The political-economy of the globalized oil order:

How “objective conditions” drove the OECD and OPEC from confrontation to collusion

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1 Introduction: After the OPEC Revolution

For the Middle-East and North-African (MENA) states, the political economy of oil has long been at the center of both their internal and external affairs, especially so the oil-producing states. The political-economy of the previous colonial and neo-colonial forms of the oil order, both within the MENA region and the wider world, are well known. However, this can not be said of the period from the OPEC Revolution, circa 1974, till today.

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Th e OPEC Revolution was a part of the national struggle of the MENA and other major oil-producing states. It was, at bottom, a revolution in property rights, a collective assertion by the formerly colonial states of their right to bourgeois property in the most valuable natural resource within their national territories. The oil “concessions” were one, final form of colonial property which the Europeans and Americans had doggedly continued to defend, a humiliating reminder of all the previous denials of sovereignty they had once imposed.

The OPEC states’ petroleum nationalization caused an immediate economic and political crisis for the global North. Aside from the shock of gas lines and high oil prices, there was the blow to First-World hegemony, and, of course, the loss of an enormous capital value for the international oil companies (IOCs). But, there were other long-term consequences. For one, nationalization had fundamentally undermined the very logic, the “business model” of the heretofore indomitable IOCs and the cartel agreements existing between these enterprises. The old oil-market-control institutions and practices, which had been used to regulate oil-market volatility, and to insure security of supplies, were now undermined. All these had presupposed direct IOC ownership and control of the major sources of oil, as foreign “concessions.” Over the next twenty-five to thirty years (i.e., up to the present), new economic institutions and practices have slowly come into existence through a complex series of “North-South” clashes and energy crises. These new institutions and practices have had to be consistent with the new petroleum property relations (i.e., OPEC and non-OPEC national oil companies (NOCs) now own 80% of the world’s oil), as well as with the old problems and characteristic of any capitalist market based on “rents” taken from the exploitation of a natural resource. These new institutions are, perhaps surprisingly, marked by a

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2 Note that here we are referring here to ‘rents’ in the particular political economic categories of Ricardo and Marx; not the vague, pop manner in which it is quite generally referred to in both North-American Middle East Studies (e.g., see MEJ article, late 2010) and Political Science scholarship as, more of less, simply large profits accruing to a state. See, for example, http://en.wikipedia.org/wiki/Differential_and.Absolute_Ground_Rent Access 10Apr11.
new ethos of collaboration (a.k.a. collusion) between the major OECD-consuming and OPEC-producing states, one which, of necessity, has recreated aspects of cartel-like market control which the IOCs once wielded autonomously.

Just when this new globalized oil order was emerging, in the late 1990’s, from a long period of transition, its logic and resilience began to be tested by a new, looming crisis. The first indications came in 2003, when a shortfall in MENA states’ spare pumping capacity came about in the face of growing world demand, pushing oil prices rapidly upward.

Suddenly, oil was, after many years, back at the center of events. There seems to be a tangible sense of confusion as to “the role of oil” in contemporary MENA events: not only in acute conflicts such as those involving Iraq and in the unfolding U.S.-Iran crisis, but also for understanding accumulating transformations within the economies of other oil-rich MENA states, ranging from Algeria-and-Libya to Kuwait-and-Saudi Arabia. With the rise in oil prices since 2003, enormous amounts of revenues are once again flowing into these latter MENA-OPEC states; but the dynamics are, this time, different in important ways from when such flows last occurred, during the First and Second Oil Shocks of 1974 and 1979 respectively (the early years of neo-liberalism).

In this study, I present a brief overview of the political-economic signposts in the history of the transformation from the old monopoly-capitalist oil order to the new globalized-capitalist stage encompassing both the OECD and OPEC states (especially the MENA-OPEC states) and their respective IOCs and NOCs. The important roles of Russia, China, India and Venezuela, as well as some oil-producing sub-Saharan African states are not especially treated here. However, the evolution of oil-sector issues involving the U.S.-led OECD and OPEC-MENA states, which I describe below, have quite strongly determined the main features of the new, globalized oil order as a whole.
Before proceeding, it seems important to remark, first, that a major complicating factor in any analysis of the oil order is that order's inherent two-tiered nature. On the one hand, there is the oil order proper: the economic system of oil, the “oil sector” or “oil business.” This is the realm of the IOCs and the NOCs, of the open market (or “spot” market), and of the futures market for oil; of pipelines and supertankers, of refineries and petrol (gasoline) stations, etc. This realm is driven, in a very immediate sense, by the profit motive. However, setting upon this base is a political superstructure, a meta-structure, the realm of states. This realm includes the possibility of several, or, perhaps of one state alone, attaining a predominant position, a position of hegemony, with respect to some number of producing and consuming states, as well as the IOCs and NOCs.\(^3\)

There was a time when Britain had such a predominant position, and, as we shall see below, today the U.S. has wrested and continues to consolidate, its status as global oil-order hegemon. However, just as the underlying economic realities of the global and MENA-regional oil system have been dramatically transformed from the time when, during Britain’s hegemony, vertically integrated monopoly concerns (and cartels between these concerns) ran the system, so too the character of political-military hegemony within a globalized oil era--resting, as it is, on a different stage of economic organizations and practices--is necessarily quite different from that within Britain’s era.

This paper aims to elucidate the evolution from that old political economy, to this new one, especially as concerns the MENA states, and begins to touch on some of the latter meta-questions.

## 2 Stages of the global oil order

\(^3\) By the striving of the U.S. for “hegemony” in the hydrocarbon sector, I do not mean anything beyond the standard definition used in political science today; that is, the “predominant influence” enjoyed by the U.S. state in the global oil system over especially over its allies. [Insert dictionary definition from my *.PPT presentation]
The world oil order is not a static entity; it has evolved and been re-invented through at least five quite distinct stages since the start of WW II, each one demarcated by a particular crisis.\(^4\) To understand the novel developments of the most recent period(s), it is necessary to backtrack over some earlier post-War period; but from somewhat of a new perspective.

### 2.1 WW II, 1936-1945

The utter lack of petroleum resources in Germany and Japan was a major, strategic disadvantage for the Axis powers in World War II\(^5\). In contrast, on the Allied side, not only did the USSR possess significant oil fields, but the U.S., and especially West Texas, was quite literally the “Saudi Arabia” of that era. This strategic reality enabled the U.S. to supply six-out-of-every-seven barrels of oil used by the Allies in WW II.\(^6\) In contrast, Nazi Germany was constrained to produce half its oil products from coal, in a miserably inefficient manner, and to strive to capture oil fields around Baku in the south of the USSR (Azerbaijan) and in Romania. Similarly, Imperial Japan’s home islands completely lack oil, so that, when FDR finally embargoed Japan’s access to U.S. supplies in 1941, Japan’s ability to continue its aggression in Asia was placed in jeopardy.\(^7\)

The extraordinary organizational accomplishments of the U.S. state in this period of wartime energy mobilization of the private sector and of American labor were of long-lasting significance. A national oil board led by FDR’s energy “czar”, Harold Ickes coordinated a

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\(^4\) “Crises”, as used here, are distinct from mere problems; they are paradigm-changing events requiring a re-organization of the existing oil-order.

\(^5\) Much of the following historical narrative relies on Yergin (ibid.), especially up to about 1980, but occasionally up to 1991 where his epic work, The Prize, concludes, and, to lesser degrees, two works by each of Pelletière and Klare. From 1985, my story draws especially from Pelletière, and somewhat Klare, as well as general historical sources. Where particular points of analysis are unique to an author, I cite them. When widely known facts or points of analysis are related, I do not. In general, the historical story here is drawn from facts related by these authors, combined with extensive reading of the business press and, for later periods, of reports of the EIA, IEA and other official sources. The analytical threads presented throughout are my own unless specifically noted otherwise.

\(^6\) Klare, M., Blood and Oil, .., 2005, p. ...

\(^7\) This was a major factor in its resort to attacking Pearl Harbor, and seizing the oil fields of Borneo and Indonesia. Nevertheless, U.S. submarine warfare soon completely cut off the home islands’ access to this oil, literally starving the imperial fleet of fuel. See Yergin ....xyz
mammoth logistical undertaking at home and abroad to produce and deliver the required mix of American oil products around the globe during wartime. A domestic gasoline rationing system was also implemented, and special laws were passed which could be invoked by a presidential decree to provide dispensation for U.S. oil companies from prosecution for monopolist practices in restraint of competition during national emergencies. This U.S. effort succeed in generously supplying Allied forces with petroleum products, and—as we shall see—the organizational experience gained from this wartime effort became a crucial, practiced model to which it would repeatedly resort during subsequent geo-strategic crises.8

2.2 U.S. MENA-region hegemony, 1945-1973

There are four or five events which especially mark this post-war period as a transitional phase from British-French to U.S. hegemony in the MENA region. What is interesting, from point of view of the oil order, is the role played by the U.S. domestic oil surplus in attaining this position, as compared to the significance of direct American military capabilities in the region at the time.

Immediately following WW II, at the inception of the Cold War, Britain and Western Europe faced an energy crisis. The European economy was based on coal; however, due to the extensive destruction of both labor power and infrastructure during the war, and to numerous post-war labor strikes in the coal sector, the ability of Britain and Western Europe to re-establish production and transport of coal were severely limited. Oil was Washington’s solution. The Marshall Plan, amongst other things, was established to provide large amounts of U.S. currency to Europe which was earmarked to purchase U.S. oil. This alleviated the “dollar famine” which had been preventing

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8 L. Panitch and S. Gindin, in ..., Socialist Register, 2003, pp. xyz, discuss FDR having developed new forms of state management of the domestic economy during the massive mobilization which was the New Deal, and how these were then taken as models to re-organize and manage the global capitalist system under the hegemony of the U.S. state following WW II and the collapse of the pre-war international economic system. This was the basis of the Brenton Woods institutions. This development of institutions and practices in the oil sector during WW II under FDR, appears to be another example of the post-war generalization to global capitalist processes.
Europe from purchasing America’s surplus oil. Thus began the sweeping conversion of Europe from a coal-based to a cheap-oil-based society for both its transportation and electricity sectors. U.S. oil once again massively flowed to Europe, as it had previously flowed to Allied forces. However, over the following years, as U.S. post-war expansion absorbed higher percentages of its domestic production, Europe’s also-expanding oil demand was then increasingly supplied from the nearby, cheap, IOC-controlled Middle-East oil resources. The importance of Middle East oil continued to grow with European economic recovery.

British firms had long been the dominant force in the Persian-Gulf and wider region. The British government was actually the main shareholder in the Anglo-Persian Oil Company (APOCH), and it was predominantly British companies which ran the “Great Cartel” controlling the extraction of oil from Iran and Iraq since before WW I. But, British predominance was waning. Not only had American companies succeeded in pushing into the Great Cartel between the wars, but, in 1951, the Iranian parliament, the majlis, under Prime Minister Mohammed Mossadegh, had struck Britain and its APOCH a severe blow by nationalizing its holdings. However, the fact that, first, all MENA oil holdings were controlled by IOCs, and second, there was a tremendous surplus in production capacity, meant that Britain could effectively embargo Iranian oil, and make up Europe’s needs with oil from other MENA fields--all the while depriving Iran of the oil rents which were the source of its national income. When Mossadegh was eventually overthrown in the now-infamous coup organized by British and U.S. covert agents, and Shah Reza Pahlavi brought back to power, it was clear to him and the Americans, however, that the very popular nationalization of APOCH’s oil could not be undone, though Pahlavi could allow foreign companies back to run the former concessions. The American government pressured the British to accept the fact that the only way a British IOC could return to Iran in a manner palatable to the Iranian people, was if there were a consortium formed, with British participation watered down and masked by the participation of several U.S. and
other IOCs. The American IOCs thus become a major force in Iranian oil, at British expense,\(^9\) while the IOCs which controlled the Arabian-American Oil Company (ARAMCO) in Saudi Arabia had long been American. But, the extent of British (and French) imperial retreat before American ascendancy was really laid bare in the 1956 Suez Crisis. And, once again, this was achieved without direct U.S. military involvement. Rather, it was the ability of the U.S. to manipulate the delivery of oil to Europe, as itself an oil power on a par with MENA oil-producing states, which was the material-economic factor essential to this outcome.

The British and French governments had attempted, in concert with Israeli forces, to reestablish something of their pre-war colonial-era MENA dominance by invading Egypt and seizing back the Suez Canal recently nationalized by the pan-Arab government of President Gamal Abdul Nasser. This was all done according to a secret plan, secret also from the U.S., which included the Israelis first taking the Sinai. Of course, Eisenhower famously disapproved, seeing this as a risky maneuver in an area where U.S. interests were increasing. He did not want the British and French to inflame Arab anti-imperialist sentiments, increasing the possibility for the Soviet Union to gain from this situation at U.S. expense. The British-French-Israeli scheme went badly, and immediately oil was exposed as the nexus of the whole affair. Nasser had quickly responded to the somewhat inept invasion, and succeeded in halting most of Europe’s Middle-East oil deliveries by sinking ships in the canal, blocking it off to oil tankers. In addition, King bin Abdul

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\(^9\) During this period, the aim was to have Iran become a U.S.-supported buffer against possible Soviet expansion into the Middle East, and prevent Iran itself and its oil from falling into the Eastern Camp. It is very instructive that, at that time, the U.S., which had a great abundance of domestic oil, and access to abundant sources elsewhere, reportedly had very little interest in Iranian oil itself, especially for its own domestic use. However, it could not let Iran fall into crisis or it would be vulnerable internal revolts and Russian influence. But, after the coup, Washington was quite worried that its support for the Iranians, whom the Saudi king despised along with communists and Jews, would damage their all-important oil-based relationship with the monarch. However, they told him that they felt it necessary to bloc any Russian appetite for Iran, and to deny it or any other power this oil, which required that the Iranians have oil revenues. The king endorsed this American explanation. This is the story as told by Yergin (who shows no particular sympathy, but rather a certain disdain, for Mossadegh and the Iranian national cause), and endorsed somewhat by Pellelèire (who is sympathetic).
Aziz (eldest son of Ibn Saud, reigning 1953-64) assisted the Egyptian national cause by
embargoing oil deliveries to the European powers. Eisenhower was so angry with the British,
French and Israelis for precipitating this crisis that he stunned the Europeans by embargoing
American oil from reaching Britain or France until they withdrew their troops from Egypt. In short,
America, rather than accepting as *fait accompli* that it must come to the aid of its erstwhile-allies
Britain and France, was *de facto* joining in the Arab embargo against the former colonial powers,
and thoroughly humiliating them in the process. The resulting domestic oil shortages in Britain and
France made a lasting impression there. But U.S. oil prowess allowed it to also “giveth what it
taketh away.” Having adequately subordinated Britain and France, Eisenhower then undermined
the Arab embargo. Once Britain and France had completely withdrawn from Egypt, the
Eisenhower Administration re-invoked, for the third time now, the WW II U.S. oil-delivery system.
Once again, surplus U.S. oil came to the rescue of Europe, though this time against the pan-Arab
national movement. In addition, the Israelis, who had thrown their lot in with the British-French
scheme, were threatened with American sanctions if they did not completely withdraw their forces
from the Sinai Peninsula. Faced with this ultimatum, the Israeli government too complied with
America’s demands and withdrew. Such is the greater power which flows from having one’s hand
on the global oil spigot.

With the 1967 Arab-Israeli War, once again, various Arab countries attempted an oil
embargo of the Western powers aligned with Israel. And, once again, the U.S. was able to supply
sufficient shut-in oil (i.e., oil which has been drilled, with pumps in place, but which had been off
line) from domestic fields in West Texas and elsewhere. The net result of this embargo was, once
again, a glut of oil, persistent low prices and a loss of revenue by the Arab embargoing countries,
rather than by their intended target, the developed nations and their IOC’s.
In 1967 Britain threw in the towel, as it were, as a MENA military power, announcing it would withdraw all its forces from locations east of Suez by 1971. This vestige of the old empire was now simply too expensive to maintain. But, this retreat by Britain threatened to precipitate a regional power vacuum, a prospect which caused significant alarm on the part of not only emirs of small Gulf oil-producing states dependant on British protection, but in Washington—especially given the constant U.S. preoccupation with the USSR, its only real competitor seen to be able to exploit such a vacuum. It was now, finally, up to the U.S. to physically (i.e., militarily) guarantee the Western capitalist camp’s hegemony in the oil-rich region. But, this was a time of increased difficulties for American power. This was the era of Viet Nam, of armed liberation movements in Asia, Africa and Latin America, and the rise of the Third-World/Non-Aligned Bloc, while, at home, there was a mass anti-war movement and numerous oppositional mass-social movements to contend with. In this situation, the U.S. was constrained to proceed mostly indirectly to militarily secure the hegemony it had wrested over the Persian-Gulf and wider Middle-East region since WW II from its erstwhile allies by other means besides “boots on the ground.” The American answer to this conundrum was the Nixon Doctrine, announced in July 1969. In Viet Nam, this became the ill-fated process of “Vietnamization” where it was envisioned that the U.S.-backed South Viet Nam forces could be built up to do the main fighting, allowing the U.S. to withdraw its own. In the Middle East, rather than directly deploy U.S. troops to replace departing British forces, the Nixon Doctrine was predicated on the U.S. building up militarily, and otherwise, the two great oil-exporting states of the region: Iran under Shah Reza Pahlavi, and Arabia under the Saudi royals, as instruments of U.S. and Western capitalist interests in Middle-East oil.10

It should also be noted that, in contrast to earlier U.S. hostility to Israeli military activity, such as in the Suez Crisis, the U.S. was now becoming a major benefactor of Israel’s military,

10 In this regard, see Klare, Blood and Oil, ibid.
while, in contrast, the Western Europeans were moving in the opposite direction. In the few years after the 1967 Arab-Israeli War, U.S. military aid increased significantly, especially in 1971 (by about five times over the previous three-year average), and, then, during the 1973 Arab-Israeli War, Nixon made a huge new effort to arm the Israelis, increasing military aid by more than five-times the previous two-year average. And, well over half of this aid was now given as grants, as opposed to loans as previously.\textsuperscript{11} Thus, U.S. policy towards Israel became consistent with its Nixon-Doctrine turn to building up Iran and Saudi Arabia as militarized client-state pillars of American regional hegemony. Together, Israel, Iran and Saudi Arabia constituted three formidable pillars in place of the departed British security forces that had represented Western MENA regional power in the previous period.

The transition from British (and French) predominance to U.S. hegemony was complete. In sum, the Marshall Plan had subordinated Western Europe to the U.S. in energy matters. It had transformed Europe’s domestic energy and transport infrastructure to depend on oil which it initially acquired in large part directly from the U.S., but, which soon had to be imported primarily from the Middle East. But, just at this moment the Suez fiasco for Britain and France, the British withdrawal from East of Suez, and the French loss of Algeria in 1961, made clear the trajectory of the new post-war order in the Middle East. Although Britain and its forces retained a significant role, (through their IOC’s, finance and diplomacy in the region) as did the French, the U.S. had now thoroughly displaced them, becoming the new regional hegemon whose only real competition was now the USSR. Europe had become addicted to oil when the U.S. had given it free samples from its own supply. Japan had also become addicted. Wherever the “American model” of modern life was embraced; that society too adopted automobiles and trucks and became addicted to oil. In time, the U.S. had come to oversee a vast system of production, distribution and protection of the

drug produced not only in the U.S., but also the Middle East. There was no methadone; there was no substitute for oil. Indeed, there were still formidable British, French and other non-American IOCs; but, they operated within a political-economic-military landscape shaped and guaranteed by Washington.

At this point (circa 1970-1973), Washington might have fruitfully asked itself what it would have done in the several energy crises during and after WW II, had it not had a superabundance of domestic shut-in oil? This superabundance of oil had been, throughout the war and the post-war period, the key material-economic factor enabling America, with each crisis to nullify oil embargoes and to subordinate enemies and allies alike. As U.S. consumption of cheap oil continued to grow, and the percentage of oil beneath its soil constituting spare capacity diminished, just such a circumstance marked the sudden transition to the next phase of the international oil order.

2.3  **Shocks I & II, OPEC and Iranian Revolutions, 1973-1985**

Israel had occupied Egypt’s Sinai Peninsula since the 1967 war. In 1973, while secretly preparing war against Israel to regain this territory, the new Egyptian president, Anwar Sadat, proposed another embargo in support of the war effort be waged against the Western powers supporting Israel. Initially the Saudi King and others strongly opposed his plan,\(^\text{12}\) as the previous two Arab embargoes, in 1956 and 1967, had actually led to a glut of oil and to revenue losses in the face of the surplus brought to market each time by the U.S.\(^\text{13}\) But, Sadat or others eventually convinced the King and AOPEC (Arab OPEC states) that a critical factor had changed in their favor. By about 1971, the U.S. proven oil reserves had receded to the point that West Texas was now pumping flat out; the U.S. no longer had shut-in reserves to undermine an embargo. The U.S.

\(^{12}\) Yergin ....
\(^{13}\) Quote Saudi / Yergin on this
had passed its “Hubbert’s peak” in oil production. Sadat, the king and others became convinced that his time, an Arab embargo could succeed. Just after the war began, in 1973, these governments ordered the IOCs which controlled production within their countries to implement this embargo or they would take actions against the IOCs. The price of oil rapidly shot up by factor of four, leading to the beginning of a huge transfer of oil rents from the consuming to the producing nations. But, it soon became apparent that, from this new-found position of strength, the producers need not any longer have to tolerate the IOCs owning and controlling their oil fields. In rapid succession, they nationalized their oil fields (e.g.: Kuwait, Algeria, Saudi Arabia, Venezuela, Libya, etc). With this, the major international oil corporations lost their “concessions”—vestiges of the colonial era. Suddenly, the IOC’s were now obliged to either contract with the producing countries for whatever raw petroleum they wanted to purchase, or go to the open “spot” market for oil—an institution which had hardly even existed previously in the era dominated by the monopoly-capitalist oil companies.

This change in property relations, rightly termed “the OPEC Revolution,” fundamentally undermined the nature of the IOCs. They had been highly vertically integrated concerns. Each company was focused on insuring that it possessed sufficient refining facilities and branded retail outlets “downstream” which were closely matched to the output of the oil fields each company controlled “upstream” within the Middle East and South America. That business model was now

14 [How US had managed excess capacity with Texas Railroad Commission – model for OPEC] [Deffeyes discovered 100% in LA papers, meant U.S. oil had peaked. This had been predicted by Hubbert. Meant U.S. no longer had a surplus of shut in oil to handle a shock loss in the system.
15 How effectively these secular-military or religious-monarchist national regimes spent this money over the next decade is another story. Paradoxically, this influx of money played a major role in entangling MENA and Latin American OPEC states in neo-liberal development schemes, in debt to the First World, and making them subject to the dictates of the IMF and World Bank.
16 Iran’s oil had been nationalized since 1951 during the time of Mossadegh, and Mexico’s had been nationalized in 1938 as an outgrowth of its revolution earlier in the 20th century.
17 Pelletière (ibid) rightly emphasizes this characterization.
fundamentally undermined. Over the next decade, the IOC’s were necessarily re-structured into very a different sort of enterprise, accompanied by a spate of consolidations and hostile buyouts.\footnote{There were other fundamental technical-productive transformations taking place in the First-World economies, which came into public consciousness especially during and after the 1974 oil embargo. For example, while the rapid rise in the price of oil was a trigger for the rapid collapse of the U.S. monopoly position in automotive production in North America, (because the Big Three’s gas guzzlers could not compete with small fuel efficient Japanese and Northern-and-other European imports once the price of oil had shot up), the larger, strategic reason behind this collapse of not only the U.S. automobile industry, but of the U.S. heavy industry in the following years, was that the first phase of the Information Revolution—the marriage of computer processors with industrial production, and the development of appropriate, new methods and organizational practices within production—had been pioneered by Japan and Northern European capitalist firms, not the U.S. Although the nationalization of IOC concessions by OPEC was a very specific impetus to the undermining and restructuring of these firms—one which, in fact sealed their fate—these monopolist enterprises were too becoming dinosaurs much like U.S. manufacturing firms had in the face of more advanced forms of technology, organization and practices developed by rival capitalist states.}

The OPEC Revolution was a very fundamental crisis for the Western capitalist camp, particularly for the U.S. which had only just assumed the role of hegemon of the Western camp’s oil order. This was a time of gas lines in the U.S. and other First-World states, and a great level of panic about energy among their populations, while the American political elite were mired in a number of crises. It appeared that the U.S.—and, in general, the western capitalist powers—were in retreat and decline (and the other superpower, the USSR, was certainly no better off) ... and all this at a time when the American president had lost both his credibility and much of his grip on power.

So, what happened? Here is the crisis which many thought would lead to a collapse of industrial society, or at least to popular revolt against hydrocarbon society. Yet, over three decades later, even more generally than before, the transportation systems of all countries’ are based on oil (on automobiles and trucks), and there are no programs in place anywhere capable of significantly reversing this fundamental infrastructural reality, certainly not before another 20 to 30 years.\footnote{The region with the most likelihood, at present, of significantly breaking out is the European Union. It has pursued extensive R&D into non-petroleum based transportation infrastructure and set significant alternative-energy generated electricity goals. See for example, the EU “Green Paper” at http://www.xyz However, my investigation shows that the EU is fundamentally hampered in successful implementation of these ambitious projects by the continued relative...}

Not only did global capitalism not collapse, nor global famines ensue, but there also hasn’t
ever been another use of the embargo weapon by the OPEC producers against the First World.

Indeed, what happened?

To understand this question, one must read Henry Kissinger’s Pilgrim Society lecture of 12 December 1973 in London, and the proceedings of the Washington Energy Conference of OECD states of February 1974. Early on, when the embargo crisis began, Kissinger exasperatedly confessed to not understanding anything of the intricacies of oil markets. Nevertheless, he soon saw the issue clearly enough: the U.S. had lost its material-economic leverage of abundant, cheap oil that had gotten it out of so many crises previously. He asserted that the “objective conditions” had to be changed; the U.S. and Western capitalist states, most fundamentally, had to swing the supply-demand balance back into their favor, as well as to reduce their oil-dependence. To do so, he quickly proposed the International Energy Agency (IEA) in his talk to the Pilgrim Society in London. What was the plan?

The effectiveness of the 1973 embargo and the successful nationalizations of the OPEC Revolution, were enabled by a change in the objective, material conditions wherein the U.S. could no longer bail out Western Europe or Japan—or itself—by calling on an excess domestic production capacity. The fact that these new prices would transfer 100’s-of-billions of dollars from the consuming to producing states was, as one can imagine, an issue of great consternation for the developed states, and the loss of ownership of huge reserves by their oil companies was certainly another. Perhaps surprisingly, the fundamental question of whether the West would fight
to regain outright ownership of oil resources in the producing states was not their major preoccupation. Western oil companies and their governments had no hopes of reversing this revolution in property relations. Of greater immediate concern, at least to the states, it seems, was the apparent ability of the OPEC states to repeat such an embargo sometime in the future. The word “blackmail” was often used. The fixation on the notion of Third-World and OPEC “blackmail” was not simply a matter of the rise in the price of oil in itself, nor of the economic disruptions which the oil embargo, in-and-of-itself, caused in OECD states. Rather, above and beyond these economic impacts, what was particularly unnerving to the First-World was the fact that the ability to undermine consuming countries’ security of supply was being used by OPEC as a lever for other, greater political ends.24 For the first time, cartel-like control of petroleum was not a source of larger political power for one or more developed capitalist states, but rather for the producing states, which were now the ones working in concert as the IOC’s had long done. Quite a turning of the tables was this. And, although the French objected strenuously and counseled for a “consumer-producer dialogue”, or a “North-South dialogue,” none of this would be tolerated by the U.S., which had a very different policy mindset to deal with this affront to its power, one the French government aptly termed “confrontation”.

The Nixon Administration was in the depths of the greatest post-war crisis the U.S. had experienced. Nevertheless, Kissinger undertook, first, to draw up a secret plan to occupy the Middle-East oil-producing states and to, in his words--written pseudonymously--“put the oil fields under the management of Texas oil men.”25 This plan was recently declassified, in 2003, by the

24 There are two major types of crises the consuming states are historically concerned with: “volatility” in the market (i.e., swings in the price of oil); and “security of supply.” While there is, of course, some relationship between these, the question of “security of supply” is a concern that sufficient oil might not be available at any price, a shortage. On the other hand, “volatility” in price--meaning a big swing upwards or downward in price--does not necessarily mean there isn’t sufficient oil available, as long as the purchaser is willing to pay the going price.

25 “Bush and his Oily Friends,” The Economist, ..., London, 2003. Harpers ... 1973/4. When the then-U.S. ambassador to Saudi Arabia heard of this article, written under an assumed name by “...”, he remarked to the press that it was
British government, which had been, in some fashion, a party to it. But, politically and militarily, this would have been a highly dangerous enterprise; it was merely a fallback plan. Re-colonizing the MENA oil fields would not be a politically sustainable solution in this post-war era of the collapse of neo-colonialism and the rise of the Third World. Something as complex within political economy as is the global oil system cannot be managed via military power alone. More sophisticated levers were required. Even if this embargo ended soon, what was required was an economic solution, a “change in the objective situation” compensating for the loss of the shut-in production capability.

Kissinger’s plan for this was to establish the International Energy Agency (IEA) within the structure of the OECD. Any OECD state (i.e., any First-World state) could be a member, but it would have to first purchase an amount of oil equivalent to 90 days of its total imports, and place this oil in storage. In the case of the U.S., this oil is often pumped into old salt mines impermeable to liquids, along the Gulf Coast. These SPR’s were the first and most crucial change in the “objective conditions” which guaranteed that the first successful OPEC embargo has never been repeated. How is this so?

Within one year of the Washington energy conference, every OECD state, with the exception of France, had joined the IEA, and placed the equivalent of 90 days of their imported-oil

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26 Reference is to be found in one of my Power Point talks on this.
27 Yergin (attributed earlier xyz)
28 As for dealing with the developed-capitalist states having lost their property rights in developing-states’ petroleum resources, that would require major adaptations in the organizational structure and practices of the INOC’s, the development of an oil spot market, of an oil futures market, and of new international economic-control institutions. We will address these later.
29 Ref: IEA official history. At the time, this speech was hailed by [le Monde?] as the successor to Marshall’s speech which had launched the American plan to aid the redevelopment of Europe after WWII. (Ibid).
30 The G. W. Bush administration has pursued a policy of, first, filling the U.S. SPR to their maximum capacity of 700 million barrels. In addition, they have supported a law recently enacted (2005) which dictates that the total capacity of the U.S. SPR be expanded to a total of one billion barrels. For a discussion of the technical details of this project, see the website of Sandia National Laboratories, at http://......gov (accessed July 2006).
consumption in storage. These IEA states were now the joint owners of their own artificial shut-in hydrocarbon reserves. This meant that, if the OPEC states ever again declared an embargo, the First World would not be at their mercy. They could now, at least in principle, withstand a complete shutdown of all imports for up to three months—a crisis of considerably more significance than the slow, incremental shutoff, in steps of five or ten percent over time, which the Arab-OPEC producers had implemented in 1973-1974. What was implicitly being communicated to the producing states by the establishment of the SPRs (if not explicitly communicated, away from the eyes and ears of the media), was the warning: “And, what do you, the producing states, think we could do to you in those 90 days!”

Subsequently, in 1991 and again in 2003, indeed, what could be done by U.S.-led military forces of the First World to a “rogue” oil-producing state which had significantly disrupted the free flow of petroleum (in this case, to Iraq for its invasion of Kuwait), was quite amply

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31 There is a significant amount of scholarship, developed since the establishment of the IEA’s SPR’s, examining to what extent the IEA member states would actually be able to efficiently re-extract and share this oil when needed in a crisis. Furthermore, in dealing with supply crises, some claim that it is perhaps more efficient and effective for the IEA to just allow the international oil companies and market-price forces work to spontaneously readjust the distribution of petroleum supplies to where they are most needed, rather than invoke the IEA’s emergency SPR-distribution apparatus to do so. However, these objections and fine points, while of interest, are not the issue here in discussing the significance of the IEA as a highly effective counter-balance to OPEC. The facts are that the initial and continuing intent of the IEA in maintaining these Strategic Petroleum Reserves has been to replace the historic loss of America’s shut-in reserves, that there has not been a single producers’ embargo in the thirty-plus years since the founding of the SPR’s, and that the IEA states—not the least, the U.S. under the Bush-Cheney Administration—continue to not only maintain, but often to expand their reserves.

For example, the ease and efficiency with which the IEA’s SPR system put some 2 million barrels per day into the U.S. to assist during the petroleum-product shortages following the Katrina hurricane disaster, in the summer of 2005, demonstrated the efficacy of the SPR emergency oil-distribution system. This efficacy is especially evident when one realizes that the 2 million barrels per day delivered to the U.S. domestic market amounted to more oil than France consumes daily (1.9 million barrels). For some perspective as to how long the combined SPR’s of the IEA could have kept up this level of supply to the U.S., note that there are now some 4 billion barrels in those reserves (i.e., theoretically, IEA could have continued pumping from its members’ SPR’s at this rate for over five years!).

Lastly, as to whether the U.S., Britain, France and Germany, presently working in concert against Iran’s nuclear activities, are placing the world market at grave risk due any possible disruption of Iran’s oil supplies in response to an imposition of sanctions or a military attack—I simply note that Iran currently pumps only about 2.4 million barrels per day. Undoubtedly, any Iranian oil-based retaliation will cause much panic in the public and among business, and this could be the source of an upswell of support for whatever further, harsher, regime-change measures the U.S. and its allies decide to take against Iran. Nevertheless, the SPR’s contain sufficient oil to replace Iranian production for a considerable period of time, and, of course, Washington, London, Paris and Bonn are quite aware of this.
demonstrated with a form of warfare which came to be known as “shock and awe”--an abject lesson meant to be witnessed by friend and foe alike. 32

There are other characteristics of the IEA which should at least be mentioned here:

- Although it was founded within the framework of the OECD, the OECD was an association which was too ponderous to nimbly wield such a weapon in the strategic and volatile global oil sector. Therefore, the IEA was given an unprecedentedly different, executive structure, quite unlike its OECD parent. 33 With this it can function without the OECD’s usual requirement for consensus, to order the redistribution and sharing of members’ SPR oil resources in time of emergencies, whether caused by embargoes, war, natural disasters, or etc.

- To address problems of panic buying and hoarding in crisis, the IEA needed to provide member states and the IOC’s with reliable, up-to-date data about the energy sector. The IEA became, along with the U.S. Department of Energy’s Energy Information Agency (EIA), 34 one of the two premier publicly available sources of the sort of data which was not available in the panic of 1973 (and was still not completely available in that of 1979). 35

Two counter points also need to be made in this brief treatment. First, although the IEA was built very quickly in 1973-74, in fact, the OECD was relatively complacent and did not fill the new reserves as much as they might have. But, especially, its members had not acted fast enough to build the IEA structure into a disciplined counter-cartel. There were both material-economic and

32 In this regard, it is instructive to read the description—and moral objections raised—by the former chief-CIA political analyst during the years of the Iran-Iraq war, to the manner in which the U.S. and its allies waged the Gulf War against the Iraqi armed forces and peoples. See “America’s Oil Wars,” Stephen Pelletière, 200xyz, Chapter xyz.
33 Ibid, IEA Official History ...
34 The IEA was established by an act of Congress after the 1973 embargo.
35 See the EIA website at http://www.iea.org. In particular, the EIA “Country Analysis Briefs” there are of interest. For the IEA, see http://www.iea.org. The IEA publishes many authoritative compilations and analyses; see especially its biannual “World Energy Analysis ... of 2004 (published in even years, with updates in odd years). The web pages of British Petroleum and the U.S. CIA are also useful. The professional society for energy economics is the International Association for Energy Economics (IAEE), and its U.S. branch, the USAEE. Its website, http://www.usaee.org makes available its professional/academic journal and most talks given at its annual conferences; I also highly recommended these.
subjective factors to consider here. As for economic factors, on the supply side the quadrupling of oil prices had stimulated exploration and the OECD states were soon bringing major new sources of oil production online from, especially, the British North Seas, Mexico and Alaska—all areas under the effective control of the OECD/First-World camp. This had begun to significantly diminish OPEC’s market share. And the USSR too was increasingly offering stiff competition for OPEC’s market share. On the demand side, OECD economies, especially individual business enterprises reacting to the rise in oil prices, had begun to significantly economize in their consumption of energy.

And, in addition to these supply and demand counter forces, there were centrifugal, subjective factors which retarded the building of a disciplined IEA. It had not been a simple matter to get the various Western European states, Japan, the US and Canada, Australia, etc., to agree on strategies and think in terms of the collective OECD interest rather than their various narrow national interests—which differed in significant ways. Some were actually major oil producers in their own rights (the U.S. and Canada, and soon Britain would be as well), some were much more dependent on imported Middle East oil (especially France, Italy, Spain, and Japan), while still others (e.g., the Germans) obtained more oil and natural gas imports from Russia than from the Middle East. For example, documents from the Ford Administration, written in 1975-76 by Kissinger and others to brief the president for an energy summit in Western Europe and on other occasions, reflect this difficulty of attaining a common front between the major members of the newly formed IEA. 

And there was another factor reducing the sense of immediate urgency to come together. According to Yergin and others, in the mid-1970’s, Washington and other OECD capitals had weighed the rate of continued growth in their economies’ demand for oil against the

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36 As shown in declassified documents at the Gerald Ford Presidential Library, U. Michigan, Ann Arbor; written by H. Kissinger et al (research by U. Michigan student J. Strumwasser).
rates at which the various newly found sources of Western-controlled production would be depleted, and they had come to the conclusion that there indeed would be another confrontation with OPEC, but, that this next major energy crisis—when the Global North’s new-found supplies would again dwindle--was still sometime well off in the future, into the mid-1980’s. But, then came a surprise.37

In 1979, the Iranian Revolution overthrew the corrupt and bloody regime of the shah and, in the course of events, brought Ayatollah R. Khomeini and his clerical regime to power. Events spilled over into Iran’s oil fields, interrupting the flow of its petroleum exports from January through March of 1979, producing a much larger disruption of supplies than had the entire 1973 embargo. The U.S.-led OECD camp was caught off guard; it was yet again thrown into the same sort of market shortages and panic, accompanied by both internal and external political crises, that it had suffered in 1973-74. Internally there was the reiteration of gasoline lines, and of citizens’ anger at the oil corporations for their windfall profits, as well as at the government for this situation. Externally, there was the geo-strategic loss of the shah as the U.S. political-military barrier to Russian influence over Middle-East oil resources, as well as the loss of Western-IOC operations in Iran. And, this was also a major blow for the strategy embodied in the Nixon Doctrine of indirectly projecting American power in the region via U.S.-armed client regimes.

Be this as it may, the underlying “objective conditions” had nevertheless changed; the OECD camp was actually far better prepared for dealing with this greatest-ever oil-market disruption than in 1973, apparently better than it itself had initially realized. The Achilles’ heel of the OECD’s initial response was now their subjective preparations.

37 It is always a bit strange to read that the overthrow of the Shah was, according to many historical accounts, such a surprise to Washington and such a failure of its intelligence services. The entire world followed the mass revolutionary events for months on end as they had ebbed and flowed, and eventually producing prolonged demonstrations of millions of people across Iran. The Left in Europe and America, in particular, followed these developments in great detail and spoke constantly of the mass struggle’s upsurge and of the possibility of the overthrow of the Shah’s regime.
There were two main aspects to the improved “objective conditions” mentioned already above. The first was the internal material-economic changes, the structural adaptations which were made by each and every OECD state, to undermine dependence on the now-nationalized OPEC oil fields. On the one hand, they had found new sources of oil, and on the other they had reduced their economies’ energy intensities for the first time since the beginning of the Hydrocarbon Age. As for new oil, as alluded to above, OECD exploration and discovery had surged within non-O.P.E.C. states across the Global North. Although not yet fully online by 1979, these included major discoveries in Cantarell in Mexico, in the U.S. at Prudhoe Bay, Alaska, in the North-Sea territories of Britain and Norway, and in many other, smaller locations which were securely outside the influence of the OPEC camp.

The economics of four-times-higher oil had played a major role in impelling this expansion via the “invisible hand” of the market, but it also had been furthered through conscious strategies of the OECD states. For example, contrary to what one might expect, Washington, London et al did not favor pushing the price back as close as possible to its previous pre-1973 levels. Oil that cheap would now be too cheap to continue to encourage the desired new exploratory drilling and development outside OPEC’s reach. In addition, although it had normally taken on the order of ten years to go from exploration and discovery to pumping and delivery via new pipelines and tankers, the OPEC Revolution had been an effective impetus to speed up technical developments to more rapidly exploit these new oil resources—now requiring generally only seven years, in spite of now often being in much more difficult and remote locations. So, by 1979, the bottom line was that, aside from the new Strategic Petroleum Reserves at the disposal of the

38 Yergin (ibid.), p. xyz.
OECD/IEA states, a vast aggregate of new oil came online from newly discovered fields across the Global North, adding to the OECD-IEA oil resources which, taken together, constituted the new “objective conditions” the First World had mustered in response to the revolution in property relations of the OPEC states.

The other aspect of alteration of “objective conditions” was a decrease in the OECD states’ energy intensities—the ratio of total primary-energy expenditures to GDP. For the first time, energy intensity had now begun to fall.

The use of oil to produce electricity was already no longer economically feasible and was being eliminated everywhere in favor of especially much-cheaper natural gas. It had also been relatively easy to make large initial reductions in the energy efficiencies of automobiles, as, particularly in the U.S., simply making smaller and lighter cars, and reducing speed limits, had had a significant effect. The same law which had authorized the formation of the U.S. SPR had a provision imposing the first mileage standards, called CAFE standards. While, in general, American government-mandated efforts to reduce energy consumption were not very impressive, businesses had felt the energy squeeze and had cut production and transportation use, often independent of government mandates (many of these resource-economizing processes having long been in process as part of the general advance of scientific management practices). The whole product life-cycle analysis movement, for example, is one result of this.

Lastly, inflation had been working in the interests of the OECD states by eating away at the true cost of oil, and progressively cheapening the value of the dollars OECD states were relinquishing, and which OPEC states were reaping.

40 M.H. Ross et al [xyz]
41 CAFE: Corporate average fuel efficiency. [xyz]
42 M.H. Ross, (ibid), p. xyz.
Enabling collective action to improve these various “objective factors” against the effects of the OPEC Revolution was, of course, the principle reason that the IEA was established in 1974.

This brings us to the subjective factor. What was lacking here?

In Kissinger’s 1973 Pilgrim Society speech, and the subsequent 1974 Washington Conference, at which the IEA was founded, the OECD plan called for each member country not only placing a minimum of 90-days’ reserves underground, it also set up the IEA as an organization which was capable of taking action in an executive manner during energy crises. Unlike the OECD which itself required the consensus of its member states, in an energy emergency the IEA is led by a small executive council which can order member states to release and move reserves from their national SPRs to other member countries in need of oil. But, in spite of this structure having been agreed to on paper, the loss of Iran’s oil from the market in 1979 unleashed undisciplined panic buying and hording which only further drove oil prices further up, and the formation of the IEA, some five years prior, did not prevent such behavior. Indeed, this was a sort of unbridled mercantilism, with every consuming-state’s government, the IOCs, and industrial enterprises which consumed oil, each out to save themselves, regardless of the interests of the whole. Only about two million barrels per day, out of a world consumption level of [xyz] million barrels per day had been lost to the shut down of oil fields during the Iranian Revolution. Nevertheless, not only did each consuming entity scramble to acquire sufficient oil to cover the deficit in supplies vis-à-vis their actual, consumption-based demand, but, fearing that there would be worse shortages tomorrow, they generated an artificial, hording-driven component to demand, which greatly magnified the effects of the actual supplies lost. Consumers too, lacking confidence in their governments and the market, engaged in similar behavior. And, such behavior did not stop even when almost all the lost Iranian production came back on line within a few months.
However, unlike 1973, in the IEA there was now an institutional structure in place, with a previously agreed-to protocol for collective supra-national action, and an understanding of the process at work, born of the 1973-74 experience. In short, it was known how such a crisis should be addressed, and, step by step, the IEA collective discipline began to take hold in place of the anarchic, spontaneous initial responses of OECD states and private enterprise. All were exhorted emphatically not to go to the spot market to find more oil to hoard, continuing to bid up prices.\textsuperscript{43} While the knee-jerk response was to build inventories in an energy crisis, all were told to actually release their spare inventories. This was exactly opposite to instinct; nevertheless, little by little, very jittery private concerns were moved to carry out this collective maneuver, abandoning their naive mercantilist instincts.\textsuperscript{44} Panic buying and hoarding stopped; the market price began to fall, and, before very long, there was actually a major glut of oil—which had long been accumulating in the system, but was impossible to see given the continued lack of reliable global market information available in 1979. Gone were the days when a handful of vertically integrated IOCs directly controlled the entire system, from well heads to gas pumps. In its place, a new form of market-control regime was appearing. Collective action and discipline on the part of the IEA states and major corporations, the releasing of their reserves in concert to answer a market shortage, had worked (well, eventually). Note, the role of states here, of the U.S.-led OECD (including therein increased joint market action by the Western European states; and including Japan), and its IEA

\textsuperscript{43} The fact that the price rises had a huge aspect which was panic-buying driven, can be seen in the fact that the March 1979 return of Iranian oil-field workers to their jobs, where they began pumping again, did not stop the market chaos. See: Yergin, ibid, pp. xyz.

\textsuperscript{44} Yergin tells the compelling story of the difficulty especially of enforcing this discipline on large Japanese firms which had continued to frantically panic-buy and were continuing to still bid up global spot-market prices. A meeting of IEA representatives was held in [xxx] in Europe to address these problems in [xmonth] 197[4]. Finally, the exasperated Belgium representative, who was then the chief official of the IEA, bluntly asserted to the Japanese representative, that xyz if the Japanese government didn’t stop the Japanese trading companies from panic buying on the spot-market, that “you will never sell another Toyota or xyz in Europe, ever.” At that, the Japanese government did impose the IEA discipline on Japanese firms, and, finally, the IEA started to have its initially intended effect as a counter-cartel to the OPEC cartel. See: Yergin, ibid., pp. ...xyz.
structure in particular, was, in various ways, compensating now for the lack of market-control ability of the weakened monopoly-capitalist concerns—the IOCs.

There was such a glut of oil, in fact, that, in the ensuing eight-years-long Iran-Iraq war, with major disruptions of two major OPEC-nations’ oil facilities, proved to be essentially irrelevant to the global oil market. The price of oil plummeted. The OPEC “cartel” and its “imperium” – the pejorative characterization of Yergin for the initial advantage gained by the producing countries after the OPEC Revolution—was over. Any future embargo by the producers’ cartel (or a revolution, war or natural disaster which might take one or two major producing countries offline) could be, and in fact were now being, counter-balanced by new, collective market-control policies enforced by the consuming states’ counter-cartel. But, this was not merely a matter of discipline; this was a subjective factor which was possible only given the change in “objective conditions” arising from the OECD states (First World) again controlling a superabundance of oil: the artificial SPR and new Northern-Hemisphere oil fields, together with having diminished their domestic economies’ energy intensities. The tables had been shifted back towards the OECD states’ advantage. It meant a new, much more collective and disciplined way for the US and the major capitalist states to do things, and bringing this about had caused all sorts of tensions, particularly between the US and France; but, necessity was mother of invention.

This new dynamism of the developed capitalist states to collectively adapt, under U.S. leadership—a k a hegemony, but not exclusively so, as the E.U. had played a significant role here as well—to a really far-reaching crisis is quite instructive. This new level of organized collectivity in energy matters anticipates, and prepares the way for, the era of globalization which was about to begin in earnest, in concert with the underlying Information Revolution.

What did this mean for the old, vertically integrated oil companies in the 1980's? Formerly, these corporations had “largely contained the volatility of the market internally within their vertically
integrated structures” [xyz check quote] which reached from their proprietary oil holdings in the
Middle East and Latin America, through the transport systems and refineries, right to the
consumers at their branded retail gas stations. However, now, without their concessionary private-
property in Middle East and Latin American oil-producing states, which had provided specific
amounts of oil needing to be processed and sold, these organizations were dinosaurs. The spot
market had hardly existed before the 1973 panic, but was now a major economic institution, and it
was accompanied now by a futures market, which was totally new in oil. This futures market was a
new economic-control institutions designed to absorb much of the risk of volatility in the new era
of nationalized oil, made necessary by the fact so much oil was now exchanged on the open
market.

But, after about 1980, there was an additional, new global economic-control mechanism
working in favor of reducing volatility. The very same strategic reserves which were so effective at
undermining OPEC supply—“blackmail” of embargoes and other sudden market losses of oil
supplies due to revolutions, wars and natural disasters, could also be used to temper price
volatility.

The IEA could threaten to release some of its SPRs as a means of pressuring OPEC to
maintain price within a favorable price band. We shall see how, after the fierce OECD v. OPEC
confrontation of 1985, which constituted the Third Oil Shock, Saudi Arabia and the U.S. had agreed
that Saudi Arabia, which had developed a tremendous amount of reserve pumping capacity—akin
to that the U.S. once had enjoyed in West Texas—would now openly act as the global oil-price

45 Yergin, (ibid.), p. xyz.
46 For an interesting discussion of control-institutions-in-general, as necessitated by large-scale economic processes
and markets associated with the mass-production revolution (a k a, the Second Industrial Revolution of the late-19th
and early 20th Centuries, a k a monopoly capitalism, and cartels, etc.), first especially as human bureaucracies, which
themselves become mechanized (e.g., by International Business Machines, IBM et al) and, later, have been
supplanted by computerization, see: Pauli Cerruzi, The Control Revolution, in xyz.
swing state. This means that its spare capacity was effectively \emph{added} to (i.e., aligned with) the First-World's SPR reserves (!) as an instrument of global oil-market control. This Saudi role, borne of the resolution reached to the Third Oil Shock amidst great North-South antagonism, would soon evolve more and more into a conscious, collusion of both the producers' OPEC cartel and the consumers' IEA counter-cartel, within an increasingly globalized oil order.

2.4 \textbf{Shock III, New World Order, 1985-1986}

By 1985, the OECD, led by neo-liberals in the U.S. under President Ronald Reagan, and in Britain, under Prime Minister Margaret Thatcher, were on something of a general offensive to breakdown any and all barriers erected by states of the Global South to the entry of capital, outsourced production, technology or cheap commodities from the OECD Global North. In the petroleum sector, the Reagan-Thatcher neo-liberal mindset included a general sense of revulsion remaining from the events of 1973, when the OPED states had overturned the old property-relationships in the world via the neo-liberal antithesis of open markets: a producers' cartel. There was a deep resentment at the fact that OPEC sought to control the amounts and price of oil pumped for the world market, as opposed to having free and unfettered access by the consuming states, and that nationalization had shut off almost 80% of the world's oil to foreign investment (it was bad enough that the MENA and Latin American producers' now owned their oil, they also generally didn't allow OECD investment in it either). Of course, in the pre-OPEC-Revolution era, the IOC's were, each, in themselves, a type of vertically integrated monopoly enterprise (hence, the appellation "monopoly capitalism"), and, moreover, had entered into cartel agreements between themselves to keep out competitors, suppress an open (spot) market in oil, control pumping rates, and set world prices; in short, the IOCs had never themselves allowed anything like
a free market in oil.\textsuperscript{47} In any case, whatever their feelings about a consumers’ organization (i.e., the IEA), Reagan and Thatcher certainly abhorred the specter of a producers’ organization, and decided to destroy OPEC while they still could. As we have seen, in this period, OPEC’s market share had been falling, as had been the market price of oil. Yet, the OECD’s major states had an analysis that a crisis was eventually coming for them, as the new discovered and brought online from the Global North after the First and Second Oil Shocks, given increases in world oil demand, was being depleted, and this would eventually put OPEC and the Saudis back in the driver’s seat of the oil sector. Hence, according especially to Pelletière,\textsuperscript{48} Thatcher decided to attempt to wipe out OPEC. She would use Britain’s still-substantial reserves of the North Sea as an economic weapon while there was still enough oil remaining and market conditions were still favorable.

In this, Thatcher’s view differed from that of the previous Labor government. Labor had considered seizing the opportunity presented by the discovery of the North Sea oil fields to break ranks with the U.S.-led OECD alliance and join OPEC.\textsuperscript{49} It had later backed down on this. However, now that Britain was a major oil-producing state, the Labor Government did grasp that Britain now had an interest in regulating the amount of oil brought to market by the aggregate of oil-producing states, so as to keep the price of oil in a range which would remain profitable. In particular, Britain was especially vulnerable here, as it’s North Sea oil—while of very high quality—was, nevertheless, much more expensive to extract from beneath the depths of the North sea than most oil from the MENA states and Latin America, an thus much more sensitive to a fall in price than MENA-produced oil. Based on this general view of matters, Labor had made a pumping-level

\textsuperscript{47} The classic, early treatment of this era is: Lenin, V.I., \textit{Imperialism, the Highest Stage of Capital}, International Publishers, Moscow, 19xyz (original appeared in 1912).

\textsuperscript{48} Pelletiere, ..

\textsuperscript{49} Interestingly, the Canadian province of Alberta, which is presently undergoing a boom in the production of tar-sands-based oil, has investigated the possibility of joining OPEC independent of the Canadian federal state, as the latter is not interested in such a move. See: Report of the Independent Consultant to the E.U. on the Green Paper, http:/\textbackslash. xyz.pdf. p. xyz (last access: December, 2005.)
agreement with OPEC. However, Thatcher would have none of this, and, in effect, declared war on OPEC by ripping up the prior Labor Government’s pumping-level agreement with OPEC, and began dumping oil on the market. The hope was to disastrously undermine OPEC’s already dwindling market share, exacerbate its already substantial internal divisions, and precipitate its final collapse.

In this period, up to 1985, the Saudis had been consistently responding to the challenge of the new non-OPEC oil coming to market from, OECD-controlled areas and the USSR, which was also persistently increasing its output—by defending price rather than defending market share. Hence, they had step-wise reduced their pumping, to keep their own and OPEC’s prices up. This meant, however, that they and OPEC had lost huge portions of the market. If, in the face of Thatcher’s dumping, the Saudi Royals continued to fight to maintain price, by proportionately reducing their output, the collapse of OPEC, already internally torn over these Saudi tactics, might indeed have utterly collapsed, and given the neo-liberalism a big victory.

But, the Saudis had anticipated that the US, Britain and OECD might do something like this, and had a well-considered response ready.\textsuperscript{50} Xyz Yemani, who was both OPEC General Secretary [xyz:Chair?] and the Saudi Arabian oil minister, quickly delivered a warning to Thatcher. The gist was that, if Britain chose this path of confrontation, there would be unspecified “serious consequences”\textsuperscript{51} for the West. (Most versions of this story neglect to mention that the “Saudi Net-Back Crisis,” as it is generally known, was not initiated by the Saudis, but was their retaliation against the British-U.S. market attack.) Thatcher and her American counterparts were unfazed by this warning. As British output rose, the price of oil began to drop as had been expected. And, as promised, the Saudis retaliated, quickly changing from a defense-of-price strategy, to a defense-of-

\textsuperscript{50} Yergin, \textit{The Prize}, \textit{ibid} xyz
\textsuperscript{51} yergin, \textit{ibid}
market-share strategy. They announce their “Net Back” strategy. The Saudis would insure a guaranteed amount of profit per barrel of oil to refinery [xyz] buyers who purchased Saudi oil. If refineries did not realize this amount of profit, the Saudis would refund the net difference back to them. Given the long-term low-levels of profit in the downstream segment of the industry, especially in the preceding period of very low prices, this Saudi offer was very attractive, and they had ample pumping capacity to flood the market. According to Pelletière, as the price of oil continued to fall, it appeared to the U.S. and Britain as an added blessing from their attack on OPEC. Reagan’s supply-side economics and huge budget expenditures for military expansion had driven up the debt; abundant and cheap oil would now act as a great stimulus to business, as well as the hoped-for destruction of OPEC.

The result was a sort of international game of “chicken” to see who could stand the lowest prices, with the perverse twist that one side, Reagan and Thatcher, either didn’t realize or were too arrogant to admit, that this race to the rock bottom of oil prices would, beyond a certain point, transform something which was initially beneficial to the Western economies (i.e., cheap oil), into a disaster. Oil was getting really cheap; in fact, so cheap that the big U.S. IOC’s were starting to be threatened by bankruptcy. And, the domestic independent oil companies, such as those from West Texas that have considerable political clout in D.C., and who had historically always been at odds with the big IOCs, were in similar straights. (It is much more expensive to pump the oil found in the U.S. than that in Saudi Arabia, so the Saudis can remain profitable at prices below which West Texas and other U.S. producers are losing money.) If any of the major U.S. oil companies collapsed, there was no telling what other major elements of the U.S. economic and financial sphere might also fall. In short, the British-U.S. scheme to destroy OPEC had come up against the sheer size of the oil reserves which the Saudi’s had at their disposal, and, frankly, against the
Saudi’s considerable oil-business acumen. Britain and the U.S. had overplayed their hand, and the Thatcher-led neo-liberal offensive against OPEC was backfiring.

Thatcher and Reagan chose to publicly deny this turning of the tables. To have to negotiate a truce with OPEC and the Saudis would amount to recognition of the legitimacy of the despised producers’ “cartel”. In any case, it fell to Vice-President George Bush to embark on an urgent special mission to Saudi Arabia to talk to the king directly and try to negotiate a truce.

There is some controversy as to whether G.H.W. Bush acted outside the bounds sanctioned by Reagan in undertaking this mission (i.e., that perhaps he was defending the interests of his political constituency, the independents back in West Texas), or whether he was acting at the behest of Reagan-Thatcher while the White House, nevertheless, tried to save face back home by criticizing his activities. In any case, Vice-President Bush spent four days of “face time” with the Saudi monarch, and his argument was that the net-back retaliation was becoming counter productive of Saudi interests. In other words, Saudi Arabia was not only a military protectorate of the U.S., it was integrated into the Western capitalist economic and financial system of which the U.S. was the leader, and the U.S. and OECD states were its oil customers. If the U.S. IOCs failed, it would be a severe threat to the security of the U.S., and, if the security of the United States were undermined, so too would be that of Saudi Arabia. Their fates were bound up together. Apparently, this argument eventually succeeded. The monarch agreed to a halt in hostilities, and to an agreement with the U.S. No one knows for sure the full details of this agreement; but, it became clear over time that the producers’ cartel would now be accepted by the U.S. From this conflict, it became clear to Washington and London that such an organization of producers was actually now required.

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52 Pelletière, ibid, chapter xyz; Yergin, ibid, chapter, xyz.
53 This is so according to Yergin (who clearly lionizes Bush in this episode) and Pelletière (who is considerably more sanguine about the American leadership as a whole).
54 The article, from the Washington Post, in which Yergin places great importance, was xyz,...This was written in defense of V.P. Bush at a time when the White House publicly distanced itself from his efforts, and the media had made him out as having broken ranks with the Administration.
within the global oil system. That is, given nationalized control of MENA and Latin-American oil fields, some sort of producers’ cartel was now required for market stability by controlling supply. The IOC’s simply could no longer accomplish this. Further, it was now agreed that Saudi Arabia, with its huge reserve pumping capacity (after having just decimated the Western consuming states with unrelenting increases in oil output—there could be no doubt of the great extent of the kingdom’s reserve capacity), would now operate as the officially sanctioned oil-price swing producer. And, a price-band was agreed upon for oil, centered on $17 per barrel. The Saudi’s would now have the price stability they had long fought for before the net-back confrontation. In this arrangement, when the price fell, OPEC producers and others would cut back to bring the price back up into the agreed-upon band. However, if it went too high, the Saudis, with their unique spare shut-in capacity, of the type the Americans themselves had once enjoyed, would increase their pumping of oil until the price fell back into the agreed-upon band.

Here indeed was a “New World Order.” Not only did the U.S. and Britain not succeed in destroying OPEC, they now began to see that a producers’ cartel, OPEC, was necessary for the control and management of the world oil order in the new situation where 80% of all reserves were out of the IOC’s and OECD states’ hands. Rather than destroy OPEC, they would now have to join with it to create the shell of a new North-South-integrated Globalized Cartel if the function which the old “Great Cartel” played in the Middle East was to be fulfilled in this new era after the OPEC Revolution. The need for some upstream-control organization, to regulate pumping rates,

55 The term “control” as used throughout in reference to market institutions and practices, is meant in the general sense used by, for example, Paul Ceruzzi’s well known work “The Control Revolution” dealing with the Information Age. Ceruzzi in turn draws on Weber and, particularly, Durkheim’s notion of market control provided by bureaucracies of various types and by national and global markets in general, which, later, with technical developments are mechanized and then, later still, integrated with and superseded by computers and computerized electronic networks, etc. (As for Ceruzzi’s general reduction of the automation and information periods in the development of productive forces into a general “Control Revolution”—while highly insightful, it is inadequate to explain these revolutions in the productive forces.)

56 And the market-control function which the Texas Railway Commission played within the U.S. when it was the “Saudi Arabia” of global oil.
and hence price, is inherent in any capitalist market to minimize volatility and maintain more consistent profitability. However, the form of such organizations must change to be consistent with property relations in any given era. The level of subjective consciousness—awareness—of various individuals within the political and economic bureaucracies on either side as to the political-economic significance of this new turn of events towards integration of OPEC and NOCs on the one hand, and the IEA, IOCs and their states on the other, is, of course, another matter. In practice, this new-found mutual cooperation between the formerly colonizing and formerly colonial states (a major step towards globalization of the sector) was a stubborn, logical and, it appears, largely spontaneous outcome, of the new property relations which had emerged from the OPEC Revolution.

2.5 Collusion, oil globalization, IEA/IEAS, and wars, 1986-2003

Suffice it to say that, following the agreement of then-Vice-President G.H.W. Bush and the Saudi monarch in 1985, the cooperation they had agreed upon was tinged by heavily laden by mutual antagonism and mistrust. However, over time, the old guard in the producing countries, which had fought and won the OPEC Revolution and other battles for national sovereignty, has been gradually replaced by a new, more technocratic generation more interested in business-as-such, in stability and profits.57

The reality of nationalization and the spot markets pre-1974 came to mean that cartel-like market regulation of global supply by IOC’s could now only be accomplished in alliance with the NOC’s. This is the material-economic factor initiating North-South integration, and globalization, of the oil order. However, this was, in the first place, a deal with the Saudi royals, and they had gotten the price band

57 Wall Street Journal, xyz, ...
they had long wanted. It is important that OPEC had not been of one mind on these matters. There were always so-called “low absorbers” and “high absorbers” among its member states. The “low absorbers” included Saudi Arabia, Kuwait, the UAE, and, in general, those states which had relatively small populations relative to the size of their oil output. These states could always afford to pump at subdued rates relative to the size of their reserves, as they had plenty of income to provide generously for their indigenous populations and still allow their elites to, literally, live royalty. They could afford to think more about shepherding their national oil resources so that they would last for the future. They have had the luxury of keeping prices low enough so as not to undermine the security of demand from the developed-consuming states which, if the price were “too high” (whatever that price might be), would tend to more rapidly develop oil-saving technologies (e.g., higher fuel mileage automobiles and trucks, etc.) and to develop alternative fuels (e.g., electric batteries or hydrogen produced from non-petroleum sources, or biological fuels such as ethanol). Hence, the Saudi’s famous concern with stable prices, and aversion to not only too low, but very high prices. On the other hand, the “high absorbers” have included Iran, Iraq, Venezuela, Libya, and etc. These are states with, indeed, large oil resources; but they also have relatively larger populations to support with oil revenues. These later states have quite consistently pushed for the highest prices possible as they were chronically in need of cash to support their impoverished, and often politically active, populations. This has always been a rather fundamental division inside OPEC, more or less coming to the fore depending on the conditions of the world market and the indebtedness of these states. (It is important to note that the later group, the high absorbers, is synonymous with the list of “rogue states” and the “Axis of Evil” identified by the neo-cons and other foreign policy hawks in Washington. In addition, the other group, the low absorbers, corresponds well with the MENA states considered as “moderates” and “allies” in the
While continuing contradictions remained, in the main, the oil sector after 1985 was evolving towards integrated, business-like, technocratic, globalized relations between the U.S.-and-OECD and the MENA oil-producing political-economic elites--but most especially the low absorbers. The high absorbers were not to be so readily integrated. This became clear when, following the Iran-Iraq War, Iraq under Saddam Hussein invaded Kuwait. It was in the Gulf War of 1991 to expel Iraq from Kuwait that the two cartels (OPEC and the IEA) first directly co-operated, albeit secretly, to maintain supply security in the 1991. This was the real OECD-OPEC "ice breaker.

[[xyz REQUIRES MORE EXPLANATION OF THIS PROCES OF REPRAICHMENT/COLLUSION BETWEEN IEA STATES AND OPEC LOW ABSORBERS FROM 1891-2003, or no one will know/believe what is being talked about:

a. Tell story of secret meetings between IEA head and Yemani in Geneva and on phone before and just after the Gulf War began, and the deal for S.A. to provide whatever oil is lost from market during the war in return for IEA not releasing their SPRs (as this would collapse prices). This was first concrete instance of confidence building, and, was an actual, open military alliance of low absorbers and OECD against high absorber "rogue" state (Iraq)."

b. Early in the Clinton Administration, major effort by Sec. of Energy Bill Richardson: began bi-annual ministerial-level meetings of IEA and OPEC energy ministers under the slogan of "consumer-producer dialogue," named "The International Energy Forum" (IEF). (colorful WSJ story of passing...}

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58 For a thorough discussion of Middle east "democratization" as the bi-partisan and state policy of the U.S. in the post-9/11 era, as opposed to the policy of maintenance of the "status quo" in regimes previously, see the Report of the Council on Foreign Affairs, Democratization of Arab Countries, No. xyzxyz, of xyz, 2005, headed by M. Albright (Democrat), and former Rep. Xyz Xyz (Republican).
59 Wall Street Journal, xyz, 2003 articles
60 The International Energy Forum (IEF) website, xyz ..., relates this history.
cell phones around at OPEC meetings with Richardson on the line so as not to be seen talking to him; role of Thatcher’s former minister who became IEA chair and broke the ice further with OPEC.

c. In 2003, they again cooperated, on the Iraqi invasion, with the Saudis again guaranteeing that they and OPEC would insure delivery of any oil lost to the market during the U.S.-British invasion of Iraq, and they made good on this pledge. They did this in return for the IEA again not releasing any (well, any significant amount) of oil from its members’ Strategic Petroleum Reserves, a move which would have impacted prices.\textsuperscript{61}

d. And, soon thereafter, OPEC and the Saudis joined with the IEA in calling for the formation of the permanent (i.e., standing) IEF Secretariat (IEFS), in Riyadh with parallel corporate and governmental bodies.\textsuperscript{62} [Cite some of the many documents available about its membership: 69 countries and all major IOCs and NOCs sit on this “central committee” which, in turn, has a standing “politburo” in Riyadh.] The IEFS is a major development in the process of energy globalization, providing daily contact and coordination opportunities for all the major actors, private and state, in the world oil sector. In particular, its initial tasks include organizing major international working meetings (of over 90 states’ energy ministers), facilitating formation of the new Asian strategic petroleum reserve (for China, India and other Asian states), the Joint Oil Data Initiative (JODI) which unifies five of the world’s major international oil-data agencies,\textsuperscript{63} etc.

There is much to discuss about these important initiatives and their significance, but this is beyond the scope of this general overview of the political-economic history of the oil-sector. However, there is a crisis evolving which threatens to upset the entire oil system (not the crisis predicted by the Peak Oil people). The universally understood need to address this crisis has emerged as a new, key

\textsuperscript{61} Guardian, ...xyz ; Wall Street Journal, xyz.
\textsuperscript{62} The International Energy Forum Secretariat website is: xyz.
\textsuperscript{63} The Joint Oil Data Initiative (JODI) of the IEFS is: xyz.
factor now causing the process of co-operation and integration of the oil sector as a globalized entity, to be accelerated.

3 Problems of a globalized oil system, 2003 – circa 2020

What are the critical issues threatening to now upset the new, restructured oil order, either further driving its globalization or re-fragmenting it? A seminal Green Paper issued by the European Commission in March 2005, for example, frets over which direction should the EU pursue in light of the various possibilities the authors see for the future of the oil order, and the world order-in-general: either “multilateralism” (i.e., continued globalization), or “interests and empires”.64 There are two principal issues within the oil order to consider in this regard.

3.1 Increasing capacity: FDI and re-privatization?

The most fundamental is the imperative to increase the productive capacity of the global oil system over the next two decades to meet the increased demand arising especially from China, India and other rapidly developing states, along with stubborn demand growth in the U.S. The International Energy Agency (IEA) has projected, in its past two bi-annual World Energy Outlooks that world oil production would have to increase by two-thirds between 2001 and 2020[xyz] to satisfy this projected increase in demand.65 This general trend in demand has become reality: with Chinese demand, and world oil prices, surging in 200366. By the summer of 2004, China

66 This was partly anomalous, in that China had begun to build gas turbines for electrical production, as a cleaner alternative to coal; however, the unexpected rise in natural gas prices led to China not signing long-term natural gas contracts they had expected to accept. Hence, China purchased oil short-term to allay critical shortfalls in electricity production—the other hydrocarbon which can be burned in such turbines. This stop-gap, on top of increased Indian,
surpassed Japan as the second largest importer of oil, and the IEA expects it to surpass the US as the largest oil importer by about 2020. A extraordinary, comprehensive energy-economics study by the IEA, entitled *World Energy Economic Outlook, 2004*, estimated that expansion of worldwide oil facilities to meet this demand will require investments of about $3 trillion over twenty years\(^6\). This represents a level of investment so large per each oil-producing state, that the question arises as to whether the OPEC states would be able, or, even if able, willing to expend such huge amounts of capital to expand their production. With two-thirds of the earth’s proven reserves now in about five MENA states bordering the Persian Gulf, it is absolutely clear where these investments would need to be concentrated to meet such a goal. This would ordinarily exceed the abilities of any OPEC or non-OPEC oil-producing state to accomplish using only their own funds. During the present oil-revenue boom, of course, this ability is not so unthinkable for those Gulf states other than Iraq (with its insurgency) and Iran (under U.S., and soon under possibly wider sanctions), and other-MENA-OPEC states now receiving huge oil revenues. However, there is no guarantee this price level will continue, as new production begun in the year or so after the price spike of 2000 [the rebound which followed the 1998 Asian Financial Crisis price collapse] comes on line. Such new capacity nowadays typically takes about seven years to develop. All things considered (and there are many more issues to consider as to whether the OPEC-MENA states are willing to self-invest for such an expansion), this level of investment has, from its first anticipation, during the Clinton Administration, been seen as demanding substantial foreign direct investment (FDI).\(^8\) This is an extremely fraught issue for the MENA-OPEC states (as well as for major producers such as Venezuela, Mexico, etc.)

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\(^8\) REFERENCE ON FDI being required
It was just over thirty years ago that the oil fields in OPEC and most other Third World states where managed by the international oil companies (IOC’s) as “concessions”. That is, the IOC’s generally held these fields as their private property, and they paid taxes or royalties to the local regime on the oil they pumped. It was they that set the prices of the oil pumped, generally with little or no input from the local states, which were kept in the dark to the maximum extent possible as to the functioning of the world oil market.69 This system perpetuated the legacy of European colonialism. However, this form of foreign private property in natural resources was suddenly abolished by the “OPEC Revolution” associated with the Arab-OPEC (OAPEC) oil embargo of 1973. In the space of a few years, the OPEC states succeeded in nationalizing IOC concessions within their territories, a process which must be understood as a world-historic revolution in the ownership of natural resources. When the OPEC Revolution nationalized petroleum resources, many oil producing states wrote specific prohibitions against foreign investment in petroleum fields into their national laws or even their constitutions. It was aptly described at the time, by a future OPEC ... minister, as “… xyz first collective seizure of natural resources ...”70

In light of this history, one can assume that various sections of the populations of these oil-producing states might well take a dim view of any push from the US or other OECD71 states to reopen their fields to FDI today, especially if this involves out-and-out purchase of fields (i.e., any re-privatization). Nevertheless, the political elites of many oil-producing states have been making efforts over the past decade to alter their hydrocarbon laws and constitutions so as to permit precisely such FDI. For example, in Mexico, a non-OPEC state, both the chief executive of the

69 Pelletière ...
70 Op Cit, Yergin, Daniel, The Prize: The Epic Quest for Money and Oil”, p. ..., Yergin attributes this statement to ..., later the OPEC secretary general xxxx.
71 The Organization for Economic Cooperation and Development is comprised of 27 countries. “OECD” is generally how the First-World states collectively self-identify.
national oil company, PEMEX, and the 2006 presidential candidate from outgoing-president, Vicente Fox’s party, have come out in favor of changing the time-honored provision of the Mexican constitution dating from 1938 which outlaws FDI in Mexican oil. This proposal has indeed engendered the ire of oil unions and other sections of Mexican civil society.

However, that said, in many cases, especially in the MENA countries, these disputes over re-opening the oil sector to FDI are increasingly being resolved, and the response from the middle-class and intellectuals is often somewhat positive. This new relative openness of many non-elite sectors of society to FDI in oil is conditioned by frustration with corruption and the slow pace of state-sector-financed development not only in oil, but national economies in general. There is a feeling that increased private-sector growth is the only chance to create alternative power centers to the corrupt state-sector, and to stimulate economic development. As for the attitudes of elite sectors, several major oil-producing states, including Venezuela (immediately pre-Chavez), Mexico, Kuwait, and even Saudi Arabia, issued their first invitations to international oil companies to outright purchase certain nationalized fields in reaction to the oil-market downturn during the

72 This was, for example, the author’s experience in Algeria in 2005 while lecturing at the Universite d’Alger. It is clear, however, that in Bolivia, Peru and other Latin American states where there have been revolutionary uprisings recently, often sparked by opposition to new natural gas and petroleum deals with foreign companies, this is not the case. At the same time, with the election of the new indigenous president of Bolivia in late-December 2005, Mr. Imarez, it was said by the BBC that the new government recognizes that FDI would be needed in order to significantly develop the nation’s natural-gas deposits which hold great potential, although its policy will be to keep 50% of the profits. In fact, this is consistent with the Chavez government in Venezuela, with Putin’s in Russia and a number of Middle Eastern states. Without capital of their own, especially public-sector capital, it appears that all hydrocarbon-producing states, of whatever political persuasion, are coming to accept FDI as a universal necessity, and the level of oil rents (collected via taxation or revenue sharing, etc.), might today be equally high in a right-wing or a left-wing producing state (it seems, the global political-economic forces of the hydrocarbon system act as a certain universal leveler in this regard). Further, as in other formerly purely public sectors of the economy, one factor giving privatization a significant boost is that the state has only so much capital available for all its investments. As long as it can retain the controlling interest in the oil sector, opening up the remainder to FDI frees up public capital for investment in sectors which are very sensitive and/or in which it cannot attract private capital, domestic or foreign, such as for social services, infrastructure and public works, military and security forces, etc (See: A. Meyers-Jaffae and xyz, *Iraq’s Oil and Constitution*, IAEE 25th National Conference, September 2005, IAEE Winter 2006 Newsletter, p. xyz.)
1997-1998 Asian economic crisis—although they later retreated from these plans—this is a very significant event towards the newly evolving globalized oil order.

U.S. Vice-President Cheney’s “National Energy Plan” (NEP), in Chapter Eight, praises the progress already made in this opening to FDI by several MENA states:

“Algeria, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates (UAE), Yemen, and other states in the region with which we maintain diplomatic relations have all, to some extent, opened their energy sectors to international investment. This development provides an important opportunity to further encourage foreign investment in these important energy producing countries, thereby broadening our shared commercial and strategic interests.”

And, in particular:

“Recommendation: The NEPD Group recommends that the President support initiatives by Saudi Arabia, Kuwait, Algeria, Qatar, the UAE, and other suppliers to open up areas of their energy sectors to foreign investment.”

Given the relative size of the oil sector in MENA and some Latin-American states, such a development would certainly contribute to weakening producing countries’ public sectors in general, to integrating them into the global flows of private capital, and play a role in establishing the norms of capitalist private business including financial markets, insurance, taxation, courts, etc. As this development continues, the state sector will undoubtedly continually give way to the expansion of the private sector not only in oil, but to the private-sector-in-general, and to a larger class of private capitalists along with it. The neo-con persistence in militating in favor of political “democracy” in the Middle East is, it would appear, not unrelated to a desire to further this economic opening for private capital, by appealing to these emerging private-sector capitalists of all sorts in their struggle against the continued market hegemony of the state-public sector.

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73 Pelletière, Stephen; Iraq and the Global Oil System, p. xyz. Interestingly, Pelletière indicates that this oil re-privatization plan was disrupted by Saddam Hussein.


75 ibid. p. 132 [check: xyz]
What should not be missed here is the fact that this National Energy Policy was published by the Bush Administration in 2001—in its first year in office. Hence, this opening of MENA states to FDI was also the policy of the previous, Democratic administration of Clinton-Gore.

In any case, it is not a matter of controversy within the oil sector that there is a very real imperative to increase the global output of oil by roughly two-thirds over the next couple decades if the Age of Oil is not to come to an end.76 This would be an utter disaster for the global economic system wherein, today, literally every single state across the globe depends primarily and overwhelmingly on petroleum to fuel its transportation sector. Roughly 40% of the entire world’s energy is today derived from petroleum, a higher percentage than from any other single primary energy source, including coal and natural gas. And this percentage will, according to the IEA and EIA, remain about constant for at least 30 years in spite of any E.U. or Japanese increase in fuel efficiency, precisely because of the tremendously increasing Chinese, Indian and other developing-and transition-states’ demand.

So, in sum, expansion, of the capacity of the global oil system is the first problem driving the current restructuring of the global oil system. This requires more capital than OPEC states can invest themselves from their public-sector governmental capital funds or those of their NOC’s (national oil companies). Thus, very significant FDI is required if this capacity expansion is to take place.

3.2 Containing volatility: A global-era OECD-OPEC ‘Great Cartel’?

Secondly, the present restructuring of the global oil system is designed to re-establish a system capable of containing the volatility always inherent in the oil market as the stress of

76 See the Report of Independent Consultant to the EU on the Green Paper xyz
increased demand and lowered backup reserve capacity ("shut-in" capacity) grows. That is, the aim is to re-establish a system capable of maintaining the price of oil within a band acceptable to both the OECD\textsuperscript{77} consuming states and the major oil-producing states inside and outside of OPEC.

Historically, this task of controlling volatility was first accomplished on a large scale by the Standard Oil cartel of the late-19\textsuperscript{th} and early-20\textsuperscript{th} centuries, located primarily in the U.S. Eventually this cartel was dismembered by the American government led by "trust busting" politicians such as Teddy Roosevelt, who reasserted the primacy of the American state in such matters. Then, shortly before WW I, three British oil companies, one of which was principally owned by the British Government (the Persian National Oil Company), established the "Great Cartel"—mentioned above—in the Persian Gulf Region. This cartel was later joined by American companies which were spun off from the Standard Oil cartel when it was broken up. The Great Cartel enforced the famous "Red Line Agreement" to exclusively control the pumping and worldwide delivery of oil from their concessions. Like the Standard Oil cartel before it, the Great Cartel, once established, could in a fairly straightforward manner, set pumping levels and prices. It is important to understand that there was very little oil available to be sold on the open market (i.e., on the "spot market" in those days). The IOC's comprising the Great Cartel were highly vertically integrated monopoly-capitalist concerns, and thus able to handle within the confines of their own companies the details of everything from production, transport and refining—right through to the final retail sales of gasoline through a vast network of branded gas stations—throughout Europe, N. America and elsewhere.

Insofar, therefore, as these Cartel members were able to suppress competition between themselves and to exclude outside competitors, this allowed them to largely "contain the volatility"

\textsuperscript{77} "OECD" or "Organization of Economic Security and Development," is the official, self-identifying term used by the 26 states otherwise popularly known as "The First World". For various geo-strategic and economic reasons, a few states have been accepted into this club, such as Turkey, which are more properly consistent with "Transitional" or semi-Third-World status.
of the oil market “within their enterprises,” as Daniel Yergin explains clearly in his epic work on the oil sector.  

Placing the question in more general terms, the Standard Oil cartel, and the later “Great Cartel” were two particular forms (instanations) of economic-control (market-control) institutions for the oil sector of their respective times. The Great Cartel oil-market-control institution finally died only with the nationalization of oil fields after 1973 which had abolished the system of IOC private property in oil fields on which it was based. Today, IOC’s, they now control only about 10% of the world’s proven oil reserves, while the remaining 90% is controlled by NOC’s (national oil companies) of the developing and transition states so that, if new global market-control systems are to be established, both IOC’s and NOC’s and their respective governments must participate in this new system. Hence, the 1973-74 change in property relations in oil has required capitalism to find a new form of institution to control/contain its ever-present market volatility and thereby protect its profitability. This requires globalized cooperation within the sector. This time, however, the cartel which is formed (a modern version of the Standard Oil Cartel and of the Great Cartel) can not be effective if it is established merely among the big IOC’s and the major capitalist states. Rather, this time, it must be a system involving an extraordinary level of cooperation/collusion between both the IOC’s and the NOC’s and their respective states.

This is a further respect in which the 1970’s OPEC Revolution was a real crisis for capital in that it has required a reorganization of the entire global oil sector. However, no one should have any illusions as to the character of this revolution in property relations. This was a bourgeois nationalist revolution. The OPEC states and their elites (which ranged from popular leftist to quite reactionary rightist regimes of both the secular-military and religious-monarchist types) were fighting for “equality” in property relations with the former-colonializing capitalist states. And this is

78 Yergin, ...
precisely what they got. They themselves are now required to develop and market their own oil. In a word, they have themselves gone into the oil business and they have done so in a really big way. Given that the former colonial lands' national NOC's control about 90% of all proven oil reserves, while the big IOC's that formerly ran the show now control only about 10% of proven reserves. (And, meanwhile, the IOC's are often today described increasingly as "service companies," selling their expertise and high-technology upgrades to the producing-states' NOC's.) The NOC's now are now major oil companies in their own rights, even beginning to go abroad and invest in other countries fields, and offer services as well. And, so, what should not be surprising to anyone is that they are now concerned just as much as the IOC's have always been with the details of the stability and "security" of the oil market and its profitability. In short, capitalism--albeit primarily in the public sector—has expanded greatly in the OPEC states as the result of the OPEC Revolution.

So, these are the two problems driving matters towards the new, more "cooperative" and, especially, more integrated, international oil system.

4 The role of force: Consolidating the globalized oil system

A full treatment of the issue of the role of force in the past fifteen-plus years by the U.S. superpower is beyond the scope of the present paper. However, one cannot conclude the present account without some indication of the relationship of the developments described herein to the emergence of the dogged U.S. insistence of the removal of the Iraqi regime of Saddam Hussein, even against the objections of its erstwhile European Allies, as well as Russia and China; and, its high degree of hostility (this time along with it's Western European allies), towards the Iranian Islamic clerical state of the mullahs.
This much is clear: Iran and Iraq have a tremendous amount of oil which must be developed at some point in the near future (within 5-10 years) in a major way if the oil order is to meet the targets defined by IEA and EIA projections (reiterated in the Cheney “National Energy Program” as well as OPEC documents) so as to prevent a severe global shortfall in the production of oil by about 2020. All major parties to the international system agree on these projections;\textsuperscript{79} and, since Iraq and Iran, give or take, have the second- and third-largest untapped proven oil reserves in the world, they must be brought on-line fully if the looming production-shortfall crisis is to be avoided.

But the long and short of it is that the U.S., over at least the last three administrations, has, in effect, insisted that any major increase in the pumping capacity of Iraq and Iran must be done without the “rogue” regimes which were/are in place in Iran and Iraq respectively. To the American leadership’s way of thinking, these “rogue” regimes could not be trusted, no matter what agreements or “Grand Bargains” might be struck in the present; these regimes cannot, in their opinion, be trusted to not use the prowess such expanded petroleum production would bring to bear to undermine U.S. MENA-regional hegemony – which, as time goes on, will be more and more tantamount to global oil hegemony. The view of Washington and London has been that were these two states’ (and, perhaps, Venezuela under Chavez, but less so) to receive some tens-of-billions of dollars of FDI, their oil outputs might reach some appreciable fraction of that of Saudi Arabia. But, where these states still to be ruled by elites not in line with the new integrating, technocratic and globalizing market spirit, the consequences would be unacceptable.

Hence, the goals of interventions in Iraq, and possibly in Iran, is to install new governments which will accept and protect FDI, not threaten embargoes, and not build up forces against

\textsuperscript{79} We must leave aside for now the complex issue of how accurate and reliable are these predictions, not to mention whether there are actually sufficient liquid-oil reserves in the ground to accommodate such growth (the “Peak Oil” school insists there are not), and etc. The point here is that these forecasts are extremely widely accepted and quoted, and they are not unreasonable; hence, they can be assumed to define the general landscape upon which all OECD and OPEC states, as well as IOC and NOC managements and petroleum financial markets, generally base their policy decisions.
neighboring oil states. Bourgeois democratic states of some type would be the preferred vehicle, but, the minimum program is to simply establish new states in Iran and Iraq that insure security for FDI and which will not use the tremendous oil-production capabilities and global market shares they will soon have as a weapon against the interests of either the IEA or other, traditionally antagonistic, OPEC member states. Optimally, they would be states which are reduced to the status of protectorates—precisely as have been the other major Gulf oil[-producing states of Saudi Arabia, Kuwait and the UAE.

There are multifarious different factors, nuances, and details one needs to consider here, especially to understand how and in what manner it is that U.S. hegemony is reproduced, albeit in new forms, within this now-globalized order. But, the bottom line is this: The invasion of Iraq, and perhaps soon, U.S.-British-German-French-initiated hostilities to change the regime in Iran—with all the bloodshed and misery this may entail—these “policies”\(^80\) are but adjuncts to the larger political-economic imperative of building the new, globalized oil order as described herein. This is the material-economic basis for the pre-emptive and unilateralist U.S. appetite for “resort to force” in the Persian-Gulf Region.

\(^80\) One hesitates to use the word “policy” in such a circumstance, as, in light of what has been explained here, the reader, it is hoped, can see to what extent it is the logic of the market itself and of the historically concrete “objective conditions” in that market, which impel the actors towards integration, co-operation, towards globalization in oil. In particular, drive them to consolidate Iran and Iraq, with their tremendous petroleum-production potentials, as reliable participants in the new oil order. In this light, calling the invasion of Iraq, and hostility to Iran merely a “policy” should not be taken as a statement that it is merely a subjective project of Neo-Cons and right-wing Republicans under Bush. In fact, there is no significant systemic opposition to this “policy” from amongst the U.S. Democratic Party.