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Fueling the Superpowers: Nexus of Foreign Policy and Energy Security

Jack Blum

Fueling the Superpowers

Nexus of Foreign Policy and Energy Security

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In the year 1968, Senator Hart of Michigan sent me to the State Department to do something that I believe no one who has handled energy policy on the government side has ever done before or since — I read the entire State Department archive from 1900 to 1968: fifteen, five-drawer file cabinets with every memorandum of conversation, every presidential speech on the subject, all the run-up material, all of the background material.

What I found was an archive that showed that the government had people with minimal knowledge on the subject, who got their information about problems from the people in the industry, and who would manipulate the information to get the result they wanted. And when things would get out of control, they would offer advice to steer the solution in a direction that would best serve the economic interests of the industries.

The first and most important thing for you to understand is that for at least fifty years in the history of the oil industry, its biggest problem was too much oil — I reiterate, *too much oil* — because the price of oil goes down like a rock in a situation of oversupply. The price of oil in the United States of America, actually went below zero during the time of the Great Depression, when the big fields in Texas came in and gushers spilled out on fields damaging crop land, because there was no storage.

The oil industry has been terrified by new supplies of oil, which would be so cheap they would undercut the value of existing production. So if you are an oil company and you have oil that is being produced at 10 dollars a barrel and some fool finds a field in Saudi Arabia where the oil costs, literally, eight cents a barrel out of the ground when it is first discovered, you are going to want that Saudi oil not to be produced. And that's exactly what happened.

Jack Blum is former consultant, United Nations Centre on Transnational Corporations and former special counsel, Committee on Foreign Relations for the U.S. Senate.

In every one of these cases where new oil was found, there were profound and long negotiations and cartelization to prevent cheap production from knocking down the world price of oil. There's a marvelous story of the Iraq Petroleum Company, which will give you the history of why we are in a war in Iraq today.

There was in Iraq a company put together by the major oil companies. It was part of a cartel. The whole story is laid out by the Federal Trade Commission in a 1940 report that was held until after World War II because all antitrust action was suspended for the duration of the war. The major oil companies had come together in a meeting and had decided who would produce oil where. In the Iraq Petroleum Company, the oil was jointly owned by the Americans, Brits, and French. They all had a vote on how much would be produced, and it was agreed that they would not bring on new production unless they were all involved in equal degrees.

The problem with Iraq Petroleum Company was it was the result of the coup in 1957 and the oil was nationalized. The governments of the United States and the United Kingdom and, for a while, the French, said, "That's our oil. We're going to make it impossible for you to sell it anywhere in the world," and they shut the Iraq Petroleum Company's production down cold.

The French began to cheat. They went backstairs to the Iraqis and said, "Look, we'll cut a deal with you. Forget the embargo these guys are running. We'll go behind their backs and we'll help you sell the oil on world markets." The Americans and the Brits used diplomatic pressure on the French not to do it, and we punished the Iraqis for nationalizing the oil.

At the time it was clear to the American companies that the reserves in Iraq were greater than those in Saudi Arabia. And our interest in Iraq was in keeping very cheap Iraqi oil off the market.

But the real problem is not Iraq, it is Saudi Arabia. Saudi Arabia is the elephant in the closet. In 1945 after Yalta, President Roosevelt and King Saud met. Harold Ickes had developed a proposal to turn the Saudi Arabian reserve over to an American company, called the Petroleum Reserves Corporation, which would be owned by the federal government. Ickes perceived that if this reserve was left in private company hands, it would be developed to suit the needs of private companies not the national interest, but that debate was never had in public.

The companies took the reserve and we entered into a marriage, with the devil — a family that says, "We own the country. We get to keep all the money that comes out of these reserves, no matter who else lives in the place. And, by the way, we are going to run the country as a thirteenth-century monarchy. And you, by God, are going to keep it that way and protect us in that job in perpetuity."

So we have a problem here. And it was the same problem we had in Iran. When you set up such a situation: a dictatorial, non-Democratic, vicious government, and you get them in power and you give them all that money, they figure out that they can use the money to manipulate your government.

So they buy in: they buy into your politicians; they buy into your consulting firms; they buy into your political systems; they buy into your advisors.

The Shah did it. The Saudis do it. And, by God, as long as the money is flowing back, which was Henry Kissenger's contribution to this mess, you don't care, because it's coming back and being invested in your own country. So, the attitude is, forget about the deficit. That's not important. The question is, are they buying our bonds? And as long as they are, who really cares?

But the money is here, not there. And the guys who run that country think they own it. And we, of course, are sufficiently delusional to believe that the guys who run that country will listen to us when, in fact, they figure they bought us and we have to listen to them. Again, it is a marriage with the devil and a very serious problem.

Now here's the real nexus. The Iraq war comes because this has been the elephant in the closet for American foreign policy for the last thirty years.

Every administration has been on its knees praying that the corrupt Saudi government will not collapse on their watch, that the thirteenth-century government will stagger through another four years, and that the problem that results when that government goes will be the next administration's problem. Because, the truth is, there are two politically unacceptable propositions in American politics. One, gas lines, which destroyed Jimmy Carter, would destroy anybody else who had to confront them. Two, an unacceptably high price of oil would cause riots, economic disruption, and all kinds of other problems. So what happens if there is a real disruption in supply? There is economic chaos. There is political chaos. Nobody wants it.

What happens if the government collapses in Saudi Arabia? There is the prospect of real chaos and the situation has been getting more and more untenable as time has gone by, with 22 million people in Saudi Arabia, two million slaves, God knows how many tribals who don't get a cut of the action, a bunch of Shia who are working in the oil fields who aren't part of the royal family and won't get the cut.

Essentially two million people get the wealth of the country, and everybody else is cut out. This is not a long-term security situation.

The invasion of Iraq is a reflection of this insecurity. Because had Saddam Hussein continued in power and the Saudi government collapsed, we'd be in a real mess, because then all of the oil in the Middle East would be out of our control. None of it would be sold by American companies. And that is really the bottom line issue: our American companies selling world oil outside of the United States. Think about that.

Now I want to say a couple of other things about reserves which are a function of place and time. Nobody looks for more oil than they reasonably expect to use in the next fifteen years. Period. Because once you've got fifteen years of reasonable supply, if you're a corporation, why the hell do you spend more money looking for more oil to use thirty years from now?

The second point is about price. At a certain price there is enough oil to take care of the world, even with wildly escalating demand for hundreds of years into the future. The question is, at what price? There are such things as tar sands and artificial ways of producing oil. We've got the stuff, the problem is price. It gets too high. The real constraints are environmental.

And finally I have a story that came from my investigation in the seventies, when I was able to look at any document I wanted to see inside the Chevron Corporation. For reasons that I can't go into, we (the Foreign Relations Committee) issued a subpoena and as a result were invited to, as the Chevron Corporation said, "Come search. Look for what you are looking for. You can see anything in the place."

I found in that place the corporation's forward planning documents. All their economists were doing exactly what economists always do: take a point here and project it to infinity. It's a very simple kind of proposition. We expect annual growth at blah, blah, blah, and here is the curve. And they had different cases, high growth, medium growth, low growth. They had all the usual projections. And then there was one future planning document that showed no growth. What was this? What was this document about? And I met with the Chairman of Chevron and said, "What happened here? Why did you propose this?" And he responded, "Well, you know, there was a story of the grain of gold and the emperor. When asked what he wanted he said, 'All I want you to do is take this chessboard and put one grain on the first square and then for the next year put two grains and then keep multiplying, geometrically each year until we get to the last square at which point it would be clear that all the gold in the world was on the chess board.'"

What he was saying was this: "We cannot keep infinitely expanding the growth of the use of petroleum." It just is not possible. There is not enough capital unless we want all the capital in the world to be used to produce energy. And that is the core problem.

I have listened to many somewhat glib statements about converting other energy sources. And it sounds wonderful. But the turnover for the U.S. vehicle fleet is a minimum of ten years. If we started tomorrow, with hydrogen or something else, figure minimum ten years. Assuming everybody went out in their usual time to buy a new car, we'd get there in ten years, maybe. Then there is a problem of supply. Think about the universality of the availability of gasoline.

And then ask yourself, what kind of infrastructure would it take to provide similar universal availability for an alternative fuel. Then think about the dumb way we have constructed our suburbs, which require the use of fuel, and ask yourself what the cost of correcting that stupid mistake will be.

And the dumbest of these easy solutions is, "By the way, we will use corn." I would say that we are committed as far as continuing to use petroleum. And it is important to acknowledge that a major use of petroleum for which there is no substitute is aircraft fuel. You can't go to coal or natural gas. Over 20 percent of the current use of petroleum is to fly airplanes, and there's no good alternative fuel for that.

In the long term the things we have to worry about are continuity of supply, protection through the strategic reserve, and then finally, how to break this terrible cycle of going to bed with the devil. And that's our deal with Saudi Arabia. It's our deal with Equatorial Guinea. It's our deal with one little dictatorship after another.

The crooks who run these countries take the money, put it in our banks, use it for their own personal purposes, and as long as it is invested here, we're happy and they're happy. We get that oil.

But it all has to stop, because it's not sustainable.