

THE MIDDLE EAST CAULDRON

Eretz-Israel, birthplace of the Jewish people, was proclaimed the independent State of Israel on May 14, 1948. On the next day war broke out between Israel and its Arab neighbors. During that same year Israel closed the mammoth Iraqi oil pipeline at its Mediterranean terminus in Haifa. This shut off the oil being exported from the enormous oil fields in Kirkuk, in Iraq. This was an omen of enormous significance of things to happen in years to come. In fact, this may be the true reason for the origin of this barrier nation at that crucial time.

Because this most important oil pipeline from Iraq transited territory claimed by the new State, Israel could claim the option to charge Iraq for transit fees; or to deny the right of passage altogether. Israel chose the latter and demonstrated to the world the power of the strategic barrier role of the non-producing states among those that do. This action was not without precedent in the Middle East, for the same commercial reasons, and with somewhat similar earth-shaking results.

The Turkish army, under Mohammed II, captured Constantinople and ended the East Roman Empire in 1453. Within a few years the victorious Turks had virtually closed the vital spice trade routes between the merchants of Europe and the Far East. The transit costs charged by the Turks for caravan passage were so exorbitant that European merchants banded together to finance

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such voyages as that of Christopher Columbus in 1492. They had to discover an alternative route to the Far East sources of spices. Without refrigeration spices were a necessity to the Europeans for the preservation of food. Israel's action in closing the pipelines along the paths of those ancient trade routes in 1948 forced the oil producers to turn to super-tankers for the transport of oil from production sites in the Persian Gulf region around the Cape of Good Hope to their principle markets in Europe...extra thousands of miles.

The significance of this politically inspired dynamite was not overlooked in the Board Rooms of the "Seven Sisters" oil companies and the oil producing nations. From that day on, the pipeline networks of the Middle East were vulnerable to Israeli attacks, and the new State of Israel had become a willing pawn in the biggest game of all...the battle for money and power. This action proved that a closed pipeline almost always meant immediate higher prices for oil. That was 1948.

On his way home from the Yalta Conference in Feb 1945, at the height of World War Two action, President Franklin D. Roosevelt met with King 'Abd al-'Aziz al Sa'ud [Ibn Saud] aboard the US Navy cruiser "Quincy" in the Red Sea. Earlier, Roosevelt had directed construction of a 50,000 barrel per day refinery at Ras Tanura in 1943...during the Cairo Conference...to assure Saudi Arabian oil availability during World War II. Although the

pursuit of victory was uppermost in the President's mind, in 1943, he knew only too well that the Allies could not win the war, and the peace thereafter, without oil; and Saudi Arabia meant oil in boundless amounts.

During 1945, before the end of WW II, Texaco and Socal (Standard Oil of California), working on a war-time accelerated basis, had organized the Trans-Arabian Pipeline Company, known as TAPLINE. It was said at that time that the planning of the route of this strategic pipeline involved difficult diplomacy because of the mounting tension between Arabs and Jews. The pipeline planners feared Jewish interference with the vital operation of that crucial pipeline if its route was designed to cross on, or near, potential Jewish territory...even in 1945.* (Source: "The Seven Sisters" by Anthony Sampson). This was a grave threat in time of war from a source that ought to have been cooperative.

Actually, construction of TAPLINE was halted by the first Arab-Israeli war in 1948, until an alternative route avoiding Israel could be found. Finally, in 1949, Syria and Lebanon permitted the line to run from Saudi Arabia via Jordan, Syria and Lebanon to Sidon on the Mediterranean coast of Lebanon. It should be noted that this route, and its necessity, increased Syria's leverage for transit fees.

The enormous potential value of Saudi Arabian oil was well

known in the highest echelons of the government of the United States. Although the kingdom of Saudi Arabia had not been created until September, 1932, a New Zealander, Major Frank Holmes, had obtained a concession for more than 30,000 square miles in the al-Hasa Province of eastern Arabia in 1923 from King Ibn Saud the dominant tribal shaykh. This concession and a later one, 1925, were consolidated in the name of the Eastern and General Syndicate. This syndicate eventually turned to the United States for financial backing and aroused the interest of the Gulf Oil Corporation, which took an option from the syndicate in 1927. Because of an internal oil industry problem Gulf was required to re-assign its option to Socal in 1928.

Jurisdictional problems with British oil interests in the Middle East, delayed until November 1932, only two months after the creation of that country, Socal's first step in approaching the new Saudi Arabian government. The establishment of that government was essential to American interests. It is entirely possible that the creation of the State of Saudi Arabia, only a few short months before, was brought about by American interest in the petroleum prospects of that valuable spread of sand. Finally the Concession Agreement was signed in Jiddah, on May 29, 1933, by the Minister of Finance for the Kingdom and by a Socal representative, Lloyd N. Hamilton. This agreement was ratified by the Saudi Arabian government by Royal Decree issued on July 7, 1933. In November 1933 this concession was assigned

to the California Arabian Standard Oil Company (CASOC). This company name was changed on January 31, 1944, to its more appropriate title...Arabian American Oil Company (ARAMCO); the most profitable corporation ever created by man. It was this series of steps that led to the construction of TAPLINE, and to the serious concerns with the potential danger of the Arab-Israeli hostilities...years before the creation of the State of Israel in 1948.

The safety of Middle Eastern oil fields was not a new concern. The British army had occupied what is now Iraq, on Nov 6, 1914, "to assure the safety of the oil fields at Mosul and Kirkuk" and the safety of the great refinery of the Anglo-Persian Oil Company at Abadan. Not many years later, May 1918, the British occupied Kirkuk and later that year they took over the oil facilities at Mosul.

An Anglo-German group had formed the Turkish Petroleum Company in 1914. After WW I, following the defeat of Germany and the removal of Turkey from the region now called Iraq, British, Dutch, French and American interests formed the Iraq Petroleum Company, better known as IPC. One of the largest oil strikes of all time occurred at Baba Gurgur in Kirkuk in 1927. The natural market for that oil was Europe. In 1931, the IPC ordered the construction of a massive pipeline complex from these oil fields to the Mediterranean. The original pipeline runs to Rutba, in

the far western region of Iraq, to a fork. One system goes to Tripoli on the north Lebanon coast; and the other goes to Haifa in what was then Palestine. This latter system was the first pipeline closed by Israel in 1948. It was not to be the last.

In 1952, the IPC opened a new 30 inch pipeline across Syria to Baniyas on the Syrian Mediterranean coast. This line avoided Israel and was planned to make up for the loss of the Haifa terminus. They opened a shorter pipeline, in 1951, from Zubair to Fao on the Persian Gulf to give them, what they hoped would be, an unthreatened outlet over their own land. All told, Iraq exported twenty nine million tons of oil in 1954 when oil was selling for somewhere around \$1.70 per 42 gal. barrel. By 1956 Iraq was producing 633,000 barrels per day.

Oil is mentioned briefly in Genesis, and throughout the Old Testament. Noah smeared his Ark with "pitch" or "bitumen", "within and without." It was produced by the ancient Chinese from wells drilled with bamboo "pipes". Ancient peoples used petroleum as mortar, for waterproofing, as medicine and in some cases as fuel for lamps. It was not until 1857 that the first commercial oil well was drilled in Romania.

The first American well was drilled, for the specific purpose of finding oil, near seepages along Oil Creek, Venango County, Pennsylvania under the supervision of "Colonel" Edwin L. Drake.

The Drake well struck oil at a depth of sixty nine feet. This well launched an industry...one of the world's largest and certainly its most lucrative, powerful and dominant.

On September 22, 1932 the land known as the al-Hasa Province became a part of the new nation of Saudi Arabia. The first American oil prospectors stepped ashore at Jubail, on the eastern shore just north of Ras Tanura, on Sept 23, 1933. From a low hill just south of Jubail they could see the island of Bahrain some twenty-five miles to the east, in the Gulf.

With the aid of camel transport they traveled south to the domal geologic structure that could mean oil. They called this the Dammam Dome. The most prominent hill in the area is Jabal Dhahran, a name that now means petroleum in abundance. By the end of 1933 there were eight oil-men on site working a 320,000 square-mile concession. By the summer of 1934 it had been decided to test the Dammam Dome. One of the petroleum engineers at Dhahran at that time was Floyd Ohliger, a man I met there in November 1943 and again in 1952.

Six test wells were drilled with modest results. Enough to whet the appetite of any oil man. Finally well No. 7 was drilled to 4,727 feet. This was the well that turned the fortunes of the company, and the world. It encountered large quantities of oil; and was completed in March 1938. Without delay that bleak site

at Dhahran was turned from a camp into a community.

A six-inch pipeline began carrying oil to the coast at al-Khobar from where it was taken by barge to the refinery of the Bahrain Petroleum Company (BAPCO). In this modest way the export of Saudi Arabian crude oil made its beginning.

The marine terminal site was chosen at Ras Tanura a narrow spit of land running along the eastern shore of the Gulf. This site required causeway construction far out into the Gulf because the coastal water is very shallow. By the spring of 1939 a ten-inch pipeline ran between the Dammam field and Ras Tanura and thence to an anchorage 3,000 feet off-shore.

The arrival of the first tanker was the occasion of the first visit to these installations by King Ibn Saud. Two thousand persons accompanied the king on this 870 mile trip in some 400 automobiles. A camp of 350 tents was established near Dhahran and the celebration lasted for several days. The king turned the valve to begin loading the first tanker to bear a cargo of Saudi Arabian crude oil. The date was May 1, 1939, precisely four months before the outbreak of World War II.

With the outbreak of the War, operations at Dhahran gradually came to a halt. Enemy action made European markets inaccessible and on October 19, 1940 bombers of the Italian air force flying

from Ethiopia hit Dhahran doing slight damage. The wives and children of the oil company personnel departed during May 1941.

The remaining employees continued production of 12,000 to 15,000 barrels per day and shipped that oil to Bahrain. A new well at Abqaiq, discovered in November 1941, remained shut-down; and the original, 3,000 barrel per day "tea kettle" refinery at Ras Tanura was shut down before the end of 1941.

Despite the attack on Pearl Harbor and the all-out involvement of the United States in WW II in Europe, the Africa-Middle East theater, Asia and the Pacific Ocean, Washington kept a keen eye on these petroleum developments in far away "Neutral" Saudi Arabia. By the autumn of 1943 the United States government had become concerned about the enormous drain upon American oil fields due to the requirements of this massive war. Dhahran and its vast oil potential was needed and could not be over-looked.

Early in November 1943, President Roosevelt directed that an American "Geological Survey Team" headed by General Cyrus R. "C.R." Smith, founder and president of American Airlines, be sent to Africa and thence on to Dhahran not only to investigate the oil fields and their immediate potential; but to bolster the morale of that small stand-by group of oil-men who were riding out the war by holding that franchise at Ras Tanura.

This author was directed to fly General Smith's party, in a special V.I.P. Lockheed Lodestar of the Air Transport Command, from Casablanca to Saudi Arabia and on to India. We left Casablanca on Nov 10, 1943 and flew to Teheran via Tunis and Cairo. We arrived on the island of Bahrain on Nov 16, 1943.

Because of Saudi Arabia's "Neutrality" Gen Smith had made special, secret arrangements for our flight from Bahrain to Dhahran. We arrived at 11:05am of the 17th and were met by Floyd Ohliger an oil engineer and three other CASOC people.

General Smith was impressed with the natural, flat landing ground near Dhahran and made an offer to Ohliger to have it moved to Chicago for use by American Airlines. Ohliger countered by challenging Smith to move a refinery to Ras Tanura, in return. We visited many places where big pipes stuck out of the ground about one foot. Ohliger would unscrew the cap and oil would bubble out...no pumping, no end to it. The Geological Survey party was impressed with what they saw and what they knew was there under the sands for future exploitation.

Because of the shortage of food on Ras Tanura, we went out in a work-boat and caught fish for lunch. By 4:15pm we were back in the air on the way to Bahrain, Sharjah and Karachi.

I have always thought about that visit to Dhahran in 1943...

how tragic it was that while we were engaged in the greatest war in history, a war that ran on oil, these men of CASOC had to delay their plans for the building of an essential pipeline from Dhahran to the Mediterranean Sea, before the end of that war, because of the threat of Jewish hostility.

We did not know at the time, because of extreme secrecy, that the President and a large staff were already traveling to Cairo for a Conference with Churchill and Chiang Kai Shek later that month. Upon arrival, the President was given a briefing on the subject of General Smith's Arabian visit. During that crucial wartime Conference, the President authorized the allocation of vital materials required for the construction of a 50,000 barrel per day refinery at Ras Tanura. This was a direct result of the visit with CASOC and approval of General Smith's proposal that a refinery be built on that strategic site.

The wartime lull at Ras Tanura was over. The project included the refinery, storage tanks, a T-shaped pier with tanker berths and a submarine pipeline to the BAPCO refinery on Bahrain. The pandemonium of a large construction project far from a base of supply was intensified by wartime shortages and government control of all materials and transport. Despite all this, the refinery was placed in partial operation as early as September 1945 the very same month that saw the surrender of the Japanese and the end of World War II.

The enormous importance of the wartime build-up of the CASOC facilities at Ras Tanura, of General Smith's visit to Arabia in Nov 1943, of the President's decision made at Cairo to construct a refinery there, and of his visit with the Saudi King in Feb 1945...only two months before the President died...has been generally over-looked by historians. It has not been given the place in history that it deserves. It was the only time during WW II that President Roosevelt met with the leader of any neutral nation, and he did that for one product...oil. This underscores the extreme importance he placed upon the American development of the Arabian oil fields, both in time of war and for the expansion of American post-war interests.

The vast majority of Middle East oil is sold in Europe. The oil production of the Middle East is, and has been, almost irrelevant to the United States, other than the collateral fact that its price influences the "world" price. Thus the efficient operation of the great network of pipelines from the oil-fields of Iraq, Kuwait, Saudi Arabia and Iran is essential to the economy of Europe. Also, the "world" price of oil generally rises and falls with the tide flowing from the Middle East. This was borne out when, in June of 1947, the ARAMCO partners agreed to put up the price of oil from \$1.02 to \$1.43 per barrel. Effectively, this became a "world" price. By 1948, this had reached \$2.20 per barrel.

The closure of the Haifa terminal of the IPC pipeline from Kirkuk in 1948 was followed by the sabotage of the other branch of that major pipeline system by Syria in 1957. This cut off more than 500,000 barrels of oil per day from Iraq. Shortly before that, in 1956, the Suez Crisis had cut off 1,500,000 barrels a day bound for Europe via the Suez Canal.

As a result of these overt events the price of crude oil increased again in 1957. By the end of 1957 oil shipments through the Canal were back to normal and the pipeline from Iraq through Syria had been put back in full operation. This caused a glut on the market that caused the price to settle back to \$1.80 per barrel in 1960. By 1971 the price had risen to \$2.40, and rose to \$3.01 before the landmark Arab-Israeli war of 1973.

Despite these visible posted prices, by the late 60's, the actual cost of producing a barrel of oil and pouring it into the hold of a tanker at Ras Tanura, including all depreciation and capital investment, was 15 cents. This great difference between the "cost" and the "price" of oil is a most important point to be made as we observe the oil business approaching the period of the "Energy Crisis" as a result of the "Arab Oil Embargo." By 1973 this total cost for ARAMCO had reached 34 cents per barrel, whereas Iranian oil cost 19.2 cents per barrel.

At this crucial point in the world-wide rise of oil prices, a

new factor reared its head. Syria closed TAPLINE, the largest pipeline system in the Middle East, in May 1970. Tanker roles were greatly influenced by this act as prices for Saudi Arabian and Kuwaiti oil rose from \$2.30 to \$3.33 per barrel.

At about this same time the ARAMCO Group informed President Nixon and his advisor Henry Kissinger that, "Any increase in American military aid to Israel will have a critical and adverse affect on our relationship with the moderate Arabian oil producing countries." The record of the Jewish "threat" before the end of WW II, and of the acts of the State of Israel in closing the Iraqi pipeline and causing the strategic realignment of TAPLINE could not be overlooked.

At about the same time, Jan 1971, Jack Irwin, a lawyer formerly with the large New York law firm of Sullivan & Cromwell and then with the Department of State, was sent to the Middle East. He stated, "My mission was to stress to the leaders of those countries the concern the United States would feel if the flow of oil products was to be cut or halted." Something was in the air. Or he may have planted a potent idea for other purposes.

Many have believed that there has been some sort of conspiracy among the oil companies, over and above the public manipulations of OPEC, that has caused the price of oil to rise so drastically without evident reason. Others have suspected a role for Henry

Kissinger, oilman Rockefeller's boy, in his attempt to sell United States made arms and ammunition to the oil rich nations, and to drum up business for his "client" bank Chase Manhattan.

What most people overlook is that the price of oil is never a result of the function of cost to produce and is rarely, if ever, influenced directly by either "supply" or "demand." In fact, oil prices are set via the OPEC scenario and by other intricate maneuvers such as pipeline closings by Israel. Oil men, since the time of the wily John D. Rockefeller, have always wanted us to believe that petroleum has a special intrinsic value that is not related to its market value. They also would like to have us believe that it is of organic/biological origin (which it most certainly is not), and therefore that it is being depleted at a rapid pace.

The real sleeper in all of these controls is that the world price of oil can be arranged at any level as a result of the availability, or non availability of transport. A barrel of oil on the pier at Ras Tanura is not worth much, intrinsically or otherwise; but its value increases...to \$20.00 we'll say in 1989...when transported to Rotterdam, or other key destination.

Transportation makes the economy: not the other way around. And, transportation barons can create prices at the gas pump that have little to do with cost of the product at the well-head.

This is as true in the oil business as it is in any other, and perhaps even more so. Because it is so true, the oil producers like to have more than one economically reasonable method of transport available to them for the purpose of keeping transport prices under control by competitive means.

The modern oil barons learned this game from John D. Rockefeller and his Standard Oil Company when they fought the railroads over freight rates in the latter decades of the Nineteenth Century.

The price of an essential commodity, such as oil, is cut from cloth of many colors. The old Middle East expert, Christopher Rand, who has worked for Standard Oil of California and for Occidental Petroleum, has written, in the Washington POST, 1974, at the peak of the "Energy Crisis":

"... that while the "posted price" on which their [OPEC producers] revenues from the companies are calculated have risen from \$1.80 to \$3.01 a barrel in Saudi Arabia and from \$2.23 to \$4.60 a barrel in Lybia, the cost of producing this oil had gone up not a whit in either case and remained at 4.6 cents [per 42 gallon barrel] from the former and 15 cents [per barrel] from the latter. "

At this same time the average "posted price" for Saudi Arabian crude was \$11.45. In fact, many oilmen were saying, "Gasoline is

selling for \$3.00/gallon in Europe. That is \$126.00 per barrel. What's wrong with \$40 oil?" It is a necessity. They knew that they could get away with it. Most people have to have oil.

Little can be learned from an analysis of such a figure, i.e. \$11.45. No one knows how much of that \$11.45 went to the actual producer, to the oil company, to the transport owners, to the refiners, brokers, and all others along the line.

It is known...from experience with the American Railroad systems...that the carrier is able to treat the product on board as a captive for which the ransom, i.e. rate, can be placed at whatever the market will bear. In other words never count out the control of the transport factor in the movement of oil or any other essential commodity as a key ingredient of price.

As we have said above, when the Suez Crisis of 1956 closed that canal to tanker traffic the price of oil rose precipitously, and did not fall back afterwards. Again, in 1970, when Syria closed the TAPLINE system prices rose from \$2.30 to \$3.33 per barrel, nearly fifty percent, as Saudi Arabia and Kuwait were forced to do business with the tanker consortium. This is particularly true when its movement is limited solely to super-tanker fleets with no alternative competition. For the tanker impressarios to control the cost of the movement of oil they have to be sure that the pipelines are going to be closed and remain closed.

This is always feasible with such willing helpers as Israel and Syria; and is within their control. We have seen plenty of evidence of this since 1948 when Israel closed Haifa.

To achieve an assured advantage in favor of the tankers, all of the pipelines across the Middle East must be closed. Certainly the producers, the owners of each pipeline, would not choose to close their own systems. However, the way country borders in the Middle East have been drawn, there are buffer, or transit barriers between all of the producers and the Mediterranean Sea. These buffer states have the option of raising transit fees, or of shutting the pipelines completely. Such action plays directly into the hands of the tanker operators.

When shipments of oil began from Ras Tanura, in the Forties, the average tanker size was 16,500 deadweight tons. A 50,000 tonner could be put through the Suez Canal but much larger ones had to navigate around Africa's Cape of Good Hope to Europe. In this environment pipelines were profitable. Shortly after the Suez Crisis there was a rush to build tankers in the 150,000 ton class. It was TAPLINE's job to move oil to the Mediterranean economically in the face of higher transit costs and reductions in competitive tanker costs.

Finally the "Environment" became a negotiable factor in the big picture. Oil spills from the old-type single-hull tankers were

highlighted and made to appear ominous. A move was afoot to outlaw these "Environmentally" unsound vessels in favor of monster, double-hulled, tankers of 300,000 dead-weight tons and more, i.e. "Environmentally" safe super-tankers. With the advent of a near-monopoly in super-tankers and with the elimination of small tankers, it was time to make a move of world-shaking proportions. It was time to see how high the price of oil could be driven and forced upon the consumers of the world. By 1972 oil was not a luxury, or product of choice. It had become a basic necessity along with food, clothing and housing.

Whereas the United States Supreme Court had ruled, as in *Munn v. Illinois*, that railroads were "engaged in a public employment affecting the public interest" and could "charge only a reasonable sum," there is no such ruling body on the high seas. The tanker owners of the world could go for broke.

The average price of a barrel of oil from all sources, in the United States, had risen very gradually from \$2.60 in 1948 to \$3.41 in 1971. At that time, 1971, the "posted price" of a barrel of oil in Saudi Arabia was \$2.23. By 1980 this same Saudi Arabian barrel of oil was selling for \$28.67; yet during that "Energy Crisis" decade the extraction costs of Saudi Arabian oil always averaged less than \$1.00 per barrel. Let's see the economic mechanics, and the propaganda, of how this was done.

In October 1973, war again broke out between Arabs and Israelis. Almost immediately, Oct 11, 1973, it was announced in Vienna that there would be an "Arab Embargo" on the shipment of oil from the Middle East. Before long, cars were lined up outside of gas stations all across the country as a result of this "Embargo." But, this was not exactly how things happened.

Remember that "warning" issued in Jan 1971 by Jack Irwin of the Department of State stressing the concern of the USA if the flow of oil were cut or halted? Also, the Arabs has issued a "Teheran Agreement" to escalate prices in Feb 1971. Despite these, the "Arab Embargo" did not perturb the oil companies. It posed no threat to their deepest interest...making money.

Then, in early 1973...before the Arab-Israeli War, things began to happen in Washington. In April 1973 a special meeting was convened by the National Defense Transportation Association in Washington. All major oil consuming organizations were asked to have a representative there. I attended that meeting as railroad industry representative. There were men from airlines, shipping, the military services, and the General Services Administration among others. From the Nixon White House staff, Capt. Charles DiBona, USN. (Presently, Executive Director of the American Petroleum Institute) told us that there was going to be a severe shortage of oil, and before the end of the year it was almost certain that the price of oil would be doubled or tripled.

The airline representative sitting on my right stated that the airlines had already been told that they could not longer renew their fuel contracts for more than thirty days. The GSA man to my left was in shock. He had about 500,000 vehicles to fuel and a fixed budget. The rest of us felt about the same way. That was early 1973 when railroad fuel cost about 11 cents a gallon. How did the White House know, then, that oil prices would rise?

At about the same time, leaders of the prestigious Center for Strategic and International Studies (CSIS), of Georgetown University, had already started work on a most ambitious and unusual four-year-long Federal Staff Energy Seminar. This was a fascinating propoganda operation.

During the summer of 1973, again before the Arab-Israeli War, CSIS had embarked upon a major National Energy Program to cover such things as "how our fossil fuels are produced, the working of the United States national energy system, and new horizons of energy research." They sent invitations to almost every policy office of all departments and agencies, to all Congressional Committee chairmen, their Members and others. The usual attendance was 120-140 leaders. This important group was put together in order to present to them the "party line" for the up-coming "Energy Crisis." The interesting thing to note is that they did this before the "Energy Crisis" had started, and then kept these regular Seminars going for four years, to 1978.

All of this top-level planning was preceded by work done by Jack H. Bridges, CSIS Director of the National Energy Program, formerly with the Joint Committee on Atomic Energy. Bridges had developed a most unusual three dimensional Energy Display System, a nine-piece View Graph set and a booklet entitled "Understanding the National Energy Dilemma" before 1973. CSIS made these sets available for the modest price of \$1,743.95. This elaborate propaganda system had been developed totally, and was ready for use before the start of the "Energy Crisis."

I attended all of these meetings; and, along with many others familiar with the ways of Washington, I marveled at the way CSIS anticipated the "Energy Crisis" and was so sure it would happen. We must admit, this was one way to prepare the nation for what took place during that super-costly decade of the Seventies.

Then came the Arab-Israeli war and the "Arab Embargo" right on schedule. Before long Congressmen were investigating what had caused this crisis and, in particular, what had caused the gas shortage at the pumps along with the fast price rises. An exchange between various Senators and the legendary Howard Page who had worked in the Middle East with EXXON from 1950 to 1970 revealed the true nature of the "Crisis" scenario.

Page stated that the industry had to keep this commodity, petroleum, "the second most abundant fluid on earth" from

becoming so available that its price would drop. The Senators heard that the oil companies worked very hard to portray this embargo as a serious event. Then Senator Case asked Page a key question: "Wasn't output determined by a conscious effort by intelligent men?" Meaning, wasn't output determined by the senior officials of the producing companies?

Page responded, "No sir, it was done by the people in the field. When the tanks got full, they shut back." NOTE: "When the tanks got full." The Arabs did not shut off the oil. The tanks were full and they had no way to move it. This startled the Senator and he asked, "But the input was the demand estimated by the four [ARAMCO] companies?"

"No," replied Page. "It was the ships that came in to load the oil." Here is the entire "Energy Crisis" in its essence. It was the ships that refused to take loads. Now what did that mean?

In 1982, after the price of a barrel of oil had reached \$34.00, I was invited to attend an International Transport Conference sponsored by the most important transport organization on Earth, the Chartered Institute of Transport, in London. I noted on its lengthy agenda a seminar being given on "The Transport of Petroleum." I chose that meeting and was amazed to discover that only seven others, among hundreds, had selected it too. As the meeting began, I learned that the speaker was the head of one of

the largest and most powerful shipping corporations on Earth. He controlled a massive fleet of super-tankers.

During his presentation he stated that the Arabs never "embargoed" oil. He said the idea was ridiculous. It is their only source of income. The oil was piped into enormous storage tanks until they were over-flowing. What stopped the flow of oil around the world was that the tankers did not dock to pick up the oil...many were his tankers. Ordinarily, 300,000 ton tankers can be loaded with 2,100,000 barrels of oil in 30 hours. The oil was there and ready. The tankers waited...for orders.

Meanwhile during those hectic months of 1974, 1975, 1976 the tankers were held in check until the right bid, the right price, was made. Then they would pick up the oil and transport it. Even then, our speaker told us, these loaded tankers would have their destinations changed by radio as demand and prices were raised.

Consider what happened: [These are ARAMCO figures only]

Average prices for ARAMCO oil per barrel

1970	\$1.80	1976	\$12.13
1971	\$2.23	1977	\$12.40
1972	\$2.48	1978	\$12.70
1973	\$3.63	1979	\$17.26
1974	\$11.45	1980	\$28.67
1975	\$12.18		

The Middle East oil suppliers who received \$15,000,000,000 for

their 29% of the world's oil production in 1973 received a total of \$300,000,000,000 in 1980. This is what the control of the shipment of oil by tanker permitted.

There is an enormous lesson in these facts. It had taken years to develop and arrange for that control. It all began when the new State of Israel closed the Iraqi pipeline at Haifa in 1948. In fact it may have been an underlying factor for the unusual creation of the State of Israel at the time it was done. Between Israel and Syria it had become possible for those two countries to shut down all of the pipelines from the Middle Eastern oil fields to the Mediterranean and thence to Europe.

The Suez Crisis of 1956 and the ensuing controls worked out with Egypt kept passage through the Suez Canal limited to small, inefficient tankers. The "environmental" game made it possible to get rid of the smaller, single-hull "dangerous" tankers and to replace them with the new double-hull super-tankers. This resulted in a much smaller fleet of tankers, in numbers, not in tonnage, that was easier to control. Even the Iran-Iraq war of 1981 played an important role in this biggest game of them all. It kept much of the oil produced by those combatants off of the market for almost a decade.

The game goes on. There is much more oil available today than there was in 1973. New giant wells have been discovered and the

reserves in many countries are greater than ever before. Oil is being found in wells that are deeper, and more giant wells have been discovered in the past 15 years than in all earlier finds together. If oil were to be permitted to flow freely, as it could, the world-wide glut on the market would force the price back to its pre-1973 levels.

But this will not happen. An alliance has been made, known as the "Camp David" agreement that awards \$2 billion in USA aid money to Egypt each year for its role in keeping the Suez at its present small size. This agreement awards \$3 billion to Israel each year to keep the Middle East in turmoil and the pipelines in its area, including Lebanon, dry. Syria, for its own reasons, keeps the pipelines through its territory dry. With no way to pipe oil to Europe, the Middle Eastern producers are forced to use super-tankers. This enables the super-tanker consortium to control these vast shipments of oil, as though it were in short supply; and to keep the "World Price" at a level much higher than it would be otherwise.

This is no place to discuss the seemingly endless and groundless political problems of the Middle East; but the story above may serve to explain why it is that ever since the creation of the State of Israel there has been serious and continuing unrest in the Middle East. This is a part of what all of us must pay as the price of oil is maintained at abnormally high levels.

Despite this political unrest, the Israelis make money. The Egyptians make money. The oil producers make lots of money. As Leonard Moseley wrote in his important book, "Power Play":

"The U.S. Department of Commerce, reporting on direct U.S. investments in 1970, pointed out that the net assets of the petroleum industry in the Middle East amounted to \$1.466 billion. The yield from those assets in 1970 alone was \$1.161 billion, representing an annual return of 79.2 percent."

The oil companies make tons of money, because of this Middle East scenario; and the catalyst tanker owners make a lot more money than they would in any other game. That is the value of oil..the biggest game in town.

Today the "World Price" remains near \$20.00 per 42 gallon barrel and there are new warnings that price will be made to rise again. Perhaps the single most gripping objective of that four-year duration CSIS "Federal Staff Energy Seminar" was the establishment of the concept of a "World Price" for petroleum based upon Middle East supplies despite the fact that supplies of oil from those countries is almost irrelevant to the U.S. consumer; the New York TIMES has stated (Mar 7, 1972) that "more than one half of the world oil reserves may be in the Artic Ocean area. This "World Price" continues, in the eighties, to

assure enormous profits for the oil producers, oil companies, the transport consortium and all others who can get their hands into the pot.

These seminars ended, May 8-10, 1978, with an unusually important international "Fourth Quadrangular Conference" on the topic "Dealing with the International Energy Problem, 1980-2000." Three hundred and fifty eight carefully selected guests were invited from around the world. Representatives from 22 foreign nations, and the presidents of many major corporations attended this landmark three-day series.

The luncheon address on May 8th, emphasizing the central theme of the conference, was delivered by Henry Kissinger, Counsellor to the CSIS:

"It is extremely difficult for the U.S. to go before OPEC and plead for a price that is below the World Price."

"We must bring domestic prices to the World Price level."

Echoing Kissinger's theme at the luncheon the following day, James Schlesinger, then Secretary of Energy, said:

"There is no reason we [USA] should be paying a price below the World Price."

Adding to this, Dr. Ulf Lantzke of Germany, Executive Director

of the International Energy Agency in Paris, said:

"The single most important item for resolution is to allow energy prices sufficient to match World Prices at world market levels."

This was matched by Marshall Crowe, Chairman of the Canadian National Energy Board:

"Canada is moving toward the World Price for oil."

The great success of this international conference may be seen when we recall that in 1978 the official price for a barrel of petroleum was passing through the \$12.70 level on its way to \$24.00 in 1979, \$32.00 in 1980 and \$31.00 in 1981. Oil and gas men were saying "Gasoline sells for \$3.00/gallon [in Europe], that is equivalent to \$126.00/ barrel, what's wrong with a \$40.00/ barrel World Price?"

As we look back through the decade of the Eighties we recall that oil prices dropped back into the "teens", and have re-bounded back up to near-\$20.00. Today the oil producers and their industry allies peg the price at a level that is low enough to keep other energy sources out of the business, and high enough to make enormous profits on this plentiful and bountiful commodity.

As we have seen, bringing the price down is a function of OPEC

control and is an easy process. Who wouldn't want it lower? But, keeping it far above what might be its reasonable price based upon the cost of production is a far more intricate task. This is where the network of barrier states in the Middle East performs its role. It is retained to keep all of the essential pipelines to the Mediterranean dry. This is the pivotal role of Israel, aided by Syria and Egypt: and explains why Lebanon and "Palestine" are victims of that "high-dollar", deadly scenario.

Just consider: if Israel and Syria permitted the re-opening of the massive pipeline networks that transit their sand, the boundless supplies of oil from Saudi Arabia, Iraq, Kuwait, Iran, Bahrain and the United Arab Emirates would flow normally to Europe. In no time prices would drop so low that expensive North Sea oil would be shut down and imports from other areas...such as Nigeria...would cease.

This would have a reverse effect upon the World Price and oil prices from all other suppliers would have to be dropped, or those suppliers would lose their share of the market. In such a scenario super-tankers would return to being bulk movers only at the lowest price on most routes and that adjustment too would drop the World Price further to a free competition level.

Our concern with oil supply and price conceals the benefits, to the entire world, of a peaceful Middle East in a climate not

deliberately exasperated by the manipulations of the oil barons and their compliant allies in their zeal to structure the production and movement of petroleum for the greatest profit. They like it the way it is; and Israel thrives on its sadistic role.

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