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AN ATLANTIC-JAPANESE ENERGY POLICY

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I - INTRODUCTION

The prosperity and security of the whole Free World depend on sufficient availability of energy on satisfactory economic terms.

During the next ten to twenty years, oil will provide the mainstay of the world's energy supplies.

In practical terms, because of the size of known reserves and the lead time for finding and developing new oil and other energy resources, the world's growing needs will be supplied predominantly by huge increases of oil imports from the Middle East - mainly the Persian Gulf area.

Directly connected with the anticipated large advances of oil imports, the consuming countries will face another set of problems.

The cost of oil imports will rise tremendously with extraordinarily difficult implications for the balance of payments of many consuming countries.

There will also be serious problems caused by unprecedented foreign exchange accumulations and the international use of such funds in the case of some of the major oil producing countries, such as Saudi Arabia and Abu Dhabi.

We have also been witnessing a complete change in the political, economic, strategic and power relationships between the oil producing, importing and home countries of international oil companies and the national oil companies of producing and importing countries.

An energy policy for the oil importing countries cannot be limited to the Atlantic Group of nations but must include Japan, the Free World's second strongest single economic power and one of its largest oil importers.

It should also encompass other developed nations such as South Africa, Australia and New Zealand and should take account of the position of oil importing developing countries in Latin America, Africa and Asia.

But the policy and organization as suggested here will refer mainly to the Atlantic Group plus Japan as the nations with major world influence and responsibilities.

In the following review we will deal as comprehensively as possible with the set of issues and changing relationships posed by energy-oil problems during the next ten years or so. The analysis will, I believe, demonstrate the urgent necessity for the early establishment of an energy policy for a new Atlantic-Jananese partnership.

II - Some Basic Data on Energy Supply and Finance

Many very competent studies have been devoted to the present and prospective position of energy supply and demand of the United States, Europe and Japan, as well as the Free World as a whole.

I do not plan to repeat this analysis or to burden this presentation unduly with figures. I will only refer, as a point of departure, to the practically unanimous conclusion that from now on - certainly until the early eighties - U.S. energy requirements can be met only by very substantial increases in oil imports. If present U.S. policies and trends are left to take their course, oil shipments from abroad will advance from about 4.7 million barrels per day in 1972 to over 11 million barrels per day in 1980.

As far as our allies are concerned, they would, except for the promising developments in the North Sea and the unknown potential in Japanese offshore waters or in other "safe" areas, have in general very limited, if any, possibilities of developing dependable alternative energy supplies based on synthetic oil or gas because of their relatively small coal, shale, and tar sands resources. But even with the most optimistic estimates for North Sea developments, the oil imports of Europe and Japan combined are estimated to advance during the same period from some 18 million barrels daily to 30 million barrels daily.

The preponderant part of all these imports - for the United States, Western Europe and Japan - would have to come from Middle East producing countries. Their output would rise from 18 million barrels daily in 1972, to an estimated 35 to 40 million barrels daily by 1980. The United States will, for the first time, compete with Europe and Japan for major oil supplies from the Middle East, whose share in total U.S. oil imports would, by 1980, amount to about 50 to 55 per cent and in those of Western Europe and Japan to about 75 to 80 per cent. There is little doubt that Middle East oil reserves are sufficient to cover these requirements, but without very large new discoveries this situation would change, probably during the Nineteen Eighties.

The USSR will most likely remain self-sufficient in covering its oil and other energy requirements and may, on balance, continue to be an exporter of oil and natural gas.

Let me cite two more sets of data that are most relevant for the formulation and urgent implementation of energy policy. The total value of U.S. net imports of energy materials, mostly oil, may, according to U.S. Department of Commerce data, easily reach $18 to $24 billion annually by 1980, those of Europe $23 to $31 billion and those of Japan $12 to $16 billion - as compared with $2.3 billion, $8.5 billion and $3.1 billion in 1970, respectively. The revenues likely to accrue to Middle East producing countries can tentatively be estimated at about $40 billion annually by 1980 - as against $9 billion in 1972 - with Saudi Arabia alone accounting for as much as perhaps half of the

1980 total. In some of the countries, such as Saudi Arabia and Abu Dhabi, a large part of these funds could not possibly be absorbed in their internal economies.

The United States thus must share with Europe and Japan the deep concern about the physical availability, the terms of trade, the balance of payments impact, and the investment and monetary consequences of heavily increased oil imports. But the United States, as the only super-power of the Free World with global commitments for its defense, carries the additional responsibility of protecting its capability thus to perform, expecially since the Soviet Union and, for that matter, the People's Republic of China do not primarily depend on external sources of energy. The United States simply cannot afford an ever-increasing over-dependence for its oil supplies on a handful of foreign, largely unstable, countries. Otherwise, its security - and that of its Allies ; as well as its prosperity and its freedom of action in foreign policy formulation will be in jeopardy. But the United States does have a realistic and economically manageable alternative - and that is to point its energy policy toward accelerated development of its large domestic resource potential for conventional and synthetic hydrocarbons and nuclear energy.

Even though such alternatives may now look expensive, the cost of foreign oil imports is likely to escalate continuously, and will sooner or later - and probably sooner rather than later - approach the cost of alternative sources of supply that could be developed in the United States.

If all realistic actions to increase its domestic energy supplies were to be taken with utmost urgency, U.S. dependence on total energy imports by the early Nineteen Eightees might be limited to perhaps around 20 percent - instead of somewhat over 30 percent if present trends were permitted to take their course. U.S. oil imports at that time would be substantially lower - perhaps by about one third - than they would otherwise have been, and probably would not exceed the "danger" level. But, as of now, continuing dependence of Europe and Japan on Middle East oil - and to an important degree the United States - appears to be inevitable. And the build-up of Middle East oil revenues will reflect that.

So much as a prologue for defining the statistical magnitude of the problems that the United States, as well as our allies, will have to face and that must be coped with by new policies dealing with our developing energy situation.

III - Changes in the Power Structure of International Oil

In addition to the problems of security of oil supplies in terms of physical availability and the worldwide financial impact of ever-growing oil purchases by the importing countries and ever-growing oil revenues by a few producing countries, there are equally relevant issues affecting the economic, political and strategic future of the oil importing countries. These are the result of a fundamental change in the relationships between the international oil industry and the producing countries, the importing countries and the home countries of the international oil companies.

Let us just set the scene by summarily describing the immediate postwar period. Based on a dramatic expansion of oil production and exports, mainly in the Middle East, the international oil companies effectively supplied the bulk of the ever increasing energy requirements of the Free World. From 1946 to say the late Nineteen Fifties, the companies - on the basis of their rich Middle East oil concessions and at least indirectly benefitting from the immense strategic, political and economic power of the United States - were able to dispose of their oil reasonably freely and on favourable commercial terms.

Moreover, the United States itself was on balance independent of foreign oil imports and possessed a sizeable reserve productive capacity from which our Allies could benefit substantially during the Iranian and with some short delays also during the first Suez Crisis.

By 1960, when the Organization of the Petroleum Exporting Countries (OPEC) was established, the relative power positionoof the United States was beginning to decline as Europe, Japan and the USSR acquired new strength. It was also the time when the developing countries began to play a more important role in world affairs. The timing of the establishment of OPEC and its ever-growing influence in international oil operations was beyond doubt also in part at least the result of a certain inability and inflexibilty of the international oil industry and their home governments to anticipate, assess and adjust to the changes that had begun to erode their previous paramount position of political and economic influence in oil producing countries.

During the next twelve years, from 1960 to 1972, OPEC and its members succeeded in achieving, to begin with, minor increases in the government take of oil producing countries, and since the early Seventies in enforcing a quantum jump in the royalty and tax payments levied on their production, capped in 1972 by the so-called participation agreement. Without going into details - and assuming present arrangements are implemented - participation means an immediate 25 per cent interest for the Arab producing countries in the Persian Gulf in existing concessions, leading to 51 per cent control within nine years. National oil companies of the major Middle East producing countries will thus become the largest sellers of crude oil. By 1984, by the way, under existing provisions, most of the important Venezuelan oil concessions will also have reverted from the oil companies to the Venezuelan Government. Algeria, Libya, and Iraq have already taken over a very substantial part of the previously foreign owned production, and the current Indonesian oil contracts also leave the Indonesian National Oil Company free to dispose of a substantial part of the oil discovered by foreigh oil companies.

During the same period, the U.S. domestic oil outlook underwent drastic changes and its reserve productive potential began to disappear. By 1972, with imports of close to 5 million barrels per day, the United States had become one of the largest importers of oil, with the prospect of a continuously increasing dependence on foreign oil.

With this background, let us now shortly review the new situations and constellations of the various countries - producing, importing, and home countries of the international oil companies - in the international oil trade, and assess the problems facing the Atlantic World and Japan which must be considered in the formulation of a realistic energy policy.

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Culminating with the conclusion of the participation negotiations in 1972 - which may still turn out to be not the final round of negotiations - there is little doubt that the major oil producing countries, especially of the Middle East, have acquired an immense potential for power - as long as at least two of the more important producers are able to maintain a reasonably united front. In the case of Saudi Arabia alone, we face a situation which, within a few years, gives that country, with its overwhelming lead in reserves and production, a pivotal role in supply.

As discussed, their power is based not only on their effective control over immense oil resources on which the security and prosperity of the Free World have become dependent, but will in due course derive also from their control over unprecedented financial resources which they will be able to extract from the oil purchasers. Moreover, large monetary reserves will give them the freedom to restrict their oil production for political or any other reasons, even though they would thereby forego current income.

The control which the producing countries will be able to exercise over their oil production and experts is not only based on their participation in the oil producing companies, but stems perhaps even primarily from the exercise of their sovereign power over companies operating in their countries. There is ample precedence for such use of power with the reluctant acceptance of the oil companies and their home governments : the Kuwaiti and Libyan restrictions on production;

the prohibition of exports to certain countries, including in certain circumstances even the parent countries of the oil companies; the Venezuelan oil legislation establishing practically complete control over oil operations, which were totally under foreign private ownership. This list could be extended nearly without exception to foreign oil activities in about any of the major producing countries.

To all intents and purposes, fiscal arrangements and payments to the producing countries are subject to nearly unilateral determination by the producing countries, as reflected in the demands leading to the Teheran and Tripoli "dictates".

Peremptory demands for national ownership of tanker transportation, reinvestments in oil exploration, refining, petrochemical, LNG facitities, and other related industries are bound to be made. The establishment of levels of production and the size and direction of exports for conservation, economic, political or strategic reasons are also by now "recognized" methods of controls as exercised by many producing countries.

In this connection it is perhaps noteworthy that the development of the tremendous oil resources of the Middle East does not really reflect any extensive industrial involvement of the economies of their countries or any important contribution by their people to the huge flow of oil outward and of revenue backward. The oil producing industry operations in these countries - whoever owns them - are limited fundamentally to a small enclave, transforming an export of liquid gold from underground into a reverse flow of solid gold above ground.

As mentioned earlier, national oil companies will in due course become the largest group of crude oil sellers in the world. Even though, under recent arrangements, a substantial part of the national companies' entitlements will, for some period, be sold back to their foreign partners for distribution through their marketing channels, it is only a matter of time before the national oil companies will probably dominate the market for non-integrated third party sales of crude oil. They will become major suppliers to national oil companies in many of the importing countries of the world and will probably also deal directly with the foreigh refining and marketing affiliates of the international oil companies. In fact, effective competition in crude oil sales between the producing affiliates of the international oil companies and their partners, the national companies of the producing countries, may from a practical point of view, become very difficult if not impossible, as the producing countries' governments might not only establish the levels of prodcction but will also, through their policies, determine the tax-paid cost and the prices at which the greatly increasing quantities of crude oil to which their companies will become entitled will either be sold back to their foreign partners or offered by them to their own customers.

Coupled with the expansion of crude oil sales, the national oil companies af at least some of the major producing countries will obviously work out deals for joint refining and marketing in importing countries.

Likewise, the producing countries, by taking over ownership or control of an ever-expanding tanker fleet to carry their oil exports, will thereby not only increase their revenues, but further enhance their power over the international oil trade.

With Saudi Arabia, which will probably become the largest Middle East producer by far, being unable to absorb its vastly expanding oil revenues in its local economy, it is quite possible that by the early Eighties the surplus funds annually available to it may be of the order of $15 billion plus. The large and continuously growing inflow of foreign funds that would accrue to the treasuries of a few Middle East governments, and to a small number of their privileged citizens, will far exceed any accumulation of foreign exchange holdings in modern times. Realistically, such amounts could probably not be placed into long-term or short-term investments year-in year-out without risking severe international repercussions and potentially extensive restrictions on the free flow of capital. It is most unlikely that the United States, or any other developed country, would permit continued massive foreign investments on a scale that could conceivably result in foreign take-overs of important companies and industries. Moreover, the reverse flow of dividends and interest would soon add an additional unmanageable balance of payments burden to the oil import bill of many countries. Nor could the short-term money markets handle such excessive and most likely very volatile funds without undermining the world's monetary arrangements.

The dilemma confronting us is acutely disturbing as any proliferation of international restrictions on capital or short-term movements of funds would, in and by themsleves, be most harmful to our financial markets and monetary system. In the affected Middle East oil and capital-surplus countries, any restrictions on their investments abroad would probably be accompanied by restrictions on the output of oil. Obviously, if the income of oil producing countries were to be "sterilized", it would be more advantageous and completely rational for them to limit their oil exports. This would then further aggravate the world oil supply situation. However, controls over the level of oil production are unfortunately likely to be introduced anyhow, even without any hostile political or economic motivation of the producing countries, for reasons of concervation and wise resource management - at least in some of the major oil producing countries - and certainly as soon as their reserve-to-production ration begins to decline significantly. A recent pronouncement by the Saudi Arabian Minister of Petroleum has clearly suggested such a course of action. Interestingly, his statement was coupled with the suggestion that in order to assure continued supplies, oil imports from his country be given a privileged position in the U.S. market.

Some of the major Middle East producting countries will thus become two-pronged power centers; both as a supplier of oil and as an extraordinary accumulator of capital - with the latter further strengthening their ability to withhold oil from importing countries over a considerable period of time by drawing on their financial reserves for their budgetary and trade requirements.

The size of the funds which the producing countries have at their command is, of course, based on their control of an absolutely essential resource, through which, be combined actions of OPEC countries - or perhaps even with the planned huge increases of Saudi Arabian production, the latter solely by itself - could exercise a tremendous power. Moreover, by tying the price of their oil to say a commodity basket index, any changes in currency values as such will not affect their actual purchase or investment capacities. There is little doubt that this accumulation of oil and of money power - obtained so to speak like manna from heaven, and, at least for the time being, not accompanied by any substantid contribution in political, managerial, or technical competence - would bring with it tremendous and lopsided shifts in the balance of power of a potentially explosive character.

Not the least of the dangers posed by this extreme concentration of oil power and 'unearned' money power is the pervasive corruptive influence which such concentration is nearly inevitably going to have on political, economic, and commercial actions and behaviour in both the relatively primitive and unsophisticated societies of the producing countries and the advanced societies of the dependent industrialised nations. Lust for immense power which is there for the asking and greed for money in unheard of amounts could easily corrode part of their - as well as our - political and social structure.

There are further complicating factors that must be taken into account in any assessment of the future dependability of the area as the centre for oil and money power. Within the area itself there are many deep-seated conflicts such as those of Iran versus Iraq, Iraq versus Kuwait, Saudi Arabia versus Oman and Abu Dhabi, Libya versus the traditional Arab countries, and so on. Also there is an underlying rivalry between Iran and the Arab States of the Gulf for hegemony in the area, which may sooner or later erupt into an open power struggle implicating also the communist and non-communist allies or sponsors of the various Middle East countries. In addition to these conflicts within the area, there are, of course, the perennial dangers and potentially explosive implications raised by the Israeli-Arab issue.

All these actual or potential confrontations also fundamentally affect the producing operations and government arrangements of the oil companies. When the activities of the companies extend to several of these countries, they will most likely be drawn sooner or later into any local area conflicts. Moreover, the producing countries will hold them responsible for their home government policies and expect them to support the producing countries' political, strategic or economic interests. The companies will nearly inevitably be asked to match any arrangements which either their affiliates or any of the other international oil companies (or sometimes even any newcomer company) make with governments of most other Middle East oil countries. And with the underlying rivalry between the Arab countries and Persia, either of them would feel compelled to be able to claim that it has struck the most advantageous bargain with the oil companies. National pride and jealousy are bound to provoke a one-upmanship that would lead - in the case of different kinds of arrangements on the two sides of the Gulf - to endless escalations and no end of trouble. This is exactly what is happening as a result of the simultaneous negotiations on participation with the Arab nations on the one hand and on a differently structured deal with Persia on the other hand - and also in connection with developments in Iraq concerning the nationalisation of the Iraq Petroleum Company. Accordingly, the outcome in Iran and Iraq, any potential repercussions on the participation agreements with the Arab countries, and especially whether or not and, if so, how long the companies will be able to keep any equity interest in their various oil producing arrangements are, as of the time of completing this manuscript, still undetermined.

Finally, it must not be forgotten that none of the national governments is really stable and that the societies involved are still largely backward; there are always serious doubts whether any existing arrangements would survive the end of any current regime.

V - The Limitations on Oil Companies in the Producing Countries

In the light of developments in the major oil producing countries as previously described, there is no doubt that the position of the international oil companies has undergone a most fundamental change, with the participation arrangements highlighting, but not fully describing the underlying metamorphosis in their functions and power relationships.

If for a moment we refer to the publicly stated intent of what the producing countries have set out to achieve, it is clear that participation, if all the arrangements were ratified and would hold as negotiated in 1972, is mainly a device through which they, so to speak, smoothly and by arrangements with the international oil companies plan to obtain complete control over their countries' total oil operations.

It represents a grand design by the producing countries to forge an alliance with the oil companies in which the producing countries, while pursuing their national objectives, would still be able to take advantage of the large distribution outlets, the investment capabilities and the technical know-how of the oil companies. This is reflected perhaps most succinctly in the pronouncements of Mr. Yamani, the Saudi Arabian Minister of Petroleum. His whole approach is based on the assumption, as stated already in 1968 and repeated since, that the oil companies would one day turn out to be the natural allies of the producing countries. As he explains it, he wants participation because the weight of the national oil companies in producing countries should be combined with that of the oil companies so as to:

(1) protect the concessions from nationalisation by providing an enduring link between the oil companies and the producing countries;

(2) gain control over the oil operations while maintaining the flow of foreign capital and expertise and obtaining marketing outlets for the output;

(3) prevent competition between producing countries as sellers of crude in open market, which would lead to a drastic drop in prices and producing government revenues;

(4) maintain thereby price stability, and through the implementation of participation even secure an immediate increase in world crude oil prices from which the producing countries would benefit;

(5) achieve through this combination a position of influence in the oil markets;

(6) make it difficult for any producing country to insist on an 'abnormal' increase in production.

As the Kuwaiti Finanve and Oil Minister plainly put it, the true connotations of participation are nationalisation or takeover. "What we called phased participation is in fact phased nationalisation. This is precisely the situation and its implications."

It must be clear that even though the producing countries will start initially with a minority ownership, they will have a powerful voice on investment, production levels, size of exports and their destinations. As a corporate partner representing at the same time the sovereign, they possess all the power they need to control and direct the companies on all phases of the operations in the producing country and probably even on many phases of their operations abroad, holding their local interest in oil production as hostage.

In the immediate future, the bulk of the new participation oil will be bought back by the foreign companies for disposition through their own outlets and their profits on the resales together with compensation payments and the investment contributions of the new national partners will, to begin with, at least tend to protect their cash flows. But by 1976, the proportionate share of the quantities offered back by the national oil companies to the foreign companies will probably have declined substantially. As the Teheran agreement on government oil revenues terminates at that time, large new demands against the companies will undoubtedly be made then, and possibly even before.

In any case, the national oil entities of the various producing nations will in due course become practically the largest suppliers of oil - only somewhat delayed by the phasing out of 'buybacks' by the foreign connessionary companies. They will thereby exercise tremendous market power through their terms of sales. In the meantime, they will apparently attempt to use their private company partners, whose interests they would try to tie up inextricably in joint production ventures, to assure market stability.

Perhaps sensing this, an American top executive of an international oil company in an early statement on participation demands said that the key role of the international oil companies to satisfy the needs of both the producing and consuming countries is 'best performed when the commercial enterprise is freed from the pressures of conflicting ideologies and of the clashing political systems. These differences inevitably arise when governments of producing countries have a direct participation in running the oil industry or when government to government negotiations are substituted for the company bargaining with the host government.' The commercial framework of operations "would be subverted if we were to adopt an alternative of serving either group of nations exclusively" A top executive of one of the largest European international oil companies stated that a position of 51% participation by the producing countries would be "almost intolerable" as the oil companies would have almost all the operating responsibility without any freedom of investment and without control of production levels.

Subsequently, another top executive referred more positively to the new participation agreement with some of the oil producing governments in the Middle East as an example of building 'more stable future relationships', though he conceded, 'I won't pretend this was an easy adjustment.' However, he added, 'We believe that we now have a new basis for doing business which meets the needs of both consuming and producing countries. At the same time, we have maintained the essential intermediary role of the private international oil companies as the most effective agents for the production, transportation and distribution of oil products.

I am afraid that the earlier pessimistic evaluations and reactions of the oil companies' executives to the participation demand will unfortunately prove to be the correct one, notwithstanding the firm assurances by the present Saudi Arabian Government that Middle East oil should and will be viewed solely commercially and not politically. This is certainly not the position of most other Middle East producing countries and cannot realistically be depended on. A cold-blooded assessment of the real power relationships of the international oil company with the various coutries where it operates must lead to the conclusion that its oil production on whi h the continued operations of its upstream and downstream facilities are completely dependend is now or will soon be under the effective control of the producing countries. At the same time, the producing countries will probably deliberately arrange their and the companies' affairs in such a manner that the industry's single most important after-tax profit centre will, as in the past, be located in the producing countries.

There is thus very little doubt about the change in the role of the oil companies from a buffer and bridge between producing and importing countries to what may in fact turn out to be that of junior partners of the producing countries. The oil companies would thus be unable to continue to act as an independend-intermediary commercial force in international oil relations; instead the producing countries would tend to treat them as service companies under their control that would undertake admittedly essential worldwide logistic, technical, financial, production and distribution operations.

What we are facing, therefore, is a subtle - or even not too subtle - shift of the major centre of power over international oil from the home countries to the producing countries. Whether the companies like it or not, they would be compelled to protect their huge interests in the producing countries by adjusting and coordinating their policies and actions in accordance with the directives and policies of the producing countries, hoping that nevertheless the pattern of their operations in their home countries and the importing countries would not be seriously upset.

The role which the oil companies will be able to play in any of their future dealings with producing countries concerning oil production and its availability to importing countries as well as with regard to future tax payments, is thus inevitably severely circumscribed. In the light of present power relationships and the extreme supply and profit dependence of the oil companies on producing countries, they cannot be expected to take a strong and determined stand in such negotiations with the sovereign of the country on which their whole prosperity depends and whose national

national companies are their partners and will in due course acquire the controlling interest in their operations. Moreover, they will have to argue that as long as they are able to secure the availability of supplies to importing countries - even at steeply escalating costs - they also serve the interest of their customers by not risking a confrontation that could lead to interruption of supplies; and as long as the companies are able to recoup such costs from the consumer, they would also protect their own commercial viability. As one top executive of one of the largest European international oil companies pointed out sometime ago, "Pressure from the producing governments on costs is something we can live with, provided we are not at the same time denied freedom to move prices in the market so as to maintain a commercial margin of profit." It is obvious that in such circumstances the importing countries and home governments can simply not afford to remain passive. The companies, as private organisations and under the terms of reference applicable to commercial corporations, cannot possibly be expected to carry by themselves the burden of protecting not only their own interests but also those of their customers.

There are thus serious doubts whether the kind of negotiating problems we are facing now can be handled effectively solely through a common posture of the companies or by any other kind of inter-company arrangements. The approach followed in earlier negotiations, when most of the oil companies with foreign production negotiated as a group with OPEC producing countries as a group on matters that would vitally affect the tax-paid cost and oil supplies of about every oil importing country of the Free World, must thus be subjected to a most searching review in the light of the present realities of the power structure of international oil. In particular it would appear that a broad understanding on energy policy among the various importing and home governments involved is absolutely necessary to avoid or at least to contain unrestrained use or misuse of bargaining power by the oil producing countries to impose excessive demands on the international oil trade.

VI - The New Role of the Oil Companies in Importing Countries

Before reviewing the absolute necessity for a co-ordinated if not common approach of the Atlantic-Japanese group of nations to their energy problem, we may appropriately analyse the changed role of the oil companies in importing countries.

To begin with, it must be realised that the international oil companies will, during the next decade and probably much longer continue to be a most important factor in the refining and distribution of oil in practically all of the countries of the Free -

World, based on their predominant investment position in all phases of the local oil industries. They will also represent the most diversified single source of crude oil supplies, even though ever increasing quantities will be sold in the international oil trade by the national companies of producing countries. The international oil companies will also continue to make perhaps the most important contribution to diversified exploration, to technology and to expanded upstream and downstream investments. The logistics of their worldwide operations will be invaluable to the importing as well as producing countries.

Nevertheless, the international oil companies and equally their home countries, especially the United States, are now facing a serious lack of confidence by many of the importing countries not only with regard to their supply capabilities but also with respect to their intentions and concerns in so far as they may relate to the protection of the interests of their worldwide customer countries.

A course by the United States that would, through the exploitation of its domestic energy resources, lower American dependence on Middle East oil and thereby reduce the competitive bidding-up and depletion of Middle East oil reserves would, however, be a constructive contribution to the oil position of the Free World. Such a policy should thus be recognised by Europe and Japan as an integral part of a broader approach to oil issues that are the common concern of all.

But beyond that, the United States has additional possibilities to put - so to speak - a first mortgage on some of the richest oil resources in the Middle East. Saudi Arabia controls by far the largest known reserves developed by American oil companies; and the Saudi Arabian Government has already evinced its interest to conclude special deals with the United States for increasing oil deliveries. No doubt, Iran would be keen to do likewise. However, any acceptance by the United States of a preferred treatment as a customer for Saudi Arabian and Iranian oil would be extremely disruptive to its relations with other importing - and for that matter - producing countries.

The reactions of other importing countries to the Saudi offer is reflected in a statement of the French state-owned oil company Elf-Erap. In referring to the worries that such a policy would case to all other importing countries it comments "What an inducement to the raising of crude oil prices if the money paid by Europe and Japan should be invested through the producing state in the country of origin of these companies strengthening their power. Who would still be able to maintain that the companies which produce in Arabia are impartial intermediaries between these countries and the European consumer?" Along the same line of reasoning Italy's national oil company ENI suggests that the Common Market conclude direct oil supply agreements, in return for co-operation in the producing countries' development plans, to prevent a supply monopoly of the major international oil companies, especially so because American and European interests are not identical. Positions expressing similar reactions have been taken by several other major importing countries.

This prevailing fear is perhaps best summarized in a 1972 draft recommendation of the Western European Union which was unanimously approved by that body but apparently not endorsed by the Council of Ministers.

"... much of the oil imported by Europe is shipped under the American flag. The Middle East oil question is therefore mainly a commercial matter for the United States.

For Western Europe, on the other hand, it is a vital matter and the interests of consumers do not tally with the interests of the international companies. Increased participation in the capital of petrol companies by the Arab States or even nationalisation would not necessarily be a catastrophy for Europe.

A European oil policy should take account of these factors nad in no case be linked with the international oil companies. This means Europe could reach agreement directly with oil-producing countries, help them to develop a national oil industry and purchase the oil thus produced...... Europe has no interest in becoming involved in a vain conflict for defence of the oil companies; its interest is to collaborate closely with the Arab States.

The disadvantage of such a policy might be to make the European market over-dependent on the Arab States. But that is already the case since the Arab countries can cut off supplies of oil to Europe whether it passes through the international companies or is supplied direct...."

Individual European countries and Japan in these circumstances might thus be tempted to outbid each other in an effort to curry thereby special favours with Middle East oil producing countries and to secure a privileged position for themselves.

But whatever their motivation, the national companies of importing countries will, in any case, greatly expand their foreign supply operations. While such diversification might or might not provide a modicum of some added supply security, it should be noted that any new such ventures would be subject to fundamentally the same kind of political and economic risks as those of the international oil companies. There may be some benefits in reducing certain contingencies that may arise from Anglo-American control over access to foreign oil by enhancing their national access to foreign oil; but the latter in turn will be subject to its own separate hazards. Suffice it to refer only to the French experience in Algeria or for that matter to the threatened expropriation of Belgian-held producing interests in Egypt because of Egypt's disapproval of the Congo policy of the Belgian government.

Also investments by the producing countries downstream in importing countries are unlikely to take place or to be permitted on a really massive scale; but even if this should occur, these investments are unlikely to provide a much higher degree of oil supply security if the producing countries for reasons of their own should decide to withold oil supplies. Their downstream investments would not constitute an effective hostage in the hands of the importing countries because the latter's continued dependence on oil supplies would be of much greater urgency than the threat of expropriation, or the loss of current revenue from such investment would be to the producing countries.

Moreover, foreign crude secured by a national oil company of an importing country would most likely be given a preferred position in the home market. If such arrangements were to become an essential part of the total supply of an importing country, its dependence on what would most likely be a rather limited number of sources of oil imports would make it even more vulnerable to interruption - and to unilaterally imposed cost increases that it would then be compelled to absorb within its own economy. If the importing countries would follow a course of 'go it alone' in a 'sauve qui peut' spirit, each one of them would also become the target for potential political and economic blackmail, such as some of them have already experienced. They would run the grave risk that their policies and actions would be subverted by considerations of securing or protecting their access to foreign oil; ultimately such an approach will prove to be futile, and the price for the oil and the political or other terms under which it could be obtained might easily become untenable.

Obviously a continuous process of yielding valid rights, not through genuine bargaining but under threats by the producing countries, and a general posture of subservience by the oil companies and the importing countries - as has occurred in recent international oil 'negotiations' - must undermine not only the prestige of the importing nations and of the companies but equally the respect for any arrangements concluded with them. Only a co-ordinated approach to energy policy by the relevant importing countries could really prevent such harmful consequences.

VII - The Interests of the Home Countries of the International Oil Companies

The change in power relationships affecting the operations of the international oil industry also has a far-reaching effect on the position of the companies in their home countries. The interest of the home countries in their international oil companies have in the past centered aroung their supply capabilities for their own country and its allies, their support of the power position of the home country that was implied in control over international oil resources, the contribution of the companies to the balance of payments, and the essential role the companies played in meeting ever-increasing worldwide oil requirements.

Let us briefly review the changes that are now occurring in the case of the two most important home countries, the U.S. and the U.K.

The ability of the companies to provide secure supplies because of their investment in foreigh oil is now no longer absolute and assured. Experience during the first Suez Crisis in the case of the United Kingdom and France and during the Six-Day War in the case of the U.S. and U.K., has shown that even U.S., British or French controlled foreigh oil could be and was - even though for a short period only - embargoed for shipments to the home countries. While in earlier years tha United States was only a marginal importer of Middle East oil, in contrast to the U.K., in future the United States will become one of the largest single importers of such oil. On the other hand, with the development of the North Sea resources, the United Kingdom - if it could under Common Market rules effectively reserve its domestic oil production for its own use - might be able to achieve a very substantial lessening of its dependence on Middle East oil imports.

The same questions hold for the extent to which Anglo-American ownership provides supply assurance to our allies. As a matter of fact, some of our allies fear that American ownership of foreign oil might endanger their supply if there should be a political conflict between the United States and the producing countries.

In the past, control over the international oil companies could be and was used as a political instrument by their home countries in their relationship to importing countries, such as the United States apparently did during the first Suez Crisis or say for oil trade with Cuba, and so on. This possibility, to use the control over foreign oil for political-strategic purposes of the home countries is disappearing fast. It is the producing countries which now claim the power to supply or withhold oil for their own political and other interests.

The contribution of the international oil industry to the balance of payments of their home countries is indeed substantial; but relatively more important for the United Kingdom than for the United

States. In the future, with large increases in U.S. oil imports and the continued need for reinvestment abroad, the balance of payments concern of the United States with regards to international oil may be directed more towards the huge and escalating foreign exchange costs of oil imports rather than to the benefits of profit transfers from international oil operations. In the United Kingdom, on the other hand, the development of the North Sea resources may relieve its oil trade bill sufficiently so as to maintain a predominant interest in the profit transfers from British international oil companies.

In sum, therefore, the fundamental interest of the United States is moving somewhat closer to that of an oil importing country. On the other hand, the U.K. might for the reasons cited above perhaps, in a narrow definition of its self-interest, pay more attention to the profit pattern of its companies from international oil operations.

There are, however, most important additional qualifying factors, affecting the security position of the home countries and especially the United States with regard to their oil supplies - independent of their position as home countries of worldwide oil companies.

What is relevant now is not so much any influence which the international oil companies may or may not be able to wield in producing countries, but the interest which producing countries have in maintaining an effective relationship with the United States. After all, the United States is the most important political, economic, and military power of the Free World which, incidentally, also presents the highest priced and one of the largest markets for imported oil. This, above all, explains Saudi Arabia's and also Iran's interest in trying to conclude special oil supply arrangements with the United States - not the investment of U.S. oil companies in their country, which, as far as Iran is concerned, would anyhow be a minority interest. Moreover, the United States offers the most important potential outlet for their capital investments, and constitutes one of the largest sources for capital equipment, consumer goods, and military hardware; it can provide its customers with the most advanced technology.

Finally, the United States is the only power that can effectively assure protection against communist - Soviet as well as Chinese - external and internal incursions. It is the one country which the traditional regimes of the two most important oil producing nations of the Persian Gulf - Iran and Saudi Arabia - believe they can depend on for the maintenance of their governments against subversion, and also for the security of the Persian Gulf area.

In the light of the U.S. possibilitees for developing its domestic potential in conventional and non-conventional hydrocarbon and energy resources, and its opportunity for establishing a special oil relationship with the two most important Middle East oil producers - Saudi Arabia and Iran - there is little doubt that if it would ever so desire, the United States could go it alone.

The United Kingdom as mentioned above, will after the development of the North Sea oil fields be less dependent on Middle East oil than any of its Common Market partners. It was, nevertheless, apparently the U.K., in the Paris Summit Meeting of October '72, which was pressing for an early formulation of an energy policy for the Community guaranteeing certain and lasting supplies under satisfactory economic conditions.

This policy suggestion must be evaluated within the context of today's stark realities; that unilateral and diverse policies of the various European nations and of Japan cannot provide real supply security or contain the financial problems connected with the international oil trade; that the international oil companies can no more guarantee supplies to any of their customers in a crisis; that these companies no longer possess the bargaining strength, if left to themselves, to be effective negotiators with produing countries with regards to the availability and cost of oil; and that such a state of affairs would provide the most cogent reason for the various importing countries to work towards the establishment of an energy policy for a larger grouping of nations.

But the ultimate interest of the most important producing countries in the Middle East that have not fallen under Soviet domination is bound to remain the protection of their independence and that can only be achieved by close and friendly relationships with the United States. The United States will thus continue to be the dominant factor in world oil, not because of the foreign oil interests of its companies, but primarily because of its standing in the world balance of power. An ener y policy applying solely to the Community would, we submit, be only the first step towards a really effective policy that must encompass the Atlantic group of nations and Japan.

VIII - The Need for an Atlantic-Japanese Energy Policy

Beyond doubt, U.S. relations with Europe and Japan are in disarray. There are many outstanding unresolved problems on defense, burden sharing, trade policy, the whole range of monetary issues including currency realignments, capital flows, and so on.

Perhaps instead of establishing a grand design which would encompass a resolution of all major contentions and areas of conflicts, it might prove to be more fruitful to proceed pragmatically on an issue-by-issue basis and try to tackle first those problems where the chances of an Atlantic-Japanese policy, or a least of an agreed upon coordinated approach, would seem to be most promising. Incidentally, it is interesting to recall that the European Common Market was preceded by the establishment of a much more limited joint effort, the European Coal and Steel Community.

I should like to submit that the problem of the future energy position of the Atlantic-Japanese complex of nations is one of the most important issues confronting not only each of them individually, but also as a group. Obviously, an energy policy cannot be limited to the Atlantic nations but must include Japan as one of the major interested parties.

What is likely to induce the various countries to agree to co-operation and mutual adjustments is the existence of a severe outside threat to their security and prosperity, resulting from their dependence on oil supplies from a few foreign sources coupled with the potential danger of a flood of foreign funds that could harm their own economies and the world's monetary system.

The weak and unstable foreign political societies where the world's oil and money power centers are located could, for reasons of their own or stirred up by the potentially adversary policies of the Soviets and even perhaps the Chinese People's Republic, create great difficulties for the various countries of the Free World. The United States as well as the United Kingdom would - shortsightedly to be sure - by themselves probably be able to resolve their energy problems, partly at the expense of other importing countries. But as mentioned before it is to the United States, more than any other nation of the Free World, that pivotal producing countries look for their political and strategic security; and this advantage could rebound to the benefit of all oil importing countries. Neither the Common Market nor Japan alone or in combination could provide a comparable total package of advatages for the political, strategic, and economic well-being of the major Middle East oil producing countries.

If, therefore, the United States abstains from any attempt to try to obtain unilateral benefits, however shortlived they might prove to be, and is willing to participate in an energy policy in a new Atlantic-Japanese partnership, it might therby provide protection for its partners against potentially very serious oil supply emergencies. Obviously the latter too must then forego the temptation of looking only at their immediate self-interest without regard to others; a policy that they could in any case not pursue successfully over any period of time. Only then would it be possible for the importing countries to pursue a rational policy for their energy imports and avoid bidding against each other or being played against each other with ever escalating political and economic demands being made upon them. Only then would it be possible for Atlantic-Japanese and especially U.S. power to become an effective countervailing factor in international oil without having been sapped by discordant and conflicting attitudes of the individual importing nations towards the producing countries.

The need for a joint or at least coordinated policy is indeed most urgent because any delays in which conflicting approaches to producing countries are made by the individual members of the Atlantic-Japanese group of nations will accelerate not only the disintegration of our partnership, but will even further encourage arbitrary and dictatorial demands of the producing countries. Moreover, as some of the producing countries accumulate large surplus reserve funds, it might become much more difficult, if not impossible, for the importing countries to influence their policies.

It would appear therefore that Europe and Japan need something from the United States which is in the interest of the U.S. to give, i.e., its adherence to a coordinated Atlantic-Japanese energy policy, in, as the game theorists would call it, a positive sum game through which all sides would gain. This would provide the most persuasive basis for an agreement on a joint policy under which common problems could be resolved to the mutual advantage of all partners.

Needless to say that this should not imp that any of the partners should necessarily be inhibited from pursuing separate diplomatic and economic initiatives within the broad spectrum of developing Middle East relationships and within the framework of an Atlantic-Japanese energy policy.

The OECD Oil Committee has for many years served as the most significant international organization encompassing the Atlantic-Japanese group of nations, providing a basis for the exchange of information and coordination and also for expert analyses on oil developments relevant to its members. Most important, it has established policies for emergency stockpiling and within certain limits for the emergency apportionment of oil supplies in the OECD European area; and during oil emergencies it has in fact served as a clearing body to achieve an equitable division of available supplies among its members.

The Common Market is presently engaged in a slow and difficult effort to establish an energy policy for its members, that would secure certain and lasting supplies under satisfactory economic conditions. But in the framework of the Common Market, even including Britain with its large interests in world oil, national policies of the individual members could severely slow up the establishment of a Community policy, as long as there is no overriding conviction on the part of its members that the Community countries in combination would decisevely add to their individual political and strategic bargaining strength.

In the light of the changed power relationships of today, an effective energy policy of a new Atlantic-Japanese partnership must inevitalby go further than either the OECD of the Common Market have advanced so far. Obviously, however, such a policy would build on the valuable achievements of the OECD and the Common Market.

Fortunately there is, to a varying degree to be sure, a substantial consensus of the need for a coordinated or even joint approach to the energy problem in the United States as well as the Common Market and Japan. It is reflected in many official pronoucements during the last year or two.

The United States, in a 1972 statement before an OECD Council Meeting, officially expresses its readiness for such cooperation. "It is imperative for the world's major consumers of oil and other forms of energy to take joint and coordinated action - starting now - to increase the availabiltty of all types of energy resources; to lessen, to the degree possible, an overdependence on oil from the Middle East, to coordinate the response of consuming countries to restrictions on the supply of Middle East petroleum, and to develop jointly and cooperatively a responsible program of action to meet the possibility of critical energy shortages by the end of this decade." The OECD itself is again engaged in a study of the world energy situation, hopefully leading to concrete recommendations for actions by the member governments. The Common Market Commission considers it necessary to substitute or extend liaison in the energy field between the Community and other energy importing countries in order to provide a better exchange of information and produce common solutions.

Japan through its Overall Energy Council, an advisory body to the Minister of International Trade and Industry, recommended in 1971 that, while it was necessary for Japan in order to assure stable oil supplies at low cost to behave independently of any foreigh influence in all aspects of her oil industry activities, it must cooperate with other consuming countries. "To this end it is necessary for Japan to promote with them and their national oil companies exchange of information and mutual understanding and to explore possibilities for constructive cooperation on the part of oil consuming countries toward the formation of an organization in which debates are held among the countries with international oil companies and the oil producing countries on the basic policy concerning the world oil situation." As the Natural Resources Survey Mission, sponsored by the Japanese Foreign Office, put it in its report published in 1972, Japan must engage in active participation in international cooperation with advanced countries on oil matters and "must refrain from being passive as has been the case thus far. It must take full advantage of opportunities such as an OECD Oil Committee meeting where industrially advanced nations meet, through which Japan could clarify her oil policy on international cooperation before the OECD member countries."

Building on this awareness of the energy problem by all the importing countries and their consensus on the need for joint discussion, coordination, or actions, as the case may be, we will now submit our suggestions for an eneggy policy for an Atlantic-Japanese partnership.

IX - An Outline for an Atlantic-Japanese Energy Policy

The major goal of an energy policy for a new Atlantic-Japanese partnership must of course be to try to cope with the common problems of the security of oil supplies and the financial issues related to it. While nobody can guarantee that such a policy will lead to a completely satisfactory resolution of all the problems, it should at least be possible to contain them. Future bargaining in international oil would no longer be lopsided, i.e., between the producing countries as a group and the oil companies (be they the internationals or the national companies of importing countries) with the latter "negotiating" under the threat of being treated as virtually the captives of the producing countries - but would also engage the extraordinary political, strategic and economic power of the Atlantic-Japanese group of nations.

If such "countervailing power" to OPEC should really become a factor in international oil, which indeed it must, there is some reasonable hope that international oil and financial arrangements could be set up on a rational and manageable basis; and that OPEC would no longer be able, as Mr. Yamani put it in October 1972, through its coordination and unity to "prove time and time again that it can enforce its demands".

Some fear has been expressed that such a grouping of oil importing countries might unnecessarily provoke a confrontation with the producing countries. But circumstances have significantly tipped the balance of power during the last few years. It was the producing countries which, through the establishment of OPEC, created a producing countries' organizaion which as a group formulates policy guidelines for major producing countries and through the threat of withholding supplies to companies that would not submit to its demands and through other means, provides enormous power and overwhelming bargaining leverage for each of the producing nations. Moreover, the Organization of Arab Petroleum Exporting Countries (OAPEC) has stated its intention to establish official relations with countries of the EEC, either collectively or individually. To this purpose, it announced in 1971 that it is setting up a committee to coordinate the relations of its member countries - in the Aragian Gulf, represented by Saudi Arabia, and in North Africa, represented by Libya and Algeria - with the EEC countries.

The subject matters to be covered by the energy policy could perhaps be put under the following broad categories:

1. Study and review of energy demand and supply including tanker, pipeline, and refining availabilities. A program for optimum diversification of supplies.

2. A coordinated and/or joint research program for the development of new energy resources, especially of atomic energy and from non-conventional sources.

3. Investment review and national or multinational incentive and guarantee programs for the development of conventional and new energy resources.

4. Review of arrangements by importing countries for oil supplies from producing countries, be it through purchases, service contract arrangements, concessions or otherwise. The establishment of broad terms of reference and/or of parameters for arrangements, acceptable to importing countries.

5. A program of arrangements for stockpiling, rationing, and equitable sharing of import availabilities between all members in case of an overall or specific country emergency.

6. A coordinated and/or joint research program on conservation of energy and on its implementation if called for, including research on battery-powered cars, nuclear fuelled shipping, savings in motor car transportation, etc.

7. Review and coordination of programs of economic development and technical assistance for producing countries.

8. Review of prices, costs and balance of payments effects of oil imports of member countries and also of developing countries. A program of arrangement for support and adjustment if called for.

9. Review of government revenues of major oil producing countries and of their impact on world trade, world capital flows and short-term money markets; and a program of financial cooperation - if called for.

10. A review of the dependency of Middle East producing countries on the exports of industrial and agricultural goods and of military equipment, on shipping, services, technical knowhow, etc., from the Free World's oil importing countries; and a continuous assessment of mutual interdependence and of the means that might be available to cope with an oil supply, trade, or finance emergency.

The administration of the energy policy might conceivably be entrusted to a special new high level International Energy Council, composed of member states with a top level permanent staff with generally recognized and incontestable professional and pracitcal experience. The timing and method of its establishment, its organizational structure, the range of its executive and/or advisory powers, the procedures on voting and the rules governing ratification and implementation of its decisions or conclusions and its relationship with the various member countries and their oil companies would of course be determined in a process of give and take through international negotiations. It will, obviously, be very difficult indeed to achieve any such agreement; but it may well be the only remaining chance to attempt to safeguard the interests of the importing countries, the home countries and those of their oil companies. Whatever, the odds, it must certainly be tried, and there is no time to be lost.

The above proposal presents of course only one of several possible approaches to an Atlantic-Japanese energy policy and its implementation. In particular, a great deal of thought must obviously be given to the problem of whether or not it would be feasible and advisable to restructure the present OECD Oil Committee or its High Level Committee so that the conclusion and implementaiion of an Atlantic-Japanese energy policy could be handled within the framework of the Committee. While this might require substantial changes in the powers and functions of the OECD Oil Committee, it might perhaps be more expeditious and easier to reach an agreement on a revision of the terms and conditions governing an existing international organization concerned with the oil policy of importing countries rather than to start from scratch and try to establish a completely new international body.

The competence and functions of the International Energy Council, however it were to be set up, as well as those of the member countries and those of the oil companies, must of course by clearly delineated. The policy framework established by the Council would set the limits within which the countries as well as the oil companies would handle their affairs, taking into account their changing responsibilities and capabilities.

At the same time it would try to provide an effective basis for protecting the supply security of the oil importing countries through encouraging the development of added supplies, diversification, investment incentives, research, assuring sufficient tanker and refining availability, etc. Through stockpiling, coordination of rationing policy, and especially through an emergency import-sharing agreement among all members, an oil embargo by producing countries against selected countries would become much more difficult, if not practically impossible; in such circumstances the producing countries would have to be prepared to cut their oil supplies to all member countries - with unpredictable, dangerous consequences to them.

The conclusion of an effective arrangement for emergency import-sharing between the Atlantic nations and Japan would presuppose that each member country, including of course the United States and Japan, would be prepared to share with its partners its own import availabilities in an equitable manner on the basis of agreed upon principles. The establishment of substantial stockpiles of oil by the various importing countries, again including the United States and Japan, would provide them in case of emergency with time for possible supply-demand adjustments, for efforts to resolve equitably any underlying conflicts with the producing countries, or, if everything else fails, for initiating whatever measures are required to protect their security. Arrangements on sharing of import availabilities and stockpiling applicable to all nations of the new Atlantic-Japanese partnership may well prove to be the touchstone and provide the foundation for a broadly conceived energy policy such as outlined above; they may well be considered as the essential initial step on which it should be possible to achieve more easily an early international agreement.

Likewise, a joint or coordinated policy on dealing with supply, trade, and financial problems related to oil would have the best chance to lead to rational and manageable solutions of the very diffucult issues that are bound to arise. The producing countries could no longer, so to speak, pick out consuming countries one by one; OPEC itself has, in its own resolutions, introduced similar measures of solidarity among the producing countries.

Moreover, the companies in their negotiations on prices and payments to producing governments which will come up for revision latest by 1976 - and which OPEC's Secretary General has already described as the next major issue - would no longer be as exposed to unilateral dictates; as in the past. Their negotiating stance would be based on broad terms of references such as recommended or formulated by an International Energy Council similar to the practice OPEC is applying in suggesting the basic position for producing countries. There need no longer be the hectic and somewhat improvised discussions and confrontation between oil companies and producing countries, as experienced between 1970 and 1972 in the Tripoli-Teheran and participation arrangements, brought about by ultimatums of the producing countries rather than through genuine negotiation.

Under current conditions, as pointed out earlier, there would be very little if any bargaining leverage left with the oil companies if, in their negotiations with the producing countries, they were to depend solely on their own strength. Only a firm backing by all major oil importing countries could provide the necessary countervailing power which would permit the oil companies to establish a credible negotiating stance. The companies, acting within their terms of reference and within the framework of a coordinated energy policy, could thus count on such backing that should enable them to handle international oil negotiations and their implementation.

In this connection, an additional factor in the assessment of the respective bargaining leverage by either side would undoubtedly be the awareness that there is a limit to which the oil companies, together with the importing countries, could be held hostage by a threat to access to reserves in producing countries; that it might in certain circumstances be preferable to abandon the hostage and to turn away from the reserves and reappear as competitive buyers of crude from the producing countries. Since captive concession-holding companies would no longer be at their behest one might expect that OPEC unity would erode and that producing countries would eventually compete with each-other for export sales to the companies whose purchasing power would derive from past investment in and current control over transport, refining and marketing facilities - the power to dispose.

The importing countries, through extending economic and technical cooperation to the developing producing countries, should contribute to the advance in their standard of living, the diversification of their economic activities and the expansion of their general import and export trade. Hopefully, the producing countries will in due course become such an integral part of the world economy that they will be much less tempted to take radical measures which might sever these links. If the dependence of the producing countries on continued oil revenues, flow of trade and friendly political and economic relations with the Free World is such that they could not risk more than a very short interruption, then and only then will the producing countries act with circumspection and probably be sufficeently discouraged from attempting to impose an oil embargo.

In particular, the producing countries would be constrained to exercise great caution not to confront importing countries or their companies - if firmly backed by all major importing countries - with unreasonable demands if the turmoil resulting from a confrontation is likely to undermine the regimes of the oil producing countries, or if they would have reason to fear that their actions might provoke dangerous international repercussions affecting their integrity and security.

Moreover, the producing countries are fully aware that if their relations with the major importing countries should deteriorate gravely, they may have to rely on Soviet support, which not only could not provide anything comparable to the benefits they are enjoying from dealing with the Free World, but would also confront them with grave political and other risks.

Obviously too, the more essential oil supplies from the Middle East are becoming to the rest of the world, the more attractive a target would it offer for Soviet subversion and control. For the communist world, the concentration of oil and money power in a few small countries in the Persian Gulf, at their back door so to speak, presents an enviable opportunity to attempt to undermine the political and economic strength of the Free World by "peaceful means" through encouragement of all the nationalistic and centrifugal tendencies that already exist in the area. However, any serious threat to Middle East oil supplies could, in such circumstances, easily lead to a confrontation between the major powers. Only friendly relations with the Free World, that would include the United States, can hold the Soviets at bay. A united or coordinated Atlantic-Japanese posture with regards to oil provides the most persuasive safeguard for the security, prosperity and integrity of the importing as well as producing countries.

What we are suggesting therefore, in proposing the establishment of an Atlantic-Japanese energy policy, is not designed to lead to escalation of international oil problems, as a prelude to a confrontation with OPEC, but it is, I believe, the only way to avoid confrontation. Also, while taking account of the changed role and power of the oil companies, it will strengthen them in their relations with producing countires, rather than leave them and the importing countries at their mercy.

This approach presents the most effective means to make obvious to all concerned that the Atlantic-Japanese group of nations could and would not sit by completely passively if the flow of international oil and the world's monetary arrangements were to be jeopardized by arbitrary conditions or unacceptable political and economic pressures. The mere awareness that there are practical limits to the exercise of "Oil or Money Power" by the producing countries may well prove to be the most effective deterrent to its misuse.

There is a most urgent need for coordinated planning and actions, by the Government of the United States together with its Atlantic partners and Japan. Inevitably, a newly established Atlantic-Japanese energy policy and measures designed to achieve optimum energy security for the Free World would lead to a much greater involvement of governments in what had previously been considered to be industry affairs, with all that this may imply. But there are no realistic alternatives, and the time for action is now, if not yesterday.