OPEC's barrel of oil and the world wars

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CHRONICLE

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THE history of oil illustrates how modern civilization has become a fossil fuel society and we, in the language of anthropologists, known as Hydrocarbon Man. At the end of the 19th century, John D Rockefeller had become the richest man in the United States mostly from the sale of kerosene, known as the new light, which pushed back the night and extended the working day. Gasoline was then only an almost useless by-product of crude oil, which sometimes managed to be sold for as much as two cents a gallon, and, when it couldn't be sold at all, was run into rivers at night. But as the invention of the incandescent light bulb seemed to signal the obsolescence of the oil industry, a new era opened with the development of the internal combustion engine powered by gasoline. The oil industry had a new market and a new civilization was born.

In the 20th century, oil, supplemented by natural gas, made a coup and toppled the regime of coal as a power source for the industrial world. Today, even in a least developed country such as Bangladesh, we are so dependent on oil, and oil is so embedded in our daily doings, that it has transformed our contemporary landscape and our modern way of life. Indeed, oil is not fool's gold like chalcopyrite. It is liquid gold. Any country in the world who has found oil is proud of the possession. For most of the century, growing reliance on petroleum was almost universally celebrated as a good, a symbol of human progress. However, with the rise of the environmental movement, the basic tenets of industrial society are being challenged; and the oil industry in all its dimensions is being scrutinized and criticized. Because of the resultant smog, air pollution, acid rain, and ozone depletion, efforts are underway to reduce fossil fuel use. Even today, with about six percent of the total population in the world, the United States consumes over thirty percent of world oil. Oil, which is so central a feature in the world, is now accused of fueling environmental degradation. But the consumption of oil has increased every year since its discovery in 1859. No one shows any inclination to give up modern transportation and other conveniences offered by oil, whatever are the environmental questions or whatever price hike takes place in oil sales. Thus OPEC survives and the international oil companies thrives, year after year.

The modern story of oil is 144 years old, peaking in the 1970s. In April 1973, King Faisal of Saudi Arabia sent his Oil Minister Sheikh Ahmad Zaki Yamani to Washington with the first warning that Saudi Arabia might not increase its oil production, or even maintain its current output unless there is a correction in US Middle East Policy. The then President Nixon was unresponsive and uncompromising. Even thirty-one years later in 2004, President George W Bush maintains the same posture about Palestine and Israel. The situation has aggravated now. In response to a question concerning US reaction to Arabs using oil as a club to change US Middle East Policy, he threatened that if they (Arabs) continued to expropriate and raise prices, "they will lose their markets and other sources will be developed." But the surge of price continued unabated, reaching a record high of thirty-five dollars a barrel in the 1980s. OPEC in fact showed a naked thumb to the US then and shows a glove covered thumb now.

Not since the Trojan Horse and the atomic bomb had a new war weapon been devised that was devastatingly effective as the Arabs' use of its newly acquired oil power. Paradoxically nobody had planned it that way except the fanatic Colonel Gaddafi of Libya. But it happened in November 1973 -- nobody could stop the oil price hike. The Arabs had ridden a bull out of the chute in a new kind of international rodeo without knowing what kind of a bull it was or even how to ride (now they know). The allegation of their use of oil as a weapon threatens the world even today.

Consuming countries were endeavoring so intensively to persuade OPEC to lower prices. In its September 1974 meeting, OPEC didn't quite raise them directly compared to their 1973 bombshell. It chose an indirect route of raising government taxes on the international oil companies' (IOCs) remaining equity oil. This maneuver deftly shifted any blame on increased prices to the consumer away from OPEC and to the IOCs. The process continues even today. Apparently, the oil companies no longer have any power to determine production levels, investments, and prices.

The IOCs have developed to a high pinnacle of efficiency the art of finding oil, moving and refining it, and distributing it to the consumer on the mammoth scale the world requires. The network of private oil companies is vital to the world's energy trade. Even more important are the accumulated experience, technology, and managerial and planning know-how that makes the complex system work as they want. No outsider really knows what goes on between the oil companies and OPEC regarding price setting in every OPEC meeting. What had originally begun as a controversy between OPEC governments and operating oil companies over who get the biggest piece of the pie had turned into a formidable conflict between the governments of the producing and consuming countries with consumers caught in the middle for the past three decades. The oil companies only make huge profits and earn the least blame.

The multi-billion-dollar question in world history was what the Arabs will do with their staggering amounts of Petrodollars and how the consuming countries would manage the big trade deficits created by their energy import bills. For instance, Bangladesh, a newly independent country in 1971, just formulated its First Five Years Plan in late 1973. The plan estimated an expenditure equivalent to US$100 million in five years for import of oil. Because of unprecedented oil price hike in 1973, the total allocated amount for five years had to be spent in one year or so. In the past twenty five years, although the import volume has increased by about sixty percent, the oil import bill has increased from about US$100 million annually to US$ 650 million in 2003, which would show a substantial rise in FY 2004 and onwards if the price increase persists. When the price of oil rose to US$41.75 per barrel in May 2004 (from around US$30 per barrel) the honourable State Minister for Energy AKM Mosharraf Hossain made a public announcement that he was not worried because he had adequate stored capacity. When the rest of the entire consuming countries were concerned, the Bangladeshi minister was not.

Just a day before OPEC's formal meeting scheduled on June 3 in Beirut, the price shot up to US$ 42.45 per barrel, highest ever recorded in history. Even then the minister was not perturbed Thanks to OPEC, global oil prices shows a sign of retreat as its output boost sinks in crude oil prices. Now York's reference light sweet crude oil price fell to US$38.49 at the close of June 5. The decline was a sign of easing jitters in the oil futures markets in the wake of OPEC's decision to boost production quotas by 2.5 million barrels per day to raise the total to 26 million barrels per day (from the existing 23.5 million barrels a day in May 2004) hopefully by August 2004. But the critical issue is whether global refining capacity will enhance commensurate with the expected production level of oil.

OPEC's decision to raise quotas at the June 3 meeting in Beirut has provided some relief but it is unlikely to bring prices substantially lower. In fact, OPEC is already producing in excess of the new quotas. Apparently, it has a capacity to meet current demand forecasts but the fear of disruption of supplies from Saudi Arabia (the swing producer of OPEC) have not and perhaps cannot be removed. This may happen when demand booms and OPEC is perceived to have insufficient capacity to fill the gap.

The story of oil is the story of how a commodity has shaped the politics of the twentieth century and profoundly changed the way modern societies in the world lead their lives. As we look into the current century, it becomes clear that mastery certainly comes as much from a computer chip as from a barrel of oil. Of the top twenty companies in the Fortunes 500, seven (seven sisters) are oil companies. Until some alternative sources of energy are found, oil will still have far reaching effects on the global economy major price movements can fuel economic growth or contrarily drive inflation and kick of recessions. Today, oil is found regularly not only on the business page but also on the front page of daily newspapers.

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