

# It's All About Oil

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## The Conventional Wisdom

If there is any agreement among the pundits, this surely must be it: *the coming war on Iraq will be fought largely over oil*. The gist of the argument is simple enough, and can be summarised as follows:

- ☞ In order to continue growing, the world economy needs plenty of cheap oil;
- ☞ The OPEC cartel stands in the way of that goal. For years, its members have manipulated output to keep prices high;
- ☞ Now, there is finally an opportunity to change the rules of the game, perhaps even to make the oil cartel irrelevant;
- ☞ The entry point is Iraq. The country, says George Bush Jr., has become a 'global threat.' It supports terrorism, it has weapons of mass destruction and it has a ruler unscrupulous enough to use them. In the age of 'preventive strikes,' these are sufficient reasons to invade thy neighbour;
- ☞ Once victorious, the invading armies will install a new, more friendly leader.

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This ruler will adopt a new energy policy, hostile to OPEC and friendly to the United States and the West. And since Iraq has 11 per cent of the world's crude oil reserve and the ability to pump out plenty of it, the days of high oil prices will soon be over.

*The Economist* of London expresses this logic as follows: 'America's chief interest in going after Iraq's president, Saddam Hussein, is doubtless to save the world from his actual or potential weapons of mass destruction. Another large consideration, secondary as it may be, has attracted less attention than it should have: the effects that would follow from the opening up of the country's enormous reserves of oil. . . It might seem, then, that knocking out Mr Hussein would kill two birds with one stone: a dangerous dictator would be gone, and with him would go the cartel that for years has manipulated prices, engineered embargoes and otherwise harmed consumers.'<sup>1</sup>

The Middle East presently accounts for 65 per cent of the world's proven oil reserves and 30 per cent of its day to day production – and the figures are only expected to grow in the coming decades. According to Professor Anthony Cordesman of the Washington Center for Strategic and International Studies, these facts lead to a simple conclusion. Given that U.S. prosperity depends on global prosperity, he says, and since global prosperity depends on free access to Middle East oil reserves, it follows that the Gulf region, where most of this oil comes from, must be treated as 'a truly vital American strategic interest.' The United States, he continues, is the only country with the political, economic and military power to secure this global (read national) interest, and it should therefore take direct responsibility through direct involvement in the region.<sup>2</sup>

Radical writers generally agree that the United States is after oil, although many of them add that the pursuit of energy is part of a larger game-plan whose aim is not economic prosperity per se, but power. 'What the world is now facing,' write the editors of *Monthly Review*, 'is the prospect of a major new development in the history of imperialism.' 'Direct U.S. access to oil

and the profits of U.S. oil corporations,' they maintain, 'are not enough by themselves to explain overriding U.S. interests in the Middle East. Rather the United States sees the whole region as a crucial part of its strategy of global power.'<sup>3</sup>

## The catch

These views all ring true. Without oil, the world economy will certainly come to a halt; capitalism will fall into a serious crisis; and U.S. hegemony will be dealt a serious, perhaps mortal blow. That much is obvious.

But then these same arguments could have been made – and were made – in the 1960s, in the 1970s and in the 1980s. So why the sudden return to old-style 'imperialism'?

Indeed, the whole situation seems paradoxical. During the 1970s, when the Middle East accounted for nearly 40 per cent of global oil output (compared with only 30 per cent today), the United States and Europe actually moved in the opposite direction, allowing local rulers to nationalise their oil resources and to kick out Western oil companies. In other words, these governments tolerated a blatant attack on 'private property' – and tolerate it they did, despite the fact that the property in question belonged to the world's most powerful firms, and that OPEC's obvious intention was to raise the price of oil.

By comparison, the current situation seems far less menacing. Judging by the real price of oil, which has kept falling for the past twenty years, OPEC has been rather ineffective. In 1999, when the price of oil plunged to \$10 a barrel, *The Economist* confidently stated that 'the world is awash with oil, and it is likely to remain so.'<sup>4</sup>

Under these circumstances, and assuming it is indeed 'all about oil,' shouldn't the cartel be left alone to pursue its futile manoeuvres? Or perhaps OPEC's ineffectiveness is precisely the problem?

Much of the confusion stems from two mistaken assumptions: first, that OPEC had 'expropriated' the oil companies and that these companies now want to 'reclaim' their lost concessions, and

second, that Western governments want nothing more than low oil prices. As it turns out, the situation is a bit more complicated.

## The global politics of oil

Start with OPEC and the oil companies. In the 1970s, the latter indeed lost their drilling concessions to the former. But oil companies aren't interested in drilling concessions, they are interested in profit. And here OPEC gave them something really precious: *a 10-fold increase in the real price of oil between 1970 and 1980*. The oil companies could never have achieved this pricing feat on their own. And what a feat it was: *it made their profits rise 5-fold in just ten years!*

The converging interests of OPEC and the oil companies are illustrated in Figure 1. The chart shows the profits of the world's 'Petro Core' consisting of the six largest private oil companies: British Petroleum, Chevron, Exxon, Mobil, Royal/Dutch Shell and Texaco.<sup>5</sup> It also shows the oil revenues earned by OPEC governments. The positive correlation is obvious and needs no further elaboration. What was good for OPEC was also good for the oil companies, and vice versa.

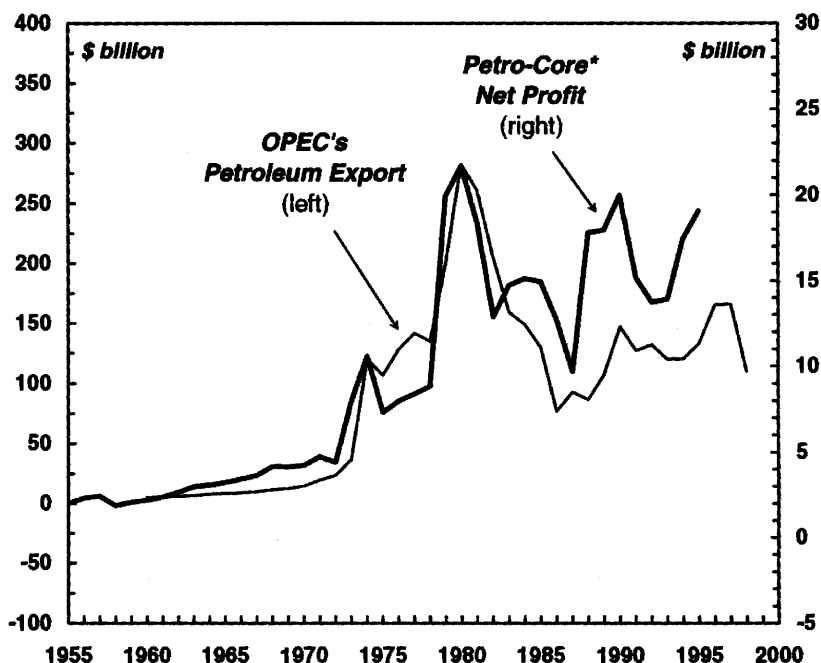
And indeed, the oil companies quickly realised they had no reason to fuss over oil fields and drilling rights.

On the contrary, it was much better to have the cartel manage output and take on the criticism for the 'energy crisis.'

Naturally, the oil companies insisted they had nothing to do with the ploy. They were merely 'interested bystanders,' as one famous analyst put it. They simply happened to be in the right place at the right time. Their profits were huge, sure, but they were 'windfall profits,' the result of an accidental bliss.

As experts would later show, this picture was a bit distorted, to put it mildly. There was in fact vast technical, business and political cooperation between OPEC and the companies. But then, since this type of research rarely made it into the popular media, most people, although often suspecting the oil companies, never really knew why.<sup>6</sup>

## Fig. 1 OPEC and the Oil Companies



\* British Petroleum, Chevron, Exxon, Mobil, Royal/Dutch Shell & Texaco.  
SOURCE: OPEC Annual Statistical Bulletin; Fortune.

Of course, whether or not they knew about it, ordinary people suffered greatly from this mischievous arrangement. During the 1970s and early 1980s, higher oil prices have thrown the world into a stagflationary spiral of rising prices, together with contracting output and soaring unemployment. But then, suffering doesn't give you a say in the global politics of oil. Power does.

## From crisis to prices

As noted earlier, there is a popular belief that Western governments, representing the 'national interest,' are keen on having low oil prices. The problem with this view is that those who articulate the 'national interest' often tailor it to their own ends. Or better still, they articulate it in words but ignore it in deeds.

During the 1970s and 1980s, the 'national interest' of the United States was dominated by a 'Weapon-dollar-Petrodollar Coalition' made of large armament, oil and financial companies. The long tentacles of this coalition have become difficult to disentangle from the various apparatuses of the state.

Their representatives sat in the White House; they had their envoys in various branches of the government and the army to whom they supplied weapons; they paid taxes and received subsidies (with the latter often exceeding the former); they financed political campaigns; they influenced and often determined policy; they owned various media outlets. The list goes on.

This coalition had an interest in high oil prices. It couldn't admit it openly, of course, and the U.S. government never tired of reiterating its 'commitment' to cheap energy. But when it came to the United States' actual foreign policies, particularly in the Middle East, the effect was generally to raise prices, not lower them.

After the end of the Vietnam conflict, the main 'hot spot' of the Cold War shifted to the Middle East. The United States and the Soviet Union, aided by numerous other countries, supplied massive amounts of weapons to the region (invariably in the interest of 'stabilisation'). The regional arms race made the U.S. military contractors rich, and with a succession of hawkish presidents in office -- from Richard

Nixon, to Gerald Ford, to Ronald Reagan – the contractors found it easy to keep that race going. Even the conciliatory Jimmy Carter, whose 1976-80 term in office briefly broke the bellicosity chain, couldn't buck the trend.

Conflict and war in the region had a profound impact on oil. It is important to note that during the 1970s and 1980s, there was never any real 'shortage' of oil in the world.<sup>7</sup> Indeed, from a purely 'economic' perspective, the price of oil should have tumbled. But the region was 'in flames,' with cyclical hostilities nourished by Western and Eastern weapons and hyped up relentlessly by the media. Oil, although plentiful throughout the period, was made to look 'scarce' and 'vulnerable.' The price of oil was raised and kept high, OPEC's oil revenues soared and the oil companies grew fabulously rich.

## Reversal of fortune

By the mid 1980s, the tide finally began to turn. Communism was on its last legs and the cold war was winding down ; developing countries had become 'emerging markets' open to Western investment; the high-tech mania started to gather momentum; and the winds of neoliberalism began blowing stronger and stronger.

The Weapondollar-Petrodollar Coalition was increasingly challenged by a new 'Technodollar-Mergerdollar Coalition' geared toward high-tech, global expansion and corporate mergers. For this new coalition, high energy prices were a threat. They spoiled business confidence and growth in 'emerging markets,' they upset capital mobility and they interfered with the hyping up of the stock market.

The growing strength of the new coalition became evident as early as 1991. George Bush Sr., a Weapondollar-Petrodollar loyalist who had just orchestrated a major international war, was more or less forced to announce the dawn of a 'new world order' of peace. His successor, Bill Clinton, was already a declared 'peacenick' who moved swiftly toward resolving the Arab-Israeli conflict. The shift from war profits to peace dividends was now in full swing.

The effect of this shift on armament and oil interests was devastating. During the 1990s, world military budgets fell by over 1/3rd in real terms, arms exports went into a tail spin and the large armament contractors, their profits having been sharply curtailed, were reduced to a mere shadow of their past glory.

The oil companies suffered a similar fate. Figure 2 below shows the relationship between their net profit and the price of oil. During the early 1980s, crude prices expressed in today's dollars exceeded \$80 a barrel. For the world, this was the height of the 'energy crisis.' For the oil companies, it was the peak of the 'energy boom': their earnings reached nearly 20 per cent of all global corporate profit.

But from then on, it was all downhill. The lingering Iraq-Iran War of 1980-88, the 1982 Israeli invasion of Lebanon, the 1986 bombing of Libya, the mid 1980s 'tanker war' in the Gulf, the 1990/91 Gulf War all helped to slow down the slide, but they didn't stop it. And as prices fell so did profits. The abyss was reached at the end of Clinton's presidency. In 2000, oil prices tumbled to \$14 a barrel in today's dollars, and the share of oil companies

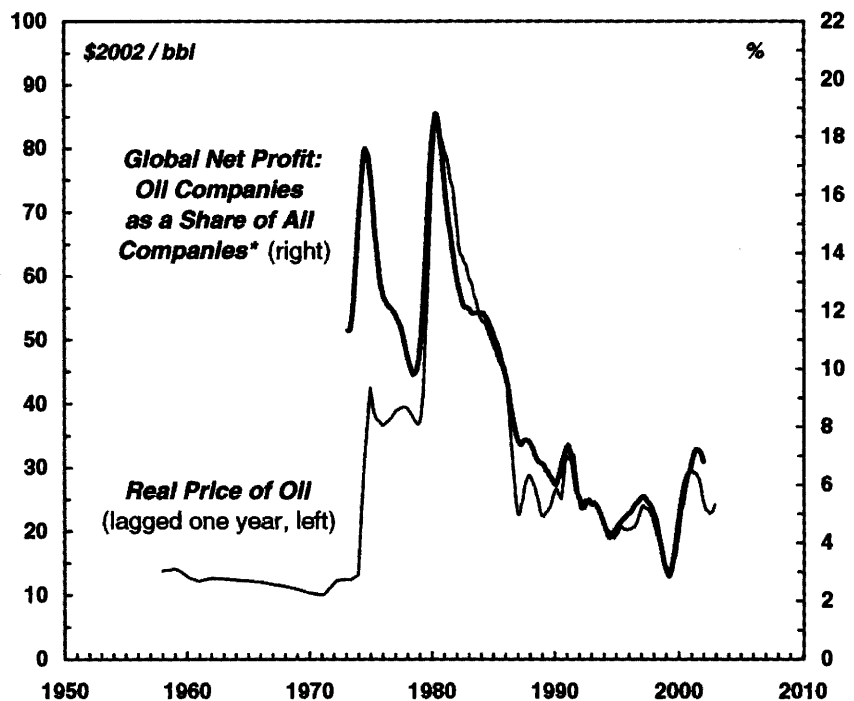
in global profit fell to less than 3 per cent – their lowest ever.

## Toward a new war

Something had to be done, and quickly. The Weapondollar-Petrodollar Coalition assailed the White House with all its guns blazing. They spared no effort. Massive financial support, legal pressures, electoral manoeuvres, deceit and outright forgery were all brought to bear. In the end the coalition managed to have George Bush Jr. put in office.

The Bush family ties to the U.S. business elite, including the Harrimans, Morgans and Rockefellers among others, go back to Bert Walker, George Bush Jr.'s great-grandfather. Over the years, the family has come to occupy, through ownership and managerial posts, various strategic positions in railroads, finance, oil and armament. It also placed itself well in the seats of government, state security and military procurement. In addition to God and the mighty dollar, the family has retained a strong belief in white supremacy, especially the supremacy of the Eastern seaboard elites, while entertaining close links to far-right and neo-Nazi groups within the Republican party.<sup>8</sup> With this background, George

**Fig. 2 Oil Prices and Oil Profits**



\* Restated data, accounting for changes in the constituent companies.  
NOTE: Series are smoothed as 12-month moving averages.  
SOURCE: DATASTREAM; WEFA-DRI.

Bush Jr., although not the brightest of the lot, was certainly fit for the task of reinstating the Weapondollar-Petrodollar Coalition.

The main excuse was September 11. The U.S. immediately started beating the war drums, and within a month invaded Afghanistan in search of the ghostly Bin Laden. It didn't find him there, but the price of oil kept rising. In parallel, and in sharp contrast to his White House predecessor, Bush Jr. gave Ariel Sharon carte blanche to deal with the Palestinians as he saw fit. The resulting escalation contributed further to the feeling that the region was again in flames, and that oil, once more, was likely to become 'scarce.' These developments, together with a timely oil strike in Venezuela and the prospect for an imminent attack on Iraq, helped send the price of oil soaring to over \$30 per barrel and raise oil profit to nearly 7 per cent of the world total (see Figure 2).

### It's all about oil

Now let's think about the meaning of all of this. As we have seen, the oil companies have just begun climbing from the abyss. To continue their ascent, they need higher oil prices, and the most effective way of raising these prices is to have another Middle East conflict. Similarly for the armament companies. If they are to remain viable in a uni-polar world, they will need new wars, and quickly. As luck would have it these two groups now have their most friendly president ever in the White House. And this friendly president is ready, in fact eager, to send his army to fight Iraq, with or without UN approval.

For the Weapondollar-Petrodollar Coalition, then, the new war is indeed about oil, but not in the way most people think. The interest of this coalition lies not in stabilising the region and making oil plentiful and cheap, but on the contrary, in maintaining instability, in making oil look scarce and in raising its price higher.

Interestingly, large firms outside the Weapondollar-Petrodollar Coalition – that is, companies with no direct connection to armament and oil –

haven't voiced any real opposition to the war. This silence is rather strange, to say the least. Don't the Microsofts, General Motors and Vivendis of the world stand to lose from higher energy cost and the global stagnation which is almost sure to follow? Furthermore, if oil prices and oil profits were to rise, wouldn't these companies lose their primacy relative to the Exxons and Lockheed Martins? Perhaps, but this relative reordering may be a cheap price to pay for the benefits to be had.

As it turns out, the biggest threat facing large firms at the moment is *deflation*. The global debt burden is the highest ever in history -- roughly *twice* what it was on the eve of the Great Depression. Corporate pricing power, on the other hand, is perhaps the weakest since the Depression. Under these circumstances, if disinflation were to give way to *falling* prices, the spectre of chain bankruptcies and debt deflation could make the Great Depression look like child's play. Given this risk, any move toward higher inflation – even if accompanied with stagnation – is to be warmly welcomed.

Now, since the late 1960s higher oil prices have always triggered higher inflation. And the 'mechanism' continues to operate like clockwork: since 1999, world inflation trailed the gyrations of oil prices with almost religious devotion. Thus, if oil prices continue to rise, inflation will most likely follow, the spectre of deflation will be removed and the large companies could sound a big sigh of relief. For these companies there would also be an icing on the cake. Inflation usually works to redistribute income from labour to capital and from small firms to larger ones. It will therefore make the leading companies better off relatively, if not absolutely.

The most ambivalent of the lot are probably the OPEC governments. The explicit shift toward interventionism on the part of the United States and its Western allies must be worrying for them. Theirs is the only international cartel which managed to obtain some degree of autonomy from Western influence, and this autonomy is now in great danger. On the other hand, part of the cartel's weakness stems precisely from its inability to keep prices high,

something which a new conflict managed by direct U.S. intervention may help rectify.

The only ones for whom there seems to be no ambiguity are the rest of us. The new wars, fought in the name of security and prosperity, are likely to bring neither.



<sup>1</sup> *Don't Mention the O-Word – Iraq's Oil. How Would an American Strike Affect Oil Reserves, and OPEC?* *The Economist*, September 14, 2002, pp. 25-27.

<sup>2</sup> Anthony Cordesman, 'The U.S. Military and the Evolving Challenges in the Middle East.' *Naval War College Review*, 2002, LV (3, Summer): 72-112

<sup>3</sup> The Editors. 'U.S. Imperial Ambitions and Iraq.' *Monthly Review*, 2002, Vol. 54, December.

<sup>4</sup> 'Drowning In Oil.' *The Economist*, March 6, 1999, pp. 19.

<sup>5</sup> As a consequence of merger, the 'Petro Core' has now been reduced to four companies: British Petroleum, Royal Dutch/Shell, Exxon-Mobil and Texaco-Chevron.

<sup>6</sup> For two of the most thorough works on the subject, see Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Shaped* (New York: Viking Press, 1975) and John M. Blair, *The Control of Oil* (New York: Vintage Books, 1976).

<sup>7</sup> If oil prices were indeed determined by physical 'scarcity,' one would expect during periods of rising prices to see inventories squeezed by the 'shortage.' In 1970-1980, however, as oil prices soared, global oil inventories continuously increased! (based on data from the BP Statistical Review of World Energy).

<sup>8</sup> See Webster G. Tarpley and Anton Chaitkin, *George Bush: The Unauthorized Biography* (*Executive Intelligence Review*, 1991).