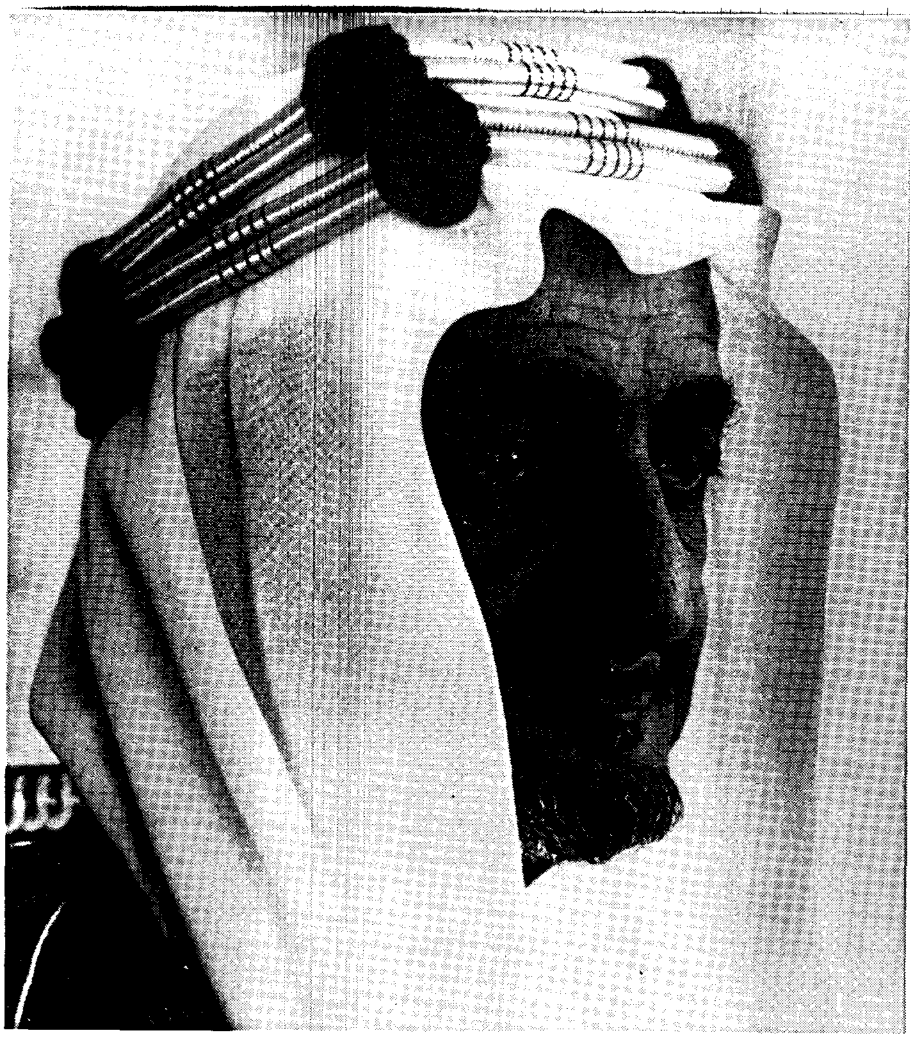

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Saudi Arabia's King Faisal—"The king appears to worry less about Israel than about Mideastern rivalries."

The Ecopolitics of Oil

How long will the West accept an oil-supply situation that erodes its currencies, alliances, and standards of living? War with Araby? The possibility exists.

by Richard C. Longworth

When the governors of the International Monetary Fund met in Nairobi, Kenya, last fall to debate the world's new monetary system, they gave relatively little thought to the impact of the oil crisis on that system. The ministers and bankers were not blind to the problems an energy crisis could cause; rather, nearly everyone thought the new system would be in place by 1975, presumably before the crisis would hit. A Libyan delegate warned that the oil nations would oppose any restriction on their right to pile up huge monetary reserves, but few money men heard him. Most were playing hooky among the lions and zebras in Nairobi's game park, and the Kenyatta Conference Center was three-fourths empty.

Richard C. Longworth is European diplomatic correspondent for United Press International.

Now, a half-year later, the crisis is nearly upon us and holds huge potential for upsetting the reformed monetary system before it even goes into effect. The crisis, it should be stressed, is not a matter of the short-term shortages caused this winter by the Arab embargo on oil shipments to America and by the cuts in production for Europe and Japan, both aimed at putting pressure on Israel. The long-term problem has nothing to do with Israel and probably would persist even if Israel were to vanish. It is the squeeze over the next ten to fifteen years caused by the probable refusal of the oil nations, Arab and non-Arab, to produce as much oil as the industrial nations need. The oil producers' logic is impeccable: First, they cannot begin to spend the money they would get by supplying all the world's needs, and, second, oil is their only source of income and should be conserved to guarantee a prosperous future. They threaten no cutback in present production. Rather, they say they are unlikely to double that production —which is what an oil-thirsty world will need to keep going.

Much has been written already on the effect an oil drought could have on life in the West—the death of air conditioning, for instance, or night baseball or the private car. Just as imminent are wrenching changes in America's role in the world—e.g., injury to the American-European-Japanese economy and the impending breakup (already begun) of NATO, on which U.S. policy has been based since 1941. Responsible men are even suggesting that the United States may go to war to secure the oil it needs to live.

Of that, more later. For a glimpse into the future, it is necessary to begin, as the crisis itself began, with money.

James E. Akins, the new U.S. ambassador to Saudi Arabia, early last year wrote that the Arab nations and Iran must produce 48.5 million barrels of oil per day by 1980 to satisfy the growing Western economies. That is more than double the 23.8 million barrels that those nations drilled per day in 1972. Akins predicted five dollars per barrel as the probable average 1980 price. From that, he calculated that these arid, underpopulated nations would earn a staggering $210 billion between now and then, including $63 billion in 1980 alone. The *Financial Times* of London noted that income on this scale "could enable countries like Saudi Arabia to buy companies the size of Exxon or Shell at the rate of one a year without feeling the pinch."

Two things, both surmised by Ambassador Akins, have happened in the brief year since his predictions appeared. First, the Arabs warned that they have no intention of raising production that much. For most of them, the unspent surplus funds would bring more trouble than good. And oil left in the ground is a fine hedge against inflation. That would cause a Western oil drought, of course, but it *would* bring our 1980 oil bill down, were it not for the second event—the Arabs' unilateral scrapping of price-setting negotiations with oil companies. From now on, the Arabs intend to set prices themselves at whatever level the market will bear. The five-dollar figure that Akins forecast for 1980 is already outdated. Sheikh Ahmed Zaki al-Yamani, the Harvard-educated oil minister of Saudi Arabia, has said his country could cut output by 80 percent and survive because "a barrel of crude oil . . . could be sold for fifteen or twenty dollars."

Worried bankers see a peril to the world monetary system in that high Arab oil income. For one thing, only a few nations, such as Iran and Iraq, will spend all their income on development. The rest, with fewer people and problems, will run up a surplus of $40 billion to $110 billion—maybe more—by 1980. So much money simply cannot help causing trouble: Last year's money crisis began with the speculative shift, in a much smaller amount, of the homeless U.S. Eurodollars overseas. Yet can that much money be usefully spent in such a short time? Can it be invested abroad without creating dangerous social and political pressures—an "Arab challenge" dwarfing the "American challenge" that so exercises Europeans? Is there a Faisal in our future?

If the money would cause trouble on arrival in the oil nations, it would do equal damage on its way out of America, Japan, and Europe.

Monetary reform has been postponed, and world currencies have been allowed to float until the badly skewed payments balances of the major nations—particularly the huge U.S. deficits—can be put right. At year's end that objective was in sight. The U.S. trade balance had moved suddenly into surplus. Agreement on the major elements of reform seemed likely by last summer. Oil has threatened all that.

By 1980 the United States may be sending $20 billion or more abroad each year to pay for oil. Europe's energy deficit could be even higher—some $25 billion—and Japan's, $15 billion. Outflows of that size not only would upset any payments balances but also would undercut a key reform—the punishment of nations with big and persistent deficits or surpluses. In that situation, can Europe and Japan, and probably America, avoid deficits? And can the unavoidable surpluses of the oil nations realistically be penalized? That Libyan delegate in Nairobi said no.

It is idle to hope, moreover, that the Arabs could resist the temptation to play the money markets. Most evidence indicates that they suffered by staying out of last year's money speculation. They are unlikely to abstain a second time.

Finally, the new monetary system will be based on an artificial currency called the Special Drawing Right. This SDR will be backed by a mélange of the more muscular currencies—gold plus the dollar, pound, yen, deutsche mark. But a nation's currency is only as strong as its economy. If the oil crisis damages Western economies, it also will damage their currencies. What good, then, will the SDR be? Or monetary reform itself, for that matter?

No sober and sophisticated Arab economist—and there are many—wants that. Oil will be sold, after all, for Western currencies. If these currencies collapse, so will Arab income. But the economics of the oil game has assumed a mad momentum of its own.

In an article I wrote for this magazine last year, I called the oil crisis the "joker in the deck" of transatlantic relations, because it would force the allies—already at odds over so many issues—to face the Middle East together or fall out in a competitive scramble for scarce oil reserves. That joker has been played, much sooner than expected, with the sharp U.S.-European division over the Arab oil boycott that began in October. The United States went one way, in continued support of Israel. The Common Market countries went the other, issuing a statement that, for the first time, put Europe on the Arab side. That statement was an error, because it forfeited Europe's bargaining chips—economic and political—in the first hand of the game. Holland signed the statement, but the Arabs boycotted the Dutch anyway, to punish them for pro-Israel statements during the Yom Kippur war. The other eight EEC nations, in a display of coordinated cowardice reminiscent of Munich, refused to support Holland for fear that the Arabs would boycott them, too. The affair afforded the spectacle of eight allies helping the Arabs enforce a boycott against a ninth—a sorry start for the "foreign policy" that Europe hopes to build.

The episode was the first in what will

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Sheikh Yamani—"The Saudi Arabian oil minister has said his country could cut output by 80 percent and survive."

become a series of challenges to Western unity. From it, the Arabs already have learned that this unity hardly exists. They now know that Europe, at least, will pawn its foreign policy for oil. They have seen that a nation's support of Israel decreases as its dependence on Arab oil grows. Europe gets 72 percent of its oil from the Arabs; the United States gets 11 percent. Who can blame the Arabs for thinking that if U.S. oil imports rise as fast as expected, Washington might see new merit in the Arab case? And why, therefore, should they compromise?

That situation stems, of course, from the Arab-Israeli war. For the long-term crisis, prospects for allied cooperation are not much better. The United States made a belated move toward a truly cooperative policy when Henry Kissinger proposed an "energy action group," uniting America, Europe, and Japan in a common attack on the crisis. Kissinger offered a "very major financial and intellectual contribution" from the United States and said the oil-producing states could join in, too. But the Europeans, fearful of being tarred by Washington's pro-Israel brush, are wary. France, in particular, opposes any all-European approach to Washington, because it believes (erroneously) that its good relations with Arab countries give it boycott-proof supplies.

The Sixth Fleet in the Mediterranean is said to have fuel problems because the Arabs told Italy to cut off the fleet's oil. The logical extension of that squeeze is an end to the American presence in Europe. If the Arabs order West Germany to stop the sending of oil supplies to U.S. forces based there and Germany acquiesces, Congress will certainly have the soldiers on the next plane home.

In those testy circumstances, how can the West and the world get through the next decade with minimum damage to economies, currencies, and foreign relations? A few governments seem certain. Western governments must take the place of the independent oil companies in negotiations with the oil nations about prices and output. The oil business is too important to be left to the oil firms, which have become tax collectors and lobbyists for the Arabs, offering little protection to the consumer. The Common Market would like to turn Europe's oil firms into glorified public utilities. That trend probably will grow.

Another casualty will be the philosophy of waste expounded by President Nixon when he said: "There are only seven percent of the people of the world living in the United States, and we use thirty percent of all the energy. That isn't bad. That is good. That means we are the richest, strongest people in the world, and that we have the highest standard of living in the world. That is why we need so much energy, and may it always be that way." In fact, Americans use so much energy because they waste half of it. The average American uses two-and-a-half times as much energy as does the average European to support a standard of living only marginally higher. If China alone consumed energy with the per capita profligacy that Americans display, it would use up every watt, gallon, and BTU in the world.

Beyond that, many long-range policies have been proposed. U.S. oil expert Walter J. Levy has urged the United States, with its relatively small dependence on Arab oil, to protect its allies against extreme shortages. In return, Japan and Europe must "forego the temptation of looking only at their immediate self-interest." If that much trust can be built—and, on present evidence, the possibility is doubtful—the industrial nations, Levy says, could "avoid bidding against each other or being played against each other with ever-escalating political and economic demands being made upon them." A "countervailing power" to the oil-producing nations would emerge, and "the extraordinary political, strategic, and economic power of the Atlantic-Japanese group of nations" would restore balance to the oil picture.

Yet "Long-Term Projections of Political and Military Power," an authoritative study compiled for the U.S. Navy by a Princeton team, doubts the allies can find enough unity to make such pressure effective. It also discounts economic pressures, because the Arabs need nothing so badly as we need the oil. Nor, it adds dryly, "in view of their past experience with Western powers, would they be especially susceptible to moral and political arguments."

Some Westerners still see the Arab as an unlettered desert warrior, swapping his camels for Cadillacs as the oil gushes in. But the warrior's sons are in charge now. They have been to Harvard and Wharton and would rather invest in computers than Caddies.

> "British strategist Neville Brown warns that the West 'may face the choice of capitulating or going in physically to get the oil.'"

A Western cartel for negotiating with the Arabs or for allocating supplies will probably be necessary. But unity must be assured in advance, since the Arabs say they would use a boycott to break up any "hostile" cartel. Everyone agrees on the need to develop nuclear and solar energy. In the long run, those plus coal will provide the answer. But only the White House believes they will be functioning effectively by 1980.

King Faisal appears to worry less about Israel (except for Jerusalem) than about Mideastern rivalries involving Saudi Arabia, Iran, Iraq, Kuwait, the two Yemens, and the seven sheikhdoms in the United Arab Emirates. The country that armed Faisal against these threats, as we have begun to do, might cash his gratitude in for oil. That could be an effective policy despite the moral and practical objections, not the least of which is that it is playing with fire.

But for all our futures, the best strategy is cooperation. The oil nations do need Western technology, finance, political support, and imports, and they will pay in oil to get them. An example is the recent deal between Germany and Iran, with Bonn getting oil and Tehran getting two steel mills, a refinery, and a petrochemical plant.

The wise use of such long-term cooperation could, if we are lucky, produce the best answer of all—international commodity agreements ensuring a steady oil supply to the benefit of both producer and consumer. Joseph Yager of the Brookings Institution urges the formation of an "international oil organization . . . stabilizing the production and marketing of oil." Both Arabia's Sheikh Yamani and Iran's Jahangir Amuzegar suggest that the oil nations invest their immense profits in refineries, pipelines, and other energy projects that the industrialized nations, by themselves, will be hard pressed to finance.

But before that can happen, the Arabs must realize they can gain nothing by playing the Western allies off against each other, by tying politics to oil, by imposing leapfrog price demands, and by cutting output to drought levels—whether out of self-interest or to fulfill the threat by Libya's Qaddafi to "ruin your industries." That realization, in turn, will not happen so long as Japan, America, and Europe undercut each other for every drop of Arab oil. In a world of "Nixon shokkus" and aborted "years of Europe," that unity is elusive. But on that issue, at least, the allies' interests are identical.

The alternative to cooperation has been clearly stated. British strategist Neville Brown warns that the West "may face the choice of capitulating or going in physically to get the oil." Sen. J. William Fulbright says Washington may "come to the conclusion that military action is required to secure the oil resources of the Middle East, to secure our exposed jugular." Sheikh Yamani says the Arabs would blow up their oil fields if that happened. But the study for the U.S. Navy says the Western powers, if they "became very desperate," could marshal overwhelming military strength.

These men are no warmongers. Brown says an invasion of Araby "is a possibility that I quite frankly regard as horrendous." Yet the possibility exists. Skeptical? Ask yourself this: Would the Western nations accept—*should* they accept—an oil-supply situation that undermines their currencies, economics, foreign policies, alliances, and standards of living? If the search for alternatives begins now, that question need never be asked. □

FRASER YOUNG LITERARY CRYPT NO. 2

A cryptogram is writing in cipher. Every letter is part of a code that remains constant throughout the puzzle. *Answer on page 64.*

UYILO CYI XI RIU VOOP MGER LOPXIH UYERZ UYGU EU EL VOPU.

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