zed Press 1985))

The Yom Kippur War of 1973 is usually presented as the reason for the oil price rise: the Arab states supposedly wanted to punish the West for supporting Israel. But the war was largely immaterial to the mechanics of the rise. In fact, the Arab oil embargo was virtually non-existent and the flow of oil was at no point seriously disrupted.

The oil price rise was begun by OPEC, but the oil companies immediatly raised their own prices on top of the new charges from the OPEC states. In fact, all enery companies —natural gas, coal, uranium (often one and the same) — raised their prices above and beyond the increase in oil prices. Energy sector capitalists reaped enormous profits from these price increases. Much of the increased revenue gained by the Gulf states (Saudi Arabia and Kuwait in particular) ultimately returned to international banks and stock markets. This process, known as the recycling of petrodollars, involved enormous sums — hundreds of billion od dollars — and became essential to capitalist strategic planning thereafter. At the time, they represented the largest financial flows in the world. This new mass of investment capital allowed capitalists to intensify the automation and computerization of factories in North America, Europe and Japan. The strategy of accumulation that underlay the post- 1973 oil price rise was to see how fast productivity could be increased and wages simultaneously decreased.

Source: Midnight Oil, Oil, Guns and Money, Midnight Notes Collective, Autonomedia 1992

Who are the SEVEN SISTERS (oil companies)?

Following the break up by the US Government of Standard Oil, several new companies were created, three of which, along with four other major oil companies, were once referred to as the Seven Sisters. These were:

- Standard Oil of New Jersey. This later became Exxon, now ExxonMobil
- Royal Dutch Shell Anglo-Dutch
- British Anglo-Persian Oil Company. This later became British Petroleum, then BPAmoco following a merger withAmoco (which in turn was formerly Standard Oil of Indiana). It has now reverted to its old name of British Petroleum, or simply BP.
- Standard Oil of New York. This later became Mobil which merged with Exxon to form ExxonMobil
- Texaco. This later merged with Chevron to form ChevronTexaco.
- Standard Oil of California (Socal). This became Chevron, and now ChevronTexaco
- Gulf Oil. Most of this became part of Chevron. A network of stations in the northeastern United States now bears this name.

As of 2003, the surviving companies are ExxonMobil, ChevronTexaco, Shell, and BP.

Oil Imperialism and the US-Israel Relationship
Noam Chomsky interviewed by Roger Hurwitz, David Woolf & Sherman Teichman
Leviathan, 1:1-3, Spring, 1977, pp. 6-9, 86 [March, 1977]

QUESTION: Is there a U.S. foreign policy in the Middle East?

CHOMSKY: Yes. There’s been a very consistent U.S. foreign policy in the Middle East, at least since the Second World War, whose primary concern has been to ensure that the energy reserves of the Middle East remain firmly under American control. The State Department noted in 1945 that these reserves constitute “a stupendous source of strategic power, and one of the greatest material prizes in world history.”1

Basically it is a policy meant to keep Saudi Arabia, which has by far the largest known stores of petroleum, under American control. This has been quite explicit since World War II. In fact, during the war the government tried to expel Britain, and later France, from the region. There were forms of chicanery used to achieve that end, which was achieved, certainly, by the formation of ARAMCO [Arabian American Oil Company] in 1947.

Given U.S. control over Western Hemisphere resources, the United States thus effectively controlled the major energy reserves of the noncommunist world, with all that implied with regard to the organization of international society.2 A number of years later, the American position in the Middle East was extended. Following the CIA-backed coup in Iran in 1953, American oil companies controlled 40% of Iranian oil. By the mid 50s, American dominance of the region and total dominance of Saudi Arabia was virtually complete.

American penetration of the Saudi economy and military has been extensive. There are now about 30,000 Americans in Saudi Arabia, mostly ARAMCO employers. U.S. exports to Saudi Arabia and Iran amounted to $28 billion each in 1976, with sales to Saudi Arabia projected to reach $4.8 billion in 1977.

QUESTION: How deeply are we involved?

CHOMSKY: A Senate Foreign Relations Committee report estimated that by 1980, there may be 50,000-60,000 Americans in Iran, many engaged in military training.

Furthermore, OPEC [Organization of Petroleum Exporting Countries] investments in the West, with the U.S. share doubling to 44% in early 1970, have relieved balance-of-payments problems and “help explain the dollar’s strength” and “the recovery of the American stock market earlier this year.”3 Saudi Arabian investment in U.S. Treasury Bonds is unofficially estimated at $5 to $10 billion, though it is a closely guarded secret.4

QUESTION: Could you comment on the approach that says that U.S. foreign policy in the Middle East isn’t credible unless we have an independent energy policy?

CHOMSKY: That’s based on a complete misunderstanding. Suppose the U.S. had 100% of its own energy right here. That wouldn’t affect in the least American desire to control the Middle East because we want to make sure that nobody else has access to those cheap resources of energy. One of the ways the U.S. keeps control over Europe and Japan is by having a stranglehold on their energy supply. Therefore, if there was a solar energy or shale breakthrough, giving the U.S. its own energy supply completely independent of Middle East oil, we still would want to ensure control over that region as long as Middle East oil remained cheap and accessible.

Back in 1945, the Western Hemisphere was, by a large margin, the largest producer of oil, with most of it coming from the U.S. or the Caribbean. Nevertheless, the U.S. was absolutely insistent on kicking the French out of that tiny share they had of Saudi Arabian oil. In fact, the U.S. pressed to get Europe and Japan to shift to an oil-based economy after the Second World War, in part as a way of ensuring American control over them. Europe and Japan both have coal, but it is better for the U.S. if they are dependent on a foreign, American-controlled source of energy. In a sense, the major potential enemies of the U.S. are Europe and Japan. Russia is another world. They control their own empire and we can’t do much about it at this point. But Europe and Japan are potential threats. They are the areas where most of the American investment is, so they have to be controlled by the American government.

The real fear of the U.S., which is occasionally voiced quite explicitly (for example in Kissinger’s “Year of Europe” speech in April 1973), is that Europe could become a system comparable to the U.S. in strength and that it would then set up the kind of bilateral arrangements with the Middle East and North Africa that we regard as an American prerogative. If this ever happened, the U.S. would in fact be a second class power in the world.

After the energy crisis erupted, Kissinger again (in January, 1974) warned against the development of bilateral arrangements with the oil producers, although the United States did not refrain from extending its own bilateral arrangements. The Washington Conference of February 1974 brought the EEC [European Economic Community] powers into line on this issue.

In a recent study for the Harvard University Center for International Affairs, Robert Lieber reviews the failure of France’s attempt to organize an independent European policy in the face of German-American agreement “on the need for an agreed code of conduct limiting bilateral deals.” The problem facing the EEC powers was that “to follow the French position meant a serious breach with the United States, which the Germans and then the British found intolerable. In the end, given America’s energy resources, its economic strength (particularly its limited vulnerability to international resource and financial problems), and its superpower military political standing, the Atlantic approach seemed to offer payoffs in dealing with tangible problems which the French-led policy simply could not deliver.” Simply put, American pressures to conform to U.S. “global interests and responsibilities,” strongly backed by Germany, could not be resisted. Lieber further notes that “it was widely observed that the U.S. had benefited from the crisis both economically (through her multinational oil companies and the weakening of rival economies) and politically (by the reassertion of her leadership) ... the crisis left the U.S. more dominant and the community weakened in its influence on issues of security, finance, and economics because of its lack of a single voice.”5

QUESTION: How do you understand the oil-rate hikes?

CHOMSKY: I think part of the apparent American effort to maintain and raise oil prices can only be understood as an attempt (successful in this case) to punish and control our competitors, namely Europe and Japan. The rise in oil prices often attributed in the popular press to “Arab Sheikhs,” in fact has only a marginal relation to the Arab-Israeli conflict. As noted in the Senate report cited above, “the leadership within OPEC in rising prices has come from Iran and Venezuela, countries which have a minimal interest in the Arab-Israeli dispute.” Some commentators go so far as to claim that “Since 1971, the United States has encouraged Middle East oil-producing states to raise the price of oil and keep it up,”6 although by now the rise in price may be harming the American economy as well. This buttresses the basic American concern to control the energy resources and to use those resources as an implement to dominate the world of industrial capitalism.

One result of the oil embargo, in which the American oil companies were the cutting edge, was the wiping out of Japan’s dollar reserves. Although by 1976 Japan recovered somewhat, primarily because of her winning construction contracts with Arab countries, the embargo created a $2.5 billion trade deficit for Japan with Middle Eastern countries from 1973 to 1975.It is not simply a coincidence that the United States, Germany, and Japan are competitors and “leaders in the race to supply the oil-producing nations with consumer goods and equip them for rapid industrialization;”7 and that these countries are also the leaders in the recovery from world recession.

QUESTION: How did the embargo affect other areas of the international economy?

CHOMSKY: The rise in oil prices was accompanied by a comparable increase in the price of coal and uranium, and in fact other commodities as well. To cite only one case, “by the end of 1973, U.S. wheat exports cost three times as much per ton as they had little more than a year before.”8

As for the prospects that prices may drop, the analysis in the current London Economist Annual Review seems plausible enough; the consumer countries cannot organize to this end, for one reason, because “two of the most powerful of the so-called consumer countries, the United States and Britain, are now producers of high-cost oil themselves (in Alaska and the North Sea) and they would stand to lose enormous investments if the price of oil dropped substantially” (not to speak of the value of other energy resources). Furthermore, there is “widespread acceptance among energy experts of the fairness of today’s oil prices” which “are merely what had long be expected by the end of the 1970s anyway...”9 One person’s “fairness,” of course, is another’s “cruel exploitation,” but those with the power are generally in the former camp, not only in this regard.

QUESTION: Would you comment on the relation between the U.S. government’s policy and the interests of the American oil companies?

CHOMSKY: The oil companies are the major international corporations. Since oil has become important, they have virtually owned the State Department. They are the corporations within the American imperialist system that have the greatest concern for American foreign policy. Because they have the largest overseas investments, their influence over foreign policy has always been extremely strong.

But it would be a mistake to say that the government is controlled by the oil companies. The government policy reflects the over-all interests of American capitalism. So, on occasion, the particular interests of the oil companies may seem rather parochial and short-sighted from the point of view of the larger interests of American capitalism. (...) A position paper put out at the time by the Departments of State, Defense and Interior to the National Security Council simply described the oil companies as instruments of U.S. foreign policy and concluded that they should be treated as such. In return and on grounds of “national security” Truman called for termination of antitrust actions against the companies in January 1953. (...)

QUESTION: Could you speak in more detail about the oil companies owning the State Department and the way that is manifested in terms of policy?

CHOMSKY: Well, if you look at the staffing of the top positions in the State Department, it has been pretty much an oil company preserve. Most of the top people in the Department come from either energy corporations, from the Rockefeller Foundation or from law firms that are very closely linked to oil corporations. The mechanism is very obvious. Say you have a regulatory commission that regulates the railroads. The railroads are going to try to get control over it. Foreign policy is analogous to regulation of affairs affecting international corporations, and therefore they’re going to try to gain control over it, which they’ve largely done. (...)

QUESTION: At the moment, the parochial interests of the oil companies appear to involve a commitment to political accommodation in the Middle East.

CHOMSKY: Yes, that’s true. They are pressing very hard – privately, publicly, anyway they can – to persuade the U.S. government to take an “even-handed stand,” a code word for support of a two-state solution on the ‘67 borders. For years the oil companies have been pressing for this solution, on their own and through the Saudi Arabian government, but the U.S. government has ignored the pressure. My speculation is that the U.S. regards the current situation as extremely favorable to their long-term interests. The tension, the high level of armaments, the military confrontation, are favorable, and the strength of Israel and Iran poses a strong military threat to independent action on the part of the oil-producing powers. It’s an extremely dangerous policy, but that’s the way it is.

That’s one view, which has been held by virtually everyone. It seems to have been Kissinger’s view, for example.

QUESTION: Were there different views?

CHOMSKY: There were sharp differences in outlook between individuals. Many are hard to identify because they don’t speak out much, but we can compare, for example, the views of Secretaries of State William Rogers and Kissinger. Rogers’ view was that there should be a political settlement, meaning something like returning to the June ‘67 borders, with a Palestinian state on the West Bank and in the Gaza Strip, and various other conditions of demilitarization and national guarantees. Let’s call that a “two-state settlement.” When Kissinger took control of Middle East policy in the Fall of 1970 (according to his testimony), there was an abrupt switch in official American policy, from Rogers plan rhetoric to Kissinger rhetoric. Under Kissinger’s initiative, the United States by late 1970 abandoned even a rhetorical commitment to a political settlement and was clearly supporting a very different program, namely, the Israeli program of developing and ultimately annexing substantial parts of the occupied territories, a policy that led directly to the October 1973 war. (...)
So here are two easily crystallized positions, both of them being realistic options for the region. The U.S. government has consistently supported the first, Israeli occupation, which is essentially a drift toward the Allon Plan. That would leave Israel, from a superficial point of view, in a very powerful position. In fact, I think it would leave Israel in a very precarious position because the military confrontations are very dangerous and very damaging internally. But if you add up the guns, Israel is in a very strong short-term position, and could be instrumental in U.S. domination of the Middle East. The U.S. government doesn’t care about the long-term consequences – whether Israel exists or fails to exist. What they care about is that the U.S. dominate the region as long as it’s an important region in world affairs.

Anyone who didn’t hold that position simply couldn’t get near the center of government because it’s just too crucial for American capitalism. The Middle East oil reserves are, by a very large margin, the largest and the cheapest energy resources in the world, and whoever has control over them runs a good part of the world.
(...)

Notes

1. U.S. Department of State. Foreign Relations of the United States. 1945, viii, 45, cited in Joyce and Gabriel Kolko, The limits of power, Harper & Row, 1972, which provides a comprehensive analysis of the development of U.S. policy at the time.
2. Until 1968, North America led the Middle East in oil production. Cf. John Blair, The control of oil, Pantheon, 1976.
3. Leonard Silk, The New York Times, 7 Oct 1976.
4. Don Oberdorfer, Washington Post, 12 Dec 1976.
5. Robert Lieber, Oil and the Middle East, Harvard, 1976.
6. V. H. Oppenheim, “Why oil prices go UP? The past – We pushed them,” Foreign Policy, Winter, 1976-77.
7. John Saar, Washington Post, April 15, 1976.
8. Emma Rothschild, “Is it time to end food for peace?,” New York Times Magazine, 13 Mar 1977.
9. Dan Smith, “Oil – the growing power of Saudi Arabia,” Middle East Annual Review, 1977.

“The real challenge of the energy problem is not a struggle with outside adversaries, as in most great crises of the past, but within and among our respective societies. Our peoples need a wartime psychology to fight this war against ourselves. They should be prepared to tighten their belts and to share sacrifices among themselves --because it will be a long, uphill struggle.”

Trilateral Papers No. 5, Trilateral Commission, 1974.

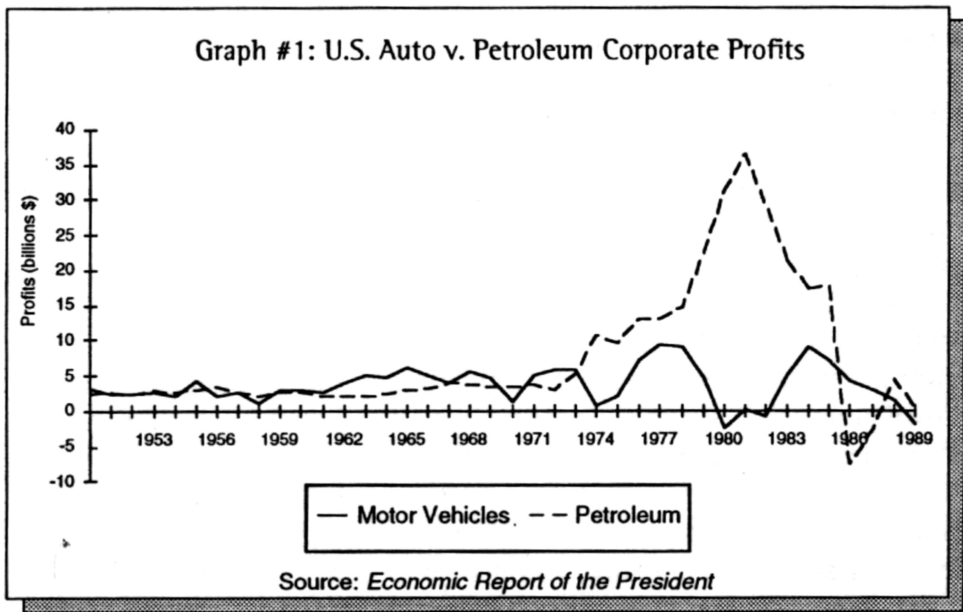
The first Trilateral Commission report on energy prepared December 1973 to June 1974. The report calls foracceptance of reduction in standards of living, conservation, Trilateral regional cooperation, emergency sharing scheme, financial cooperation, sharing of technology and peaceful coexistence with the producing countries.

Who are the OPEC MEMBERS?
By 1973 the members were: Algeria, Ecuador, Gabon [associate], Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela)

World’s 12 largest manufacturing corporations ranked by assets in 1972

Rank	Company	Assets ($000)	Sales ($000)	Rank
1*	Exxon	21,558,257	20,309,753	2
2*	Royal Dutch/Shell	20,066,802	14,060,307	4
3	General Motors	18,273,382	30,435,231	1
4*	Texaco	12,032,174	8,692,991	10
5	Ford	11,634,000	20,194,400	3
6	IBM	10,792,402	9,532,593	7
7*	Gulf	9,324,000	6,243,000	12
8*	Mobil	9,216,713	9,166,332	8
9	Nippon Steel	8,622,916	5,364,332	17
10	ITT	8,617,897	8,556,826	11
11*	BP	8,161,413	5,711,555	15
12*	Socal	8,084,193	5,829,487	14

* Indicates one of the seven sisters. Source: Fortune Magazine, May and September, 1973.



Demand for oil is inelastic

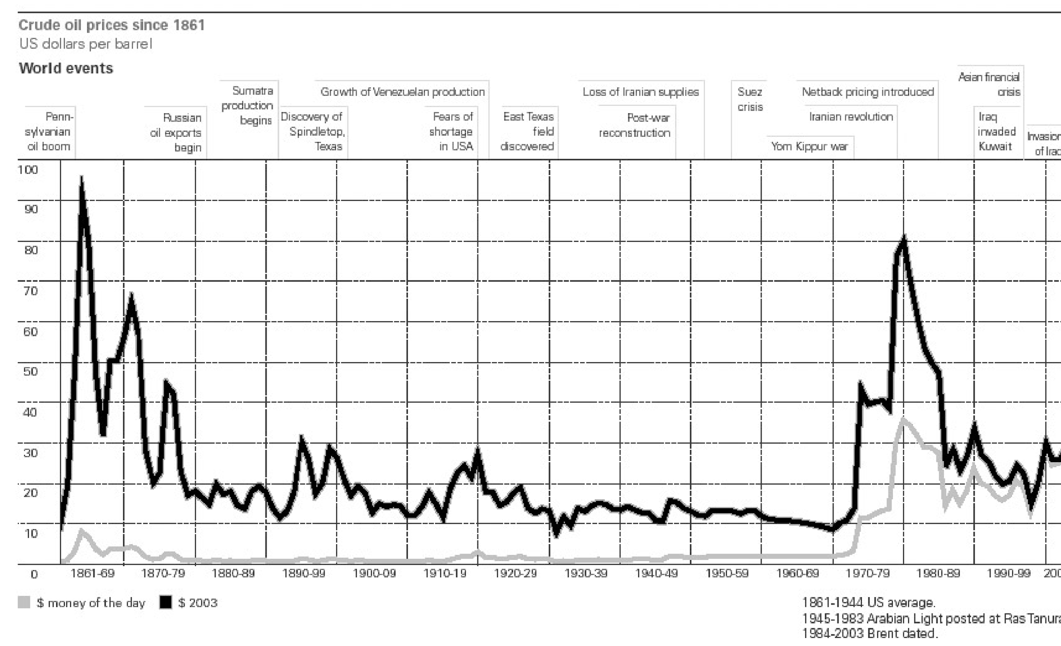
With the quadrupling of the price of oil and the emergence of Petrodollars, there seems to be the following three main concerns: management of accumulated money reserves resulting from the sale of oil, the effect on the balance of payments in both industrialized and developing countries and the impact on international liquidity.

Needless to say that major oil-exporting countries are less developed. Therefore, earning Petrodollars does not represent real wealth, but rather, a means to acquire it. Hence, economic development of the oil-exporting countries should be based on the conversion of their subsoil resources into plants, equipment, infrastructure, hospitals, education, technology and such other forms of real income-generating assets. Obviously the conversion process can be carried on at different rates. An optimum rate is that at which oil should be pumped so that the present discounted value of the income created in the conversion process is maximized.

Yet, oil-exporting countries have pumped oil at a rate far in excess the optimum rate. Furthermore, we know that within a certain band of prices and during certain time intervals, demand for oil is inelastic which means that more revenue will be realized by the seller if offers fewer units of the product for sale. Oil-exporting countries have sold and are selling far more oil than they would sell if these basic economic principles are observed.

This excess - the difference between the volume of oil actually supplied and the volume that should be supplied in the strict observance of the national economic interests of the oil-exporting countries - is, in fact, a subsidy these countries grant the Western world and Japan.

Source: Dr. Ibrahim M. Oweiss, ‘Economics of Petrodollars’ from The Economic Dimensions of Middle Eastern History, The Darwin Press, Inc., Princeton, NJ, 1990, pp. 179-99



source: bp.com