

THE S.A. INSTITUTE OF INTERNATIONAL AFFAIRS

ARCHIVES

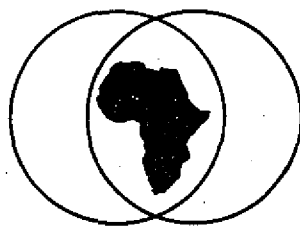
NOT TO BE REMOVED

THE ENERGY CRISIS : A REVOLUTION IN INTERNATIONAL RELATIONS?

by

Sir Kenneth Younger

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS



DIE SUID-AFRIKAANSE INSTITUUT VAN INTERNASIONALE AANGELEENTHEDE

The Rt. Hon. Sir Kenneth Younger, K.B.E., was a Labour Member of Parliament in the United Kingdom from 1945 until 1959, during which period he served as a Parliamentary Under-Secretary and a Minister of State. After his withdrawal from politics in 1959, he became Director of the Royal Institute of International Affairs (Chatham House), a position he held until 1971. He was knighted in 1972.

This paper - reproduced from the tape recording with a minimum of editing - contains the text of an address by Sir Kenneth Younger at a meeting of the Witwatersrand Branch of the Institute on 19 February, 1974, as well as part of the discussion which followed the address. The Institute is grateful to Sir Kenneth for permission to reproduce his address for the information of members.

In terms of its Constitution the Institute cannot itself express an opinion on any aspect of any subject within its field of international affairs. The opinions expressed in this paper are therefore solely the responsibility of the author.

ISBN 0 620 00043 0

The South African Institute of International Affairs
Jan Smuts House
P.O. Box 31596,
Braamfontein,
2017

THE ENERGY CRISIS : A REVOLUTION IN INTERNATIONAL RELATIONS?

Sir Kenneth Younger

It is a great pleasure at long last to be visiting this Institute, here at Jan Smuts House. I regretted very much that, during the twelve years I was Director at Chatham House, I never had an occasion to visit this sister Institute. The two Institutes were very closely connected. Indeed, long before this Institute was founded, in the early days of Chatham House, it was very largely initiatives of South Africans and of those who had been in South Africa that got it going. The name of Lionel Curtis is probably as well known in Johannesburg as in the portals of Chatham House, and he really was our founder.

It is very difficult to presume to say anything original about tonight's subject. But, as it burst on us so suddenly, and there has been such a proliferation of writing and speaking about it in the last few months, it is good from time to time to stand back and to try to analyse it, to put certain things into place - even if one is not yet able to forecast how it is going to work out. One can make only certain speculative guesses as to how the world is eventually going to react.

As everybody knows, the energy crisis was sparked off by the Arab/Israeli War in October 1973. Nobody, I think, foresaw that particular war or that it would spark off a crisis of this kind. But that was quite literally the only part of the energy crisis which was not foreseen. And I think it is important to realise that almost every aspect of it, except the fact that it was going to be started on that occasion, was known to those who were seriously studying the problem. It was written about by many intelligent people, as far back as 1970-71 and in 72-73, but only very small sections of the public in most countries took any notice of it, and it is my belief that very few governments really took much notice of it. The Middle East War brought forward the crisis; it might otherwise have been put off for a year or two, but not much longer. It may be a sharper crisis, because the reaction of the Arab governments in oil producing states was sharper in those circumstances of war than it normally would have been. The fact has also given the oil crisis an additional political dimension, linking it rather closely with the problem of a Middle East settlement between Israel and the Arabs.

I do not think one can doubt that this is the most striking event in international relations at least since the Cuban crisis of 1962, and its immediate effect during the war was melodramatic. In the two months since then, the successful brandishing of the oil weapon by Arab producers has put to a sudden and very brutal test a number of things, including the solidarity of the members of the European Economic Community, the solidarity of Western Europe as a whole with the United States, and also to only a slightly lesser extent with Japan. It has tested and will continue to

test the capacity of international institutions, particularly monetary institutions like the IMF, to adjust to an entirely different economic situation which, while it was expected in a sense, was certainly not expected to burst upon us so soon or so brutally. It has also I am afraid faced those countries of the Third World which are not themselves oil producers - that is, of course, the majority of them - with the prospect of disaster.

In trying to complete the picture, one must ask what its effect is on the communist world. This is very difficult, and I will come back to it later, but I think that the communist world - particularly the two great communist countries, the Soviet Union and China - are much less threatened by this crisis than anybody else around the globe. They may even in some ways benefit from it. But they are certainly not unaffected. Their policy in the world and their strategy are going to be affected by it. (The war itself, which was of course separate from the oil crisis, though linked with it, was an immediate threat to the relationships of the leading communist powers, particularly the Soviet Union, with the United States.)

I think the world's reaction has shown signs of panic, and this is the price paid for inadequate preparation by governments. I think it is worthwhile to try to assess repercussions a little more calmly now. I will not trouble this audience with much in the way of statistics, but it is perhaps useful to pick out a few of the main well known statistics so that we are sure we are all talking about the same situation. I deliberately take my statistics from an article written by an American oil man called Mr. Melvin Conant, published in January, 1973. I take that article, because it shows that, if all these facts were known (and a great deal of prediction was made by authors at that time), governments ought not to have been taken by surprise at all.

The statistics I want to give you are simply these: The three industrial groups - United States, Western Europe and Japan - consume about 80% of the world's oil production at the present time. Certainly no state in those three blocs depends for less than 50% of its energy requirements upon oil. Virtually all these countries depend on imported oil, the United States least of all. I am not quite sure what the current American figure is; not so long ago it was only 15% of American oil consumption, but it was thought to be rising to 25% before very long. At the other end of the scale, 90% of Japan's oil is imported. Western Europe is in between the two, nearer to the Japanese, somewhere around 70%.

And all these figures were planned, before the crisis broke, to rise steeply over the next decade. Unfortunately these are imports that come overwhelmingly from the Middle East, which contains 62% of all known oil reserves at the present time. I stress at the present time, because I think there are many other oil reserves which will be discovered if there is a really intensive effort made in exploration around the world now. It is 62% of what is known now, and even within the Middle East nearly all of this is concentrated in what is called the Gulf. In order of importance, the main states we have to think about are Saudi Arabia, Iran, Kuwait, Libya, Iraq. Saudi Arabia produces three times as much as its next biggest neighbour Iran, and it not only produces three times as much but has three times as great reserves. There is no likelihood of this dependence of the industrial world on oil from this very small area

changing radically in less than (I hesitate to say just how many years, because I think there are differences of opinion), I would say ten years. It may be that the situation will begin to ease say around 1980, or even just before that. That the industrial world could really be free of dependence on this oil in less than a decade seems very unlikely indeed. Furthermore, both the two giants - the United States and the Soviet Union - are becoming customers for Middle Eastern oil, which they never were on a very substantial scale in the past. Therefore, there is more competition for whatever is available. As recently as the 1967 Middle Eastern crisis, the United States was in a position to help European powers out of some of their difficulties. By 1973 it was impossible for her to do so on the same scale. Finally, world energy consumption in all its present forms - that is to say oil, coal, nuclear energy - has been rising faster over the past twenty years than the likely total resources of all those forms of energy which are foreseen.

Those are the facts I wish to give you and I think they serve to show the extent of this crisis and the difficulty of finding ways around it. Before I leave Mr. Conant's article, I would like to point out that, written early in 1973, it foresaw the increased solidarity of this group of producing powers which are usually known as Opec (the Organisation of Petroleum Exporting Countries). It foresaw there would be increased solidarity at least for a short number of years; it foresaw that Opec would probably use oil for the first time - it had never done it in the past - as a political weapon. And it foresaw that because, when the crisis came, there would be an absence of any adequate international means for meeting the threat, therefore the crisis was likely to be followed by a series of rather ugly national scrambles for some advantage by separate governments. It was pointed out that only the oil companies were in a position to operate on an international scale. And, of course, although they operate on a broad international scale, it is pointed out by some of our neighbours in Europe that they are overwhelmingly Anglo-American in ownership, and so they are not as fully international in ownership as many other countries would like. They do not like to think of this thing being too much in Anglo-American hands. It also foresaw that the producer governments would be likely increasingly to take over ownership and operation of the oil industry, and that therefore a bloc of consumers was likely to be no remedy. The only remedy, when the crisis broke, would be some kind of new co-operation between the producers, consumers and operators.

I mention all this, because it is impressive, for it raises every issue we have to consider, and because it was well known to the experts and publicised, though not sufficiently noticed, before the crisis broke.

Coming now to what happened, one can identify three phases of the crisis; first of all the oil embargo, secondly the stage we are in now, when, although there is a partial oil embargo, we are more concerned with the prospect of limitations of production and very large price increases. Then, the third stage, not as yet reached, though we are already discussing it, of the consequences on the monetary arrangements of the non-communist world and the balance of payments of many countries, arising from changes in oil prices and possible changes in oil production. Taking those three one after another, there is not much I need say about the embargo itself. It was prompted immediately by the war and was regarded by the producer countries as a weapon in the war. It was fairly rapidly

modified when the fighting stopped, except that the embargo still goes on against the United States. However, as far as much of the world is concerned, the embargo has been eased, though no more than that. It was of course discriminatory, the producers deliberately discriminated between one country and another and it therefore had a very varied impact on different countries, which produced a splitting effect among countries which in other respects were allies. I think it will continue as a threat of this kind until there is a settlement of some kind, though not necessarily a final one, of the Arab/Israeli dispute. Although it is still in operation against the United States, the embargo has had less effect on the United States than it would have on anybody else. This is primarily because she has other resources at home, for instance - coal, which she can bring into operation a good deal more quickly than any other countries can bring into operation new oil resources. She can, therefore, for a short period snap her fingers to some extent at the oil embargo upon her. Nonetheless, she is negotiating right now in Washington for the embargo to be lifted.

I do not need to say much more about the embargo, what is much more important, complicated and interesting is the long-term effects of limitations of oil production and increases in price. Here, it is important to realise that, quite apart from any question of the Arab/Israeli War, some producers of oil have long had a very legitimate economic reason for both keeping the oil in the ground, that is to say not producing and also for raising the price. After all there are many of these countries in the Gulf who have really no resource other than oil, they have been told that their reserves are likely to last anything from 30-40 years, a pretty short time in the life of a state, and they are aware that the demands upon them, if they are prepared to produce everything that is asked for by the industrial countries, are going to increase year by year. So they see this as a wasting asset and if they can, by raising the price, get as much money for producing half as much oil, this is not only going to be an obvious commercial gain, but it will also make their one national asset last twice as long as 40-50 years. It is for these reasons that the experts foresaw that this was going to happen eventually as soon as the Opec countries could achieve a sufficient degree of unity to be able to bring their weight to bear upon the consuming countries.

What makes this motive even stronger, is that only a few of the oil producing countries actually need the large sums of money they can get by increased production. There are one or two larger countries like Iraq and Algeria with backward economies and greatly in need of a great deal of expenditure in their countries, who can make use of an almost indefinite amount of money derived from oil. But some of the most important countries, particularly Saudi Arabia, Kuwait, Abu Dhabi and, in a different area, Libya, are countries with very tiny populations. If they were to incur the most tremendous expenditure on the infrastructure of their economy, on their social services, they would raise their income per head to fantastic levels, indeed Kuwait has already done this. But these countries still could not use the huge sums which will be brought to them by high prices. Therefore, there is every reason why they should say: "Well why should we not have the high prices on the basis of a small production, which will make our resources last much longer?" The prospect, therefore, is for a continuing, deliberately managed oil shortage, being largely in the hands of a very small number of producing states.

One must immediately ask if the consuming countries have any countervailing power or influence they could bring to bear, which could affect the level of production and prices. The answer is still very uncertain, but my impression is that the industrial world has a fairly large number of reasonably high cards in its hands. There are a good many things that these producing countries want from the industrial countries and for which they would be prepared to come to some reasonable agreement. However, the developing world has practically none. I heard this morning that the cost to the developing world, (I am not quite sure how many countries are included in that very vague phrase,) in 1974 is going to be an additional R7,000 million, provided they consume the same amount of oil as they consumed last year. This is the sort of figure that they have absolutely no chance of paying. Eventually of course the monopoly power of the Gulf producers will be eroded. I do not know whether their current strong position will be entirely ended, but their position will be less strong, say, ten to fifteen years from now, owing to new discoveries of oil elsewhere, owing to substitution of coal in the case of some countries, of nuclear power and other new forms of power. These take us into the realm of science fiction and most of us are really not in a position to judge which of the more extraordinary suggestions, like the use of the tides and solar energy are valid, or how long it would be before they could become effective. *But one does not doubt that, if there really was a major shortage and exorbitant prices, within some period, say 10 - 15 years, some of these alternatives would probably come into operation.* There would certainly also be major discoveries of oil. Presumably the producer governments will be as well aware of this as anybody and since their interest is to play the whole thing as long as possible, this is one of the reasons one has for hoping that they will be prepared to reach reasonable agreements. They obviously do not want to stimulate unduly an enormous effort by the whole industrial world to become independent of their supplies.

Now, does this add up to a revolution in international relations? Obviously, it creates an entirely new position of power. A group of previously very weak nations, whose governments in the past were somewhat incalculable, potentially unstable and certainly internationally inexperienced, have had their position revolutionised almost overnight. It is almost anybody's guess how they are likely to act and therefore we should try to analyse the limits of their power. It strikes me as historically significant that in the Middle East, whose affairs have so frequently been resolved until quite recently by outside military intervention, no-one in 1973 proposed this. In the past it would have been difficult to believe that great industrialised societies, whose vast populations were threatened and whose economies were endangered by the intransigence of small states in the Middle East, would not act in some way, whether by military intervention or by some other form of pressure, to prevent this happening. But today I do not think that anybody takes military intervention seriously, although there have been one or two phrases in Henry Kissinger's speeches, which have been interpreted as being intended to remind some people in the Middle East that, after all, the Americans are a very great power and there are things they could do if they were pushed too hard. But apart from those very ambiguous phrases, of which there have only been about two, nobody has treated this possibility of military intervention in the Middle East as at all a reasonable thing to suggest as a solution. This may not seem very extraordinary to younger people, but to those of us who have lived through 30 or 40 years of Middle Eastern politics and who remember the storms over the intervention of western powers and remember the role that these powers played in this area, it is really an historic turning point that the energy

crisis could be produced by Middle Eastern states and nobody in the Western world talked about military intervention at all.

Let me turn now to the effect of the crisis on super power relationships which we in Europe certainly regard as still being the central feature of international relations. One word about the area of the Middle East. Most of these great powers have got very definite interests in the Gulf. In the case of the United States it is primarily Israel, to whose support she is heavily committed. She has of course big investments in oil production, and in the future she is expecting to some extent to be dependent upon consumption of oil from that area, but all this is fairly new. What probably counts more to American policy makers is that the Middle East is, in the view of Washington, a key area in the United States/Soviet Union confrontation. One of the things that emerged from all the proceedings during that war and in establishing the cease fire was that both these super powers had their eye primarily on each other. To both the Soviet Union and the Americans, the actual way this dispute is settled, in terms of Israel and the Arabs, was quite secondary to the effect it was going to have on their relations. One of the reasons Henry Kissinger got so angry with the European powers was because they were not seeing it that way. They were aware that they had different interests in the Middle East itself, while he was all the time seeing the whole thing as part of the confrontation with the Soviet Union.

As far as the Soviet Union is concerned, her strategic considerations are very natural and of long standing. The Middle East is extremely near to her own older traditional oil fields which are broadly speaking in the neighbourhood of the Caspian. The question of who controls the Middle East affects greatly her access to the Indian Ocean and she of course is one of those keen to see the Suez Canal open, because it enormously shortens her route through to the South of Asia. In particular she is keen to deny this area to the full control of an adversary, in this case, the United States. One may presume that she also has an ideological concern, but it is rather a moot point how far ideological questions still activate Soviet Policy at all. But assuming she still, with one part of her policy, sees herself as a revolutionary power stirring up revolutions in other areas, the Middle East is an area which has every conceivable kind of regime from feudalism, through countries which have had a middle class bourgeoisie revolution, to others which are in a stage of more or less popular revolution. So you would think this was a very happy hunting ground for the ideologists of the Soviet Union, if they are indeed allowed to have very much of a hand in Soviet Policy. I personally rather doubt this, the Soviet Union has become much more of a strategic great power than she is of an international revolutionary agitator. As far as her oil position is concerned, she is the second largest oil producer in the world; in 1973 the figure was 420 million tons. However, this is not proving sufficient for her needs as she industrialises, together with the needs of Eastern Europe, an area which the Soviet Union wishes to keep dependent on her and therefore would wish to be able to supply with oil. I think I am right in saying that reserves of Soviet oil are inaccurately known to the outside world, and if the Soviet government itself really knows what its reserves are, I do not know. I certainly have not been able to get any accurate figure. But it is thought that they may be vast, mostly in Siberia especially in very difficult areas of eastern Siberia. The conditions of getting this oil were said to be very hard indeed and Soviet technology for doing it is said to be inadequate.

This is one of the things that have been coming up in the preliminary discussions on the European Conference on Security and Co-operation, where it is clear that one of the things the Soviet Union wants from the West is technological help in getting herself through a difficult period in the development of her Siberian oil industry. I think she is also in this regard in touch with Japan.

The Soviet Union has only recently begun to have an international oil policy in respect of imports and exports. She has only just reached the stage of needing oil from anywhere else. In 1972, the last figures I could get, she exported 76.2 million tons of crude and only imported 7.8 million tons, that is to say her imports at that time were only a tenth of her exports. However, they were growing rapidly and she has two purposes in importing oil from Arab states in the Gulf. One is to enable the Arabs to service the credits which are offered to them by the Soviet Union, and which otherwise they would be unable to do. Secondly, to enable her to have a surplus which she can export to other socialist countries. Another thing on which one has to keep one's eye is that, in addition to supplying the oil to Eastern Europe, she has some pipelines both of gas and oil, extending into parts of Western Germany and also into Italy. She would no doubt, wish to be able to be in a position to extend these pipelines, for purposes of getting foreign currency as well as for broader political aims. A characteristic deal between the Soviet Union and an oil producing country in the Gulf is an oil-for-arms deal. In fact, arms is the only commodity in which the Soviet Union is at the present moment internationally competitive. If these rich oil states want almost any other kind of product, there are places they can get them from, better than they can get them from, the Soviet Union, but in arms supply she is good. Some people think that this oil/arms relationship gives the Soviet Union a special interest in maintaining the tensions in the Middle East. She could want to persuade the Middle Eastern states that they need large quantities of arms and will continue to do so, and that they can best get them from her, since she is not a friend of Israel, whereas the United States and, to a lesser extent, the Western World are. I do not know about that, but it is easy to see that, whether it is the oil question or whether it is other aspects of policy, Soviet Union has certain fairly obvious motives for not particularly wanting a peaceful Middle East. If you imagine the Arab/Israeli dispute entirely out of the way, no longer a bone of contention with anybody, the immediate effect would be a great increase in the influence of the United States in that area. So, the Soviet Union presumably does not want that, and some observers think that at some stage of the negotiations it may turn out that she is beginning to exercise her influence against a settlement. At the present time, it is fair to say that she has not openly done it. One is not aware that she has obstructed Henry Kissinger's activities so far. Indeed there was an amusing story in the British press, where a British journalist in Moscow asked one of the officials why he was hearing so little of Soviet officials. What were they doing? Why were they not being more active in the question of settling the war? To which the official replied with a smile, "Well, is not Henry Kissinger doing our work for us?" It may be that Russia is quite happy at the moment to sit back, she certainly has not been obstructing Kissinger. However, it is one thing one should watch for because it is still a moot point whether the Russians want to see a peaceful Middle East or not. Soviet spokesmen have strongly denied they share any of the blame for any intransigence on the part of the Gulf oil producers. I think that this is partly

true, but I was able to discover some of the things that had been said to the Arabs in Arabic language broadcasts from the Soviet Union in recent years. They make it perfectly plain that Russia has long been encouraging the Arabs to do exactly what they have done, namely, getting themselves together and using the oil weapon against the West. The sort of thing that had been said on the air from Moscow is that the Arab governments ought to start using the oil weapon. If they do not, revolutionary forces in their countries will take over and use this weapon. It has been pointed out to them that oil represents more than half the physical volume of world trade and one third of world shipping, and that without oil, life would come - I think this is a direct quotation - to a stop in the industrial west and all the arms of the NATO powers would be reduced to a heap of rusting metal. That is fair enough as propaganda and it is all too true, but those quotations are enough to show that the Soviet Union cannot be entirely absolved from responsibility for what has been happening to the attitude of the Arab states. On the other hand, it is only fair to say that the Arab governments who have done most to develop the new oil weapon, primarily Saudi-Arabia, Kuwait and Libya, are the states over whom the Soviet Union has the least influence and with whom it has the worst relations. They have always been very much in the American camp in the past. Libya is no longer in anybody's particular camp, but Saudi Arabia and Kuwait have been. One must also suppose that the Soviet Union has been seeking to subvert these rather feudal and antiquated regimes, and these regimes know this perfectly well. It seems, therefore, quite likely that the Soviet Union has in fact had little or no part in egging on these particular countries to act as they have.

The whole oil situation must look quite promising from Moscow. It has undoubtedly applied a setback to the industrial west, it has shown the dependence of the industrial west on an area where the Soviet Union already has some influence and may hope by various means to gain more. Moreover, the Soviet Union can benefit in foreign exchange from the increased price of her oil exports. So on balance one cannot imagine that this crisis, which has hit us so hard, has hit her hard at all. On the other hand, her policy in the future is not altogether free from dilemmas. First of all, in the Middle Eastern area it is the other super power, the United States, whose influence she fears and it is precisely the United States which is least affected by the oil crisis. So, it is not really a very good weapon for the Soviet Union to use directly against the United States in the struggle for influence. She can attack the United States through her allies who are dependent on the area, but direct pressure on the United States is not very easy to bring. Moreover, she has got to handle her relations with the Gulf states with a good deal of care because the traditional ties of Saudi-Arabia and Iran with the United States are very strong and a false step or a threatening attitude from the Soviet Union could throw them fully into the American camp. Secondly, and this I think is more important, although Western Europe is very vulnerable and the Soviet Union might be able to embarrass the United States via pressure upon her allies in Europe, she cannot afford to forget that she is asking both the United States and the European powers for very considerable concessions on a wide range of headings in the European Security Conference. This may be an example of the Soviet difficulty, to which she is quite accustomed, of having to find some way of reconciling her traditional policies of subversion and hostility to western powers, with her newer policy of detente and her

need of help from the industrialised west. There is here a real dilemma for her as to how to play these two cards. She must see them as inter-dependent and so far I think the indications are that she is going to play it very quietly over the whole Middle-Eastern oil situation for the time being, until she finds that she is getting nowhere in the attempt to get help from the West in the European Conference. For all these reasons we are not very likely to see any reckless exploitation by the Soviet Union of this new Arab oil weapon in the immediate future, especially as she will see it as a fairly temporary sort of weapon. After all, if it is going to begin losing its power within a decade and perhaps will have lost it totally within 15 years, this is not the sort of thing the Soviet strategists would be looking to as something so decisive in her relations with the outside world as to merit any great sacrifices on her part.

Perhaps this is the moment to ask ourselves whether oil is a very special case, or whether it is only the first of many cases in which industrial nations are going to prove highly vulnerable to pressure from countries or groups of countries who possess a monopoly of some basic material. This is pretty speculative and as far as I can judge, not a lot of work has been done and published on it. From such reading as I have been able to do, I think that my conclusion would be that the expert view at the moment is that there is no any other commodity that is quite like oil. There is no other commodity similar to oil in the degree to which all industrial powers are dependent upon it, and in the degree to which its production is controlled by a relatively small group, who in their nature do not find it too difficult to get together. The oil producers come from the same area and speak the same language and so are a pretty compact group, effective therefore, in the degree of monopoly pricing which is possible. There are only a few commodities which lend themselves to this sort of thing. For instance, it has been pointed out that in order to be effective it must be a commodity which can be kept in the ground or held back from production. You cannot usefully do that with foodstuffs which require harvesting and are extremely expensive to store. The sorts of commodities which have been widely discussed in this connection are copper, tin, lead, in each of which there is a limited possibility of cartel action. The countries which are the main producers of copper, tin and rubber are beginning to get together, but they have not as yet shown a capacity to get together fully and they have not got complete monopolies or anything as near a monopoly that the oil producing states have. The same is also true of a number of valuable and scarce materials such as bauxite and various kinds of phosphates. Therefore, although something of a squeeze could be put on industrial countries in respect of some of these commodities, it would not be quite like the oil squeeze. The dependence is less, producer co-operation is harder, substitution and recycling, in the event of there being successful producer co-operation is more varied and there are more substitution possibilities. Therefore, the probability is that this oil crisis has not as yet set off a revolution in terms of the other commodities which are required from the Third World by the industrial nations.

Nevertheless, the insatiable demands of modern industry are constantly growing. The unequal distribution of commodities such as the ones I have mentioned and the slowly growing capacity of raw material producers to co-operate with one another, all point to the need of a rather more forward-looking attitude than that which we have seen from industrial consumer countries. One of the things that, it occurs to me, may result

from this is that it might be a shot in the arm for Unctad, the United Nations agency which was set up a little over 10 years ago on the insistence of the Third World countries, with the avowed objective of evening up the balance of power between the poor countries of the Third World and the rich industrial countries. It has had several major conferences, each of which has ended with the bitterest possible complaint by the Third World. For, although the Third World has got together in, first, a group of seventy, and now of ninety, they did not collectively have any real bargaining power and they never got any real satisfaction. It may be that the warning we have had from oil will mean that there will be more serious negotiation and attention paid to the long-term needs of the Third World producers of raw materials. After all, the Bretton-Woods system, set up after the Second World War, assumed a relatively free world market for most things with only minimal governmental or international regulation and this has suited the industrial countries very well. But most of the less developed countries have called it neo-colonialism and have complained that the only result of it was to keep the terms of trade almost permanently in favour of the industrial countries. So even if this is not a revolution, I think that what has happened is going to change the psychological relationship between these parties and may be a yellow warning light that co-operative action is going to be needed in future.

The third heading to be considered is monetary consequences. Here I will confess that I am simply not qualified to say very much to you about it. The fear is of disruption of the world monetary system and of the balance of payments in a considerable number of consuming countries, as the producing states are being paid vastly increased sums for oil, sums which they are incapable of spending at home. I have already called your attention to the fact that countries like Kuwait, Saudi Arabia and others are not capable of spending enormous sums at home. They are going to accumulate enormous balances and the question is what are they going to do with them? There seem to be two dangers, that either huge investment, irresponsibly used, will disrupt world markets or, alternatively, and perhaps more dangerous, that it proves so difficult to find good uses for the higher revenue, that producer states will simply see no point in producing oil in large quantities. They will keep the prices high and keep most oil in the ground, which will mean oil shortages, higher prices and, at the same time, a threat to the balance of payments in most consumer countries. But this rather nightmarish scenario, assumes one or two things. It assumes that the monopoly power of the producers continues until 1980 and well beyond, and that during that period they will continue to agree on collective policies. This is by no means certain. Their interests are not identical and although they have at the moment got collective policies for these purposes, it does not follow that they will necessarily last. There is also the assumption that they will be reckless of the effect that their action is having on the industrial world. In fact I think their bargaining position will be pretty strong to 1980, but as I say, their interests will be divergent and therefore their capacity to hold the rest of the world to ransom may be reduced sooner than that. On the third assumption there does not seem to be any obvious interest that they have in creating industrial chaos in the West. Their principle spokesman so far, Sheik Yamani of Saudi Arabia, has said several times, - "our interest is in stability". If they are wise enough and unemotional enough about this thing, and these are two big assumptions in the case of Arab governments, it does seem to be sense that their interest is in stability. One must be a little cautious in the short run.

After all they have not shown responsibility in quadrupling their price in a matter of weeks, that is not a moderate policy. They might well have increased the price by a very much smaller quantity than that, caused much less disruption and allowed the threat that they could then take prices higher to have strengthened their hand in bargaining. Instead of that, they really did put the whole world in a most awful jam. So they have not shown yet that they are capable of restraint. The other thing is that until the Arab/Israeli dispute is settled there is the danger that they can suddenly use this oil weapon capriciously for purposes of forcing the hand of the United States in the settlement with Israel.

So our task in the West might be to find inducements for them to get the oil out of the ground, reasonable quantities at reasonable prices, and to facilitate some reasonable disposal of the proceeds of sale around the world. We can do that for some of the countries. There is a great deal to be done in terms of Iran, Algeria and one or two others. In some of the small producers it is going to be more difficult, though maybe they can be induced, from their earnings, to give increased aid to the rest of the Middle East and to less favoured countries, in the Third World. They have got considerable political interest in raising their stock throughout the Third World for all sorts of purposes, political and other, and one of the ways they can do it would be to become one of the great aid givers to the Third World. They will probably need some inducing, some pressurising, some helpful advice in doing what would be a very complicated task, but I think this is one of the things which should be aimed at, in international discussions.

On the second point about the effect upon the monetary situation, you may well be aware that the International Monetary Fund has already formulated certain initial proposals in this respect at a meeting in Rome in January this year. In my country a number of the financial commentators showed some optimism about the possible emergence of the International Monetary Fund as what they called a "financial intermediary on a growing scale". I think that if a new special fund were created on an international basis by the IMF to provide facilities for the disposing of this particular kind of money, this would be the right kind of solution, for it involves both the producers and the consumers. If we are to find a way out of this crisis, we cannot do it by simply confronting the producers. It has got to be a co-operative matter.

The position of the Third World, who seem to have very little to offer in the way of bargaining, is weak. They have almost got to throw themselves on the charity of the oil producing states, if they are to get any concessions as to price, and as far as I am aware they have not had any concessions yet. You will have noticed no doubt in the press that when, under American pressure, some of the producing countries met in Washington last week, there was a great row with the French. What the French purported to be complaining about was precisely that this was a gang-up of the consumers and that this would have to be dealt with at a quite different sort of conference, either in the U.N. or under some other auspices at which the consumers and producers would be present. I do think that the French have a valid point here but I am very suspicious of French oratory in this matter. I doubt that this was their real reason for creating such a stink. We all know that they have been engaged in bilateral deals apparently very successful, with several countries in

the Middle East particularly with Iran, and they are engaged in precisely the sort of competitive national scramble to which I referred at the beginning of my talk. I think it was much more that they did not want to be interfered with, in their bilateral activities with certain consumer states than that they are genuinely advocating a multilateral solution under some wide international organisation involving both the producers and the consumers.

That is all I have to say about this and I appreciate that my conclusions are a bit vague. To sum them up I think the two super powers are the least affected. That is perhaps the nature of being a superpower - if something happens you are in less trouble than smaller powers, you have sufficient reserves in one way or another to ride it out. Both of them seem to be giving priority to continued detente with one another rather than trying to get the maximum out of the energy crisis. The crisis has certainly ushered in a new and very unwelcome phase for the western world, in high costs, scarcities and reduced growth. The suddenness, of course, of the impact put us properly up against it. It has exposed very clearly the vulnerability of powers of Western Europe and of Japan in contra-distinction to the super powers, who are not nearly so vulnerable. I am sure it will have the effect of greatly intensifying exploration, research, economies, and all sorts of adjustments which over the course of 5-10 years may make these crises seem rather like past history, maybe as it were a temporary flash in the pan. But not so temporary that it is not extraordinarily inconvenient - we have got to live somehow through the next ten years. Even if it is okay by 1983 there will be obvious difficulties before then. So its effect will have been a very major one. It is going to be a great challenge to the ability of the western world, at a time when it is in some disarray in many respects, to get together in international organisations and handle these problems, particularly the monetary questions, in a collective manner. It is a great challenge for all of us to try to stave off disaster in the Third World, the developing world, because it really does seem that they are in a terrible position and that nobody so far has been able to think of any way out for them. Nothing in the way of bilateral or multilateral deals unless in some ways the producing states can, as it were, be persuaded to take pity on them.

One final reflection, a colleague of mine Alastair Buchan, a distinguished strategist in Britain, recently gave a series of lectures on the BBC to which the title for the whole series was: "Change without War". He discussed the question how one was going to get major changes when they were needed, now that this would no longer be effected, as it used to be in the past by war. It was Lenin who said that war was a mighty accelerator of events and this has certainly proved to be true. That little war of the Israel/Arab neighbours has proved a mighty accelerator of events in this subject we are talking about tonight. We all realise that we cannot possibly rely on war in the future. It has become too dangerous; we have got to find some other accelerator. I cannot help wondering whether this may not be the first crisis of this kind, which is going to be a substitute for war in this particular respect. We have had a certain system of trade, monetary arrangements and so on in the world roughly since 1945. Everybody has been saying for at least 5 years that that system is at an end, that it has got to be replaced, but little is being done because there was no compulsion. I have a feeling that the energy crisis might be the thing that produces the drive that in previous generations would have been produced by war.

DISCUSSION

Question

What is the position of China in this current crisis?

Answer

I was not able to find very much material about this, but I suspected somebody was going to ask that, so I have one piece of evidence. This is the current number of a thing called the "Petroleum Economist" which I take in London and, like everything else in China currently, there is little solid information; a great deal has to be speculative. There has recently been an announcement by Chou en Lai that suggests a much bigger leap forward in the production of crude oil in China than we had thought possible. I cannot quantify that for you, I do not know what this means, but apparently one of the things it has meant is that in a very modest way China has started exporting to some of her neighbours, such as Korea. It says here that also some negotiations are under way for selling oil to Japan. It is believed that, though there has been apparently a big leap forward in production of crude, China is still extremely short of any refining capacity and that she is not immediately likely to be entering the world markets in a big or significant way or to be able in the very short run to use this as a weapon. It bears out the general proposition that I made earlier on, that the only area which one can see in the whole world where the balance sheet of the crisis seems to be to some extent on the plus side, and not on the minus, is the Communist world. If China is exporting even a little she will be able to benefit from the high prices, and apparently at the moment she does not need to import, so she is not suffering. I think the position is that China is a great giant just off-stage and she does not really come into this in a very significant form at the present moment. She has, however, obviously reached the point where her position as an oil producer has to be watched.

Question

Would you give us your opinion on the effects that the finds in the North Sea will have, more particularly on European unity?

Answer

Certainly in Britain the findings of both gas and oil are considered to be very significant. It is thought that on present knowledge somewhere around 1980 or 1985 North Sea oil and gas can go a very long way, possibly the whole way, to solving Britain's problem. Whether she uses it all herself or whether she sells it, at what would be very advantageous prices in aid of her balance of payments - these are alternatives which are open to her. Under the community regulations she cannot keep the thing exclusively to herself, all being consumed in the United Kingdom. I think the U.K. is by far the luckiest of the various concessionaires in the North Sea. I have always wondered whether the allotment of the various areas in the North Sea will really hold indefinitely, I am not quite sure with what authority it was parcelled out in the square areas which have turned out to be very advantageous to the U.K. But certainly it is regarded as a very real contribution and even in this last week, they are said to have discovered a new field whose extent they do not know, but it may be as big as

any of the fields previously discovered. So I would think that more particularly with the prospect of high prices, one can afford to put a very great financial effort into further exploration. The probability is that waters round the U.K., not necessarily all in the North Sea, are going to prove pretty productive.

Question

Why is the Shah of Iran arming to the extent he is; is he wanting to become the leading power in the Middle East?

Answer

I should think there is an element of that in this. The other countries in the Gulf are inclined to think so. I do not think anybody knows more than what you have just said - there is very heavy arming going on. There have been, of course, great tensions in the past between Iran and Iraq. Whether the Shah would do anything rash, I rather doubt, I think he would have the restraining hand probably of both super powers upon him, and certainly of the Americans, and he is on very good terms with them. I do not think he would be likely, unless for some compelling reason, to use military power against, for instance, Saudi Arabia. I think it could be a warning to Iraq to watch her step because there are tensions at the moment. Certainly I am sure he has some ambition to be the leading power in what he calls the Persian Gulf and what the Arabs call the Arabian Gulf.

Question

Opinion on development in Japanese International Relations as a result of the energy crisis.

Answer

I am not very up to date on Japan. But of course, the moment the Arabs started to use this weapon, one of the first things they did, was to demand from Japan that she come out openly on the Arab side. And the Japanese, who had always thought they had absolutely no interest in this particular parochial quarrel thousands of miles away from them, hastily complied. This I think was rather a humiliation to them in that they felt they were in danger of having to come up, in words at least, on one side, and to adopt a course, causing them all sorts of diplomatic troubles, that they had not had time to work out. They made the declaration at top speed, almost as soon as they were asked to do so, because they depend for 90% of their oil on imports (I think I am right in saying that, of that 90% all but 15% in fact comes from the Gulf; some comes from Indonesia, but not much). I am not at all up to date on what they have managed to do since, but they are among the countries of course, along with France and Britain, who are constantly quoted in the press as making bilateral deals of various kinds. This was certainly a very grave blow to the Japanese because they were already feeling extremely nervous that their extraordinary economic miracle might be coming to an end. Suddenly to be faced with the huge additional costs on their balance of payments, I think was a terrible blow to them. I imagine (I really am guessing) one other possible consequence to their international relations. They had been worried ever since President Nixon went to Peking without telling them he

was going to do so, or consulting them at all as to what their future relationship would be with the United States, on whom they relied almost entirely for their security and their defense. They must have this at the back of their minds when they see the deep involvement of the United States in the Middle East, and they are suddenly asked by oil producers to take the opposite side openly. I should imagine that the Japanese will wriggle frantically on the hook and try to keep as much out of the Middle East thing as they possibly can, while doing strictly commercial deals which I am sure they are doing at the moment. I have not got any up to date information for the last fortnight. Up to that time I certainly did not know anything beyond the fact that they were in the market, as the French and the British were, for bilateral deals.