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- (1) Albonetti, Achille: "Divergences et conflits dans le marché énergétique jusqu'en 1985"
- (2) Aron, Raymond: "The energy crisis, the Middle East and US-Western European relations"
- (3) Bundy, William: "Comment on the paper presented by Raymond Aron"
- (4) Campbell, John C.: "US policies and superpower interaction"
- (5) Grenon, Michel M.: "Comment on the paper presented by John Campbell"
- (6) Horelick, Arnold: "Comment on the paper presented by Malcolm Mackintosh"
- (7) Hottinger, Arnold: "The regional environment in the Middle East"
- (8) Mackintosh, Malcolm: "Soviet policies"
- (9) Quandt, William: "Comment on the paper presented by Arnold Hottinger"
- (10) Spaak, Fernand: "Policy of the European Community and member states"
- (11) Stamas, S.: "Comment on the paper presented by Fernand Spaak"
- (12) Ushijima, Toshiaki: "Comment on the paper presented by Achille Albonetti"

LES RAPPORTS ENTRE L'EUROPE OCCIDENTALE ET LES ETATS-UNIS :
LES CONSEQUENCES DE LA CRISE ENERGETIQUE ET LE MOYEN-ORIENT

Divergences et conflits dans le marché énergétique jusqu'en 1985 -

1. - Le marché mondial de l'énergie a été caractérisé, au cours de l'après-guerre et, en particulier, pendant la décennie 1960-1970, par une demande soutenue, par une offre abondante et par des prix relativement bas.

Le pétrole, disponible pratiquement sans restrictions quantitatives et à des prix peu élevés, a couvert la majeure partie des besoins nouveaux et croissants. Le gaz naturel a également contribué, avec le pétrole, à couvrir ces besoins. Le charbon a continué à décroître et a occupé un pourcentage en continuelle diminution dans le bilan énergétique mondial.

Au cours des cinq dernières années, on a enregistré un grand nombre de commandes de centrales nucléaires, surtout aux Etats-Unis, au Japon et en Europe occidentale. Bien que la production d'énergie électrique d'origine nucléaire ne se fasse pas encore remarquer dans le marché de l'énergie, cela ne saurait toutefois tarder.

2. - Le cadre général des quinze prochaines années pourrait bien être différent. Le taux d'accroissement annuel net des consommations d'énergie dans le monde - qui était de 4,5% en 1960-1970 -, devrait atteindre 5% en 1970-1985. On prévoit notamment que les besoins des pays industrialisés à économie de marché atteindront, en 1985, le double de leur niveau actuel. La majorité de ces pays devra, pour couvrir ses besoins énergétiques, avoir recours de façon croissante à des sources externes. Ceci est surtout valable pour le pétrole qui est, de nos jours, la source la plus importante d'énergie. Il est vraisemblable que la place prépondérante qu'il occupe dans le bilan énergétique, en terme de pourcentage, demeurera inchangée dans les dix à quinze ans à venir.

La part du pétrole dans les ressources énergétiques de la Communauté européenne dépassera 60% en 1975-1980 et commencera, vraisemblablement, à décroître en 1985; celle du Japon se maintiendra aux environs de 70-72%; celle des Etats-Unis diminuera légèrement au cours des quinze prochaines années : de 45 à 40%. Toutefois, compte-tenu de l'accroissement considérable des besoins pétroliers, les Etats-Unis devront, pour la première fois dans leur histoire, avoir recours à des importations de pétrole de l'hémisphère oriental et, notamment, du Moyen-Orient et d'Afrique du Nord. De telles importations pourraient même, selon les prévisions les plus récentes, atteindre 40-50% de leurs besoins pétroliers en 1985.

Ce qui signifie que, à cette date, les pays de la Communauté consommeront environ 1.000 millions de tonnes de pétrole, contre 480 millions de tonnes en 1970. Ce qui signifie également que 90-95% des besoins en pétrole devront être importés en 1985 (au minimum 900 millions de tonnes). En 1985, les Etats-Unis devront importer environ 500 millions de tonnes de pétrole et le Japon plus de 500 millions de tonnes.

On prévoit également que, dans les prochaines années, la tendance des prix et des coûts du pétrole sera à la hausse. Les pays producteurs pourraient être amenés, en outre, à réduire la production de pétrole pour des motifs de conservation : politique déjà adoptée par la Libye, le Koweït et le Venezuela.

3. - Le gaz naturel contribuera incontestablement, et de façon croissante, à la couverture des besoins énergétiques mondiaux, notamment de ceux des pays industrialisés. Mais les facteurs de tension qui caractérisent le marché pétrolier, risquent également de caractériser le marché du gaz naturel. En effet, comme il advient déjà et adviendra de plus en plus pour le pétrole, le Japon et les Etats-Unis se présenteront sur les marchés traditionnels ou potentiels de l'Europe occidentale. En outre, comme pour le pétrole, la tendance des prix du gaz naturel sera à la hausse.

4.- Le charbon continuera, de son côté, très probablement, à jouer un rôle secondaire sur le marché énergétique des quinze prochaines années, en dépit d'une réévaluation probable de son rôle, notamment aux Etats-Unis et en Grande-Bretagne.

5.- Une des nouvelles caractéristiques du marché énergétique des quinze années à venir sera représentée par l'utilisation croissante de l'énergie nucléaire. L'énergie nucléaire contribuera à faire plafonner - en pourcentage sinon en termes absolus -, la part du pétrole et du gaz naturel dans le cadre de la production et de la consommation énergétique mondiale, notamment aux Etats-Unis, en Europe occidentale et au Japon. Elle mettra un certain frein aux besoins croissants en combustibles solides et surtout liquides des pays de l'Europe occidentale, des Etats-Unis et du Japon. Elle représentera, également, un facteur de diversification susceptible de renforcer la sécurité des approvisionnements énergétiques, grâce au fait que l'uranium est largement répandu dans le monde, alors que son potentiel énergétique par unité de poids est considérable. Ceci, naturellement, devrait réduire sensiblement les problèmes et les frais de transport et faciliter les problèmes de stockage. En outre, l'énergie nucléaire est susceptible d'exercer une pression sur les prix des sources énergétiques concurrentes, du fait qu'elle représente désormais la source énergétique la moins chère pour la production d'électricité, surtout pour des unités de grandes dimensions.

L'énergie hydro-géo-nucléo-électrique, bien qu'elle représente, aujourd'hui, une part négligeable du bilan énergétique mondial et que son pourcentage de participation ait été, en 1970, pratiquement le double qu'en 1953 (soit environ 6%), a néanmoins enregistré, en termes absolus, de constantes augmentations au cours des vingt dernières années, passant de 70 millions de tonnes d'équivalent pétrole en 1953, à 150 millions de tonnes en 1963 et à 300 millions de tonnes en 1970. L'Amérique du Nord, l'Europe occidentale et le Japon sont, en ce moment, en plein boom nucléaire - boom qui continuera et se renforcera dans les prochaines années. Des douzaines de grosses centrales nucléaires ont été commandées dans presque tous les pays industrialisés.

6. - En général, si l'on se réfère aux pays les plus développés nucléairement, le taux moyen annuel d'expansion de la puissance électrique totale devrait se maintenir dans des limites relativement basses et étroites (environ 4,4-10,5%), tandis que le taux relatif à la puissance électronucléaire devrait partir de valeurs minimales de l'ordre de 10-12% pour atteindre, dans certains cas, des pointes de l'ordre de 25-30% (Japon, République Fédérale d'Allemagne). On prévoit que, en 1985, la participation de la puissance électronucléaire à la puissance électrique totale variera avec des pourcentages inférieurs à 20% pour certains pays (Belgique, Royaume-Uni, Australie), et des pourcentages supérieurs à 30% pour d'autres (Etats-Unis, République Fédérale d'Allemagne, France, Suède, Espagne, Japon, etc.).

7. - Ces quelques considérations laissent entrevoir le rôle de plus en plus prééminent qui sera réservé, dans les années à venir, à l'énergie nucléaire dans le développement de la consommation énergétique dont les tendances, selon les prévisions, devraient se maintenir à la hausse avec les mêmes taux d'augmentation qu'actuellement.

En ce qui concerne, notamment, les Etats-Unis, on prévoit que la demande totale d'énergie va doubler environ entre 1970 et 1990. Dans le contexte des besoins énergétiques, l'énergie électrique jouera un rôle de plus en plus important en raison de ses caractéristiques particulières qui contribueront à rendre son utilisation de plus en plus irremplaçable pour toutes les applications techniques et productives. En 1970, l'énergie électrique représentait 23% des besoins énergétiques des Etats-Unis. En 1980 et en 1990, on prévoit que l'énergie électrique couvrira respectivement 34% et 44% de la demande énergétique totale. Cela signifie que de 340.000 MWe installés en 1970, il faudra passer à environ 700.000 MWe en 1980 et à 1.260.000 MWe en 1990. Parmi les diverses installations de production d'énergie électrique, un rôle de plus en plus important sera dévolu aux réacteurs nucléaires. En 1970 leur production ne représentait que 1,62% de la production électrique totale. On prévoit que ce pourcentage atteindra 30% en 1980 et 50% en 1990.

Pour les principaux pays de l'Europe occidentale également, l'énergie électro-nucléaire représentera, en 1980, une part significative du bilan énergétique total et atteindra de 25 à 35% de la production globale d'énergie électrique.

En ce qui concerne le Japon, les taux d'accroissement de la consommation d'énergie seront encore plus significatifs et leur niveau à peine légèrement inférieur à celui des dix dernières années (accroissement moyen annuel de plus de 13%). De ce fait, la consommation énergétique sera quintuplée en 1980 par rapport à celle de 1960. On prévoit également des augmentations importantes de la puissance électrique, qui pourra atteindre 160.000 MWe en 1980, contre 52.000 MWe en 1970. L'énergie électronucléaire représentera un pourcentage considérable de la production totale d'énergie électrique, pourcentage qui pourra même atteindre 25% en 1980.

8. - L'avènement de l'énergie nucléaire survient donc à un moment particulièrement opportun. En effet, la consommation du pétrole est, comme on l'a dit plus haut, en augmentation croissante, alors que les réserves sont relativement limitées et les prix en hausse considérable.

Toutefois, contrairement à ce que l'on pensait il y a quelques années, l'avènement de l'énergie nucléaire, bien que représentant un facteur important, ne pourra pas, tout au moins d'ici 1985, réduire substantiellement la situation préoccupante de dépendance dans laquelle se trouve l'Europe occidentale en matière d'importations de pétrole, ni éviter que les Etats-Unis eux-mêmes et le Japon ne deviennent progressivement tributaires eux-aussi des importations de pétrole du Moyen-Orient et d'Afrique du Nord.

On a déjà mentionné la tendance à la hausse des prix et à la restriction de la production. En particulier, les restrictions à la production pourraient se généraliser, soit pour des motifs de conservation d'une ressource naturelle limitée, soit pour des raisons politiques (pression sur les Etats-Unis pour provoquer un changement de politique envers Israël). Les restrictions à la production de

pétrole pourraient trouver un encouragement ultérieur dans l'accroissement des recettes des pays producteurs, notamment des pays du Moyen-Orient et d'Afrique du Nord.

En effet, les versements financiers aux pays du Moyen-Orient et d'Afrique du Nord pour l'extraction du pétrole - qui étaient de 5-10 milliards de dollars par an au début des années 1970 -, passeront à environ 30 milliards de dollars par an en 1980 et à environ 50 milliards de dollars par an en 1985. Ces énormes ressources en devises étrangères comportent une difficulté accrue d'emploi pour les pays producteurs de pétrole et représentent un autre facteur d'instabilité économique et monétaire pour les pays à économie de marché.

9. - La modification de la structure du marché énergétique, commencée à partir de 1970, tant sur le plan de l'offre que sur celui de la demande, devrait continuer et caractériser la prochaine décennie, particulièrement en ce qui concerne le pétrole, principale source énergétique.

En premier lieu, les perspectives mondiales de la demande jusqu'en 1985 révèlent, comme on l'a dit plus haut, que les pays de l'Europe occidentale seront de plus en plus tributaires, pour leurs approvisionnements pétroliers, du Moyen-Orient et d'Afrique du Nord et, de plus, qu'ils se trouveront en concurrence directe avec d'autres acheteurs, notamment Etats-Unis et Japon.

En second lieu, les conditions d'offre du pétrole ont tendance à devenir de plus en plus compliquées du fait, notamment, des changements - déjà intervenus ou prévisibles -, dans la politique des pays producteurs ainsi que dans les rapports existant entre ces pays, les compagnies pétrolières internationales et les pays consommateurs.

10. - Il n'est donc pas étonnant, dans de telles conditions, que les pays producteurs et les pays consommateurs soient amenés à examiner avec une atten-

tion majeure le problème des structures traditionnelles du marché du pétrole.

D'un côté, les principaux pays européens consommateurs - Italie, France, République Fédérale d'Allemagne -, ont créé et développé des sociétés nationales pour l'extraction, le raffinage et la commercialisation du pétrole.

De l'autre, les pays producteurs de pétrole du Moyen-Orient et d'Afrique du Nord, notamment l'Iraq, la Libye et l'Algérie, se sont groupés, dès 1960, en une organisation des pays exportateurs de pétrole (OPEP), et ont obtenu, surtout ces deux dernières années, de continuelles augmentations des prix du pétrole. En outre, grâce aux importants accords conclus en octobre 1972 à New-York, ils se sont assurés une participation dans les compagnies pétrolières internationales qui, initialement de 25%, atteindra 51% en 1983. Il s'agit là, en fait de nationalisations subreptices, semblables à celles opérées ouvertement par l'Algérie en février 1971 vis-à-vis des compagnies pétrolières françaises, par l'abolition complète du régime concessionnaire, et par l'Iraq qui, à la suite d'un long différend avec l'Iraq Petroleum Company, a décidé, en juin 1972 de nationaliser cette dernière compagnie. En Iran également, la situation est en pleine évolution. La nationalisation des ressources pétrolières, décidée en 1951 par Mossadeq, a entraîné, en janvier 1973, la décision du Shah de ne pas renouveler l'accord de 1954 qui arrivera à échéance en 1979.

11. - En définitive, la situation relativement facile des approvisionnements pétroliers qui s'est vérifiée durant les vingt-cinq dernières années et, notamment, les années 1960, a fort peu de probabilités de se maintenir à l'avenir. On peut même prévoir que la décennie en cours et, dans une certaine mesure, la suivante, seront des périodes cruciales pour l'évolution du marché énergétique mondial et, en particulier, pour l'évolution du marché énergétique de l'Europe occidentale, des Etats-Unis et du Japon.

Ce n'est que vers la fin des années 1980, en effet, que les applications croissantes de l'énergie nucléaire, le développement de la production du pétrole et

du gaz naturel en Mer du Nord, en Alaska et dans d'autres parties du monde, l'exploitation des vastes gisements de schistes bitumineux aux Etats-Unis et les résultats des recherches et des efforts pour réduire la consommation d'énergie, devraient permettre de faire face plus facilement aux besoins énergétiques croissants de la Communauté européenne, des Etats-Unis et du Japon.

En conséquence, il faut s'attendre, pour la prochaine décennie, à un véritable défi qui aura des répercussions à caractère économique, politique et stratégique. Ce défi intéressera les trois principales sources énergétiques : charbon, énergie nucléaire, pétrole et, plus particulièrement ce dernier.

12. - En ce qui concerne le charbon, il faudra définir son rôle exact dans l'approvisionnement énergétique, notamment sur le marché de l'Europe occidentale et sur celui des Etats-Unis. Ce rôle pourra assumer une certaine importance aux Etats-Unis et en Grande-Bretagne. Il est toutefois douteux de penser que le charbon pourra représenter un élément déterminant pour la solution du problème énergétique des principaux pays industrialisés du monde, notamment Europe occidentale, Etats-Unis et Japon.

Selon les prévisions les plus récentes, le pourcentage du charbon, dans le cadre des besoins énergétiques mondiaux, continuera à décroître en 1985. En termes absolus, la production de charbon devrait rester pratiquement stationnaire en Europe occidentale et au Japon (environ 1/10 du total des besoins énergétiques), et augmenter de 25% aux Etats-Unis.

13. - En ce qui concerne l'énergie nucléaire, les problèmes sont bien plus complexes, notamment en Europe occidentale. Il faut admettre, tout d'abord, que l'industrie nucléaire européenne a manqué ses buts au cours de la dernière décennie, à l'exception peut-être de l'industrie nucléaire de l'Allemagne occidentale. Les centrales nucléaires actuellement en construction en Europe occi-

dentale et au Japon, sont pratiquement toutes de type américain. Il est à prévoir que cette situation se prolongera au cours de la prochaine décennie.

Le combustible qui alimente ces centrales, l'uranium enrichi est aussi fourni pratiquement par un unique producteur, les Etats-Unis, malgré les récentes avances de l'U. R. S. S. Cette situation, elle-aussi, pourra difficilement se modifier au cours de la prochaine décennie, à moins que n'intervienne rapidement la décision attendue de construire une usine européenne d'enrichissement par diffusion gazeuse d'ici 1974-1975 et, peut-être, la réalisation d'une capacité de production d'uranium enrichi par centrifugation, soit en Europe soit au Japon.

La faillite de l'industrie nucléaire européenne est particulièrement grave, si l'on pense que, au cours des vingt dernières années, les gouvernements de l'Europe occidentale ont investi des sommes considérables dans la recherche nucléaire : environ 15 milliards de dollars. Actuellement encore, notamment en France, République Fédérale d'Allemagne et Royaume-Uni, les dépenses pour la recherche nucléaire sont très élevées (environ 1 milliard de dollars par an). Les modalités selon lesquelles ces recherches sont menées, laissent prévoir que le développement d'une recherche nucléaire européenne fait encore partie du futur.

Il devient donc plus que jamais urgent d'affronter le problème de l'intégration des programmes de recherche, ainsi que celui de la création de sociétés européennes - deux au maximum - chargées de concevoir, construire et commercialiser les centrales nucléaires, soit du type dit "éprouvé", soit du type avancé (notamment réacteurs rapides). Il devient également urgent de procéder à la réalisation d'une capacité européenne de production d'uranium enrichi et à la rationalisation de la production des combustibles nucléaires et du marché du retraitement. Au Japon, c'est surtout le problème d'une capacité de production d'uranium enrichi qui se pose, ainsi que celui de la construction d'une usine de retraitement du combustible nucléaire.

Ces initiatives, soit en Europe occidentale, soit au Japon, pourraient provoquer des tensions avec les Etats-Unis et entre les pays européens (notamment dans le secteur de la production d'uranium enrichi). L'expansion, extrêmement rapide du secteur nucléaire devrait, toutefois, atténuer ces tensions.

14. - Le pétrole, qui restera, tout au moins jusqu'en 1985, la principale source énergétique dans la Communauté européenne aussi bien qu'aux Etats-Unis et au Japon, couvrira, comme on l'a dit plus haut, environ 60% de la demande totale d'énergie dans les pays de la Communauté européenne en 1985, 40-45% environ aux Etats-Unis et 70-72% environ au Japon. Les importations de pétrole, en particulier du Moyen-Orient et d'Afrique du Nord, pourraient atteindre, en 1985, environ 2.000 millions de tonnes, contre environ 800 millions de tonnes en 1970.

Le problème de l'approvisionnement en pétrole est donc particulièrement important. Sa solution dépend de la façon dont seront abordés les facteurs externes qui le dominent. Mais les risques sont nombreux.

15. - Tout d'abord, un premier risque dérive du fait que les pays importateurs de pétrole du Moyen-Orient et d'Afrique du Nord, ne demeureront pas exclusivement ceux de la Communauté européenne, mais s'étendront également, comme on l'a dit plus haut, aux Etats-Unis et au Japon. D'où de nouveaux motifs de tension et de conflits entre les pays de la Communauté et ces derniers pays.

Une attitude différente pourrait, notamment, se développer vis-à-vis des prix. Etats-Unis et Japon - même si pour des motifs divers, économiques pour les uns, financiers pour les autres -, devraient pouvoir s'accomoder plus facilement que les pays de la Communauté des augmentations des prix du pétrole demandées sans cesse par les pays producteurs.

Un deuxième risque de croissants motifs de tension et de conflits dérive de la transformation d'un marché, jusqu'à présent de consommateurs, en un marché de producteurs. Un tel risque est encore aggravé du fait que les pays producteurs conserveront pour de nombreuses années le monopole d'une source énergétique indispensable aux pays de l'Europe occidentale, aux Etats-Unis et au Japon. Il est vrai que les pays producteurs tirent une part considérable de leur revenu national, et la quasi totalité de leurs entrées en devises, de la vente du pétrole, mais ils commencent, néanmoins, à pouvoir se permettre de ralentir les ventes.

Enfin, le problème - qui est déjà difficile en lui-même sous l'angle économique et politique, en raison des relations complexes existant entre les pays producteurs de pétrole et les pays importateurs du monde occidental (Communauté européenne, Etats-Unis et Japon) -, est rendu encore plus délicat du fait du conflit latent arabo-israélien et de la présence soviétique croissante dans cette zone.

Les pays arabes producteurs de pétrole pourraient être tentés - et il y a déjà des précédents - de jouer de leur position de monopole pour exercer des pressions sur les pays consommateurs, notamment les Etats-Unis, afin de les faire modifier leur politique envers Israël. L'U. R. S. S., n'étant pas un pays importateur de pétrole et disposant, de ce fait, d'une liberté accrue de mouvement, pourrait exploiter la situation de faiblesse des Etats-Unis, du Japon et de l'Europe occidentale.

Les Etats-Unis, enfin, pourraient trouver de nouveaux motifs de présence et même d'intervention directe au Moyen-Orient et en Afrique du Nord, du fait de leur changement de position dans le marché du pétrole.

16. - Tous ces éléments exigent une attention accrue de la part des gouvernements intéressés et, notamment de la part des pays de la Communauté européenne, des Etats-Unis et du Japon.

Si, par hypothèse, le problème de la crise énergétique et, en particulier, pétrolière, devait être abordé dans les prochaines années dans un climat de faible collaboration entre la Communauté européenne, les Etats-Unis et le Japon, ou même de tension : n'importe quelle solution en deviendrait incontestablement plus difficile. Par ailleurs, il ne faudrait pas donner l'impression de vouloir créer un cartel des pays importateurs, ce qui aurait comme conséquence possible la création de nouvelles tensions au lieu de faciliter la solution du problème. La collaboration entre la Communauté européenne, les Etats-Unis et le Japon, devrait avoir pour but l'établissement de rapports constructifs avec les pays producteurs de pétrole et n'être pas conçue comme un instrument de pression, voir de chantage.

Une collaboration, quelle qu'elle soit, suppose toutefois la volonté de faire des concessions réciproques. Et, pour collaborer - c'est-à-dire, à la fois pour donner et pour recevoir -, encore faut-il savoir exactement ce que l'on est disposé à donner et désireux de recevoir.

Il faut, avant tout, que les pays de l'Europe occidentale qui, pour l'instant, agissent en ordre dispersé, se fixent un objectif de politique énergétique commune, susceptible d'affronter les différents problèmes d'un approvisionnement énergétique à long terme, sûr et à bon marché. Les objectifs d'une telle politique sont connus depuis longtemps. Ce sont : une utilisation plus rationnelle de l'énergie, afin de contrôler la demande; un stockage accru de l'énergie primaire, en particulier du pétrole; la diversification croissante des sources d'approvisionnement; le développement d'une industrie nucléaire compétitive; une politique diligente en matière de charbon et de gaz naturel. Ces objectifs, parmi d'autres, ont déjà été proposés par la Commission des Communautés européennes.

en vue d'une politique énergétique commune qui devrait, par ailleurs, trouver ses bases dans l'élaboration et la réalisation de politiques énergétiques nationales coordonnées.

Des problèmes semblables, mais relativement plus simples étant donné qu'il s'agit d'Etats souverains et non d'une Communauté, se posent aux Etats-Unis et au Japon. Le message, adressé par le président Nixon au Congrès en avril 1973, est de bon auspice, ainsi que le dynamisme du gouvernement et de l'industrie japonaise. Mais la tâche est rendue plus difficile du fait qu'il faudra adopter de bonnes politiques nationales et, de surcroît, instaurer une coopération entre la Communauté européenne, les Etats-Unis et le Japon dans le domaine énergétique.

Il sera nécessaire, pour ce faire, de créer ou de repérer des institutions susceptibles de permettre la consultation, l'élaboration d'une politique concertée et la coopération proprement dite. Il faudra, en particulier, mettre au point des mécanismes afin de faire face aux crises éventuelles. L'O. E. C. D. paraît spécialement bien conçue pour cette tâche; elle a d'ailleurs déjà joué un rôle efficace en 1956-1957, pendant la crise de Suez, ainsi qu'en 1967. Mais, peut-être serait-il opportun d'envisager la création d'un organisme ad hoc.

17. - C'est dans une telle perspective que devraient s'établir de nouveaux rapports entre les pays consommateurs et les pays producteurs de pétrole. La voie a été indiquée, il y a environ quinze ans, par l'ENI et Mattei, appuyés par le gouvernement italien.

Il ne s'agit pas de considérer le pétrole comme une affaire d'importation ou même de prospection, d'extraction et de raffinage. Il faut placer le pétrole dans le contexte du développement économique des pays producteurs. Le rôle prééminent qu'un tel produit assume dans les pays industrialisés devrait faciliter ce concept. Il a d'ailleurs été repris par le gouvernement français dans ses

rapports avec l'Algérie et, plus tard, avec l'Iraq et l'Iran. De lui, se sont inspirées, bien qu'avec des modifications substantielles, les grandes compagnies pétrolières au moment de l'accord signé à New-York en octobre 1972, dont on a fait allusion plus haut. Il ne faudrait toutefois pas s'en tenir là. Les gouvernements et les industries des pays consommateurs devront également participer, non seulement aux prospections, à l'extraction et à la commercialisation du pétrole, mais encore aux processus de développement économique qui pourraient être soutenus et encouragés par les recettes croissantes provenant des exportations de cette précieuse matière première.

Parallèlement, les gouvernements et les industries des pays producteurs devront participer technologiquement, et non seulement financièrement, aux activités des grandes compagnies pétrolières internationales.

Des initiatives ont été amorcées dans tous ces domaines. Mais il faudra aller bien plus loin. Il faudra, en définitive, utiliser d'une part la disponibilité à vendre du pétrole des pays producteurs et, d'autre part, les besoins croissants en pétrole des pays consommateurs, pour faciliter le développement économique des pays producteurs. Cette nécessité devient de plus en plus évidente, tant pour les pays producteurs que pour les pays consommateurs. L'Europe occidentale se trouve dans une position privilégiée, étant donné sa proximité géographique avec les pays exportateurs de pétrole et étant donné, également, dans une certaine mesure, la complémentarité de son économie. La complémentarité de l'économie est également valable dans le cas des Etats-Unis et du Japon. Les pays exportateurs de pétrole du Moyen-Orient et d'Afrique du Nord, comme ceux d'ailleurs de l'Amérique latine, ont tout intérêt à utiliser les capacités économiques des pays consommateurs, tant dans le secteur commercial que dans celui de la collaboration économique, de la main-d'oeuvre spécialisée, de la technologie, du marché des capitaux et du tourisme. Le développement de relations économiques et sociales entre pays producteurs et pays consommateurs, dans tous les secteurs d'intérêt commun et sur la base d'intérêts réciproques, devrait favoriser l'établissement de rapports stables et fructueux.

La question, cependant, est encore plus complexe car elle intéresse les rapports des pays producteurs du Moyen-Orient et d'Afrique du Nord avec les Etats-Unis et l'Union soviétique. Le problème de l'approvisionnement en pétrole de ces pays producteurs doit donc être abordé d'une part avec des modalités économiques et financières nouvelles et, d'autre part, dans un contexte politique nouveau.

Si l'on ne tient pas compte de cet impératif, il sera difficile d'empêcher que les motifs déjà puissants de tension et de conflit qui existent dans le secteur pétrolier, ne soient encore amplifiés par des situations politiques et stratégiques susceptibles de créer une spirale particulièrement dangereuse. Dans ce cas, le problème de l'approvisionnement en pétrole du Moyen-Orient et d'Afrique du Nord non seulement deviendrait insoluble, mais encore serait l'étincelle de conflits permanents et incontrôlables.

18. - Il ne suffit donc pas de supposer la volonté des pays de la Communauté européenne d'entreprendre une politique énergétique commune et de collaborer avec les Etats-Unis et le Japon. Il ne suffit pas non plus de supposer la mise en place de nouveaux rapports entre pays producteurs, compagnies pétrolières et pays consommateurs. Ce qu'il faut, c'est situer une telle politique commune et une telle collaboration dans un contexte qui dépasse largement le contexte énergétique et pétrolier.

Il est un fait que, depuis vingt-cinq ans, les Etats-Unis sont présents en Méditerranée et dans l'Océan indien, avec respectivement leurs VIème et VIIème flottes, ainsi que des bases navales et aériennes, et cela pour des motifs stratégiques et politiques. La présence russe dans les mêmes zones se légitime par des motifs identiques. Par contre, l'absence actuelle de l'Europe occidentale est à déplorer, d'autant plus que, tout au moins en partie, la Méditerranée a plus de titres pour être un lac européen, plutôt qu'un lac américain ou russe.

Le premier point sur lequel on devrait réfléchir est celui de l'indivisibilité du problème de la sécurité européenne. En conséquence, indépendamment du problème de l'approvisionnement pétrolier, la présence de la flotte soviétique en Méditerranée est particulièrement préoccupante.

L'objectif des pays de l'Europe occidentale, des Etats-Unis et aussi du Japon, - à plus forte raison, face à la perspective d'une crise énergétique et pétrolière -, devrait donc être de créer des conditions susceptibles de diminuer la tension en Méditerranée et au Moyen-Orient. Ces zones doivent cesser d'être des centres d'affrontement potentiel entre les superpuissances. A cet effet, le retrait progressif et contemporain de la flotte russe et de la VIème flotte américaine est indispensable.

Tout ceci suppose que soient inclus, dans le processus de détente actuellement en cours, ainsi que dans les problèmes de réorganisation de la sécurité européenne, le Moyen-Orient et le bassin méditerranéen. Qu'il s'agisse des négociations dans le cadre de la Conférence pour la coopération et la sécurité européenne ou des négociations MBFR.

Parallèlement, le règlement du conflit arabo-israélien devient de plus en plus urgent.

Enfin, il est intolérable que, depuis six ans, le canal de Suez continue à être fermé à la navigation.

Tous ces problèmes, abordés séparément, deviennent pratiquement insolubles. Rarement question a nécessité une approche aussi large et, par conséquent, une solution aussi globale, que celle de l'approvisionnement énergétique de la Communauté européenne, des Etats-Unis et du Japon.

Tab. 1. - Production mondiale d'énergie de 1937 à 1985

(en millions de tonnes d'équivalent pétrole)

	1937		1953		1963		1970		1975		1980		1985	
		%		%		%		%		%		%		%
Charbon fossile et lignite	669	72%	1160	55%	1510	42%	1750	33%	1850	27%	1980	22%	2250	20%
Pétrole brut	181	20%	630	30%	1350	38%	2350	44%	3300	47%	4380	48%	4950	44%
Gaz naturel	50	5%	240	12%	560	16%	900	17%	1300	19%	1960	22%	2400	22%
Electricité primaire	27	3%	70	3%	150	4%	300	6%	500	7%	750	8%	1580	14%
Total énergie	927	100%	2100	100%	3570	100%	5300	100%	6950	100%	9070	100%	11180	100%

Source: ONU - Statistical Papers. Serie J-World Energy Supplies.
CEE-COM(72)1201 final. Bruxelles, le 4 octobre 1972.

Tab. 2. - ESTIMATIONS SUR LES BESOINS D'ENERGIE ET DE PETROLE DE LA
COMMUNAUTE EUROPEENNE, DES ETATS-UNIS ET DU JAPON

(1970 et 1985)

(en millions de tonnes d'équivalent pétrole)

Pays	Situation 1970				Perspectives 1985			
	Besoins totaux d'énergie	Besoins totaux de pétrole	Part du pétrole dans les besoins totaux d'énergie	Part des importations de pétrole dans les besoins totaux du pétrole	Besoins totaux d'énergie	Besoins totaux de pétrole	Part du pétrole dans les besoins totaux d'énergie	Part des importations de pétrole dans les besoins totaux du pétrole
Communauté à Dix	854	480	56%	460 95%	1.648	987	60%	890 90%
Etats-Unis	1.603	735	45%	160 22%	2.940	1.190	40%	475 40%
Japon	287	203	71%	203 100%	735	532	72%	532 100%

Source: CEE-COM(72)1201 final. Bruxelles, le 4 octobre 1972.

Tab. 3. - Estimations sur les besoins d'énergie de la Communauté européenne, des Etats-Unis et du Japon (1970 et 1985)

(en million de tonnes équivalent pétrole)

Pays	Situation 1970					Perspectives 1985				
	Comb. sol. %	Comb. liq. %	Gaz nat. %	Elect. prim. %	Total énergie %	Comb. sol. %	Comb. liq. %	Gaz nat. %	Elect. prim. %	Total énergie %
Communauté à Dix	254 30%	480 56%	62 7%	58 7%	854 100%	179 10%	987 60%	241 15%	241 15%	1648 100%
Etats-Unis	336 21%	735 46%	476 30%	56 3%	1603 100%	469 16%	1190 40%	791 27%	490 17%	2940 100%
Japon	63 22%	203 71%	4 1%	17 6%	287 100%	73 10%	532 72%	7 1%	123 17%	735 100%
Total	653 24%	1418 51%	542 20%	131 5%	2744 100%	721 14%	2709 51%	1039 19%	854 16%	5323 100%

Source = CEE - COM (72) 1201 final - Bruxelles, le 4 octobre 1972.

Tab. 4. - Couverture de la consommation intérieure brute d'énergie
(1950-1985)
dans les pays de la Communauté

	1950	1960	1970	1975	1980	1985
	(en million t. e. p.)					
Houille	147	170	132	111	103	96
Lignite	16	22	23	26	27	26
Pétrole	24	97	350	480	619	783
Gaz naturel	1	9	51	105	158	207
En. hydr., géoph. et autres (2)	22	27	32	31	32	33
En. nucléaire	-	-	3	14	52	122
Total (arr.)	210	325	591	767	991	1.267
	(répartition en %)					
Houille	70	52	22	14	10	7
Lignite	8	7	4	3	3	2
Pétrole	12	30	59	63	63	62
Gaz naturel	-	3	9	14	16	16
En. hydr., géoth. et autres (2)	10	8	5	4	3	3
En. nucléaire	-	-	1	2	5	10
Total	100	100	100	100	100	100

(1) Y compris l'énergie primaire transformée dans les centrales électriques.

(2) Pour les années 1950 et 1970, ce montant comprend le solde des échanges d'énergie électrique.

Les "autres" énergies sont des combustibles divers (tourbe, bois, etc.) consommés dans les centrales électriques.

Source - CEE-SEC (72) 3283 final-Bruxelles le 4 octobre 1972.

(2)

CONFERENCE ON CHOICES FOR EUROPE AND AMERICA:

THE MIDDLE EAST AND THE ENERGY

SITUATION 1973-85

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"THE ENERGY CRISIS, THE MIDDLE EAST AND U.S. -- WESTERN EUROPEAN RELATIONS"

By

PROFESSOR RAYMOND ARON

THE ENERGY CRISIS, THE MIDDLE EAST
AND U.S.-WESTERN EUROPEAN RELATIONS

by Raymond Aron

The final report which I have been asked to prepare is at once easy and almost impossible to write: easy, because the basic problems emerge clearly from the other reports; almost impossible, because answers to the questions must depend on numerous factors, often pulling in different directions with consequences that are difficult to foresee.

Reduced to essentials, the basic facts of the petroleum or energy crisis, can be condensed in the following propositions. Whatever the uncertainties of prediction, not one expert anticipates a physical deficiency in world energy supplies before 1985, whether socialist countries are included in the calculations or not. Between the extreme optimism expressed by M.A. Adelman in his article in Foreign Policy and the more cautious appraisals of W. Levy, there is no difference of view on one particular point, i.e. the known reserves in the Middle East are sufficient to cover the needs of the whole world from now until 1985, and even from now until the end of the century if one presupposes a normal development for nuclear energy. M.A. Adelman asserts that, on the basis of an annual growth in production of 8%, the annual production/reserves ratio in 1985 would be 4%. With a growth of 11%, this ratio would rise to 6.7% (these calculations are based on the supposition that no new reserves will be found). This first fact leads to the interpretation of the actual nature of the crisis, that it is due neither to an absolute lack of resources nor to an increase in the cost of extra production (no such increase is visible), but to Japan, Western Europe and the United States having to rely for their oil on Middle East production, that is on OPEC, on the governments of the producer states.

As long as they are united and virtually form a cartel the producer states remain in a strong negotiating position; they can demand high prices, even turn off the tap at will and, therefore, create a permanent fear of a stoppage in supplies. Moreover, as their currency reserves increase, they acquire further autonomy. They can stop or reduce their export of oil without suffering themselves. Between now and 1985, Middle East producer states will own vast quantities of currency which they cannot spend entirely in their own territories. The Persian Gulf States had an income of about 9 thousand million dollars in 1972. This figure could be multiplied by 3, 4 or 5 in the next twelve or thirteen years. What would this mean for the world monetary system?

From these facts and propositions, which are incontrovertible in terms of orders of magnitude, two main questions arise: 1) what events, or political developments (such as inter-Arab rivalries between conservative and radical states, Israeli-Arab conflicts or Soviet diplomacy) could endanger the supply of oil to the West or alter the conditions of sale, particularly the cost? 2) What attitude

should the Europeans, the Japanese and the Americans adopt in relation to this problem? Should they form a common front, or a consumer country cartel, or should they act in a dispersed order?

I shall first deal with the second question which seems to me to be more relevant to this conference.

As I write this, early in May, the Japanese refusal would seem mistakenly to have killed the American project for co-ordinating the energy policies of the three main industrial centres; the question will, however, come up again, sooner or later. I consider therefore that its various aspects merit discussion: is unity of action desirable? Assuming it is, what obstacles will it face? What are the chances of effective co-ordination?

Those in favour of unity of action put forward the conventional argument against a producers' cartel. The only efficient way of limiting the arbitrary nature of such a cartel is to counter it, if not with a similar cartel, at least with a co-ordinated policy. If the Japanese, Americans and Europeans panic and try to outbid each other, the only result will be to give the producer States an even more arrogant sense of power. They will also encourage permanent blackmail by showing up their own divisions and weaknesses.

Another school of thought maintains that unity of action would be considered by the producer States as a challenge, if not as a declaration of war; that it would not affect the essential threat hanging over consumer States, that is, the ability of the Persian Gulf nations, in case of need, to blackmail and temporarily to halt deliveries either to all consumer states or to some of them.

Personally, without laying claim to any special knowledge, I would lean towards a middle-of-the-way solution. I think that co-ordination is possible without appearing provocative. Joint study of the energy problem as a whole, agreement on crisis measures, setting-up of stocks as an insurance, and promises of solidarity with countries which might be specially threatened with possible boycotts, these are reasonable forms of co-ordination which should not give offence to producer countries.

It seems to me that the debate (to which this report is simply an introduction) turns around two themes, an economic one (the fate of the vast so-called 'multi-national' companies), and a political one (which of the three groups has the best chances in separate negotiations with the producer countries in general, and with the countries of the Persian Gulf in particular)?

When American representatives to the OECD propose 'joint action' or permanent concertation to Europeans and Japanese they are met with some doubt and suspicion. In the post-war years, until 1969 or 1970, the market was a buyers' market. The amount of oil available exceeded the requirements of the consumer countries.

OPEC did not exist as a force to be reckoned with and the producer countries

competed with each other to obtain from the large companies an increase in their own production. No producer country related production to reserves, none worried about how long the known reserves might last. Short-term policies, domination by the major internationals based on the Anglo-American economic and political hegemony in the world and in the region, vast profits by companies assuming, because of their very position, responsibility for supplying oil to the consumer countries, and Europe in particular - such were the main aspects of the last phase. In such a context, European governments (excluding the British government, which was, logically, playing the game of the internationals) sought to obtain their share of the cake. Directly or through national companies, they offered rulers in the Near and Middle East better conditions than those granted by the large companies. ENI did this, followed or preceded by similar French or Japanese organizations. Because of the difference in price between Persian Gulf crude and American oil, the large companies were accused of pursuing high price policies depriving European consumers of the advantages of geographical proximity to the cheapest oil. Until late in the 1950s the United States held stocks which protected Europeans against any blackmail from producer countries: in 1957, after the Suez Canal was closed, European requirements were met with American help.

The United States has now become not only ^{an} importer but a large-scale importer. Generally speaking it consumed in 1972 750 million tons a year, of which one fifth was imported. On the basis of the most generally accepted current forecasts, the U.S. will use, in 1980, between 1,200 and 1,300 million tons a year without any large increase in its own production, even including Alaska. European consumption will increase, between 1970 and 1980, from 600 to 1,200 - 1,500 million tons a year, that of Japan from 200 million to 600-750 million tons a year (figures taken from The Economist 4-11 May 1973). According to Walter Levy, U.S. oil imports will increase from 235 million tons a year in 1972 to more than 550 million tons in 1980. Even taking an optimistic view of North Sea production, Japanese and European combined imports, which stand at 900 million tons a year today, will reach 1,500 million tons in 1980. Of the three main importers, Western Europe will remain the largest, but the U.S. will import barely less, and Japan will buy quantities at least equal to Western Europe's present imports. About 50% of American oil imports would come from the Persian Gulf; 75 to 80% of Japanese and Western European imports would be supplied from the same source.

Although no one doubts that known reserves in the Middle East are sufficient to meet demand, at least until 1985, no one doubts either that this dependence of the three main industrial centres on the oil producing countries and, specially on the two main ones, Saudi Arabia and Iran, does create a new situation that did not exist in the post-war period. Even if these countries do not use their oil as a political weapon, even if they do not reduce production in order to spread operations over a longer period, they hold, so long as they remain united, all the trump cards. This is the opinion of the State Department, of W. Levy (M.A. Alderman's

role being that of heretic and iconoclast). But so far neither the Japanese nor the Europeans seem to have drawn the same conclusions as the Americans from the situation.

Europeans continue to suspect the Americans of wishing to raise oil prices to embarrass their commercial competitors and eventually to develop profitably the large reserves of tar and shale from which oil might be extracted (though this will require large investments). I know neither the thoughts nor the ulterior motives of the Heads of the large companies nor those of the officials of the State Department. If we are to suppose that their policy is still really dominated by fear that the Europeans or the Japanese might enjoy more favourable prices, then it must be said that they cannot see the wood for the trees.

Let us put such suspicions aside. Europeans and Japanese can legitimately ask themselves two questions: why should they back the large companies against the leaders of the producer states? Would they not do better to deal direct with the latter who, in one way or another, will nationalize the oil fields (without depriving themselves, however, of the technical, financial and commercial resources of the large companies)?

It seems to me that agreement between the three main importers of Persian Gulf oil would first of all provide for concertation on the future of the large companies, which are primarily American and, to a lesser extent, British. Neither the Europeans nor the Japanese have any reason or desire to defend these companies towards which their feelings ^{tend} to be envious and bitter (whether this is justified or not is irrelevant). In fact, the companies have already accepted a degree of participation by the producers which, in less than a decade, will lead to a transfer of control. On the other hand, the governments of the producer countries will need the refining and distribution capacity of the large companies, although they are determined to take part in the activities and profits all along the line, from oil deposits to the petrol pump. What would be, therefore, the probable or the desirable status of the large companies? Should they merely hire out their services for a fee? Should they remain responsible for the marketing of crude oil? Should this responsibility be transferred to the national companies of the producing countries, would this weaken and possibly break up OPEC? Without trying to answer these difficult questions in a single statement, I would suggest, as a hypothesis, the following conclusions: the national companies of the producer countries will certainly obtain within ten years or so a majority ownership of their oil deposits; they will also have to co-operate with the large companies. This co-operation may seem fraught with peril to the governments of the consumer nations since the interests of the large companies do not necessarily suffer from a price increase. On the other hand, the profits made by these companies compensate, to some extent, for the cost in currency of the oil imports (for the United States and, secondarily, for

Britain). It seems to me that the Americans will succeed in convincing the Europeans and Japanese that the advantages of concertation or joint action are greater than the disadvantages only if they consider together the future of the large companies.

Let us assume that Europeans and Japanese now consider the question of price as of secondary importance compared with the risk of blackmail or even of actual refusal to supply oil to the consumer countries. Would this bring about an agreement between representatives of the three importing centres? Here again, there is doubt. Japan has concluded a long-term delivery agreement with one of the large producers, the Emirate of Abu Dhabi. In Europe, Britain finds herself in a special position, a doubly favourable one, since she possesses large companies and has also found considerable reserves in the North Sea (within a decade, these will be sufficient to supply a large part, 70 to 80%, of her needs).

The Japanese, and perhaps also the Europeans, feel less involved than the Americans in the Arab-Israeli conflict. Although the leaders of Iran and even those of Saudi Arabia are more interested in their own country, in their power and their development programmes, than in Israel, they cannot ignore the passions of the masses. The King of Saudi Arabia fears the progressive forces if he plays a lone hand on this issue and shows no interest in the countries at war, Egypt and Jordan; the Europeans and Japanese, in so far as they consider the Americans more compromised and more hated than themselves, will perhaps seek their salvation in direct contacts with one or other of the large producers.

Are they right or wrong? American negotiators suggest (W. Levy, in the report drafted for the Amsterdam Conference, for example) that, when all is said and done, if a panic-stricken Western world adopts an unruly attitude of 'each for himself', the United States holds the trump cards. It alone has the military power to ensure the safety of the Persian Gulf States. Now ^apurchaser of oil in considerable quantity, it can guarantee outlets, the supply of arms, and investment opportunities for excess dollars.

Which of these two arguments is the more convincing: that of the Europeans who do not wish to be involved with the protectors of Israel or that of the Americans who proclaim the advantages of joint action for all consumers but with the United States in a privileged position in case of competition between Westerners? Personally, I would favour the second thesis: in the present conditions, so long as the leaders of the producer countries are like the Shah of Iran and King Feisal and not like Colonel al-Qaddafi, they will prefer the United States to the countries of Europe, not with their hearts but with their heads. Hated or not, the United States represents military, technical and economic power. The Europeans, if they formed a united entity, might constitute a comparable power. As of now, and incapable as they are of framing a common policy, they have no individual or collective weight.

What are the dangers of a lack of oil in the next fifteen years, due to the actions or wishes of present-day leaders or to historical circumstances, which might lead within the producer states to changes of régime?

From the previous reports, I conclude that if a deficiency were to occur, this would have human or political causes and not natural ones. I also draw a second conclusion in the present state of technology and known sources of energy; the Western world could not do without oil from the Persian Gulf, not even from a single one of the large producers (Saudi Arabia particularly), without serious upheavals, at least until 1985.

Having recognized how vulnerable the West is because of its dependence for its energy on others, what are the political possibilities to be feared? Or to be hoped for? The rivalries between the Persian Gulf States, in particular those between Iran and Iraq and between Iraq and Kuwait, and the radical threat in the Emirates have been analysed in earlier reports. Theoretically, Westerners should keep as aloof as possible from such quarrels, hoping they will be settled. However, since they fear disorder and disturbance, they will find themselves willy-nilly on the side of the traditional leaders - which does not mean that they do not encourage these leaders as best they may, to carry out their reforms. In any event, there is no sign that competition may break the united front of the producer countries in their negotiations with the large companies, or with consumer countries. The Soviet variable is more complex to analyse. What are the aims of Soviet policy in that area? What results could it achieve? What could this mean in terms of oil supplies to the West?

Soviet behaviour in the Near East calls for a number of comments. The Russians anticipated, in the recent past, that hostilities would flare up again between Egypt and Israel. They accepted without great show of feeling the humiliation of their advisers being dismissed by President Sadat. They have neither broken with Egypt nor stopped their aid. A restrained and responsible policy, if you like, but one which coincides with their own interests: the continuing Israel-Arab conflict weakens the moral position of the United States and a resumption of hostilities would have entailed a defeat which they could not have borne without loss of face. They have paid without argument the price of agreeing to a situation of 'neither peace nor war' (unacceptable to their Egyptian allies).

They are now more interested in Syria, Iraq and the Persian Gulf than the Near East. At the same time, Soviet leaders ^{must} fear Chinese influence on extremist movements and avoid a confrontation with the United States which would be caused by too visible support for parties or States committed to subversion. Apart from these superficial comments, I must admit that I find it difficult to try and foresee the development of Soviet diplomacy.

Obviously, the Soviet leaders have noted that the West has to rely on Persian Gulf oil; they wonder what effects this could have on relations between the three industrial centres; they see an opportunity to ensure political or economic advantages for themselves. However, they implement a general policy which, for the time being, would not permit open aggression against American interests. Should the Soviet Union acquire greater influence in some Arab countries, it would play a more active part in the oil industry and trade, without however trying to deprive the Europeans or Japanese of their oil. In a word, the latent rivalry between the U.S. and the Soviet Union in this part of the world would continue; unless some unforeseeable accident were to occur, it would add to the complexity of the game between the Arab States on the one hand, between the various States and their Western or Soviet protectors on the other. A change of régime in Iran and Saudi Arabia would have serious consequences on which it would be futile to speculate. A similar occurrence in the Emirates would have, to a lesser degree, the same significance.

An Israeli-Arab agreement would, of course, substantially alter the political situation. But it is better to start from the premise that there will be no such agreement and that, therefore, the United States will continue to be seen as the protector of the state against which the passions of the Arab masses are mobilized. In the final analysis, therefore, it is a question of knowing whether the states of the Persian Gulf and in particular Iran, Saudi Arabia and Kuwait, will retain, for the next fifteen years, leaders who, whilst deriving maximum benefits from their oil resources, consider it in their interest to ensure regular supplies to the consumer countries.

So far, we have only dealt with a limited aspect of the energy problem over a limited period of time. We have assumed that other sources of energy will be available after the next fifteen years or so; in any event it is a subject on which it is best not to look too far forward. We have also accepted as obvious that gun-boat diplomacy is a thing of the past, and therefore that consumer countries must negotiate with producer countries, directly or through the large companies. Having to choose between the thesis expressed by M.A. Aldeman and that of W. Levy, we have leant rather towards that of the latter or that of J.E. Akins. Moreover, even M.A. Aldeman acknowledges that the producer states, united in OPEC, are able to obtain higher prices and, through participation, to acquire the ownership of oil deposits; he does not agree with other researchers because he considers that a different policy in the past could have avoided the present acceptance by the West of 'exploitation' by the producer states.

The novelty of the position arises from the meeting of many factors. It is obvious and true to say that producer countries and consumer countries are bound together but that the former seek to maximize and the latter to minimize the cost of the product. But never before have the United States (and perhaps also the Soviet Union) needed to such a degree to import oil from the Persian Gulf.

Never before have the quantities to be imported and the money piling up in the treasuries of the producer countries reached such astronomical figures. Never before has the fear of a shortage artificially created by the leaders of the producer countries been so strong. Never before have the three industrial centres - Japan, the United States, Western Europe - been so dependent on politically unstable States whose wealth comes from nature itself as well as from the knowledge and capital provided by the consumer countries. Never before has the weakening of nations recently so powerful created such a complex relationship between the overall policies of great world powers and the overall policies of local states. In the past the romanticism of oil led all countries to seek black gold; today this romanticism finds its vindication in a real ^{/raising a further obstacle} anxiety while at the same time to the formulation of a policy - whether this policy is that of Japan or France or of the three industrial centres.

Should the Japanese, the Europeans and the Americans reach an understanding? Is it likely that they will do so? To the first question, I set out the following reply. A settlement between the representatives of the three industrial centres seems to me desirable. It would concern a number of points:

- (1) overall study of the energy problem, in order to define the probable requirements and the possible yield of various types of energy, and possibly to decide on a joint energy development programme designed to reduce the reliance on oil in general and on oil from the Persian Gulf in particular; (2) concerning oil, an examination of measures to reduce waste or arrange fair distribution in a period of crisis should not offend anyone; (3) finally, representatives of the consumer states should try to specify the conditions whereby producer countries might accumulate and use the dollars earned from oil without endangering the international monetary system.

Beyond this concertation, essentially restricted to joint study, would joint action or a joint attitude be necessary or possible? The present paradox lies in the fact that the United States preaches such a joint action whilst asserting that in cases of emergency it is in a better position than others, while the Europeans like to stress differences in interests without denying the advantages of the United States in case of competition.

The United States does, in fact, hold the following cards: (1) It is dependent on Persian Gulf oil for a far smaller percentage of its total needs than Japan and the European countries (20 to 30 % compared with 70 to 80%); (2) if the price of Arab oil increases, untapped reserves buried in tar and oil shale deposits in North America will become profitable. Considerable investments and time will be needed but neither the Europeans nor the Japanese have anything equivalent to this ultimate recourse; (3) so long as the large companies act as intermediaries between the producer and consumer countries, the

the United States will recover, thanks to the repatriated profits of these companies, some of the currency necessary to purchase the oil. Therefore even if European suspicions concerning American policy (acceptance of high prices, protection of the interests of the companies) are well founded, what are the Japanese and the Europeans relying on to obtain better conditions and an assured supply whilst adopting an attitude of 'each for himself'?

Japanese or European arguments or reasons seem to me to fall basically into three categories: (1) Europeans do not want to 'defend' the large Anglo-American companies. In so far as they consider that the producer countries, through participation, seek to take back the ownership of the oil deposits, they feel that they ought to deal directly with the producer countries or national companies of the producer countries, thus removing from the large companies the power which they have had, still have, or are alleged to have; (2) Japanese and Europeans like to think that they appear less involved than the Americans, in the eyes of the Arabs, in the Israeli-Arab conflict; (3) they have doubts about the true intentions of the Americans; they are surprised that the latter now preach solidarity and wonder if a common policy would conciliate the interests of the three industrial centres without provoking a reaction from the producer countries.

(3)

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JUNE 15-17 1973

C O M M E N T

by The Hon. William BUNDY

on

"THE ENERGY CRISIS, THE MIDDLE EAST AND U.S. - WESTERN EUROPEAN RELATIONS"

(by Professor Raymond Aron)

Session VI

COMMENT

on

"THE ENERGY CRISIS, THE MIDDLE EAST AND U.S."

WESTERN EUROPEAN RELATIONS"

As M. Aron says, it is at once easy and almost impossible to produce any sort of final report on a problem of this scope and complexity. He has, I think, been wise to focus primarily on the question of co-operation among the consuming countries, particularly between Western Europe and the United States; it is to this aspect that all my own comments are addressed.

As to what sort of co-operation is practicable, I agree completely with M. Aron that we must seek a middle way - roughly defined as a co-ordination of policy and action that should not be, or appear to be, a challenge to the producing countries or, as some like to put it, a 'confrontation' course toward them. Any such direct challenge could have the most serious practical consequences; above all, it would establish a political and psychological atmosphere that would surely be disastrous in the long run. For it is central that the producing countries should not only feel an absence of hostility by the consumers, but to the greatest possible extent should come to feel a sense of full participation in world energy matters and indeed in the new evolving structure of world trade and money.

What would be the agenda for such a middle way? M. Aron lists key items, if I understand him correctly, as follows: (1) an understanding that no nation should seek to outbid others or otherwise to pre-empt particular sources of supply by special concessions; (2) an understanding that if scarcity should develop, there will be a rationing and sharing of remaining supplies; (3) co-operative studies of the whole energy picture, with a view to an eventual common programme that would reduce present dependence on Middle East oil; (4) co-operative study of measures to reduce waste, presumably tackling both technical inefficiencies and patterns of use; (5) some agreement on how to handle the problem of large financial reserves held cumulatively by the producing countries.

Let us have no illusions that even this 'middle way' agenda is anything but an extremely formidable one. All of the co-operating countries (among whom I assume Japan to be one) have temptations to pre-empt. Rationing of scarcity daunts the imagination - what formula could be devised?⁽¹⁾ As for studies of alternative sources and of more economic use of energy, they are easy - up to the point where united action is required, or where an OECD

(1) For example, if the formula were to be based on existing proportions of supply from the producing countries before the scarcity arose, it is axiomatic that Europe and Japan would have their total supplies reduced far more seriously than the United States.

Study Group recommends (as any sensible such group should) that cars of Cadillac weight and horsepower should be abolished. Finally, on the question of the large reserves of the producing countries, can there be regulation of the impact of these on the world monetary situation unless there is also regulation of the far larger amounts now held by multinational companies as a whole? At any rate, anyone who listens to representatives of the producing countries can be sure that they would never accept any separate system of regulation applied to their funds - and knows too that they will insist on wide freedom to invest in Western (and Japanese) activities; again, a common policy on this question could well pitchfork all of us into the wider and looming issue of a common code toward all external investment, again affecting multinational companies in particular.

If the reader discounts some of these extensions as extreme for the moment, enough is still left to show the immense size of any undertaking for co-operation.

Is it, in fact, conceivable? Here M. Aron's paper forces us all, but perhaps Americans in particular, to confront honestly some very serious divergences in attitude, and suspicions one of another, that exist today. Unless we or changes of circumstance can dissipate or moderate these, the political underpinnings of co-operation will not exist, however much groups like this Conference may concur in its necessity.

First, a word about Japan. I doubt if it is correct to lump Japanese with Europeans, indiscriminately. Many Japanese attitudes doubtless parallel those held in Europe, but not all: for example, Japanese have no feeling of having been ousted from former positions of influence in the Middle East. On the other hand, the temptation for the Japanese to go it alone is especially acute, in the light of their overall feelings about dependence on overseas raw materials and their specific experience just before World War II. I suspect it is these feelings that Mr. Nakasone has been reflecting in his recent comments from the Middle East on his travels. I by no means write off the chances of full Japanese participation in a reasonable plan for co-operation among consumer countries. But it seems plain that the first moves have to be worked out between Europeans and Americans, so that any initial onus is assumed by them, and so that the Japanese are asked to join a going concern (however much they may, and should, have been consulted privately). Europe and America must take the lead, and it is their divergences that should most seriously occupy this conference.

M. Aron's paper dramatizes - much more strongly than I, at least, was ever aware - a European suspicion that Americans generally, and American oil

companies specifically, may have welcomed rises in Middle East oil prices as tending to equalize an American disadvantage in energy costs. Whether the thought ever existed I cannot say, but surely the reality is that the recent significant rise in Middle East crude oil prices, all since 1970, has coincided with the rapid growth in America's own dependence on Middle East oil. The notion that any American would welcome spending billions, in an already beleaguered foreign exchange account, purely to equalize a minute fraction-of-a-fraction of overall costs seems to me one that no sensible European should now credit. To hear an Iranian, for one, tell it, what the companies were really doing all these years was to gouge the producers for the benefit of what was then an almost wholly European clientele!

M. Aron's comment that we must nonetheless agree on the companies' future position is more telling, but in one key respect likewise overtaken by events. If I read recent events correctly, the role of the companies as 'tax collectors' is doomed to fade rapidly, although I should think an agreed view of their future bargaining role is vitally needed. As for their continued role in marketing within Europe, I can see how this is aggravating to independent and somewhat nationalist Europeans - certainly the converse situation would be to most Americans, who are also somewhat nationalist. Without knowing much about it, I would guess that American companies (and their farflung stockholders) could not rightly object to steps that put European companies on a fairly competitive basis in distribution, but would (rightly or wrongly) object violently to any favouritism especially of nationally owned distributing companies. Is this, too, not part of the wider problem of proper regulation of multinational companies?

But if I thus think M. Aron's points concerning price and the role of the companies may be a touch exaggerated, I also believe he has unduly minimized the psychological problems created by the simple fact that Americans use three times as much energy per capita as Europeans. When American demand seems to be bidding up the price of what Europe vitally needs - as it is already doing - this disparity could be political dynamite. While sensible Americans also deplore our gas-guzzling cars carrying 1.23 persons per trip, our widespread air-conditioning day and night, etc., the fact is that most of the extravagant uses are either small percentages of the total consumption or so woven into life-styles that they will not easily be changed. If we manage to reduce our rate of increase from its present 4.5% to something like 3% we shall be doing well - and leaving a still-very-large disparity in per capita use. This will be a most unpleasant background factor for our statesmen, especially if it should come to any rationing of scarcity. Americans can, I suspect, do a lot better at a crash programme of developing local energy sources, notably coal, than they can at revamping their present patterns of consumption.

Lastly, in a summary catalogue of European grievances about American behaviour, there is, of course, the question of American support of Israel.

Here M. Aron has been gentler than some Europeans would be, stressing rather the American position of supporting, willy-nilly, conservative régimes that are, on Dr. Hottinger's analysis, not good bets to last for the long term.

On either count I see no answer, for the roots of American support of Israel run deep, and the support of conservative rulers is surely inevitable in large part. Both, again, are sure to be continuing friction points which only good sense and understanding can keep to bearable limits between us.

Rightly, M. Aron has stressed the things Europeans worry about.

A corresponding American catalogue would be shorter, but not necessarily less grave. Obviously the oil companies have their detractors at home, especially at this moment of impending gasoline shortage - but they also have a wide constituency if their core were ever threatened. And they and their friends have some feeling that it was, after all, Americans who mostly discovered and developed the major Middle East fields. Arrogant or exaggerated as such a feeling may be, it bulks significantly in the attitudes represented by, say, Secretary Connally, and with it goes a feeling that Europeans have been both passive and feckless in facing up to the current situation as it could be seen developing over many years.

Mostly, however, Americans do not hold these rather specific attitudes. What they do hold is the same attitude that exists in Europe - if privation comes, a tendency to blame it on the other fellow, and in any event to resent deeply having to retrench, paying more and getting less, or, for many uses, doing without or reverting to less convenient ways of living. Most of us today are spoiled, and Americans only a little more so than Europeans.

To sum up to this point, a middle way of co-operation among the major consumer countries is surely of great importance and urgency. (Whether or not America has stronger cards than Europe in a 'sauve qui peut' situation, all of our countries would be worse off then than if we can sensibly co-operate.)

Yet the task of devising a reasonable co-operative scheme - and of making it understandable and palatable to the producer countries - is immensely difficult, and complicated by divergent popular attitudes and friction-points.

My excuse for dwelling on the full list of woes we now confront is that only thus can we see how truly grave the energy problem is. On a European-American deck already sprinkled with cannonballs - trade rivalry and barriers, a new monetary régime, security and co-operation, force reductions, individual brands of Ostpolitik - this may be the biggest cannonball of all which, if not lashed down, could make it almost impossible to deal with others. In magnitude and complexity, above all in the degree to which it reaches all our sovereign peoples in palpable form, energy stands out starkly.

How, then, might we best tackle it? Not, I think, by trying to wind it into the overall complex that Dr. Kissinger may embrace within his Atlantic Charter. Only the broadest agreement on principles of co-operation belongs there - I simply do not see how energy issues can be 'linked' with others even if one accepts the validity of the inter-related approach generally. On energy we have to deal with each other through technical and action agencies of our governments, to a degree we have not done since the Marshall Plan (and the sooner we each have a national 'energy agency' the better in my view); above all, the diplomacy of energy requires a subtlety and finesse that call for specially designated representatives (and cannot be handled, in my view, through a cumbersome and economic-minded OECD). In short, this problem is very much sui generis. It is both an adjustment and an action problem, both a domestic and a diplomatic one - and it cannot wait for trade and money, or pace itself by them.

Thus I think we have got to lift this problem out from the rest, give it just as soon as possible to some very tough and sophisticated 'wise men' (obviously under top policy direction), and get going. Are we too soft and flabby to do this?

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U.S. POLICIES AND SUPERPOWER INTERACTION

By

DR JOHN C. CAMPBELL

U.S. POLICIES AND SUPERPOWER INTERACTION

by John C. Campbell

1. Détente, Security, and Oil

The Middle East was discussed at the Soviet-American summit meeting of May 1972, but without any resolution of outstanding differences. Perhaps the most important fact was a decision that was not recorded. The Soviet leaders, by not doing anything to respond to Egypt's demands for an end to the "no-war/no-peace" situation with Israel, in effect assured the Americans of the continuance of the status quo.

While some may talk of Soviet-American co-operation or collusion in the Middle East, the degree of harmony between the two powers is rather strictly limited to the common interest in avoiding situations which might lead to military confrontation. The cold war continues in the search for advantage or balance in the disposition of military forces, in the maintenance of alliances and other commitments to client states, and in large-scale deliveries of arms. Each power sees possible domination of the region by the other as a threat to its security, and they have proved unable to stabilize it by agreement either on a delimitation of their own interests or on a common approach to the conflicts of local states. Thus, both powers live with the problem of how to find security in an unstable and unpredictable situation.

Oil has long been associated with security in American thinking on the Middle East. In the years following the Second World War the concern for oil reflected a conviction that it would be essential to the West in case of war, an awareness of the growing needs of America's European allies, and a natural tendency to support American oil companies. In those years the nature of America's interest in Middle East oil was not precisely defined because it did not have to be. As long as the policy of containment worked, the Soviet Union could not gain control of the oil or deny it to the West. Even in the 1950s, when the Soviet Union finally moved into the region as patron of a number of Arab states, it so happened that those were the states (except for Iraq) without large oil resources. The Soviet Union had no significant part in the events in which the Western nations surmounted the Mosaddeq challenge in 1951-53 and the interruption of oil supplies in 1956-57.

The actual appearance of the Soviet Union on the Middle East oil scene came only in the late 1960s and in the unspectacular form of agreements with governments, whereby Soviet technical aid in the petroleum and other industries was provided in return for crude oil or natural gas. The first agreement was with Iran in 1966, followed by others with Iraq, Algeria, Libya, and Egypt. The deal with Iraq was the most important, for it involved the Soviet Union in exploitation of the rich North Rumaila field. The first commercial shipment from North Rumaila took place in April 1972, and that success may have encouraged the Iraqi regime to nationalize IPC the following June. The Soviet government, applauding the nationalization, agreed to help Iraq market its oil in the face of any Western boycott. But neither of them really thought that between themselves they could solve Iraq's problem of disposing of its oil and keeping its income. And the Western governments took comfort in their knowledge that Iraq would still have to sell most of its oil to its traditional markets.

Events in Iraq, therefore, were a test case and an example for the future, not primarily of the dangers of Soviet control of Middle East oil, but rather of the problems of transition in relations between producing countries, international oil companies, and consuming countries. The reduced concern with the threat to Western security arising from Soviet penetration of the Middle East oil industry reflected a feeling that the Soviet Union, either as potential market or as middleman, did not really have the answers to the problems of the producing countries, and that even those radical Arab states which were aligned with the USSR would not allow their oil resources to be controlled for Soviet purposes.

The Soviet Union itself, realizing that Middle East oil is vital to the West, seems not to be desirous of a turn of events which would cause the United States to take military action to assure its continued availability.

II. Directions of U.S. Energy Policies

The sense of crisis that pervades American thinking on energy these days stems largely from the realization of inevitable dependence, for the next decade at least, on Middle East oil. For the United States to pass from a condition of virtual self-sufficiency in energy to that of a major importer was perhaps not so startling. What brought on the sense of crisis was the suddenness of the revelation. As late as 1970 a governmental report to the President assumed needed imports of only 5 million barrels per day in 1980, most of it from the Western Hemisphere. In the following two years the experts began to look at the demand curve, at the decline in oil and gas production in the

continental United States, at the inability to get Alaska's oil to the consumers, and at the slowness of the development of atomic energy for industrial use. During those two years we had several demonstrations of the bargaining power of OPEC, which could be used to control the supply of oil as well as to put up the price.

The United States has now plunged into the business of producing reports on the energy crisis and its solution. Some iconoclasts maintain that there is really no crisis; that the major oil companies promote the idea for the purpose of their own gain; that there is plenty of oil in foreign countries which consumers can get by dealing with the governments of those countries, letting competition keep prices down. The orthodox view, shared by the oil companies, by many independent experts and probably by the government, is that a critical situation will exist until 1980, and perhaps until 1985, because there will be no substitute for Middle East oil until alternative sources of energy can be developed. Hence the urgent need, in order not to be at the mercy of unreliable or hostile governments, for measures to make the period of dependence on Middle East oil as short as possible and to increase bargaining power in dealing with Middle East governments.

The President's heralded message of April 1973 on energy, without mentioning the Middle East, spoke of the situation as a potential "genuine crisis" and proposed a comprehensive effort to increase domestic production of all forms of energy; coal, oil and gas, and, for the longer run, nuclear power. High cost will be an obstacle to any and all of these efforts. Either the government will have to take upon itself the capital outlays to speed research, exploration, and development, or it will have to subsidize private companies, through tax benefits or otherwise, to do it. It will have to remove obstacles to intensive exploration and production off its own coasts and to face up to the environmental costs - to say nothing of the political opposition of those concerned about environmental damage - of the production, transport, refining and storage of oil and gas which such an effort to increase the supply of energy would require.

The other side of the coin is to reduce demand, which on a linear projection shows 24 million barrels per day required for consumption in 1980 and 30 million barrels per day in 1985. The profligacy of America's use of energy for heating and cooling its buildings and for maintaining the cult of the automobile is recognized. But there will be political as well as economic obstacles to effective action. While the environmentalists will give

enthusiastic support, the silent majority who like things as they are will surely resist. Witness the reaction of people in Los Angeles to the proposition that they make plans to prevent their own asphyxiation.

With all the obstacles, it is still likely that the United States will take measures which by the early 1980s should begin to reduce the gap in requirements which can only be filled by imports from the Middle East. Yet the gap will be there for at least the next decade. What, then, are the consequences of that fact for America's policies in the Middle East and for its relations with the Soviet Union and with Western Europe and Japan?

III. American Oil Policy in the Middle East

The aim of American policy will be to keep the needed amounts of oil flowing from the producing countries to the American market on terms that are tolerable. It is also an American purpose to keep it flowing to Europe and to Japan. The possibility of conflict between the two aims exists, especially if there is a scramble by consumer countries for favoured positions with Middle East governments.

Up to the present the United States government has stayed in the background when oil concessions and questions of production, taxation and prices have been negotiated between Western oil companies and Middle East governments. Diplomatic intercessions, such as those of Under Secretary Irwin in 1971, were intended to stress Washington's interest in reasonable agreements which would not disturb governmental relations and would keep the companies in their useful role as layers of golden eggs for all concerned: a sufficiency of oil for the consumers, taxes and royalties for the host countries, and profits for themselves.

It is becoming more and more difficult for the companies to play that role. The recent rounds of bargaining on prices have shown that the balance of bargaining power is on the side of the producing countries. The companies have had to give in to their demands, and then passed on the burden to consumers by raising the prices to them. Thus the companies tend to become, in the view of some observers, collectors of taxes on behalf of the producing countries. The trend toward "participation" and nationalization, moreover, threatens to put the companies out of the production business altogether, reducing them to the position of purchasers and marketers of oil on a contractual basis. But if the companies cannot any longer play their historic part as a buffer insulating the oil industry and trade from the storms and uncertainties of politics, then inevitably the governments of the consuming countries must involve themselves directly in negotiating arrangements to ensure continued access on reasonable terms.

Two main problems should be noted here. The first is whether those governments can do any better than the companies, since their bargaining power is also flawed by their dependence on Middle East oil for the next decade. The second problem is whether the major consuming countries will act separately or together in dealing with the producing countries.

The United States has generally opposed special and preferential arrangements such as the French enjoyed in Algeria and have sought in Iraq. American officials, as well as American oil companies, were not happy with the attempts of Italian or Japanese enterprises to get concessions for themselves by offering the consuming countries better terms than those they had agreed on with the majors, for the effect was to undermine the entire fabric of agreements which were based, after 1950, on the 50-50 principle for the division of profits. Yet others could hardly be blamed for seeing American policy as seeking to perpetuate the situation in which American (and to a lesser extent, British) companies did so much of the business and in certain countries enjoyed a monopoly position.

Saudi Arabia, Iran and Kuwait are the big producers. When the United States looks at its oil requirements for the 1970s, it cannot help noticing that an assurance of continued supplies from them (or even from Saudi Arabia alone) would solve a large part of its energy problem. Hence the importance of the proposal which Sheikh Ahmad Zaki Yamani made in 1972 for a long-term bilateral Saudi-American arrangement under which Saudi Arabian oil would be available for America's needs at agreed stable prices, and Saudi Arabia's financial returns could be invested in downstream operations in the United States. Such investments might serve the United States as a sort of hostage against any move by Saudi Arabia to take over ARAMCO or cut off the flow of oil.

In the background of United States-Saudi Arabian relations there is much to suggest that a "special relationship" already exists. President Truman assured ibn Saud of America's interest in the independence and territorial integrity of his kingdom in 1950. And in 1963, when Nasser's intervention in Yemen was extended to include bombing attacks on Saudi towns, the United States dispatched to Saudi Arabia a squadron of fighter aircraft to warn off the Egyptians. There is no treaty obligation to protect or defend Saudi Arabia but a commitment seems to be understood and accepted on both sides.

Whether the United States will decide to negotiate an arrangement along the lines of Yamani's proposal we do not know. Officials will vouchsafe that they find it interesting and are studying it. Acceptance of it could hardly be automatic because there are so many considerations on the other side. It would set off a race for special relationships by other consuming countries, with Britain possibly turning to Iran and Kuwait, France to Iraq, and Germany, Italy and Japan to wherever they could get in. There are signs that such a race may be taking place anyway, whether or not the United States makes a special deal with Saudi Arabia. In such competition, especially if some of the producing countries decide to slow the rate of production for conservation or for political reasons, a destructive effect on relationships among the consuming countries could hardly be avoided.

Parallel problems could be predicted for United States relations with other producing countries in the Middle East. Iran, unless it were given the same treatment as Saudi Arabia, would assume that America had lost interest in Iran's position; or worse, that the arrangement meant American support and possibly military commitments to the Arab side in disputes with Iran over the Persian Gulf. Would the United States be prepared to abandon a relatively strong ally for a weak one, especially with the Soviet Union ready to exploit the situation?

What would be the effects of the new Saudi-American special relationship on the rest of the Arab world? It would be taken as a sign that the United States was interested only in turning the Arab state richest in oil into an American colony. Unless the rising Saudi profits were invested in development of the Arab world, rather than in the U.S., the pressure of other Arab states on Saudi Arabia itself might be intolerable. The United States would be virtually committed to the defence not only of the country but of the regime which had staked its life on the special relationship. Given the uncertainties of the type of royal family politics in that country and the changes taking place in Saudi society, a combination of external and internal pressures might leave the United States with no alternatives to military intervention.

Perhaps these speculations are misleading in that the United States may not have to make such a sharp choice for association with one state. Yet they illustrate the political pitfalls of giving such priority to oil policy alone that other aspects of the relations of the West and the Middle East are slighted or ignored. Any oil policy for the 1970s will have to be reasonably consistent with security policy and with a general approach to the Arab states which cannot be confined to the countries with the biggest oil reserves.

IV. Balance of Power and Western Security

The United States finds itself in a situation in which its military position in the Middle East seems somewhat out of phase with the times. That position consists of the 6th Fleet in the Mediterranean; the NATO obligations to Greece and Turkey and the network of military planning and facilities connected therewith; a security treaty with Iran and informal commitments to Israel, Jordan, and Saudi Arabia; military aid programmes to those countries; actual or potential co-operation with the British at a number of bases, such as Malta and Cyprus in the Mediterranean, and Diego Garcia in the Indian Ocean; a force of three naval vessels based in the Persian Gulf, with occasional visits of other ships to the Indian Ocean; and the capability of launching strategic nuclear weapons from submarines in the Mediterranean or waters east of Suez. Aspects of this military posture are inherited from the heyday of the policy of containment but cannot be easily discarded without appearing to abandon the field to the Soviet Union.

The turn of Soviet policy in the mid-1960s toward conciliation and normalization of relations with Turkey and Iran, which coincided with the first gestures toward detente in Europe, might have been taken as a sign that the threat which was the main cause of America's involvement was disappearing. The difficulty was that those were precisely the years in which the Russians were establishing their Mediterranean squadron and their military presence in Egypt and Syria. Their own statements let it be known that this buildup had both military and political purposes: to push out the limits of the areas from which American vessels could launch attacks on the Soviet Union; to use the Mediterranean as a secure highway to the world's oceans where Soviet naval power could challenge the United States on a basis of equality; to reduce or nullify the potential of the 6th Fleet to intervene in local Mediterranean affairs; and to improve the possibilities for Soviet advances through diplomacy and political action.

What will be the general lines of United States security policy for the next decade? If the spirit of Moscow '72 does not falter on other fronts, there is a chance that the two powers can agree on some measures to stabilize the situation in the Middle East. For example, they could anticipate events leading to a renewed outbreak of Arab-Israeli hostilities, and agree on how to prevent it; they could press interim measures of settlement on Egypt and Israel; they could cut down their own deliveries of arms to local states to agreed levels, and jointly urge other states to join in a system of control; they could co-operate in development programmes for the region.

In the absence of a common approach along those lines, the natural tendency of the two powers will be to continue the current military rivalry and political competition. But the changed conditions evident in the past few years may bring new adaptations. The threat of military conflict between them, or of their

military involvement in local actions, comes to seem more unlikely. Each keeps military forces in the area primarily to balance those of the other. Presumably the levels could be reduced without changing the balance, although that could be as difficult to negotiate as a similar mutual reduction in Europe.

Where the changes come is likely to be in relationships among the local states and the ties of the latter with outside powers. The Soviet Union has based its local strategy on cultivating the radical Arab states but has found that, while those states are capable of stirring up trouble for their neighbours and for the Western powers, they probably cannot provide the Soviet Union with gains it has not already won. Indeed, in some cases (Egypt and Sudan) the tide has begun to ebb. And in Libya the spectacle of a radical régime that is anti-communist and anti-Soviet cannot be comforting.

As for the United States, the mood of the "Nixon doctrine" tends to downgrade past military commitments and to emphasize arming those who can defend themselves. More independence of policy on the part of Turkey and Iran is accepted as natural. The strength of Israel in the Eastern Mediterranean area clearly outbalances that of the Arab states. Iran's strength, as against Iraq or other Arab rivals in the Gulf, is sufficient to assure its dominance in the local balance there.

The less favourable side of the picture of security built on such a local balance of power is the effect on the Arab world, for this is essentially a system for the containment of Arabs by non-Arabs. The former may lash out against it, and though they would probably suffer further defeat and humiliation for their pains, the Russians might be less passive than in 1967. Moreover, the ensuing turmoil and recrimination in the Arab world could well lead to the overthrow of conservative régimes in the Arab oil states and desperate attempts to use "Arab oil" as a weapon against the United States and possibly Western Europe. Surely it would be a great temptation for the Soviet Union to look for further gains in those circumstances.

These possibilities should compel the United States to keep on with efforts to get a negotiated settlement between Israel and its Arab neighbours. Lack of progress in the past has been due in part to the attitudes of the two parties which no plea for reasonableness could change. But America's inability to succeed as mediator is due also to its simultaneous use of another method of seeking peace and security, that of arming Israel to assure its military superiority. That superiority helps keep the Arabs from changing the status quo by force, yet, when unaccompanied by any pressure for a softening of Israeli policies, it merely confirms Israel in its present intransigence.

V. The United States and Western Europe in the Middle East

There is no simple way of describing how American and European policies coincide or clash in the Middle East. In the first place, Western Europe has no single agreed policy but a set of policies followed by individual nations. Secondly, the

... of security, politics and economics are intertwined in

differing ways in Washington and in European capitals. The common interests expressed in NATO, for example, are not automatically transferable to the Middle East, and the economic and other differences which trouble American-European relations often are.

Consider the question of security. The growth of the Soviet naval power in the Mediterranean has affected the balance there. Ministerial meetings of NATO, generally prodded by the United States, have periodically sounded the alarm and decided on measures such as increased surveillance of Soviet vessels, earmarking vessels of several member countries as a stand-by force, and so on. Yet the Western European powers, with the possible exception of Italy, did not see their security seriously threatened. Except briefly at the time of the Soviet invasion of Czechoslovakia, they have been more impressed by Soviet moves toward détente in Europe than by the buildup of Soviet military power in the Mediterranean or anywhere else.

European-American lack of agreement on security in the Middle East is nothing new. It suffices to recall French opposition to the Baghdad Pact, the Anglo-French action at Suez in 1956 and the American reaction to it, and France's attempt to go its own way in pursuit of purely French interests and the concept of a special relationship, first with Israel, then with the Arabs. More recently, especially since the Six-Day War, the changing interaction of the Arab-Israel conflict with the Soviet-Western contest has tended to widen the gap between American and European viewpoints. While Western Europe does not speak with a single voice, its governments in varying degrees are inclined to regard Israel's current policies as an obstacle to peace, whereas American views on security have come more and more to depend on the maintenance of Israel's military superiority over its Arab neighbours as a means of keeping not only Arab but Soviet power in check. From this standpoint, Washington sees the French policy of courting and arming Arab states like Libya and Iraq, which do not border on Israel but are its dedicated enemies, as in indirect conflict with its own. It is sceptical of the argument that the ability of a Western nation such as France to stay in the good graces of the Arabs in this way, and thus to hold off Soviet influence, serves the common interests of the West.

Can a new approach, more suited to common European and American interests in oil and in Arab good-will, overcome or narrow these differences? The United States, it is often argued, could take a big step forward by using its position as a supplier of arms and other aid to make Israel agree to withdraw from

occupied territories and thus open the door to a settlement. Washington is aware of the threats of Arab extremists to reply to Israel's military blows by striking at American oil installations, and also of the possibility that the oil-producing countries will act to force changes in American policy towards Israel. The United States government would like nothing better than to improve relations with Arab states, but the proposal for pressure on Israel raises two questions: whether an American president would find it possible to take such measures as suspension of aid (especially under an Arab threat), and whether, if he did, they would be effective.

It may be more pertinent to ask whether the Western nations can work out agreed policies on energy at a time when they are caught in a web of unsolved problems covering the major aspects of their economic relations. The differences over trade, moreover, include the question of preference for a number of Mediterranean states which are in the middle of the controversies over security and oil. Looking at the prospects for American policy in its general lines over the next few years, one can see the current of nationalism running strong: the United States has been bearing more than its due of the strains of international responsibility; its allies have got to share the burden; it is time for the United States to look after its own interests and insist on fair treatment or else take measures of protection against unfair treatment; Europe and Japan should make adjustments in trade policy to take account of the weakness of the dollar on the currency markets. This is the tone of many of the President's public statements, as it was of Secretary Connally's diplomacy in practice, and it was not absent from Henry Kissinger's appeal for a new relationship. It has a loud echo in American opinion, which tends to support internationalist policies only when strong governmental leadership moves in that direction.

This nationalistic trend in American attitudes may not be easily reversed. Perhaps it will take a series of crises in U.S. relations with Western Europe and with Japan to prove that the advanced industrial nations have no choice but to find means of living together. Two processes may have to make more rapid progress than in the recent past if that is to be avoided.

One is the approach to common foreign policy in the European Community. The other is the effort by both Western Europe and the United States to find some larger cause which will throw their present differences into perspective.

Here the possibilities in the Middle East are pertinent.

One of the weaknesses of the Community's approach to a common foreign policy in the Middle East under the Davignon Plan was the narrowness of its scope. Now that Great Britain is a member of the Community, a new attempt to lay out the lines of a European policy in the Middle East could be more fruitful. It should fit into the pattern of expanding economic relationships including Greece, Turkey, Israel and Arab states. A more independent and authoritative European voice in Middle Eastern affairs is justified by the extent of economic and cultural ties and above all by the need to give Middle Eastern, and especially Arab, states more breathing room, more choice than they have had in the context of an "outside world" defined by competing Soviet and American power.

Greater co-ordination between Europe and the United States on Middle East policies in general is bound to remain difficult, even with a more united and more active policy on the part of the Community, without the lubricating effect of oil. And the oil problem in itself provides reason enough to try, since all the advanced industrial nations as major importers are now in the same fix. The United States has stated the case in the O.E.C.D. for a common approach to energy, and the President's recent message to Congress stresses the same point. But when it comes to concrete action, the preference for independent national policies dies as hard in America as in Europe and Japan.

A pooling of data and calculations on total energy requirements of the United States, Western Europe and Japan and on practical alternatives to Middle East oil should provide perspectives against which the outlines of economic and diplomatic policies could be drawn. If a common strategy were agreed, its diplomatic execution would not have to take the form of massive confrontations between representatives of a consumers' bloc and of OPEC. There might be room even for some "special relationships" here and there, provided that they did not erode Western bargaining power on economic terms or affect that ability of each consuming country to meet its generally agreed requirements. The Western countries would do well to keep their eyes, over the long term, on Saudi Arabia and Iran, which together will be capable of producing most of the oil they will need from the Middle East. Thus Western diplomacy must devote itself to keeping them both well disposed to their customers and on good terms with each other.

VI. Oil in Soviet-American Relations

The vistas which some now see in a wide expansion of Soviet-American economic relations could change the shape of the energy problem in the long run. If the two countries find it advantageous to unhook economic from security considerations, there is at least a possibility of a growing mutual dependence based on the development of large new oil and gas resources in Siberia with

American help and partially for the American market. The Soviet government has already begun to develop those resources to meet its own rising demand for energy and its desire for self-sufficiency, but will be looking also for export markets. Such development will be costly, and the Soviet economy is stretched too tight to undertake it without the help of outside capital and technology. The most promising possibilities for the United States appear to lie in natural gas, which American companies are now discussing with Soviet authorities.

Many negative considerations counsel scepticism. The investment required would be huge. Would private companies take the risk without United States government guarantees, and would they get them? Could Soviet and American desiderata be reconciled through the whole complex process? It would be years before Soviet gas would come in quantity to the United States. Thus, as to the time and cost, the enterprise is comparable to the development of oil shale and tar sands in North America, and politically it is more uncertain, raising the question why such big investments and projects should not be undertaken nearer home. Indeed, there is some irony in the idea of making a tremendous effort in order to become dependent for vital fuel on the Soviet Union, as a means of getting away from dependence on the Middle East.

On the Soviet side, if the intention to conclude long-term arrangements for U.S. capital and technical support is serious, it suggests that the Kremlin will deal with energy matters generally, including Middle East oil, in economic rather than in political-strategic terms. The Soviet Union is now both an importer and an exporter and an exporter of oil and gas. It is making long-term contracts to import Middle East oil (from Iraq, Algeria, Libya, Egypt) and gas (Iran, Afghanistan) and long-term contracts to sell both oil and gas to countries of Western Europe. This is both a flexible and a profitable position, which gains more from relative stability than from turmoil.

These policies could conceivably fit into a strategic plan to grab the West by the throat through control of energy supplies both from the Middle East and from the U.S.S.R. itself. They may also fit the pattern of a general détente with the West which, without major change, in the military balance and political competition, would rest on an understanding that neither side would gain by trying to capitalize on oil questions as a means of waging the cold war. The calculated economic approach of the producing countries, which will be no more anxious to give bargain rates to the U.S.S.R. than to the West, may strengthen both the American and Soviet governments in the feeling that they have here an area of common interest rather than inevitable conflict.

5

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JUNE 15-17 1973

C O M M E N T

by M. Michel GRENON

on

"U.S. POLICIES AND SUPERPOWER INTERACTION"

(by Dr John C. Campbell)

Session IV

COMMENT

on

"U.S. POLICIES AND SUPERPOWER INTERACTION"

I agree with Dr Campbell's feeling that ^{the} two main contenders of the cold war have accepted the idea of coexistence and recognized, long after most other states did, the new complexity of international relations in which their bilateral cold war is no longer the central and determining factor. As a consequence I assume some kind of military status quo in the Middle East.

Regarding "security and oil", the U.S. oil companies have some interest in pumping oil out of the Middle East as fast as possible, partly because of growing needs and to save domestic reserves, and partly because it will become more and more difficult, and less and less profitable, to produce this oil. Moreover, the enormous investment needed for domestic energy industries (oil tankers, oil terminals, LNG carriers, refineries, coal extraction, coal gasification, nuclear energy) can encourage these companies to pull out of low profit operations in producing, and also consuming, countries. Such a trend will probably be reinforced by the Labour Unions to promote national employment.

The Government also has an interest in allowing increased output in oil-producing countries, to keep the flow of oil to the U.S. at a level sufficient to avoid true fuel shortages. But from the point of view of the U.S. balance of payments, with its consequences for the world monetary system, the cost of imports must remain at a reasonably low level. It could also be bad for U.S. foreign policy to be a factor of inflation in energy prices, not only for the Europeans and Japanese but even more for developing countries which are already hard hit by soaring oil prices.

Will producing countries simply agree on dramatic increases in their oil production? Will they indefinitely agree to cover the energy requirements of developed countries? Producing countries must also take into account their political relationships with other developing nations, possibly through specific political or economic agreements, as can already be seen in the cases of Algeria and Iraq. This apart, producing countries have an interest in selling less oil at higher cost to developed countries, as Venezuela has often suggested. What has in the past been a political and economic argument can rapidly become an "ethical" one. The studies of the Club of Rome, which have been widely publicized, and even conservation claims in the U.S. itself have made producing and developing countries more and more aware of the limits of their natural resources, and they sometimes consider that the industrialized countries consume and waste them carelessly. Radical states, such as Algeria and Libya, have already adopted strong stands on this; and could exert a strong social and political influence on other developing producing countries. Eastern nations appear much more careful regarding energy uses.

Because of the above factors a "pumping" policy probably cannot continue for ever. It seems doubtful that the U.S. will agree to become a second Europe and depend heavily on others for its energy supply. This applies also to imports from the U.S.S.R., and I fully agree with Mr Campbell that "there is some irony in the idea of making a tremendous effort in order to become dependent for vital fuel on the Soviet Union, as a means of getting away from dependence on the Middle East" (page 12).

As has been mentioned in "Directions of U.S. Energy Policies" (page 3), the U.S. will have to turn to domestic sources, mainly oil shale and coal, which, fortunately, are very large. These domestic resources, like nuclear energy (fission first, then possibly fusion) and/or solar energy, are technology-intensive (and so, for employment reasons, will probably receive strong support from Labour). But two points are worth mentioning:

- The new energy technologies are not yet really available and will need some years to develop and a considerable amount of capital, requiring federal support and incentives. They would need some kind of crash or "Apollo-type" programme, as suggested by Senator Jackson. President Nixon did not really propose such a programme in his Message on Energy, although the new sources of energy were broadly mentioned. It is doubtful if he will now be in a position to propose such a programme, and get it accepted. Each year of delay means a few years' more reliance on imports at increasing levels (there are very few chances of reducing energy consumption; even a reduction of the yearly increase in consumption would be an achievement).

- These new sources of energy are known to be substantially dearer than conventional ones: oil from shales would be between \$5 and \$10 per barrel; gas from coal between \$1 and \$1.50 per ^(thousand cubic feet) MPC/ roughly the same price as imported LNG and possibly Russian gas. To convert the U.S. economy to domestic fuels, not only U.S. but also world energy prices must increase substantially.

Such increases in energy prices could have various effects worth discussing:

1. Producing countries will probably agree to the extent that the new fuels do not excessively replace their own oil and gas (apparently, this is not a real threat).
2. A beneficial consequence will be that more reserves will become available (because the concept of reserves is price-dependent), which can somewhat de-emphasize the importance of the Middle East and relax political tensions in this part of the world.
3. The U.S. has an interest in some equalization of world energy prices, to avoid commercial competitors, mainly Europe and Japan, profiting by lower energy costs.
4. The U.S.S.R. can be relatively isolated from the world price structure for a long time, due to its self-sufficiency in energy, and can even gain with some

exports; but Eastern satellites will be penalized.

5. Developing countries without energy resources will be the most severely hit.

So, assuming that it will temporarily get as much oil from the producing countries as it expects, the U.S. seems to have some interest in increased costs of world energy and/or oil. But this conflicts with the other aims of keeping prices reasonably low for the balance of payments and for foreign policy with developing nations.

Regarding a possible Organization of Oil Importing Countries (OPEC), made up of the U.S., Europe and Japan, it does not seem to be in the interest of Europe and Japan if its aim is only to improve the consumers' bargaining position. It seems hardly possible to dissociate energy from overall economic and monetary problems, over which future negotiations are unfortunately highly uncertain. It seems doubtful that such an organization, trying to co-ordinate energy policies, which are so widely different (Europe as yet has no energy policy), can succeed in a reasonable period of time. Moreover, the objectives, and the time-scale, are quite different for the various partners. The U.S. may convert to domestic energy resources between 1980 and 1990, but Europe and Japan have no oil shale and little coal. On present programmes possibly the only alternative, nuclear energy, is not available and will not be available in time. Europe and Japan will need Middle East oil much longer than the U.S., and have an interest in maintaining the best possible relations with all producing countries. These producing countries seem willing to develop co-operation agreements with the governments or national companies of consuming countries, more than with the international oil companies. Unfortunately, because of the spectrum of European energy policies, Europe has got practically nowhere in developing such direct relations with producing countries.

Recent developments in the Gulf and decisions in Japan have shown that, without waiting for a broad international organization to be set up, Japan has taken some positive steps, and may be the first country to react effectively to the coming energy crisis (savings of energy, emphasis on less energy-intensive industries, the broadening of the nuclear energy programme).

Analysing the chapter on international co-operation in President Nixon's Message on Energy, it is somewhat striking to see that it proposes political and economic co-ordination on energy with Western countries, and then gives a list of existing research agreements with the U.S.S.R. The two aspects seem hardly separable, and a common energy policy must include a sound research and development programme on new energies and energy technologies.

Finally, it is worth mentioning that independent national policies are the most probable outcome, but that does not mean that they are necessarily the best solution. If a co-ordinated energy policy (for channelling energy prices, and research and development) is not built-up between the consuming countries in co-operation with producing countries, the situation will probably worsen and political and economic tensions increase. It is doubtful whether any country will gain from this except, probably, the East.

6

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C O M M E N T

by Dr. Arnold HORELICK

on

"SOVIET POLICIES"

(by Mr Malcolm Mackintosh)

Session III

COMMENT

on

"SOVIET POLICIES"

I have no major quarrel with Malcolm Mackintosh's analysis of Soviet foreign policy priorities in today's world, or with his review of the evolution of Soviet Middle East policy. As a device for provoking discussion, I shall attempt to construct a Soviet-preferred 1985 world energy situation.

SOVIET INTERESTS IN THE WORLD ENERGY SITUATION

The Soviet Union is the only major industrial power now entirely self-sufficient in energy resources. If Middle East oil imports to the United States in the years ahead reach the levels now widely predicted, the Soviet Union will soon be the only major industrial power whose domestic energy supplies are not critically dependent on the Middle East.

What, in brief, can be said with reasonable confidence about the present and near-future Soviet oil position?*

1. The growth rate of Soviet crude oil production, while still impressive, has been declining monotonically since the mid-1950s (from an average of 16 per-cent per year in 1956-60 to a 7 per-cent annual average planned for 1971-75).
2. Nevertheless, the production growth rate has been adequate to sustain a more rapidly growing rate of oil and petroleum product exports (approximately one-fifth of total production in 1970, divided roughly equally between Communist and non-Communist markets).
3. If met, the 1975 target of 496 million tons (MT) is probably adequate to cover projected large increases in crude oil exports to COMECON countries and also at least to maintain the current level of hard currency-earning exports to the West (crude oil is the Soviet Union's largest single hard currency earner). Soviet imports of oil (and gas), while growing, are still comparatively small, and are unlikely to have assumed substantial proportions by 1975.
4. By 1980, however, the picture could change significantly. Barring much more rapid development and exploitation of West Siberian oil fields than the Soviet Union seems capable of without extensive foreign assistance, the rate of growth of output will probably

* I have drawn heavily for this appraisal on the work of my colleague, Abraham S. Becker, Oil and the Persian Gulf in Soviet Policy in the 1970s, P-4743-1, The Rand Corporation, Santa Monica, California, May 1972.

continue to decline, perhaps to an annual average of 5 per-cent during 1975-80. Assuming that inland consumption increases at about the same rate in the second half of the decade as in the first, and that CMEA requirements grow as rapidly as is currently projected, Soviet production in 1980 will probably fall short, though not massively, of the requirements of the European Communist-ruled area (to which Cuba, North Korea and North Vietnam should also be added). If allowance is made for exports to Western Europe and Japan at current levels, the deficit would be substantial, some estimates ranging to a level of 100 MT or more.

5. Anticipating the prospect of such a deficit, the USSR has made it clear to its East European allies that they will have to find other sources of oil supplies after 1975; and CMEA countries have begun increasingly to turn to the Middle East to contract for deliveries after that date. Given the obvious political advantages of preserving some important measure of CMEA oil dependence, as well as the large investments sunk into the Friendship Pipe-line, the Soviet Union will probably wish, however, to maintain some substantial level of exports to Eastern Europe.

This does not necessarily mean that the Soviet Union will fail to be a substantial importer of Middle Eastern oil by 1985. It may import in quantity to permit politically useful exports to Soviet allies, to earn hard currency by sales to the West and Japan, or to service Soviet markets remote from the sources of Soviet petroleum. But, even if Soviet imports of Middle Eastern oil grow substantially in the next decade, the basic self-sufficiency of the USSR in energy resources provides Soviet leaders with far greater freedom of manoeuvre and choice than their oil-deficient competitors.

THE LIMITS OF SOVIET INFLUENCE

Barring extremely aggressive Soviet behaviour so rash that it would introduce a radical discontinuity in global politics, the Soviet Union cannot independently cause a major disruption in the world energy situation. Theoretically, it could do so either by interdicting the flow of oil from the Middle East to major foreign markets, or by seizing (or otherwise securing effective control over) several of the major oil-producing states and "turning off the tap". Mr Mackintosh has shown persuasively why both of these alternatives are implausible.

Conversely, at the other extreme, even if large-scale Western assistance had by 1985 sharply accelerated the rate of growth of Soviet oil and gas production and brought with it an effusive blossoming of Soviet solicitude for the energy interests of its erstwhile Cold War foes, Soviet production could not conceivably yield surpluses large enough to compensate for substantial curtailments in exports of Middle Eastern oil.

Between these extremes of behaviour the USSR's comparatively strong domestic oil position will leave it relatively freer than other major states to choose politically expedient postures with respect to the situation that emerges, but the Soviet Union cannot substantially influence the broad contours of that situation. The posture which Soviet leaders elect will depend in turn on the Soviet Union's broad foreign policy priorities, both globally and in the region of the Middle East, and only secondarily on the oil position of the USSR.

A SOVIET-PREFERRED 1985 WORLD ENERGY SCENARIO

Assuming that the Soviet foreign policy priorities sketched in Mr Mackintosh's paper hold more or less constant during the decade ahead, what might be the salient characteristics of a Soviet-preferred world oil situation in 1985 and how might the USSR act to exploit it?

1. A continuing gradual erosion of the Western oil companies' position in the Middle East, generating moderate to severe strains on the oil supplies of the major non-Communist consumers - neither so crippling as to provoke either desperately violent reactions (military interventions)* or dramatic political galvanization of the threatened states behind a common energy policy, nor so costly to producer states as to make their staying power dependent on massive Soviet assistance.
2. Repeated temporary shortages in consumer states, producing intermittent brownouts and blackouts and industrial stoppages, acute generalized anxiety, and a consuming preoccupation with securing reliable sources of supplies (behaviour that might be analagous to that of a drug addict barely maintaining his habit) such as to seriously constrain the foreign policy freedom of manoeuvre of affected states and to divert their energies from productive courses of international action.

* United States military intervention in the contingency of a grave Middle East energy crisis is almost certainly not as implausible in Soviet eyes as most American observers, in the current post-Vietnam national frame of mind, seem to believe (Senator Fulbright being the most prominent exception). Soviet concern over such a military intervention has been privately expressed to American specialists in recent months.

This would seem to describe the future world oil scenario most agreeable to the Soviet Union. In such circumstances, Moscow might in the first instance expect to see unprecedentedly strong pressures mount on the United States to revise its policy toward the Arab-Israel conflict, or even to abandon Israel if she remained recalcitrant. Even more attractive from the Soviet point of view would be the extra-ordinarily favourable prospects for destroying the fabric of the Western alliance system generated by a desperate dog-eat-dog competition for scarce oil supplies among the erstwhile allies, and especially between the EEC countries and Japan, on one hand, and the United States, on the other.

To maximize its opportunities for deriving political advantage from such a scenario, the Soviet Union would probably wish to avoid appearing as the chief instigator, or promoter, of deliberately restrictive or discriminatory oil policies by the producer states. Moscow would doubtless continue to approve producer country demands for such measures as equity participation in existing concessions, and to support their right to nationalize oil fields and to create national oil companies, but it would follow rather than lead the pack and would probably continue to refrain, as it has in the past, from explicit inflammatory calls for the boycott of Western and Japanese markets. If the major Middle East actors were states in which Soviet political influence was not dominant or particularly strong (as would almost certainly be the case), such a posture would be all the more appropriate to the generally détente-oriented East-West foreign policy projected for the Soviet Union by Mr Mackintosh. Indeed, the Soviet Union might even express sympathy over the plight of desperate consumers abroad ("unfortunate heirs to the bitter legacy of colonial exploitation by previous imperialist regimes") and might choose, if Soviet supplies permitted, to dole out rations of temporary relief, on a selective and limited basis, in exchange for political and economic favours.

The Soviet Union's own oil position might influence its capacity to exercise leverage in these circumstances. Whether the Soviet Union will have available in the 1980s sufficient excess resources to reward oil-starved consumers it wished to woo or wean away from allies will depend chiefly on two considerations: its success between now and then in increasing presently lagging rates of Soviet oil production (i.e., the rate at which West Siberian oil fields can be developed and exploited), and the extent to which the CMEA countries, now so heavily dependent on Soviet oil imports, will have managed to secure reliable supply arrangements elsewhere (i.e., in the Middle East).

To the extent that the Soviet Union was able to dole out supplies to energy-hungry customers, it would wield a powerful foreign policy instrument for exacerbating divisions within the consumer camp. States that were participating in the development and exploitation of Soviet energy resources would probably be the prime beneficiaries; Moscow would reward their foresight in signing on with the USSR before the energy drought; for others who had held back, this might serve as a useful object lesson. If the scramble for scarce oil supplies had widened cleavages between the European allies and the United States, support for potential schismatics might seem especially attractive. Japan might present itself as a particularly tempting target in such a game, which could serve Soviet interests with respect both to China and the United States.

While this perhaps describes a 1985 world energy situation highly advantageous to the Soviet Union, the USSR's capacity to benefit from it is not matched by her ability to bring it about. In this regard, Soviet oil, military power, and political adroitness are less relevant than the success or failure of the major actors -- producer countries, Western oil companies, and consumers -- to resolve divergencies and conflicts in the oil market of the future; and, perhaps most crucial of all, the success or failure of the United States, the states of Western Europe and Japan in forging a common energy policy aimed at warding off an acute energy crisis, or dealing with one in a manner that limited the capacity of mischief-bent producers to tear them apart and of the USSR to pick up the pieces.

7

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THE REGIONAL ENVIRONMENT IN THE MIDDLE EAST

By

DR ARNOLD HOTTINGER

THE REGIONAL ENVIRONMENT IN THE MIDDLE EAST

by Arnold Hottinger

There are two different major oil-producing regions in the Arab world, the Persian Gulf and the Sahara, each of which has its own politics. There are interactions between one system and the other, and there is one major issue which concerns them both in a similar - though indirect - fashion: Palestine. But they are nonetheless different systems.

The Persian Gulf is characterized politically by the presence of the small states - militarily powerless, sparsely inhabited, immensely rich: Kuwait, Bahrain, Qatar, the Federation of the Arab Emirates - around which there is a second layer of bigger and more populous states, also producing oil - Iraq, Saudi Arabia, Iran, Oman. The system has remained stable so far (since the departure of Britain at the end of 1971) because the four major countries on the periphery are rivals and would risk war between themselves if one attempted to attack any of the mini-states at the centre. In a war Iran, militarily the strongest and the only one possessing a navy, would presumably be superior to all comers. However, this is a rather theoretical possibility, for she would be open to Russian pressure on her long Northern frontier - a danger of such magnitude that open war, without something like explicit backing from Moscow (highly unlikely in the present constellation of affairs), is practically out of ^{the} question for Teheran.

The sharpest and potentially most explosive rivalry is between Iran and Iraq, whose relations are so bad that one would have to reckon on a war sooner or later if there were not the Russian factor. As it is the Russians are present as allies with a fifteen-year treaty (dated 9 April, 1972) in the case of Baghdad, and as 'friends' and economic partners in the case of Teheran (though the Soviet Union and Iran view each other with mutual suspicion and, ideologically, with frank enmity). Consequently a conventional open war is not practicable. An underground war is, however, being waged all the time. This can increase or decrease in intensity but is not likely to stop as long as the present régimes govern in Baghdad and Teheran, the Shah claiming a leading role in the Persian Gulf, and Baghdad aiming to be the chief power in the 'Arab Gulf'.

Tensions also exist between the Saudis and Oman, Abu Dhabi (the chief state and main oil-producer of the Federation) and Iraq. The frontier disputes with Oman and Abu Dhabi have been put aside for the time being, mainly because of the common danger of 'Maoist' subversion from South Yemen and from Omani insurgents, but they have not been resolved. Tensions with Baghdad are more covert but

potentially more dangerous, and there is little doubt that the Baath régime would help in any subversive scheme to overthrow the Saudi monarchy which it saw as potentially successful - and ^{Riyadh} is aware of the fact.

There are also block tensions overlying the rivalries of individual states: Iranians against Arabs, sharpened by the migration of poor Iranians into rich Arab oil centres and the resulting Arab fears of being overwhelmed by the Iranian element. Baghdad is trying to play on such fears. Finally there is a 'progressive' versus 'conservative' conflict. The 'progressive' axis stretches from north-west to south-east - i.e., from Iraq to Dhofar and South Yemen. It is countered by an unofficial but quite efficient security axis arising from co-operation between the Iranian and Saudi security forces (both of which have some 'technical' advice from the US) and including the small principalities sandwiched in between. Since there is little possibility of serious conventional war, interest centres very much on subversion and counter-insurgency. The 'progressives', so far outside the Gulf proper, attempt penetration from both ends: Iraq and the Gulf of Oman. Counter-measures are centred in Iran (by means of SAVAK, the state police) and Saudi Arabia, with more or less hesitant collaboration from places like Bahrain and Kuwait.

At first glance the struggle appears as one of ideas against money. History would seem to show that in the end it is ideas that win, but we do not know how long it will take them to overcome (and appropriate) the money. However, on closer inspection not all the money is 'on the side of money', and, as far as the ideas are concerned, there are differences of conceptions and leadership amongst the 'progressives'. Iraq now produces its own nationalized oil and has thus an economic basis with which to cushion its régime at home and finance subversive expansion abroad. This is an asset which Dhofar and South Yemen, at the opposite end, conspicuously lack.

Nevertheless, South Yemen seems so far to have been more successful in its penetration attempts than Iraq. There are many reasons for this. Iraq has been tied up by internal struggles before and after the six-day war. Only gradually a radical, imaginative and utterly ruthless leader has been emerging in the person of Saddam Hussein Takriti. In South Yemen the breakthrough to a radical leadership, sufficiently stable to attempt subversive expansion into the Gulf, happened earlier, in June 1969, with the overthrow of the 'bourgeois' NLF wing under the Shaabi brothers by the radical 'Chinese' wing of Abdul Fattah Ismail, Ali Rubai'a and their school.

Moreover, while the Iraqis found themselves at the hard head of the Gulf, the South Yemenis were at its soft underbelly. It was easier for them to

penetrate Oman, at that time ruled in a perfectly medieval manner by Sultan Bin Taimur, and they also possessed, in the population of Dhofar, the advantage of a resentful tribal minority (non-Arabic speaking) and a wooded subtropical landscape very well adapted for guerilla warfare on which to base their action. As for the Iraqis, if they wanted to penetrate from their end of the Gulf they would have to reckon with their superior neighbours, the Persians, with their own insurgent minority, the Kurds, with the rich, developed, articulate and influential state of Kuwait and with Saudi influence and power. The fact that recently (20 March 1973) they nevertheless picked a quarrel with the Kuwaitis illustrates how impatiently they are working towards a break-through and a position of influence in the Gulf.

What are the chances of these subversive forces? Their principal chances of success lie in the fact that the governments of practically all the more conservative Arab Gulf countries can be described by propagandists and seen by part of their own population as 'reactionary', or at least old-fashioned, countries belonging to the past. This is true even of the Shah's régime, the most successful of them all in erecting a façade of modernity, enlightened rule and 'white' revolution: behind those achievements there is rule by SAVAK - and the state police is not really cherished by the majority of Iranians, and particularly not by the young intelligentsia. In the case of Kuwait there are always accusations of waste and corruption, and there is the question which all Kuwaitis and second-class inhabitants of Kuwait pose as soon as they have been touched by Pan-Arabism: why should all this money be spent in the mini-state of Kuwait, rather than for the benefit of the whole Arab world which needs it so much more urgently? In the case of Saudi Arabia there is the younger generation, influenced by the Palestinians and other Arabs from Egypt, Lebanon and Jordan, who pose similar questions, albeit in whispers. In the case of Oman, perhaps the most serious of all in the short term, there is the flood of rising expectations, now that a new régime under Sultan Quabushas begun with great promises, and already, perhaps inevitably, particularly since the war against the Dhofar insurgents uses up a big part of the oil revenues, the first signs of disappointment with the slow march of progress seem to be appearing.

In practice such rumbles will remain of little political significance until they reach the armies. But it seems hard to prevent them ^{from} eventually doing so, despite elaborate, and in many instances successful, security precautions. The probability that the present-day governmental structures will remain intact for long is not very great.

It is at this point that, for the Arab parts of the Gulf, Arab politics in general come into the picture. Today those are centred more than ever before

around the Israel problem - to which no solution is in sight. If there is no solution, either military or political, it is very likely that the argument of the 'oil weapon' will come to the fore once more. Indeed there are already many signs of an impending argument about oil. The conservative régimes want to use it exclusively to further economic aims and for their own prosperity and development; the 'progressives' (so far Iraq alone), reinforced by a lot of states producing little or no oil and by the intelligentsia all over the Arab world, claim that Arab oil can and must be used as a means of putting pressure on the friends of Israel. They maintain that, if it were cleverly done and if there was sufficient Arab solidarity amongst the producer states, this could be achieved without too much financial loss to the producer countries.

Whether this would in fact be possible and to what degree is a complex question. To find out it would have to be tried. But it is apparent that the oil scene is turning from a buyer's into a seller's market, and it is obvious that in a seller's market attempts at political pressure in the interests of the Israel dispute look more likely to succeed than they did when the 'oil weapon' was last discussed and dropped, in the winter of 1967 after the six-day war. If the 'progressives' can make it plausible that using the oil weapon in the way they suggest can indeed achieve something substantial against Israel, this will be the strongest weapon against the 'conservatives' they could possibly find and will multiply their chances of success. There must be hundreds, if not thousands, of army officers who would begin to think seriously of a coup once they were convinced it could lead to a new oil policy that would mean an indirect but significant blow to Israel.

In such a case oil, instead of supporting the status quo (as it does today, because of the financial cushion it provides for the governments of the oil producing states) would turn into a catalyst of coups. The present Iraqi régime seems to be moving towards such a policy. It has already taken the first steps by nationalising the IPC, giving the French a special oil deal to reward them for their attitude towards Israel (and do itself a good turn into the bargain) and seeking Russian support to provide Iraq with stability and staying power while it sets up its new policy. Perhaps the recent attack on Kuwait fits into the framework of that same policy.

As for the other side, the guerilleros of Oman are also thinking of oil. They have stated explicitly that they would be willing to stop the oil flow if they could, and if it would be to the advantage of the Arab cause as they see it. It is significant that Chou En-lai asked Mr. Haykal many questions about Arab oil in a recent interview. The Chinese prime minister told the Egyptian journalist, 'You are in a difficult situation, between the US and the USSR; this

is what causes the state of "neither war nor peace", as you have written yourself. We think this state will last if there is no lucky break which permits you to confront the crisis. You must study, study deeply ... We think petroleum will be an important matter in the coming years and of great significance; the struggle will be waged around it.* After that he asked him many questions about oil.

In Oman today, as in Aden, the situation is complicated by the struggle between the Chinese and the Russians. The Chinese were the first to foster the guerillas of Dhofar. They are ideologically closer to them than the Russians (even though Viennot, a specialist in revolutionary ideology, detected 'Guevarist' trends in Dhofar), and the same is true of the extremist NLF régime of Aden. But the Russians decided that they must intervene as well. Now they compete energetically with the Chinese in Aden for influence over the NLF and its government, and in South Yemen they seem to have made considerable progress because of the greater material assistance which they can throw into the balance. In Oman they have tried to create - or at least foster - a second front, closer to the oil fields of Oman itself, the NDFLOOG. This was an initial failure, but it is in any case an indication that, here too, the Russians have begun taking an interest.

Russian policy in the Gulf area can be seen as facing a dilemma.** Basically Moscow has to decide whether to foster revolution in the Gulf - provoking trouble, undercutting Western oil supplies and hoping to forge links with the whole region - ^{whether} or to try to gain commercial access to Gulf oil herself. In the latter case, revolutions could become a disturbing factor for Moscow's own oil supply. But the Russians do not really have to make a decision - or at least not yet - and can follow both policies at once. They can forge close links with Iraq and Iran - the countries closest to their borders where they do not like trouble anyway - to assure themselves of a certain amount of oil and natural gas (they have no use at present for most of the oil of the Gulf). At the same time they can attempt to foster trouble further afield in the Gulf, using their Iraqi allies - who have their own pan-Arab ambitions. The Israel problem can serve as a lever.

* Al-Ahram, 23 February 1973.

** See J.C. Campbell and H. Caruso, The West and the Middle East (New York: Council on Foreign Relations, 1972); Robert E. Hunter, The Soviet Dilemma in the Middle East: Part II: Oil and the Persian Gulf, Adelphi Paper No. 60 (London: IISS, 1969).

Saudi Arabia would be an obvious long-term objective for subversion. It could be attacked from all sides by different political forces: Yemeni and South Yemeni progressives and radicals, Omanis, Egyptians, Palestinians, Jordanians and Iraqis. Each could play its role in undermining the existing structures, thus in breaking up US interests in the country. The situation is not quite ripe yet. More bases for subversive action would first have to be gained (e.g. in Oman and Bahrain) or better secured (as in South Yemen) and probably it would be best to wait for the death of King Faisal, which will be a delicate moment in any case. It is remarkable how little success Saudi activities directed against South Yemen have achieved so far. Tribal army after tribal army has attempted inroads into the Hadramaut or Beihan, but they have been beaten back and dispersed, probably for lack of leadership and organizing capacity. On the South Yemen side, on the other hand, there seem to be enough people who feel emancipated from earlier serfdom to be willing to fight energetically against any return of the previous régime.

As all over the world nowadays, it is presumably the Chinese who are the biggest preoccupation for the Russians in the Gulf. If Moscow foments trouble it might find in the end that it worked to Peking's advantage. If it joins the imperialists in exploiting the oil fields it might find the Chinese undercutting it by appealing to the people, their nationalism and their will to wage a popular war against the imperialists. The solution to this dilemma is already apparent. Where 'Chinese' popular war ideas win a foothold, the Russians have to join the movement and attempt to gain the ascendancy within it, using their superior material strength. Where the Chinese are not active, or not significantly present, a state-to-state alliance based on common interest is in order, as in the case of Iraq.

If the new left-wing subversive groups in Iran were to become a real menace for Teheran, Moscow might feel impelled to join them. So far the Russians seem to feel that the Shah and SAVAK have the upper hand, and they collaborate on a state-to-state basis with Iran. Because it is profitable to them - and, more importantly, because they would hate to have a 'Chinese' Iran on their border - they would probably be quite reluctant to give up such co-operation and would continue it for quite a long time in the hope that the Shah might last, perhaps even giving some underhand aid to SAVAK. But for the same reasons one can assume that they will try to penetrate and observe the anti-Shah 'new left' groups in Germany and Iraq.

The Persian Gulf can be compared to a soft-boiled egg. The nutritive yoke is formed by the small oil-producing countries, and around them is the outer layer of egg white, made up by the major oil countries who are trying to form

a hard protective shell around the egg. But the shell has been broken at both ends, by the Chinese-style 'new left' based on Aden and working its way up towards Oman, and by the Baghdad Baathists^{ts} in collaboration with the Russians. There are certain other disintegrative influences at work on the shell. On the Arab side they are principally the preoccupation with Israel and consequent anger at the US and the West generally (with the exception of France); on the Iranian side, there is principally the discontent of the intellectuals (insofar as they have not been accommodated inside the régime) with the Shah, his régime and rule by the secret police. The same corrosive influences can be brought to work inside the egg. They are countered more or less efficiently by the beginnings of new welfare régimes but, on balance, their influence is probably going to grow rather than decrease in the coming decade. It will grow much more quickly and radically if there is no solution to the Israel problem and if - as one must expect in this case - gloom, despair and frustration increase all over the Arab world. Very probably it will be discussion about the 'oil weapon' which will serve as a transmission belt, transferring the Israel question and its frustrations into the politics of the Gulf.

Northern Africa has to be envisaged in two parts, Algeria and Libya. It is relatively easy to estimate future trends in Algeria, where the Boumedienne régime is engaged in a long-term effort aimed at industrialization and modernization. Oil is one of the most essential instruments in this effort, and it is quite clear that the present Algerian government is not going to allow it to be put to any other use than earning the maximum profit for the country and its development effort. In Algeria the 'oil weapon' is an economic and not a political one, and it is going to be used for economic aims. Boumedienne is quite willing to give political and propaganda support to the Palestinians - indeed even has to do this in view of the country's own popular war history - but he will always tell the Palestinians that they must make the main effort themselves and that the Arab countries who lost territories in the six-day war must struggle for their return themselves. Algeria will give aid, sympathy, diplomatic support, but her essential task will be her own development.

Libya is in a very different situation. With her small population, her big desert expanse and her mass of money, she is under little pressure to set about building a modern society in earnest; indeed there are few opportunities for this, since manpower, skills and raw materials (except oil) are lacking, and, as everybody can live quite well on the oil revenues there is little economic motivation.

The political will of President al-Qaddafi has committed the country and its resources to Middle East politics in a big way. What will come of this is

not quite clear, but we are moving toward a climax. In September 1973 complete union with Egypt is to be achieved. It is by no means clear what this will mean: whether Sadat or al-Qaddafi will run the future unified country, and whether Libyan money will be available to Egypt freely or with strings attached. The Union is not popular in Egypt, and even less so in Libya, but in economic terms it would make sense, since the two countries are complementary. It is far from certain, however, that it will be achieved. All kinds of political troubles might easily interfere and the fact that Egypt herself is in a deep, and deepening, political crisis does not help anyone to see more clearly.

On balance it might be guessed that Libya is not very likely to change her oil policies. Either Egypt gets hold of the purse-strings - in which case she will certainly try to maximize profits which she desperately needs, and will need more urgently each year - or else al-Qaddafi preserves control of the Libyan income. In that case he will need a good part of his money (also increasing each year as his obligations accumulate) for his political ambitions. Theoretically he might be won over for an Arab oil policy devised to put pressure on the US and other friends of Israel, but in practice he would rather tend to run his own show. Political co-ordination with any 'progressive' or 'revolutionary' Arab group in the Gulf would be difficult, if only because of al-Qaddafi's distrust of any, even the mildest, Marxist doctrines.

Looking beyond al-Qaddafi, there is, of course, quite a possibility of a 'real revolution' taking over from him, Marxist in outlook and consequently more willing to make common cause with future progressive Gulf groupings. Students of Benghazi University have recently criticised al-Qaddafi to his face, telling him that his was no 'real revolution', and indeed there is no reason why students in Libya should think differently from those in Cairo, Alexandria, Beirut or Baghdad.

Until further notice, however, there is little opportunity for the great powers - Russia, the US or China - to gain much influence in the oil-producing countries of Northern Africa. Both will probably go on selling their oil to the 'Western' markets which bring most profit to them at the best conditions they can obtain, each for its own reasons.

The critical region will in any case be the Gulf. The overwhelming bulk of reserves is concentrated there. The present day political structure is such that all kinds of struggles can be anticipated, while resentments generated by the Israel issue are of such magnitude that they result in a built-in political disadvantage for any nation or group of nations upholding Israel.

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CONFERENCE ON CHOICES FOR EUROPE AND AMERICA:

THE MIDDLE EAST AND THE ENERGY

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SOVIET POLICIES

by

MR MALCOLM MACKINTOSH

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Introduction

The aim of this study is to assess the Soviet leaders' perception of their interests and requirements in the Middle East, and to see how they estimate the role of the Middle East and its energy resources in Soviet global policies up to 1985. While the paper will concentrate on the present situation and likely trends in the next decade, it may be helpful to consider briefly how the Soviet Union sees its priorities in the world today: a world which the Russians regard as basically hostile to them, both on national and on ideological grounds.

Soviet Priorities in the International Situation

The Soviet Union, both as global super-power and as claimant to leadership of the world communist movement, is primarily interested in national security and in the acquisition and exercise of power. Basing their views on their country's size, population and economic resources, and deeply conscious of Russian history and traditional aims, the Soviet leaders believe the Soviet Union is the greatest of European powers (in every sense of the word - including its contribution to European culture, science and civilization), and the practitioner of a political and economic system which is more correct politically and more beneficial economically and socially than any ^{other} form of government, capitalist or ultra-revolutionary. Under this system the Soviet Union, although devastated by the Second World War, succeeded in developing in the quarter of a century since 1945 into a super-power second only to the United States. Moreover, the present Soviet leaders and those likely to succeed them presided over the final stages of the advance from great to super-power status, and therefore have a special interest in the preservation of this status, in its continued acceptance by the United States, and in the opportunities super-power status offers to a country anxious to change the world balance in its favour.

The present Soviet leaders recognise that the basis of their advance to super-power status has been their military power, and that this concentration on armed strength has held up progress in, for example, the economic, agricultural and consumer fields. So far the authoritarian nature of Soviet rule has held consumer demand (and consequent dissatisfactions) in check, but the leadership does realise that, unless significant improvements in living standards are made, the Soviet Union will not be able to keep pace in the modern world with the other super-power, or indeed,

with some great powers. But the primacy of military power in retaining super-power status is still a cardinal principle of to-day's Soviet leaders and is likely to remain so with their successors.

Current and, in all probability, future Soviet priorities in foreign policy are likely to depend on the Soviet view of what is necessary to keep their super-power status intact, and to create as many options as possible for other Soviet aims, including improvements in the balance of power in certain areas. Clearly the creation and maintenance of a special relationship with the United States are a vital part of this task, and they have already begun to operate in the fields of strategic military power, crisis control and trade. The Strategic Arms Limitation agreements of 1972 and this year's continued discussions on arms limitation - designed to prevent the United States from 'breaking away' in the strategic arms race, as happened in the early 1960s - are intended to emphasize to the Americans the importance of bipolarity in world affairs, as well as to save money and resources for other purposes. But neither the SALT talks, nor the crisis-control element in Soviet-American attitudes to the Vietnam war in 1972, nor Soviet hopes of substantial trade agreements with the United States should conceal the Soviet Union's fundamental desire to see a weakening of American power, determination and influence all over the world, especially in Europe, the Far East and the Middle East.

Unlike the United States, the Soviet Union has another major and much more implacable antagonist: China. The Russian attitude is based on deep-rooted national and racial fears of China's size and numerical superiority - to which has been added all the bitterness of ideological schism. From this foundation the Russians are concerned at China's long-term potential as a nuclear power and her probable aspirations to join the super-power club. These fears provide another motive for closer Soviet-American relations and some degree of détente with Western Europe, including the EEC. But in the short-term the Russians appear to believe that the actual 'threat' from China is contained and to some extent compartmentalized. Soviet military superiority is for the time being complete; China's developing economy and technology are still well behind those of the Soviet Union; and the Chinese political threat to Soviet interests in the Third World, including the Middle East, though aggravating and unforgiveable in ideological terms, does not yet present a real danger to Soviet power and prestige.

The other main priority for the Soviet Union - one which is also likely to grow rather than diminish in the years ahead - is the future of Europe. Europe has always been the traditional area of Russian foreign policy, and the Russians have always felt that they should have some say in the political development of the whole of Europe, West as well as East. The acquisition of super-power status in the late 1960s opened up new options for a more active policy here, and the

Russians have signalled their intention to adopt such a policy through their current proposals for a European Security Conference which date back to 1969. The Soviet Union's European policy has been prepared and carried out with skill and sophistication, and its main aim (at the risk of great over-simplification) may be summarised thus: an attempt to secure general Western agreement to the political and military status quo in Eastern Europe; improved access to Western technology and investment; and the search for a framework within which the Soviet Union and Eastern Europe can deal with the reality of the EEC as an economic grouping, while inhibiting its development into a political or military entity and also hoping to exploit differences between it and the United States. The Soviet Union would also like to see the establishment of some kind of all-European consultative commission, through which the Russians could exercise the right to have a say in West European political, military and economic affairs.

These aims are likely to be accompanied by measures to improve the quality of Soviet military power in the European and Mediterranean area (within the framework of any arms limitation or force reduction agreements which may be reached with the West) and by a persistent effort to convince Western governments and peoples that the European Security Conference will have solved Europe's defence problems, that NATO is not necessary, and that military expenditure could be drastically reduced, and existing alliances abandoned.

These, then, are the Soviet Union's main priorities for the 1970s. As far as other parts of the world are concerned, she will try to weaken the West's influence on an opportunistic basis, and, especially where power vacuums occur, to increase Soviet influence by means of economic and military aid, political presence, and (in certain limited circumstances) the politico-military activity of the Soviet Navy.

The Soviet Union and the Middle East

The Middle East has the special status of supplying Western Europe and Japan with most of their oil, and the Soviet Union always seems to have found difficulty in deciding whether to regard the region primarily as an area of great strategic importance to her or as an area of the Third World where Western influence can be replaced by Soviet through political and economic, rather than military, means.

In favour of the strategic outlook is the geographical position of the area, stretching from the Soviet border in Iran and Turkey as far as the land bridge to Africa at Suez and the ports of access to the Indian Ocean. To many Russian strategists the Middle East's proximity to the Soviet heartland calls for a primarily military approach, and, moreover, the Soviet Union's use of the Mediterranean for strategic defence and for general war purposes has led to the involvement of certain Middle

Eastern territories in the strategic confrontation with the West. The Soviet Union, of course, no longer enjoys the military facilities it had in Egypt up to July 1972, and has not so far been able to replace these in any other Middle Eastern country - Syria, for example, has resisted Soviet requests for a treaty, and possible demands for Soviet naval/air facilities on her territory. However, the Middle East is also involved in the strategic equation through the presence of a permanent Soviet naval squadron in the Indian Ocean. Much of the operating time of ships of this squadron is spent in the north-western corner of the Indian Ocean - off Aden and Socotra, in the Persian Gulf, and in Somalia, where the squadron is reported to have recently acquired important naval facilities - but mobility between the Mediterranean and Indian Ocean squadrons is prevented by the closure of the Suez Canal. The Soviet desire to see the Canal reopened is therefore primarily a strategic one.

Furthermore, in Soviet eyes a valid anti-Soviet military organization still exists across the northern part of the Middle East in the shape of CENTO, with its membership of Britain, ^{Turkey,} Iran and Pakistan. Regardless of the actual military forces which this alliance can muster, (and CENTO is not always taken very seriously in the West) its existence is regarded in Moscow as an affront to the Soviet Union. Moreover, two of its members, Britain and Turkey, also belong to the much more powerful NATO, and the United States is firmly committed to support of the alliance; it is not lost on the Russians that the CENTO Chief-of-Staff has always been an American. For all these reasons, there is a strong Soviet inclination to give security issues a very high place in their planning for the Middle East; and this is likely to continue. Among other aims they have in the area is the dissolution of CENTO, especially its links with the Western nuclear powers.

On the other hand, Soviet policy has also dealt with the Middle East as part of the Third World, in the sense that it has provided vast amounts of economic and military aid in the hope of weakening Western influence and promoting that of the Soviet Union. For eighteen years now the Soviet Union, and to a lesser extent the East European countries, have poured military and non-military aid into almost every country of the Middle East, from Morocco to Iran. Many of these programmes have been welcomed by the countries concerned and have materially contributed to raising the standard of living there and to developing industry and trade. The sheer size of the Soviet investment in the Arab countries of the Middle East, Iran and Turkey means that it would require a major change of policy if the Russians were ever ^{to} 'pull out' of the area in economic or political terms, and it is hard to see this happening even though the burden of the aid programmes must be heavy and the return, in hard political influence, may be disappointing.

There is little doubt that hard political influence is what the Soviet leaders really want in the Middle East, though they do not necessarily desire the early establishment of Communist régimes in the area - their experience of other communist governments since the war has not been happy: China, Yugoslavia, Albania, Hungary, Czechoslovakia and Rumania have all given them a great deal of trouble. What they do desire in the short to medium-term is a degree of loyalty and commitment to the Soviet Union on the part of a significant element of the ruling élites in these countries, especially in the field of foreign and military policy. If the Soviet Union could be assured that, for example, a majority of the Egyptian, Syrian, Iraqi, Libyan, Somali and Algerian ruling élites were prepared to be responsive to Soviet foreign policy requirements on a regular basis, and that those in Iran and Sudan would not oppose Soviet foreign policy initiatives, then a large part of their aims would have been achieved in the Middle East.

The Soviet Union has tried, and is still trying, to make its economic, political and military investment in the area produce political dividends of this kind. It has a number of factors on its side: the support given to the Arab cause in the Arab-Israeli dispute; the presence in most Arab countries of large numbers of Soviet advisers, aid administrators and technicians; and Soviet promotion of obviously beneficial schemes (such as the rural electrification project in Egypt). It also has continuing military assistance to its credit, and, both in the Soviet Union and in Middle Eastern countries themselves, has trained thousands of Arabs in civil and military skills.

On the other side of the picture is the force of Arab nationalism, supported by Moslem anti-Communism and the element of instability in Arab politics. Perhaps the greatest disappointment to the Soviet Union in recent years has been the failure of the policy of stationing Soviet troops on Egyptian soil, and of contributing to Egyptian air defence, to influence the Egyptian government in political terms. This is particularly true of the refusal of the Egyptian government to allow pro-Soviet groups to coalesce within the Arab Socialist Union and form an alternative régime, committed to the kind of loyalty to the Soviet Union which Moscow requires. In Iraq, the one country whose ruling élite has approached her politically, admitted Communists into the government and turned to her for significant help in its oil industry, the Soviet Union finds it extremely difficult to canalize Iraqi readiness to collaborate into political channels beneficial to Soviet foreign policy - and in countries like Libya and Algeria it seems to have been unable to make any progress at all.

Faced with these obstacles, and bearing in mind Soviet strategic requirements and the advantages which the Soviet Union does enjoy in certain Arab countries, the Soviet leaders appear to be planning a tactically opportunist programme of

continuing economic and political penetration of the area, paying due regard to their strategic requirements. In a purely military context the Soviet Union will try to improve the all-round capabilities of its two naval squadrons in the Mediterranean and the Indian Ocean, including, where possible and desirable, the acquisition of naval or naval/air facilities: for example, in Syria for the Mediterranean squadron, and in Somalia for the Indian Ocean squadron. While the present government in Syria lasts the Russians are unlikely to acquire facilities, but the outlook is more favourable in Somalia, a poor but strategically located country of East Africa. No doubt the Russians will also try to keep the limited port facilities they have in Egypt, but, here again, the present Egyptian government is not likely to reverse its decision of July 1972 and re-admit a Soviet military presence. Algeria, or even Malta, might be theoretical alternatives, but in practice they are unlikely to conform to Soviet wishes. One further military aim which the Soviet Union may want to pursue is the acquisition of over-flying rights from well-disposed Arab governments, so that in an emergency the movement of Soviet forces by air could be cleared in advance by the governments concerned.

Another area where the Soviet Union may see possibilities of effecting a presence and increasing its influence is the Persian Gulf. Not only does this area provide much of the West's oil, but the small Arab states (some united within the Union of Arab Emirates) have been weakened militarily since the British withdrawal, and a number of them already have subversive or guerrilla movements on their territories. On the surface, therefore, the Gulf States would appear to be potentially soft targets for Soviet penetration.

In the short term, however, much may depend on the role of Iran, a country which the Soviet Union does not want to antagonize for a number of reasons. Iran's influence in the Gulf has grown militarily and politically in recent years, especially since the Shah seized the islands which control its entrance, and has built up the strongest air force in the area. (Iran could, as it were, bottle up Iraqi naval forces in the Gulf. Moreover, Iran appears to be interested in improving relations with some of the Arab countries on the south shore of the Gulf, and any country wishing to extend its political or military influence there would have to reckon with Iranian hostility. While this would clearly not be decisive for the Soviet Union, the Soviet dual policy of improving relations with Iran and expanding its influence in Iraq requires that friction with Iran should be kept to a minimum at this stage.

In political terms, the aim of the Soviet Union must be to protect the vested interests which it has acquired and, wherever possible, to try to weaken Western political, economic and military influence still further. Since the Soviet leaders have now learnt that neither economic nor military aid, nor a military

presence, can guarantee the kind of political influence they want, they are likely to rely on aid programmes and propaganda to produce a favourable pro-Soviet atmosphere in the Middle East, and to try to develop their influence among leading politicians and soldiers in the more important Arab capitals. They must recognize that this is bound to be a slow process, with many obstacles to be overcome. But at least the Russians have personnel in many countries with access to political circles as well as extensive training and aid programmes (in the countries themselves and in the Soviet Union), both of which may give them some capability for developing Soviet influence over the longer term.

One very important factor in Soviet Middle East policy is the reduction of the Soviet military involvement in the Arab-Israeli conflict. Up to July 1972, had another major round of hostilities broken out between Israel and Egypt, it would have been almost impossible to avoid Soviet casualties in the air defence of the Canal zone, with all the dangers of a direct Soviet-Israeli clash leading to a Soviet-American military confrontation. As the Soviet Union moved towards an agreement with the United States on strategic issues, crisis control and trade, so the elimination of such risks became even more desirable, and, although in the strictly military sense the loss of naval air bases in Egypt was a serious setback to the Soviet Union, it has several advantages politically. The Middle East is no longer an area of dangerous military crisis for the Russians; but this also implies that there is probably less urgency in Moscow in seeking a lasting political solution to the problem. It is very likely, in fact, that the Soviet Union would welcome a continuation of the Arab-Israeli dispute at approximately its present level, which enables it to pose as the champion of the Arabs, continue to supply economic and military aid, and use its presence in the area to eliminate or weaken Western influence.

At the same time the Soviet Union has to take into consideration the effects of its need for the 'special relationship' with the United States. Perhaps the most important aspect of this relationship to the Soviet Union is the Russians' desire to keep the number of super-powers down to two - the United States and the Soviet Union - and, by convincing the Americans of the value of bipolarity in world affairs, to persuade them not to press for multipolarity (that is, bringing China, Japan or Western Europe into the super-power club. The Russians have shown themselves to be genuinely afraid of moves towards multipolarity initiated by Washington - which would leave them in a permanent minority - and would probably be ready to make political concessions to the United States (but only to the United States) to prevent these moves from taking place. This factor, too, could be relevant to future Soviet decisions on the Middle East, including their policies relating to oil and energy.

The Soviet Union and Middle East Oil

This paper has so far concentrated on the political, military and economic aspects of Soviet policy, because these are the factors upon which Soviet decision-making is based, and because they represent elements in the situation on which the Soviet leaders have to take the right decisions before assessing other possibilities for achieving their goals. However, the Middle East contains an additional factor - vast reserves of oil - which is not present in other areas where the Soviet Union is anxious to pursue an active foreign policy. It is now time to see how this energy factor affects Soviet policy; what role the Soviet leaders think oil should play in their decision-making; and whether they think acquiring some form of control over the oil-producing areas of the Middle East would give them an effective weapon to use against, and influence, Western Europe, Japan or the United States.

In analysing this very complex subject from the Soviet point of view, it may be helpful, at the risk of over-simplification, to look first at the vulnerability of the West and Japan in the field of energy, and at the ways in which, on paper at least, the Soviet Union might exploit the West's needs in support of Russian global or local policies. This can be followed by a look at some of the problems involved in trying to put these policies into practice and an assessment of how far the Soviet Union may go in this direction in the decade ahead.

Of Western Europe's annually rising oil consumption 82 per cent comes from the Middle East and North Africa, and 80 per cent of Japan's oil comes from the Persian Gulf. Moreover, while American imports of Middle East oil at present supply only a small part of their needs, by 1980 the US will probably depend on the area to meet over a third of its needs; this percentage could increase in the early 1980s, although it could fall subsequently. Furthermore, British, American and other Western oil companies have an enormous investment in Middle East countries, much of which is vulnerable to political decisions involving nationalization, seizure or, at the very least, various forms of non-co-operation by the governments concerned. The Russians are, of course, aware of this dependence. There appear to be three main ways in which Western oil interests could be damaged if the Soviet Union acquired political influence over oil-producing areas, or if a Middle Eastern government, responsive to extreme nationalist or pro-Soviet convictions, decided to use oil as a weapon against the West: a physical shortage of oil supplies; great increases in the price of oil; and a loss of, or serious reduction in, the assets or income of the oil companies.

There can be no doubt that if the Soviet Union could achieve at any rate the first two of these goals, either directly or through a pro-Soviet oil-producing state or group of states, the West would face a very serious, ^{situation} perhaps even a disaster.

But are these valid fears? First of all there are the difficulties inherent in gaining the necessary political control over the Middle East countries involved, which have already been discussed. Secondly, if the Soviet Union tried to gain this control by penetrating the Middle East oil industries and replace the Western oil companies, she would quickly come up against very serious practical difficulties. To use oil against the West in any serious way, she would have to provide a market for the Middle East producers. But the Soviet Union does not itself need oil from the Middle East; indeed she is herself an exporter of oil. Thus, if the prime market for bought-in Middle East oil were to be the Soviet Union and Eastern Europe, the Russians would have to make a huge sacrifice of, at best, barter goods or, at worst, hard currency to obtain resources they do not need. They might, of course, decide that it made better economic sense to restrict their own production, so as to take large quantities of Middle East oil (total output of which could be as much as 1,700 million tons by 1980), but there is no evidence that the Soviet Union would want to place itself in a position of dependence on Middle East oil when she has accessible oil resources at home. All available information suggests that the Russians are anxious to intensify the development of their oil reserves, for example, at Tyumen in Siberia.

If the markets for the bought-in oil were to be in the West, the Soviet Union would either have to secure the co-operation of the major Western oil companies, or, if this was withheld, face the problem of replacing them as 'middlemen' in refining, marketing and distribution. It is hard to see how she could provide the expertise, the organization or the transportation. At sea, the Soviet tanker fleet consists of a total tonnage of about 5-6 million dwt, compared with the Western fleet of some 140 million dwt, by means of which the Western companies annually dispose of about 800 million tons of oil. Overland, in order to become the main oil supplier to Western Europe, the Russians would have to build a highly complex network of pipelines and terminals which would involve tremendous costs and raise political problems. Moreover, the Soviet Union would have to pay the producer countries for very large quantities of oil in hard currency, which they would find very difficult, even if they were sure that they would be recompensed by sales of oil to the west. It is this problem of currency which would be likely to inhibit the Russians from trying to become Western Europe's main source of oil. While it cannot be ruled out that the Soviet Union may acquire some of these skills, resources or capabilities in the 1980s, the likelihood that it could put together the combination of them necessary to replace the Western oil companies and completely satisfy the producer countries does seem remote.

Further analysis of current Soviet oil policies in the Middle East suggest that the present Soviet leadership is working towards more modest objectives. The Soviet Union is involved in economic projects of all kinds in the more radical

Arab states as part of her general aim to weaken Western influence in the area and build up that of the Soviet Union; and oil is one of these interests. The Middle East oil industry, from the Soviet point of view, is a promising one for increasing Soviet influence in the countries concerned up to a point; but the essential factor is the need of the producing countries to sell their oil to the rest of the world at a high rate of profit and for hard currency. The Russians, therefore, have to operate within this limit unless they can come to dominate one or more countries even more completely than they dominate some East European countries which is extremely unlikely. Quite apart from the inherent strategic and political difficulties involved, any such effort would not only founder on Arab nationalism and religion but would certainly destroy the essential elements of the 'special relationship' between the Soviet Union and the United States, damage the Soviet Union's policies in Europe, and could provide unexpected opportunities for the Chinese.

In fact, it seems to be Soviet practice to persuade and encourage the oil-producing countries to follow steady, but not extreme, anti-Western policies which do not commit the Soviet Union to direct involvement in the more expensive, risky or complex aspects of the international oil business. They certainly advise the formation of national oil companies, but while they have supported nationalization in various states, there is no evidence that every nationalization decree has had Soviet support or prior knowledge: for example, in Libya or Algeria in 1971. The Russians stress the need for the amendment or abrogation of existing agreements and for demands for higher royalties from the companies. They support 'participation' negotiations and strongly recommend the employment of Soviet advisers, technicians and planners and requests for Soviet equipment. There are, for example, believed to be over 300 Soviet oil technicians in Iraq and Algeria, and smaller numbers in Egypt and Syria. Higher prices for Middle East oil place at a disadvantage those Western countries who are, or expect to become, large-scale net importers of oil, and they also adjust relative energy costs in the Soviet Union and the West in the Soviet Union's favour.

The measures recommended by the Soviet Union are accompanied by a major propaganda campaign in the Middle East which not only depicts the Western oil companies as enormously wealthy foreign exploiters of Middle Eastern resources but claims that oil profits make their way to Israel in the shape of weapons and equipment for the Israeli armed forces. The campaign also includes Soviet calls to Arab and Iranian producers to make use of their oil as a weapon against the West. For example, on 24 February 1973 Moscow Radio declared: 'Oil is an effective political weapon... Patriotically-minded representatives in the oil-rich Arab countries are calling on their countrymen to remove oil as a weapon from alien hands, from the hands of foreign exploiters, and to turn it against the American and other monopolies'.

The Pattern of Soviet Oil Policies

Backed by this propaganda campaign, the pattern of Soviet policies seems to be to encourage the oil-producing countries of the area to damage Western interests, while the Soviet Union provides, as it were, some 'logistic' support for their actions, supplying advisers and equipment, and buying small quantities of oil in order to demonstrate Soviet political support for these measures. East European countries also participate in this policy, and, taken together, do buy more Middle East oil than the Soviet Union though still in very small quantities. Actual Soviet involvement in the process is advanced only in Iraq, where special internal political factors operate, including Communist participation in the government and Soviet involvement in the Kurdish-Arab agreement of 1970, both of which may give the Soviet Union a limited degree of political leverage. In Iraq, the Russians are involved in the exploitation of the North Rumaila oilfield, which was expropriated from the Iraq Petroleum Company (IPC) in 1961, and also in the construction of installations and the training of Iraqi oil personnel. They also take about 2 million tons of oil from this field each year, with East European countries agreeing to buy up to 5 million tons. The Soviet Union vociferously supported the nationalisation of the IPC fields at Kirkuk in June 1972, and may have agreed to take some oil from here as well.

The Soviet Union also provides technical help to Algeria, and has agreed to take a million tons of Algerian oil for two years. Soviet-Libyan agreements along similar lines also exist, but it is not clear to what extent they are being implemented given the poor state of Soviet political relations with Libya. Small quantities of Egyptian and Syrian oil are taken by the Soviet Union and East European countries (the latter also providing some technical help), but the overall amounts from the Middle East are very small: probably less than 2 per cent of the area's total production, and some 5 per cent of the Soviet bloc's total consumption.

Looking at the use which the Soviet Union has so far made of the 'oil lever' in the Middle East in support of her national interests and foreign policy, it seems to be true that oil takes its place among the interests over which the Russians want to develop their influence and weaken that of the West, and that so far they have been active, but relatively cautious, in this direction. Oil is a tempting weapon for the Soviet Union to use, but the caution of most Soviet oil policies to date ^{suggest} that the Russians realize that their freedom to use the 'oil lever' is limited by the producer-countries' need to sell their oil for hard currencies. In other words, the Russians cannot expect these governments to deprive themselves of profits in support of the Soviet Union - indeed, an increasingly important factor may be the producer countries' desire to exclude all foreign influence from their affairs. In the decade ahead, the Soviet Union is very unlikely to be able to replace the

oil companies as "middlemen"; so, even if she acquired the degree of political control over one or more oil-producing countries which would theoretically enable her to direct their internal and external policies, she would be unlikely to be able to provide the marketing, refining, distribution and transportation essential to keep the oil flowing in the period under review.

Future Soviet Policies in the Middle East

Future Soviet policy in the area is therefore likely to aim at a general increase in Soviet influence in the Middle East and North Africa and a weakening of Western influence of all kinds. The Russians will try to strike a balance between opportunist exploitation of local rivalries where there are advantages to be gained, and avoidance of engagement in disputes which could commit them to risks of war or damage to Soviet prestige and authority.

The purposes behind Soviet policy will continue to be partly strategic and partly political, and in each country the methods to be used mainly political and economic: the acquisition of 'agents of influence' in the ruling élites, the provision of large-scale military and non-military aid, of which aid and assistance to the countries' oil industries may be significant. These aid programmes will, the Soviet Union hopes, interact: the aid to the economies and oil industries should increase Soviet influence on the countries' political leaderships, and increases in political influence should enable the Soviet Union to acquire more say in Middle Eastern countries' economies, and more influence over their oil industries and policies. But the likelihood is that, because of the complexities of the oil production, distribution and marketing processes, the Russians will continue to stop well short of making control of Middle East oil a priority target. They will rather use their involvement in the oil industries as one weapon among several in this advance towards a more effective Soviet position in the Middle East as a whole.

As the decade comes to its close, it seems probable that the Russians may become increasingly anxious about a possible challenge from China in the Middle East, if China is still ruled by the same kind of political figures as she is now. For the present, Chinese influence with the governments of the Middle East is negligible, with the possible exception of the PDRY in Aden. Some Chinese influence is detectable in revolutionary organizations such as the Palestinians and in the Persian Gulf area, and some elements of the Syrian Communist Party are said to be pro-Chinese, but ^{the} Russians face few immediate challenges in the Middle East from their most bitter enemies.

Although the Chinese still support Palestinian guerilla activities, Chinese policy has now become so anti-Soviet that China might even favour some form of settlement of the Arab-Israeli dispute on condition that it weakened Soviet influence

in the area. This, indeed, is the keynote of all Chinese policy: to limit the power and options of the country which they regard as having betrayed Communism, and from which they fear military attack. As long as this outlook prevails in Peking, the Chinese will concentrate on opposing Soviet policies wherever and however they can. In all probability they will be less active against the West. For political, economic, and technological reasons, it is most unlikely that the Chinese could enter the field of oil politics in a significant way by 1980, although, if their revolutionary influence was to grow in the Gulf, it is possible that they might have to formulate policies to deal with oil. But as long as Mao-Tse-tung or those following his policies are in charge in China, the trend of any such decisions would be anti-Soviet in the first instance.

Finally, one more remote qualification must be made in drawing this paper to a conclusion. One theme of this analysis is that the Soviet Union, relying on its newly-acquired super-power status, has embarked on a broad policy designed to change the balance of power in its favour, especially in Europe, while forming a 'special relationship' with the United States on certain issues, and challenging China. While this is, in the light of Russian history, in many ways a logical policy for Soviet leaders to pursue in the present decade, it must be remembered that Soviet attitudes to the outside world are formulated by the fifteen men of the Politburo, who rule the country unchallenged by public opinion and are able to direct the resources of the state with virtually unlimited authority.

The possibility cannot be ruled out that a new group of Soviet leaders might decide on other priorities for the Soviet external effort: some might wish to call a halt to the political offensive in Europe and devote more effort to China; others might wish to take a tougher line against the United States, and perhaps re-adjust their attitude to the use of the 'oil-lever' in favour of stronger measures; another group might favour recasting priorities against active foreign policies in general and prefer a defensive attitude to the outside world. Such a leadership might want to concentrate on the economy and, in particular, on agriculture and on raising the standard of living of the Soviet people. In making predictions as far ahead as the years 1980-85, the likelihood of a new Soviet leadership in Moscow must therefore be taken into account; how such leaders will see their role and their priorities in the world, including their treatment of the energy factor, is very hard to predict.

9

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THE MIDDLE EAST INSTITUTE (WASHINGTON)

THE WORLD PEACE FOUNDATION

JUNE 15-17 1973

C O M M E N T

by Dr William QUANDT

on

"THE REGIONAL ENVIRONMENT IN THE MIDDLE EAST"

(by Dr Arnold Hottinger)

Session 11

COMMENT

on

"THE REGIONAL ENVIRONMENT IN THE MIDDLE EAST"

Arnold Hottinger is quite right to distinguish the Persian Gulf oil-producing area from North Africa. It is in the Gulf, and particularly among the Arab states bordering on the Gulf, that the vast oil reserves are found; that new political relationships are rapidly evolving; and that outside powers are beginning to take notice. Within this area Hottinger foresees endemic conflict, fuelled by 'progressive' ideas emanating from Iraq and South Yemen, and a growing trend toward using oil as a weapon in the struggle with Israel. As a prediction of political trends in the Gulf during the remainder of the decade this image is probably as good as any other. My comments are not meant to challenge the accuracy of Hottinger's predictions, but rather to add to his discussion of the Gulf several other issues that seem important to one observer viewing the area from the perspective of Washington.

For at least the next decade revenues generated by oil production will flow into the Gulf in unprecedented quantity. Saudi Arabia and Iran will be the primary beneficiaries of this wealth, followed by Kuwait, Iraq and Abu Dhabi. Iran will increase oil production as rapidly as possible and will use its wealth to build the most powerful military force in the area and to continue its ambitious development programmes. Saudi Arabia, Kuwait and Abu Dhabi, by contrast, all face the prospect of generating much more revenue than they can usefully absorb in the tasks of modernizing their own societies and building up their defence capabilities. Thus these states face a choice of limiting oil production, as a rational economic decision, or of expanding oil production beyond what is required to finance their own needs, thereby helping to meet world energy demand. If this latter course is followed it will be motivated, in part, by the hope of securing, as best one can in the twentieth century, political and military protection from strong outside powers.

Iraq is perhaps the most unpredictable of the Gulf countries. We have become accustomed to viewing Iraq as unstable, radical, and relatively poor. Some estimates of oil reserves, however, suggest that Iraq may well be the only country aside from Saudi Arabia capable of significantly expanding oil production through the 1980s. If this is true, we could perhaps see a rapidly developing Iraq, with comparatively stable and effective political leadership, playing a large, and not necessarily negative, role in the Gulf. Iraq's future course, however, is uncertain and will bear careful watching. Iraq's claims to Kuwaiti territory will provide an early test of how far Iraq is willing to use military force to further its objectives. In the longer term internal developments, in addition to Iranian and Soviet policies, seem most likely to determine Iraq's future political orientation and influence in the Gulf. It would be a mistake simply to project Iraq's troubled past indefinitely into the future.

When it became clear that the British presence in the Gulf was to be reduced, the United States initially hoped that co-operation between Iran and Saudi Arabia would help to bring stability to the Gulf. This was, and remains, a wish more than a concrete reality, and it is now clear that Saudi-Iranian co-operation cannot be taken for granted. One trend which might develop in coming years and could become the overriding factor in the area by the 1980s is Iranian-Saudi rivalry. This, perhaps more than the Iraqi-Iranian conflict emphasized by Hottinger, carries the potential for seriously disrupting Gulf security. Iran will clearly be the most powerful nation in the area militarily. The Shah's accumulation of arms is already of concern to his conservative Arab neighbours who are also rapidly building up their inventories, largely out of fear of Iraq today, but perhaps of Iran tomorrow. Some experts anticipate that Iranian oil production will peak by the early 1980s, then begin to decline. This could occur at a time when Saudi production will be expanding at a phenomenal rate, making Saudi Arabia the monetary and economic power of the region. It is not difficult to imagine that a very serious rivalry, punctuated by open conflict, could erupt between the leading economic power and the leading military power of the Gulf. Control over shipping in the Strait of Hormuz would be only one issue that might bring Arabs and Iranians into conflict.

I am less impressed than Dr. Hottinger by the danger of subversive movements in the Gulf. It is true that many of the Gulf states are weak and vulnerable. Some of them will doubtless experience coups. But we should be wary of applying a domino theory to the Gulf. The Dhufar rebels are few and probably incapable of succeeding even in the remote region in which they now operate. They are a drain on Oman's budget and a cause for concern to the conservative countries in the area, but they do not seem to be the wave of the future. I would expect that South Yemen will likewise not find it easy to spread its influence much beyond its borders. With its meagre resources and numerous enemies, it will do well to defend its own integrity.

The relatively weak entities on the periphery of the Arabian peninsula -- North Yemen, Oman, the UAE, Qatar, Bahrain and even Kuwait -- will probably try to protect themselves by acquiring arms, by direct security arrangements with Saudi Arabia, Iran and Jordan, and by less direct ties to Britain and the United States. This should be adequate, provided there is a minimum of governmental competence and reasonably enlightened social and economic policies.

Finally I would like to emphasize the importance of developments in Saudi Arabia for the region as a whole. The Saudis will come very close to setting the pace for OPEC oil policy because of their unique productive capacity. The

Saudis will increasingly play an important role in regional politics, finding in Jordan and Egypt states anxious to absorb large quantities of Saudi aid and in return giving the Saudis at least a respectful hearing. The regime in Saudi Arabia has made a fundamental choice, whether it fully realizes it or not, to modernize its society and institutions. The entering wedge is the apparent decision to build up a large, modern armed force. In the next decade money and arms will flood into Saudi Arabia, bringing in their wake pressures for change in political, economic and social institutions. If Saudi Arabia is capable of a 'white revolution' it will emerge as an important actor on the world scene, despite its small population. If it falters, the scramble for control of its wealth could set off serious conflicts in the area.

A concluding note on the continuing conflict over Palestine is needed. Dr. Hottinger believes that the Arab countries of the Gulf will become increasingly involved in the Arab-Israeli conflict. This is possible; and we see some signs of it already. But it is also conceivable, if not probable, that some form of political settlement will be reached, perhaps after another round of fighting, which will serve to keep the Arab-Israeli conflict out of Gulf affairs. Even without a peace settlement, however, it may be that the Gulf oil producers will become so fully absorbed in the evolving regional political game, in threats to their own security, in managing their own development, and in negotiating ever better oil agreements, that they will have little time or patience for the intractable conflict over Palestine. At this point, all we can be sure of is that the Gulf region is growing in importance to the world as a whole; that changes will be sudden; and that our best predictions are bound to be wrong in some respects.

1

10

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POLICY OF THE EUROPEAN COMMUNITY AND MEMBER STATES

By

DR FERNAND SPAAK

POLICY OF THE EUROPEAN COMMUNITY AND MEMBER STATES

by Fernand Spaak

For a long time the supply of energy to European countries was left to coal or oil companies. However, the increasing role of energy in industrial and social development has gradually led governments to adopt energy policies. On the whole, they have acted in varying, and not very coherent, ways, favouring in turn coal, oil and nuclear energy, according to their resources, ambitions and economic doctrines. Some countries, like France, have attempted direct intervention, others, like Holland and Germany, have relied mainly on market pressures.

In spite of their different situations and interests, European governments have followed policies based in the end on three main principles: to ensure safe and regular supply, reasonable and stable prices, and competition between the various suppliers. These principles accord with those defined by the EEC as early as 1964, in a Protocol of Agreement between the Six States of the European Community, and reiterated later in the "First Orientation for a Common Energy Policy", approved by the Council of Ministers of the European Community in 1968, which defined methods, and first measures to be taken. For instance, the Council of Ministers, on the basis of proposals by the Commission, endorsed coal subsidies, decided to fix oil reserves at 90 days' consumption, and set up a system by which the Commission is informed of import and investment programmes relating to oil, natural gas and electricity.

However, one cannot really talk, at present, of a common energy policy, since the political will is lacking among Member States. Responsibility for energy policies has been left, to date, on the whole, to the individual nations.

These policies have yielded what appear, at first sight, to be positive results. From the time of the Suez crisis until 1970 there has been an abundant supply of cheap energy, particularly oil. It has been sufficient to satisfy most of the new needs of the European Community, and the price of fuel-oil has been taken as the reference price for other, competing fuels. Natural gas, as an indigenous and expanding source of energy, has shared the growth market and even been able to wrest part of it from oil products.

However, the value of these achievements is open to question. Although abundant supply and falling prices have in the short run stimulated the economy, the longer term position is clearly less favourable. The basic consequence of the growth of the oil sector has been to make Europe, in the last twenty years, dependent upon imports for the larger part of its energy requirements. In the Community of the Nine, the ratio of net imports to total needs has quadrupled from 16% in 1950 to 64% in 1970. Supplies are now subject to world factors upon which it has little influence. Europe, as a body of consumer states, played no role at the Tripoli and Teheran conferences.

Further, the cheap energy policy has prevented Europe's oil industries from developing their capacities to a level consistent with Europe's position on the world oil markets. (This is mainly the result of political or economic decisions, such as America's participation in Aramco and the Iran consortium, and the protection of the American domestic oil market.) European coal production, because of its high cost, has been crushed by the competition from oil; despite the support measures taken by governments, mines have closed down at a higher rate than forecast. The low cost of imported energy has also put the brakes on the drilling for gas and slowed down the building of nuclear power stations, thus postponing by many years the time when nuclear electricity will account for a significant slice of the market.

This weakening of nation^{al} production was not deliberate. European countries have acted independently on the international market. However, they are individually too weak to influence the energy markets, on which the role played by third parties -- oil companies, producing countries, other consumer countries -- is paramount and beyond their control.

The Market Since 1970

Since 1970, the world energy market has greatly changed, and calls for a review of the European countries' policies.

First, the oil exporting countries' attitude has changed. They have united within a powerful and well-structured, largely monopolistic, organization, OPEC (Organisation of Petroleum Exporting Countries), whose task is to define global strategies against operating companies. A large number of exporting countries have formed national oil companies (NIOC, INOC, Sonatrach...) which are now able efficiently to manage their oil inheritance without having to rely, for production, on the large western companies. The producer nations' will to take over their own hydrocarbon wealth has led to the 1971 Teheran and Tripoli Agreements, to the Libyan and Iraqi nationalizations, and to companies beginning to transfer capital to the producer countries, following the New York "participative agreement" in October 1972.

The exporting nations' policies have caused serious uncertainty for the importing countries, regarding both access to supplies and prices. Although there is enough oil in the world, at least until 1985, it is not at all sure that supplies will be sufficient. Production is dependent upon the necessary investment. Will the oil industry be prepared to invest money in unsafe areas, and the producer countries be in a position to play a part in the financing of their own production? Will these countries, having decided that their oil revenue is sufficient to ensure their economic development, reduce the volume of oil available to the market in order to spread their revenue efficiently over a longer period,

particularly since they might do better to retain stocks of hydrocarbons rather than accumulate devalued money? To these questions should be added the precarious nature of the political situation in the Middle East, and the danger of a military conflict in this area, where a ban on oil supplies could be used as a means of applying pressure.

As far as prices are concerned, nobody knows what the producing countries' attitude will be after 1975, when the Tripoli and Teheran Agreements have to be replaced. At the moment, OPEC policy is at least to follow the general movement of prices in order to maintain the true purchasing power of oil revenues. After 1975 the producer countries may wish to extract the maximum benefit from their monopoly position. The producer countries hold, and will continue to hold, increasing financial resources, and their use of them creates a world problem. Countries like Iran, Iraq and Algeria need all their oil revenue to finance their economic development programmes, but other producers, like Saudi Arabia or the Emirates, cannot re-invest all their revenues at home, and these vast sums may upset the world monetary system if their use is not controlled.

A second factor which has transformed the market is the arrival of two new large customers: the USA and Japan. In America, the old oil and even natural gas surplus has given way to shortage. The protection against a possible supply crisis formerly afforded^{to} Europe by American surpluses no longer exists. In future, US domestic production will not suffice to satisfy domestic demands. Thus, according to the National Petroleum Council's "moderately pessimistic" assumptions, the United States will be dependent on foreign supplies for 30% of its energy requirements by 1985, as against 12% in 1970. By 1985, the US will probably import nearly 50% of its oil needs, i.e. 600 million tons of oil; Europe 80% of its requirements, i.e. 1,000 million tons; and Japan 100%, i.e. 550 million tons. Since the main oil reserves are in the Middle East, it seems certain that the US, Europe and Japan will have to find the greater part of their supplies there from 1973 to 1985. They will have to compete for their oil supplies, with all the attendant risks regarding prices and supply.

The United States, however, have very marked advantages over Europe. Europe's dependence on oil is far greater than that of the United States. The US is also able to import a significant part of its needs from Canada, Mexico and South America, where supplies are more secure. Furthermore, the US has on its own territory large resources which have not yet been tapped, since they are uneconomic at present prices (oil shale, coal). Should the need arise, and prices of rival fuels increase, the US could mobilize its financial, technological and industrial wealth, to exploit them quickly. Politically, too, because of its world-wide involvement, the United States can elaborate a global supply strategy, with a speed and efficiency of action, which the European nations do

not yet wish to acquire. Because of the political and military power of the US in the Persian Gulf, where Europe is only a large consumer, some Middle Eastern countries may consider a special relationship with America particularly attractive. Finally, American oil companies are dominant (100% in Saudi Arabia, 40% in Iran and 50% in Kuwait) in the three countries which account for about half of present world oil resources. Is it in the interest of these American companies to oppose an increase in the price of crude oil as demanded by the exporters? Do they have the power to do so? They have no trouble in passing on such price increase to European consumers, as they already control 30% of the market. The tendency for prices to rise is an encouragement to the US as a producer in other areas, and stimulates research in its own territory, since it brings nearer the date when its own untapped resources become profitable.

Japan, also, has an important trump card in relation to Europe: her favourable balance of payments provides the money to buy oil at high prices and make better offers than European competitors.

While the future of Europe's oil supplies is uncertain, its energy needs are constantly increasing. It is estimated that they will advance, in the Europe of the Nine, from 945 million tons of oil equivalent in 1971 to 1800 million tons of oil equivalent in 1985. Oil will remain the main source of energy and imports will amount, by then, to 1,000 million tons per annum. In relation to these needs, European production remains low. Discoveries in the North Sea, which will supply approximately 15% of the European Community's requirements in 1980-85, will not substantially alter the situation in Europe, with the exception of Britain -- with 70% of her needs provided for, she will be in a different position from that of the other European countries.

Role of Governments

The uncertainty of the energy future has produced a new awareness, particularly in the USA, where President Nixon was prompted to deliver a message on energy policy on 18 April 1973, and in Europe, where in October 1972 the Paris Conference of Heads of States and Governments emphasized, in its final resolution, the need to establish and apply a European energy policy.

In future, national, as well as EEC, policies will apparently have to be modified in ways that can only lead to an increase in the influence of governments on the energy market. Governments have already assumed an increasing influence, e.g. in tax arrangements, direct or indirect intervention measures by consumer countries, and now the gradual takeover of national resources by exporting countries, through participation in companies or their nationalization.

On the other hand, several large oil companies have lately extended their activities to natural gas, coal and nuclear power, and now constitute a handful of gigantic energy corporations. Whether they will ensure competition between the various forms of energy in the general interest is open to question. Governments will have to watch this development very closely, in order to enforce competition and influence prices. The fundamental investment problems will no longer necessarily be solved by relying exclusively on market forces, and governments will have to make sure that sufficient capital is available and invested in time. They will also have to adopt a siting policy, since it will become increasingly difficult to find the right sites for large energy production, processing and distribution plants, and this problem will often have to be solved on a European scale.

In this clearly more interventionist setting, two types of action seem necessary for Europe. The first will be based on greater co-operation between producer and consumer nations, the other must arise within Europe itself.

Co-operation: Producers and Consumers

The European Community should establish forms of co-operation with producer countries which are not restricted to energy but are part of a global policy towards developing countries. Such co-operation should operate on three levels: industrial, financial and technical.

In the industrial field, the European Community should encourage participation by the producing nations in post-production operations, i.e. refining, petro-chemical, liquefaction of gas and transport. The Community should contribute to this industrial development

- in the producer countries, by technical and financial co-operation in industrial investments;
- at home, by a commercial policy which would include the ending of import levies or quantitative quotas on oil products, and by accepting or encouraging participation by exporting countries in investments in Europe. Apart from reducing the burden of European companies, such measures would be a means of investing the revenues of the exporting countries. It would have the advantage, by crossing interests, of helping to avoid crisis situations.

Technical co-operation could include the training of personnel and exchanges in the field of scientific and technical research.

In the monetary field, in order to avoid speculative movements which might disturb the international monetary balance, the EEC could persuade energy exporting countries whose liquid assets are greater than their needs to invest them for longer periods, possibly through a European finance body.

The funds could be loaned to developing countries or used in connection with regional policies, at advantageous rates to the borrower and safer conditions for the lender, through the intervention of European governments.

Practical measures of co-operation should be taken in a spirit of permanent concertation, backed by reciprocal commitments, for instance on the exchange of information, indemnity in the case of nationalization or the free transfer of capital.

The East European countries must be included among the producer countries able to supply energy to the European Community, since their resources could substantially help to diversify West European imports. Energy problems were placed on the agenda of the Helsinki conference by the EEC. There are advantages in increasing the purchase of oil, natural gas and enriched uranium from the USSR and coal from Poland. However, the contribution of Eastern countries to Europe's supplies is difficult to assess, since it is not known with any certainty what their future production policies will be, whether they will reserve their surpluses for export, and at what price.

Co-operation: Consumers

One of the consequences of the energy supply problem gradually assuming world dimensions is the near impossibility for one country, or even a group of countries, to solve this problem alone. To reduce the risk of "auctioneering" and confrontation, co-operation between the main importing areas must be achieved, in the first instance between the European Community, the United States and Japan, though developing countries which import energy should not be excluded.

Co-operation should be based on non-discrimination and reciprocity of commitments. It should on no account lead to energy importing countries opposing the legitimate interests of the energy exporting countries. On the contrary, it should contribute, indirectly, to the expansion of the developing countries, particularly those which have no energy resources.

The most immediate benefit of co-operation, and its most urgent aim, should be to avoid, through permanent information and appropriate concertation, useless and costly attempts by importing countries to outbid each other for crude oil.

Co-operation could particularly be invoked when supplies are difficult, each country undertaking to establish a system of compulsory stockpiling in harmony with the others, and to take measures which reduce the repercussions of a crisis on its partners. A crisis affecting one or all partners should lead to a sharing of energy imports based on needs, and to harmonized rationing.

Co-operation could benefit other aspects of energy policy, in the review of the whole energy situation and the re-examination of measures already taken or envisaged. Stability of supply would be increased by adopting realistic and common criteria for the protection of the environment. Co-operation between the EEC, the US and Japan could also help in technical and scientific research to discover new sources of energy, or new resources, or new means of using already known resources. Nuclear energy and deep water oil drilling technology offer vast possibilities.

Co-operation could be achieved by taking account of experience and practice within OECD, and should be as flexible as possible.

European Policy

To bear fruit, co-operation and dialogue with exporting, and other importing, nations should be based on a common policy of the nine EEC partners. This emphasizes the importance of measures already taken by the Commission on stockpiling, on imports and exports and on prices. Such a common policy should be extended with the organization of the oil market. In fact, an organized market is a basic condition for a concerted dialogue with the other importing and exporting countries, for whom Europe could be an outlet and a partner in diversified development. Within the European Community such an organized market would both protect the interests of the consumers by encouraging competition and enable the industry to be sufficiently profitable to carry out indispensable investments.

Market organization should have two main features - one, regulations to structure the market in the Community; the other, fuller concertation with oil companies to achieve the most economically rational supply. Thus, companies should inform governments of their medium-term import and investment programmes, and should first discuss with them any important negotiation with producer countries. Companies should also undertake to seek among themselves a balance in their available reserves and needs of crude oil, at non-discriminatory price conditions; advantages could be granted to companies accepting such rules.

Levels of Responsibility

A delicate problem arises from this process of co-operation between energy producers, importers and companies: what would be the responsibilities of each, EEC, nations, companies, in the setting up of such a complex network?

The EEC is well placed to define a foreign policy paying special attention to energy problems and based on broad principles such as the non-discriminatory liberalization of world trade and the economic development of poorer nations. Such an EEC objective could not replace the policies of

Member States, whose particular policies, far from being harmful to common aims, could on the contrary offer wider options within a co-ordinated framework. For this, measures should be taken to ensure that, short of complete co-ordination, actions by the Member States in the Middle East are not contrary to those of the European Community. What is true for Member States also holds for companies: even if their structure is altered, their role must be maintained inasmuch as it ensures stable and constant supply, at economic conditions satisfactory to the EEC.

Oil policy can be only one element of a European energy policy. Other measures should be taken on a European scale to avoid too great a dependence on oil, by encouraging production and utilization of other sources of energy. The maintenance of a Community coal industry and the progressive opening of the market to coal imports are two such measures. In the longrun, only an accelerated recourse to nuclear energy can enable Europe to reduce its need of hydrocarbons. Industrial measures should be taken immediately, including the creation of independent capacities for enriching uranium. The size of the supply problems could be reduced, partly, by improving the use of energy and combating waste. Increases in costs will no doubt encourage this, but general pressures will have to be reinforced by specific measures. Finally, any energy policy must now be related to the protection of the environment. In the Europe of the Nine, this problem must receive priority treatment, in view of the high population density in relatively small areas and the intensive use of energy.

Europe's energy policy can no longer be considered in isolation from world problems, or be treated piecemeal. It lies at the very centre of today's major issues - relations with the super-powers, the developing countries and the major international companies, the Middle East crisis, the monetary crisis, environmental problems, and all the self-questioning about the aims and limits of growth in industrialized countries.

(1)

Comments by S. Stamas on
F. Spaak's paper "Policy of the European Community and Member States"

Mr. Spaak's main point is that in order to strengthen Europe's hand on oil supply security, the Common Market should proceed to (1) establish common rules regarding the internal petroleum market, (2) develop a "global policy" toward oil producing governments, including broad trade, investment, and technical agreements involving reciprocal preferences, and (3) develop cooperation with other major consuming areas so as to avoid ruinous competition for supplies.

Of these three areas of action, the first is identified as the fundamental condition for the other two. However, it is unclear how some of the potential conflicts in pursuing these three courses of action are to be resolved. For example, in organising the Common Market oil sector, Mr. Spaak notes that preference might be given to companies which agree to discuss with governments and make commitments on supply and investment matters. The advantages a preferred company might obtain in return are not specified but presumably might include preferential access to participation crude oil sold directly by oil producing governments to consuming governments.

Such preferential arrangements in the Community might make it more difficult to achieve the objective of cooperation among consuming governments, at least to the extent that oil companies and oil producing states would give the Community priority over other markets.

Similarly, cooperation with producing countries and the development of close trade, investment and financial ties as spelled out in Mr. Spaak's paper is desirable if it is not implemented in a way which encourages competition among consuming governments for available oil supplies through preferential arrangements with oil producers.

Mr. Spaak suggests that a European finance body be established to channel the growing liquid assets of oil exporting states to developing nations or for use in regime development. It seems doubtful that oil producing governments would be attracted to such a proposal unless there are clearer advantages for them in doing so.

At the bottom of page 3 there is reference to the advantages of the U.S. over Europe on oil matters. While the U.S. does have large potential energy resources, the development of substitute fuels by the U.S. will require a long lead time, will be expensive and technologically difficult and such fuels are not likely to be available in significant amounts before 1985. Therefore, while the U.S. is proportionately less dependent on oil imports than Europe, forecasts indicate that the U.S. will be obtaining more than 50% of its supplies from off-shore sources by 1985, and with the supplies from South America limited, most of the increase in oil imports will come from the Middle East and Africa.

The political and military power of the U.S. in the Persian Gulf is also seen by Mr. Spaak as an advantage since some Middle East governments might

consider a special relationship with the U.S. especially attractive for that reason. I wonder if this does not tend to overstate the U.S. military and political position in the area, and in any case there is no indication that the U.S. government is interested in seeking a preferential agreement involving oil with Saudi Arabia or any of the other major producers.

Mr. Spaak also notes that Japan's strong overall balance of payments position gives it a potential advantage over Europe in competing for scarce oil supplies. However, some recent estimates suggest that in 1980 Japan's net balance on oil (cost of imports less exports and inward investment) could show a deficit of up to eight billion dollars. This is about the same deficit as forecast for the U.S. and is in sharp contrast to similar projections which indicate a positive oil account balance in 1980 for Europe on the order of five billion dollars. These oil import effects will have a bearing on the overall balance of payments positions of Europe, Japan, and the U.S. and it is far from clear that Japan or the U.S. will have a balance of payments advantage in bidding for oil supplies in the years ahead.

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(12)

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NOTES AND COMMENTS

by Dr. Toshiaki USHIJIMA

on

"DIVERGENCIES AND CONFLICTS IN THE ENERGY MARKET UNTIL 1985"

(by Dr. Achille Albonetti)

Session I

NOTES AND COMMENTS

on

"DIVERGENCIES AND CONFLICTS IN THE ENERGY MARKET UNTIL 1985"

Page 1, Second Paragraph

- (1) The annual net rate of increase of energy consumption in the future will to a great extent depend on the national energy policies of main consuming countries especially in the U.S., Western Europe and Japan. As advocated in Mr. Nixon's energy statement, many industrialized countries, and Japan in particular, will pursue policies of more effective conservation and use of energy. If these policies are effectively followed by industrialized nations, the annual net increase of energy consumption will become much lower than 5% in 1970-1985.
- (2) The proportion of petroleum in the energy resources of Japan will remain at about 70-76% in 1975-1985. The share will be about 75-76% in 1975-1980 and decrease to about 70% in 1985.

Page 2, Third Paragraph

Nuclear energy will not exert much pressure on the price of petroleum until 1985 when the fast breeder reactor is expected to begin commercial operations. Though nuclear energy is the least expensive source of energy in the production of electricity, it will account for only a minor portion of electricity generation - even in 1985 one-quarter in the U.S. according to Mr. Nixon's energy statement, and also 25% in Japan. In terms of the share of Japan's primary energy supplies, it will occupy still smaller percentage shares, for example, 6.8% in 1980 and 11.3% in 1985. To exert pressure on prices, nuclear energy must be able to supply a substantial quantity of energy requirements as well^{as} be competitive in price.

Page 2, Fifth Paragraph

In Japan it has become very difficult to acquire land for building power plants. If such land is available as planned, the average annual rate of expansion of total electric power should reach 10%. Otherwise it will remain on the low side of 4%.

Page 3, Second Paragraph

In Japan the rate of increase in energy consumption is estimated to be 9.8% per year for the coming 10 years, which will be much smaller in comparison with/over 13% for the past 10 years. Japan's electric power production is estimated to reach 174,000 MW in 1980 as compared with 59,000 MW in 1970.

Page 3, Third Paragraph

(1) Japan already imports 80% of her oil needs from the Middle East and this dependence on the Middle East will not increase very much in future since Japan plans to diversify sources of oil imports to the Far East, West Africa and South America. Japan's crude imports from North Africa will continue to be negligible so long as the Suez Canal is closed.

(2) Oil income of the Middle East and North African countries was \$5.83 billion for 1970 and, according to the following estimates, will reach \$51.6 billion in 1980 and \$74.5 billion in 1985:

Countries	Production in 1980 and 1985 (million barrels per day)		Government take	
	1980	1985	1980	1985
Iran	8		\$3.5 (per barrel)	\$5 (per barrel)
Saudi Arabia	15			
Kuwait	3			
Iraq	5			
Abu Dhabi	5			
Other Gulf countries	1			
	37		\$46.2 billions p.a.	\$67.5 billions p.a.
Libya	2			
Algeria	1.5			
	3.5		\$5.4 billions p.a.	\$7. billions p.a.
Total	40.5		\$51.6 billions p.a.	\$74.5 billions p.a.

Note: 1) It is assumed that the oil production of these countries will reach its maximum in 1980 and continue to 1985 in the form of restricted production.

2) If Saudi Arabia does not follow production restriction its production will reach 20 million BD in 1985 and oil income will be greater by \$9 billion.

Page 4, Second Paragraph

The Riyadh agreement concluded in December 1972 revised the New York agreement and the OPEC share of participation will reach 51% in 1982 instead of 1983. In Iran, an agreement was reached between the Iranian Government and consortium member companies so that Iranians will take over all consortium operations and the oil companies will be given a special privilege to purchase crude oil produced from the former consortium fields at special prices for the coming 20 years.

Page 6, First Paragraph

Petroleum imports from the Middle East and North Africa will reach about 2,000 m. tons or more in 1985. If Saudi Arabia does not follow the production restrictions, petroleum imports will reach 2,250 m. tons in the same year.

Page 6, Sixth Paragraph (Section 8) to end of paper

This presentation is excellent.
