بسم الله الرحمن الرحيم

In the name of Allah the most Compassionate and Mercifull

The Center for the Publication of
the U.S. Espionage Den's Documents
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were also discussed with officials of Chase Manhattan Bank and Fir
National City Bank of New York, and with Walter Levy. At various times, the broad subject, but not the specific questions, was dis with a substantial number of second echelon officials of the comp listed above and with officials of overseas affiliates of most of The total number of individuals who contributed their views on the list of questions was about 100. Conversations on the same subj held during the last year with an additional 100 company officials.

Some companies had given a great deal of thought to the subj changing conditions in company-government relations in producing consuming areas; others apparently have preferred to react to ev not to try to anticipate them. With a few exceptions, however, not possible to speak of an unflawed, monolithic "company positi Feelings and attitudes inside most companies, as in the Departme State -- not to mention the Federal Government -- vary consideral And finally there are fairly well known differences in approach attitudes among the top executives of the industry as a whole; s traditionally have taken a quite rigid line, others a more comp one. In this report, the specific views of no company and no i will be identified.

IN THE NAME OF GOD, THE

COMPASSIONATE, THE MERCIFUL

Man's access to crude oil may be traced back to several thousand years, but it is not more than a century that he succeeded to drill oil wells in North America and pump out huge quantities of it. Ever since, this source of energy has been gradually making its place in industry. The oil industry has developed along with other industries, providing the possibilities of exploring, exploitation and refining of oil on a large scale. on account of being a cheap and profuse source of energy for meeting human needs, the flow of oil has become the life-vein of industries. Development of oil side-industries, like petrochemicals, during the last few decades has greatly enhanced the importance of oil as a raw material for these industries. The products of such industries like polymers and plastic goods have found numerous cases of utilization due to their low cost of production and facility of industrial application. Due to the rapid development of polymer technology and the scientific know-how, the utility and importance of this material is steadily increasing. For this reason use of petroleum as fuel is considered to be one of its wrost kind of utilization.

Despite the great efforts and large investments which have been put to work by the industrialized countries for finding an alternative source of energy, no significant success has yet been achieved. Due to high costs and massive equipments, application of nuclear energy has its own limitations and cannot play such a significant role. It is worth mentioning that during the year 1975, 65.8% of the world energy requirement were met by gas and petroleum, and 26.7% by coal, whereas the share of other sources of energy (including nuclear energy) was a meagre 7.5% . In any case, petroleum has maintained its top position as the foremost source of energy and will continue to do so in the foreseeable future as well. If we look at this problem from the economic point of view, it assumes even greater and more significant dimentions. The problem of oil continues to influence the economic position of nations and their destinies with an ever faster pace, and the impact of the fluctuations in the oil market on their economies is deepening. In order to procure certain criteria in this regard, the remarks of one of the economics exports of the C.I.A. made in August 1978 about the increase in oil prices are quoted here:

"We calulate that on oil price increase of 10% now has the same economic impact as a 60% increase in 1973*, when the weight of oil in

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*During the year 1973, the oil prices touched an unprecedented height in the world market, and increased from $3 per barral to $12 per barral. (These prices are approximates, which is subject to change according to various types of crude oil.)

economic activity was much smaller. Every 10% rise in real crude prices today would cut one-half a percentage point off OECD GNP growth, boost unemployment by some 500,000 persons, and add slightly more than one-half a percentage point to inflation, besides adding to the already severe balance-of-payments problems of many nations."

Frankly speaking, if the marginal changes taking place in the oil market can alarm the world plunderers to such an extent, so, how the control of oil market would be achieveable? How do they manage to suppress, the legitimate rights of the rightful owners of the oil income, i.e the oppressed people of the oil exporting countries, how do the squanderers of oil steer the ruling bodies of these countries in the direction of meeting their political purposes? How is it that different political parties coming to power in a country like America are transformed into an impeneterable united front on this issue? From where can be found the answers to these and many more such basic questions? The reality is that the information about many of these issues cannot be obtained through the study of reports and articles printed in mass media. In most cases confidential reports and classified materials can prove a useful guide for the scrutinizing and probing of such issues.

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*Quoted form one of the analyses, made by the C.I.A., found among the documents of the Espionage Den.

Numerous documents of high significance which are mainly in possession of top clasification and dealing with oil issue, have been recovered from the U.S. Espionage Den. Before the seizure of the Embassy they were filed separately under the same classification by the Embassy authorities. The significance of these documents will be realized only when one comes to know that this is the first instance that such secret and highly confidential reports regarding the matter of oil are being published, and for the first time are brought to the full knowledge of the public. For the same reason, the inportance of their study and analysis is much more realized. These documents have been arranged in a proper order, and will be published eventually, may God will so.

The Present Document: The International Oil Industry In 1980:

After the discovery of vast oil fields in America the Europeans, who found themselves lacking this great source of energy, started to search for oil in their colonies and the countries that were under their influence. The Brithish discovered oil in the Middle East, particularly in the erea of the Persian Gulf, which the largest oil fields are located in that region. Their avarice and greed on the one hand, and the ignorance and carelessness of the regional rulers of the time on the other hand, increased the lust for exploiting the oil. Hence for the sake of plundering these sources, they tempted the regional rulers and allured them to sign unjust and unilateral agreements. The contracts signed between Naseruddin shah and Baron Julios De Reuter, who was an Englishman and Muzaffaruddin shah and William Knox D'Arcy, (also an Englishman), are among those agreements. Reuter obtained, the monopoly rights for all mineral resources, with the exception of gold, silver and precious stones mines, for a period of seventy years in exchange for the nominal payment of 40,000 pounds. But this agreement was annulled due to the strong opposition of Tzarist Russia. Afterwards D'Arcy secured special privileges and monopoly rights of exploring, drilling and exporting oil, petroleum, gas, tar and natural wax for a period of sixty years through the son of the previous Shah. These royalties were transacted for a payment of just 20,000 pounds in cash and 20,000 shares of the drilling company, whereas the total number of the shares of the company was more than 600,000. As a result of these contracts, technically named as concessionary agreements the national wealth of the poor countries was placed at the disposal of the plunderers, and day by day they became more dependant to their exploiters. For an example, in 1917 A.D. (1295-96 H. SH. Persian calander) the net profits of the Anglo-persian Oil Company (which was established in 1909 by the British government for the purpose of maintaining the royalties obtained by D'Arcy who faced financial difficulties and was unable to continue.) after the deduction of depreciation, internal duties, and royalties was amounted to 344,109 pounds. In that year the royalties which were to be paid to the Iranian government totaled 3829 pounds, but was confiscated in liue of damages caused to the company's pipeline by the Iranian tribes.

Relations between the oil companies, the principal plunderers of oil, and the oil-producing countries were so one-sided that the American officials also had to criticize them in severe terms. In this context the following extract taken out from this very book is noteworthy:

"The attitude, common 60 or even 20 years ago, was that oil copanies made the resource, without their efforts, science and capital, the oil would stay in the ground. The natives, therefore, should be grateful for whatever the companies gave them--and this should not be very much."

"Unfortunately, there are still many in the governments and universities of the producing countries who have not seen that the oil companies have changed."

An analyses of such phrases as 'the changes in the companies', which are mentioned in an approving tone, and 'the changes in favour of the oil producing countries', which are referred to as an essential and positive step, is indicative of the fact that to what extent the royalty agreements and business relations of the oil companies with the oil-producing countries, in the past, were one-sided. In any case, in the successive years, these agreements were renewed with minor changes, which were made, due to the pressure exerted by the public opinion of the countries possessing oil reserves. This was the sole determining factor in increasing the oil revenues of the real owners, who had yet received an insignificant part of the oil income.

The maturity of the public opinion and the relative disillusionment of the masses in these countries, along with the changes that occurred in governments to some extent have been disrupting regular oil exports by past conditions. Sharp reactions against this kind of pillage and repudiation of the plunderers had occurred in rapid succession. But these reactions were usually dispelled by means of political forces and sometimes were defeated by the means of more acute measures like coup d'etats. The deep-rooted struggle of the Iranian people during the years 1948-1953 A.D. (1328-1332 H.Sh.), which led to the nationalization of the oil industry in 1950 (1329 H.Sh.) and expelling of the British, is one of the most remarkable instances of a kind in this regard and the coup d'etate of Aug 1953 (Murdad 28) is an example of the kind of responses given by exploiting countries to these struggles.

With time the situation changed. The maturity of public opinion expanded to such an extent that it became difficult to suppress the public demands in oil producing countries and also their governments were inevitably compelled to reflect them. Thus, the wave of dissatisfaction and anger grew uncontrollably explosive during 1970 (1348-1349 Sh.), and forced the plunderers to reevalulate the conditions with utmost care. A secret document of the U.S. State Department is included in this book, in which the above-mentioned issue has been studied and analyzed. As mentioned earlier, the specific conditions and circumstances prevalent in the oil market and the oil industry are such that they demand dpecific steps to be taken for controlling them. The circumstances have reached a stage that the OPEC countries may make certain decisions which could cause irretrievable losses to the oil companies and consumers, and this would leave them facing a completed act. Therefore, the U.S. State Department has decided to take certain measures in order to coordinate the deliberations of various groups and societies that determine the oil policy of the U.S.A. These societies are in the following order:

-The authorities of the U.S. government in different departments such as the Department of Interior, the Department of Commerce, the Department of State, the Department of Justice and etc.

-The important and main American banks like, the Chase Manhattan, the First National City Bank of New York and etc.

-The management of the principal oil companies of America, the majority of whom are the members of the Seven Sisters, Texaco, Standard Oil California, Standard Oil New Jersy, Gulf and Mobil.*

-Independent American Oil companies:
Atlantic Richfield, Contintental, Marathon, Accidental and Standard Indiana. The main aims of the specific actions which come under the jurisdiction of the State Department are in the following order:

-To propound various questions whose answers will help to determine and resolve the present issues, and the decisions taken by the circles.

-Forwarding these questions to the above-mentioned special circles. To seek their opinion. (the questions are given in the later part of the relevant document in the form of an appendix.)

-A comprehensive analysis of the problems, enabling the decision-making bodies to have a clear picture of the existing situation.

-Proposing measures to be taken for the solution of the existing problems. The contents of the document are

*Two other English companies are Brithish Petroleum and Royal Watch Shell Hollandish.

quite clear and present a clear picture of the role that U.S.A. plays in the oil market and industry. This role is so monopolistic and unilateral that it cannot be fully comprehended unless one probes the contents of the documents, which are explicit statements of U.S. Administration officials. But there are some points in the quoted document, which should be considered with special attention. A minute study of these points gives us a much deeper insight into the crucial problem of oil, and enables us to prepare ourselves as an oil producer and as one of the important members of the OPEC to adopt effective measures vis-a-vis the politics of international oil devourers and their propaganda stunts.

Significance of Oil In American Economy:

Apart from being an industrialized counrty with the highest degree of energy consumption in the world,the U.S.A. is in vital need of this source of energy. From the economic point of view oil is of great significance to her. The huge and exhorbitant profits which are earned through oil transactions, are very important for the U.S.A. in many respects. It is enough to recall that five of the seven major oil companies that devour the world reserves are American, and they enjoy loin's share in exploiting, refining, marketing and supplying the oil of the non-comunist world. In this respect it will be better to look at the subject from American point of view. We read the following excerpt from the remarks of a Department of State analyst:

"The contribution of the international oil industry to our balance of payments is about as great as that of all other investments abroad combined and, hence, is another reason for our concern that our oil companies remain healthy and productive."

It is for these reasons that the Americans are not prepared to give up even one cent of their huge profits, which is in fact the legitimate right of the oppressed peoples and the countries possessing oil reserves. Whenever the question of the partnership of the countries owning the oil feilds in the oil extracting companies, is raised by these countries, as a step towards receiving more profits, the wide spectrum of the U.S. authorities, apart from the nature of their connections with the problem of oil, form a united front to oppose them and declare such a demand as a threat to their interests:

"... each percentage increase in participation could mean a little less than an additional cent per barral of oil produced, ..."

In any case, it is clear that the Americans are not going to retreat even a step from their fortified position of making enormous profits:

"We would not wish, however, to indicate openly at any time that nationalization of oil and converting companies into purchasing contractors would be in any way acceptable to us."

Other Ways for Procuring Crude Oil for Reducing the Dependence on the Present Sources:

As mentioned in the beginning of this paper, various efforts have been made for finding other sources of energy, but due to various obstacles and limitations their production and utilization accompanies many difficulties. In this document the possibilities of obtaining crude oil have been assessed and analyzed. The most important approaches are as follows:

-Obtaining oil from coal.

-Extracting oil from tar sand.

-The secondary and tertiary methods of recovering oil from the wells, whose pressure has become low.

-Extracting oil from Shale.

In view of the high cost of production and extraction of crude oil by above-mentioned methods, the price of the crude oil obtained by these methods cannot compete with the price of oil obtained through the ordinary process. In this document also, as reflected in the following passage, a sentiment of disappointment and frustration can be noticed:

"In any case, there can be very little doubt that the hydrocarbon needs of the United States will ultimately beat least partially covered by oil produced from these two sources, or that these are the major reserves of the world. They are also the most costly of the reserves we are presently considering."

"... the consuming countries could take less oil, but this is scarcely a credible threat as they have no alternatives for this oil either from non-OPEC sources or from other types of energy."

This should be kept in mind that in the documents quoted above, the analyst himself has shown the difference between the cost of oil obtained through these methods and the current price of oil as lower than the actual cost in another paper prepared by the C.I.A., in which the subject was studied with greater technical accuracy, but more negative results are indicated. Therefore it ought to be believed that this subject has been viewed optimistically and these sources are given far greater value than they actually deserve.

The Power of Oil Producers vis-a-vis the Oil Devourers:

The expression, 'oil as a political weapon' has acquired currency in modern terminology. The spokesman who want to emphasize 'the issue of the power of the oppressed people of oil-producing countries' always make use of it. The use of oil as a political weapon has been always criticized by the industrially powerful countries and they denounce it as an act of injustice. Though in this kind of propaganda human moral values and principles are often being emphasized, but it is dubbed as an act of violation of the international agreements. yet if one studies its roots, its motives can be found lying somewhere else. The truth is that the devourers of oil and the industrialized countries have been always greatly alarmed at the unity of the countries possessing oil reserves and have been always trying to create obstacles in the way of the formation of a united front of the oil producing countries.

In this document the exterme weakness of the oil-devourers against the countries possessing oil reserves can be seen in the from of a clash of principles. In this way, even their attempt to seek refuge in the term 'weapon' is itself indicative of the kind of authority and power which the oil producing countries weild, and which the principal oil consuming countries try to weaken through creating obstacles. The organization of the Oil Exporting Countries (OPEC), as the only front formed by the countries possessing oil reserves, has always caused considerable dismay among the devourers of oil. The use of such epithets as 'Oil Cartel' "the organization of eagles" for this organization is illustrative of the fact that every factor of unity which results in the uniformity of the oil policies and consequently safeguards the interests of the real exporters of oil, always becomes the target of grudge and malice of the exploiting countries. The operations of this organization up to the date of the document (1971) gave rise to the sense of intense weakness among the devourers of oil vis-a-vis this organization, and this can be noticed in the following lines of the document:

"With minimal cooperation inside OPEC, (and the cooperation in the last year has been considerable), the OPEC countries should be able to force prices considerably higher in 1976; at the conclusion of the Tehran agreements; and at the same time will be able to force the companies to accept "participation" on OPEC terms, in fact they could do this much earlier if they can work together.

Subsequently the analyst assesses the consequences of the coarse and incongorous attitude of the major oil companies in the following words:

"A return to an overtly, exclusively pro-Israel position would negate most and probably all of the other steps the United States could take to secure oil supplies."

From the political point of view, it should be noticed as to what extent the reactions of the countries possessing oil reserves were taken into account:

Now it is necessary to analyze reason for the monopolization of Saudi Arabian oil reserves by ARAMCO and the plundering assaults of industrialized countries and oil companies over the oil prices on the one hand, and on the other, the reason why the U.S. government shamefacedly is continuing to support the international zionism. Can its reason be other than the disunity and discard among the Muslims and the vaunt and dependence of the heads and rulers of the reactionary Arab states upon the imperialists?

It will not be improper to refer to the problem as discussed in the text of the document. Shaykh Zaki Yamani, the oil minister of Saudi Arabia, in the Beirut congregation of American students in the beginning of 1967, described ARAMCO as follows:

"In early 1967, Saudi oil minister Yamani described ARAMCO to Arab student in Beirut as a "milk Cow, not to be abused, so that the Saudi farmer can exploit it for all it is worth." "

Such a weak attitude, that too, for explaining the shameful actions of the past, shows where lies the main source of the problem. In the following statement, which gives an estimation of the opposite side as compared with the strengh of the oil producing countries, the difference between 'what has to be' and 'what is' can be understood in a better way:

"But even though some company officials as well, may yrean for the good old days, their strength in dealing with governments has been largely dissipated."

In short it can be summarized as follows:

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* The Tehran Agreemenent was signed in 1971 between the OPEC and a three-member committee selected by oil companies. Of the most important features of this agreement it can be noted to a 55% increase in tax payable by extracting companies to the oil producing countries of the Persian Gulf area and an increase of 33 cents per barrel of the price of Persian Gulf crude oil. This agreement was enforced on February 15, 1971.

"In short, the high trumps are all in the hands of the producing countries and will be for next twenty years."

"The companies and the consuming governments, including our own, still have a few good cards which will be described in the next section, but they will have to be played very carefully to avoid a crushing defeat."

Western frauds for creating the desired situation and relations:

Under this heading the present solutions suggested by the various organization and bodies for reducing damages and losses incurred by the disruption of the oil supply, or the ways to froestall the possibility of such a situation have been studied. On the one side, the enormous amounts of foreign exchange which are paid by the industrialized countries for purchasing oil has come under great consideration. One of the objectives of the proposed solutions was to find out the ways of transferring back a considerable amount of foreign exchange to the countries by which it was paid. These solutions were conceived on the basis of affecting and intensifying economic, political and military dependence of oil-producing countries along with the expansion of trade relations with them. This can obviously seen in a portion of the document:

"The great manufacturing countries could win a large portion of this back from the producing governments in increased trade"

This aim was attained by the industrialized countries through the expansion of trade relations with the oil-producing countries. Let us now turn to scrutinize the purpose of these countries in giving technical, economic and cultural assistance to the countries possessing oil resources:

"As the OPEC countries develop, however, this relaince on foriegn goods and foriegn technical assistance will grow and it is certainly to the interest of the consuming countries to assist the development of the OPEC countries. The creation of large middle classes througout the OPEC area and the bringing of the entire population into the money economy, will indead increase these countries' reliance on the oil consuming countries, which supply goods in return."

When the third world countries are allured by the dream of a bright future with the slogans of 'advancement, progress and modernization' then on the propaganda front extensive cultural efforts are being made in order to keep the lid on real motives and intentions, and long-cherished hopes of the plunderers are fulfilled. The oil-producing countries are dispossessed of their weapon, and the opposite side determines as to what they have to do. This situaion is analyzed in the following words:

"This plan, which has been advanced by the EEC officials in Brussels, would favor the close integration of the economies of producing and consuming countries, and would guarantee that an oil embargo by the producer would do at least as much demage to its own economy as it would to that of the consumer. This increasing mutual dependence would thereby provide adequate guarantee of stability of supply."

Supplying highly sophisticated weaponary and creating military alliances/dependencies would enforce the control leverage of oil-producing countries and enhance it's effectiveness. By fanning the fire of national, religious and territorial differences among the countries of a particular region the regional tensions are increased, so that a favourable ground for purchasing weaponary would be created. Subsequently, steps are taken to sell the weapons, so that in this way also, huge profits are made by the arms-manufacturers. On the other hand, they also make their political position stronger vis-a-vis the country purchasing these weapons. In this connection the following passage needs to be probed:

"The official U.S. position in Saudi Arabia is buttressed by growing Saudi desire for American military equipment and technical assistance, manifested by the corps of Engineers' consultant role, Roytheon's Hawk Missile program, and the growing American official and private roles in modernizing the Saudi Air Force, Army logistics, National Guard, coast guard and Navy.

In coclusion, it can be said that dependance of every kind and every form causes more harm than benefit to the oppressed countries possessing oil resources and is advantageous to the plunderer states, which are determined to destroy these sources.

"And if it ever appears possible to tie any of the major producers firmly to the western consumers, considerable effort should be expended in doing it."

Rivalry in the Capitalist world:

The pillage of the oil resources of the oppressed countries by means of excessive exploitation of their oilfields, purchasing it cheeply, and taking back all the money which were paid through imposing the economic alliance on them, has been discussed so far. Another noticeable point is the unsatiable greed and avidity of the capitalist countries which are keen to plunder each others' reasources. The situation is such that the U.S. endeavors to sign a contract with Canada for securing a part of its crude oil. The analyst proposes that in case Canada does not agree to sign this contract, the control and supervision of the Canadian oil should be lifted and its import into America should be declared free. As a consequence of this act greater commercial pressure will be exerted on the Canadian oil and gas, which will result in the greater exploration and exploitation of its resources.

The Last Word:

In the present circumstances wide-spread and escalating efforts are made by the oil devourers to weaken the united front of the oil-producing countries. These efforts which are made due to the relative stagnation in the oil market, and are supported by the vast production of crude oil in the region of the North sea through England, Norway and other non-OPEC producing countries are aimed at launching the price war' among the oil producers and eventually entrusting control of the oil market to the purchasers instead of the producers with an escalating pace. Parallel to these efforts, it is also pretended that the days of the authority of the oil-producing countries are gone, and now the initiative is in the hands of the oil consuming countries. Due to the obstinate actions of certain oil-producing countries, among whom some members of the OPEC are also found, a favourable ground for the oil-devourers and the trumpeters of their propaganda machinary is prepared, who are declaring that the dissolution of the OPEC is proceeding. However beyond all these tumults what is apparent is the unending fear of the industrialized oil-consumer countries on the one hand, and the unprecendented power of the oil-producers on the other. If the producers of the oil, despite all their defects and weaknesses, take a firm stand to defend themselves against the conspiracies and varied front of the opposite camp, whithout any doubt their power will steadily increase in the forthcoming years. We should have a conviction that oil is a weapon, as said by our dear leader, the Imam Khomeini:

"Which weapon that you possess and the world does not possess is the weapon of oil. The world is in need of your weapon. It is the life-vein of the world. This weapon which is entrusted to you by the Almighty God is to be used by you in the path of the Almighty".

This weapon has proved its efficiency in some matters, but so far has never acted with its full strength. If we proceed with firmness and show patience against hardships, we can make full use of this weapon. No doubt, the fate of the multinational companies and the plunderer states, in their own words, will be 'an annihilating defeat'.

Muslim Students Following
the Line of the Imam.
Winter 86

SECRET

THE INTERNATIONAL OIL INDUSTRY THROUGH 1980

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Department of state

December 1971

SECRET

THE INTERNATIONAL OIL INDUSTRY THROUGH 1980

Summary and Conclusions

The world is now experiencing what is very likely its last brie buyers' market for conventional oil. By 1975, and possibly earlier, w will have entered a permanent sellers' market, with any one of severa major producers being able to create a supply crisis by cutting off o supplies. The United States itself can see its current relatively comfortable energy position continuously deteriorating to the point w by 1980, it will be forced to import half of its oil requirements -- largely from the Eastern Hemisphere.

The United States and its allies survived the current OPEC crisi without undue damage by a show of consumer solidarity and by diplomat pressure and persuasion in several of the OPEC countries. The prospe of success will probably be small and shortlived, even if achieved, unless the oil companies are willing to discuss with the producing gc ments some form of a new relationship after 1976.

The USA and its allies have small chance of forcing OPEC to comp with our wishes. The oil producers will have to be convinced that th are being treated fairly, and that they have more to gain by stabilit over a long period than they can by creating chaos and high short te profits.

The USG should call an end to the interminable "studies" on energy problems and start taking action. Decisions must be taken in the United States within the next two years which will enable us to secure our own needs in energy for the next two decades. These decisions to reduce rate of growth of consumption and to raise domestic production and imports from secure sources will be as unpopular as they will be costly. They will require a good deal of political courage, and the State Department should play a leading role in proposing and defending them.

Action inthe OECD to follow coordinated policies on energy matters and a common front vis-a-vis the producing countries, and action in the OPEC to persuade it (or selected OPEC countries) to adopt policies which will insure stability in world oil supplies at predictable prices, will constitute a major diplomatic activity of the United States in the next two years.

The short-run problem of the current OPEC demand for revision of payments as a result of the dollar "devaluation" can probably be met only by the companies agreeing to some higher posted price, or some new basis for payments. We assume this will be done; the companies are already showing considerable flexibility here.

The second current OPEC demand for "participation" will be more difficult. The companies believe it is in contravention of the Tehran agreements and we agree. Most of them will resist the demand and we should give them diplomatic support. We believe, however, that it will be possible

to successfully forestall OPEC action which could go as far as confisca-
tion of properties, only if the companies are willing to start now discussing new company-government relationships after 1976.

If it should not be possible to delay the current moves toward participation, our timetable for working out the new producer-company-consumer relationships will simply have to be advanced from 1976. A steady supply of oil on reasonable terms, i.e., terms consumers can p
and can count on over an extended period, is of first importance.

THE INTERNATIONAL OIL INDUSTRY THROUGH 1980

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I. Preamble

Over the last four years, officers of the Department of State have discussed the subject of the future of the international oil industry with officials of almost all of the oil companies which have interests abroad. Such discussions have been ad hoc and generally have been centered around events of immediate urgency. In 1970 and early 1971, the discussions grew in frequency, although they remain unstructured wit no agenda and few conclusions; and there were no recommendations for action. In July 1971, in an effort to focus attention more sharply on the subject, particularly on goals and on actions which might be taken by the industry and the government to achieve these goals, we drafted and sent to the industry a series of questions (Annex 1). The questions were not meant to be exclusive or to indicate any course of action; they were merely indicative of the problems which would have to be faced and answered before there could be any serious planning for the next decade.

In the last four months, we have had meetings with the five America majors, Gulf, Mobil, Standard Oil of California, Standard Oil of New Jers and Texaco; with Shell (but not with British Petroleum); with five large "independents", Atlantic Richfield, Continental, Marathon, Occidental and Standard Oil of Indiana. The questions were sent to several other independents but, at this writing, no response has been received. The questi re also discussed with officials of Chase Manhattan Bank and First ional City Bank of New York, and with Walter Levy. At various other es, the broad subject, but not the specific questions, was discussed h a substantial number of second echelon officials of the companies ted above and with officials of overseas affiliates of most of them. total number of individuals who contributed their views on the specific t of questions was about 100. Conversations on the same subject were d during the last year with an additional 100 company officials.

Some companies had given a great deal of thought to the subject of ging conditions in company-government relations in producing and uming areas; others apparently have preferred to react to events, to try to anticipate them. With a few exceptions, however, it is possible to speak of an unflawed, monolithic "company position." lings and attitudes inside most companies, as in the Department of e -- not to mention the Federal Government -- vary considerably. several cases there were startling differences of opinion among senior icials of the same company. Less surprising, the views expressed by senior officers in the company were substantially different from those essed by more junior officers of the same company. And finally there fairly well known differences in approach and attitudes among the top utives of the industry as a whole; some traditionally have taken a e rigid line, others a more compromising one. In this report, the ific views of no company and no individual will be identified.

We have also sent the list of questions and asked the views of our posts in OPEC capitals and in the main consuming centers. Their respon have also been incorporated in this paper. One post suggested that com panies have not been strictly honest in that they must know there will changes in the international oil scene and, therefore, must have made elaborate plans to meet these changes. This post believed that the companies deliberately had overstated their intransigence in order to try to gain full U.S. Government backing in future confrontations with the producers. In a sense it would be comforting to believe that the industry was foresighted and imaginative and had carefully orchestrated its plans for facing the serious problems of the 1970's. This, of cour would impute to the oil industry a prescience, a high degree of coordination and a willingness to try to anticipate events. Such maturity an wisdom have notalways characterized even the Department of State. In a case, we have no evidence of such deliberate maneuverings by the indust and have assumed complete frankness and honesty on the part of those wi whom we have spoken.

. Goals of the Companies and the Government

At the start of the study, there were those in the industry who said that the interests and the objectives of the U. S. Government and those of the oil companies were not identical; indeed they might even be said to be broadly divergent. If this were true, cooperation of the industry and the government would therefore be difficult -- perhaps impossible. The companies, they said, were interested primarily in their continued existence as oil producers abroad; the government was interested only in keeping oil flowing and it was a matter of little concern who owned the oil. They quoted statements made by government officials to the effect that it was irrelevent whether U.S. companies or the Russians controlled Arab oil. The Arabs had no market but the West; they could not drink oil; the oil would continue flowing and there could, therefore, be no threat to real U.S. interests or security.

The first objective of the consultations with the industry was to try to define our goals. We hope that, in the course of the study, the concerns of the industry have been answered, and industry now sees that its interests are fully consistent with those of the U. S. Government. If the fate of the oil industry were a matter of indifference to the government, there would be no need for such a study, or for any proposals of action by the companies or the government. We would, with equanimity, let the companies move toward their inevitable confrontations with OPEC and the OECD; we would be nothing more than mildly interested observers. Such, of course, is not the case. The control of the world's main sourc of petroleum is a matter of great concern to the United States. The U.S Government does indeed wish to see the uninterrupted flow of oil, but so do the companies.

The prospect of forces hostile to the United States controlling the oil of OPEC, or even of the Middle East, may not be disturbing to some. But no one in the Department of State could look on such a development with anything but alarm. We know the great currency reserves of many of the OPEC countries, which would enable them to survive long productio cut-offs; we know how small are their populations and how far many are from the money economy; we know their tendency to react out of emotion rather than self-interest (as defined by Anglo-Saxons). We remember what action was taken in Iran in 1950, and in the Middle East in 1956 and 1967. And we know how small Europe's and Japan's oil reserves are; how quickly their economies could be brought to a halt if oil supplies were cut off, and how powerless we in the United States would be to make good these losses.

One of the traditional and most important functions of the Foreign Service has been to protect American investment. This has not changed. The contribution of the international oil industry to our balance of payments is about as great as that of all other investments abroad combined and, hence, is another reason for our concern that our oil compani remain healthy and productive. The United States Government is as interested in the continuing discovery and production of new oil as are the companies themselves; and we are highly skeptical of the chances of oil being found or developed if the international industry is removed from the production of oil or even if its role were severely curtailed.

In short, the industry and the government both wish to see a continuing major role for the U.S. industry in foreign oil production, as well as in transport, refining and marketing. The government and the industry are equally concerned about the need to have a stable atmosphere in which the companies can find and develop new oil reserves, and both believe that a considerable effort will have to be made by both government and industry to achieve the goals of stability and growth in world oil supplies.

This having been said there is a wide divergence of opinion on how best the goals could be achieved. The 200 oil company officials and others with whom we spoke could be broadly divided into five groups:

1. Those who say that the present concessionary system is good -- that any change will be for the worse, and that the only thing the companies should do is resist change with all the forces at their command. The only function of governments -- the consuming governments of Europe and Japan as well as the United States -- would be to back the companies in their confrontation with the producing governments of OPEC.

2. Those who say that change is probably inevitable, but must be resisted at every step. Anything which is given too soon means profits which are foregone. This group believes that they can most successfully prolong their

concessions in oil production by yielding only when absolutely forced to do so.

3. Those who believe change is inevitable, and who are willing to go gracefully into a new era — but may not themselves volunteer any modifications in agreements.

4. Those who are convinced that since changes will be forced on the industry, it would be preferable to anticipate their demands and to make new offers of new relationships to at least some of the OPEC countries. This would create a friendlier atmosphere for talk and might enable them to reach better arrangements than if forced to yield in a hostile confrontation.

5. Those who believe that complete nationalization is inevitable and will probably be soon. The companies should therefore start planning now their new role as purchasers of crude from national oil companies.

All five positions can be defended. Why yield something which is not immediately required? And yet must recognized that intransigence could provoke hostile action -- even complete nationalization -- which could not be resisted. If the future could be seen perfectly, all five groups would meld into one: just before change would be imposed, the companies would yield just enough to keep the producing governments satisfied. Unfortunately, none in government or industry is clairvoyant, and the cost of yielding too soon must be set against the danger of holding out too long. Weighing these alternatives and making recommendations for action is the second objective of this paper. The recommendations will be based on facts as far as we can know them, but the interpretation of these facts will inevitably be subjective.

I. Reserves, Production and Demand

A. Primary Reserves

Between two-thirds and three-fourths of the non-communist world's known reserves of oil are in the Arab countries of North Africa and the Middle East. The figures in the table below are generally accepted by the industry as reasonably accurate.

Reserves in billions of barrels:

U. S.	40	
Canada	10	
Venezuela	15	
Other Latin America	15	
Total Western Hemisphere		80
Arab World *	350	
Iran	55	
Indonesia	10	
Non-Arab Africa	10	
Other	5	
Total Eastern Hemisphere		430
Total Non-Communist World		510

More than half of the Arab total is in the Arabian Peninsula (Saudi Arabia, Kuwait, the Trucial States and Oman). Some geologists maintain that the DeGolyer and McNaughton estimate for Saudi Arabia of 130 billion barrels is underestimated; that the known reserves are considerably higher and that the probable recoverable reserves of that country are at least twice and possibly thrice this figure. The estimate used for Iraq of less than [illegible]0 billion barrels is also low; and the probable recoverable reserves are at least 100 billion barrels. There is a fairly widespread belief in the industry that by 1985 the production of all countries of OPEC except Saudi Arabia and Iraq will have "peaked-out" and will have started to decline, unless they have converted to secondary recovery methods.

The table above is a matter of considerable concern to the consumers of oil and to the oil companies which are devoting almost all of their exploration expenditures to areas outside the Middle East and North Afric They are looking for oil in Southeast Asia, in the Canadian and Alaskan Arctic, in the North Sea, in South America, indeed, wherever there are attractive sedimentary basins. But the fact remains that the great bulk of the world's conventional oil is in an area which is highly insecure and in many cases, is actually hostile to the United States.

B. Supply and Demand

The United States currently produces around 12 million barrels a day of the 15.5 million b/d of oil it consumes. By 1980, if there is no strong government action to reverse these trends, the United States will be consuming around 24 million barrels a day of oil,* but will be producing very little if anything more than at present. This includes the assumption that 3 million barrels a day will be produced in Alaska. Of the remaining 12 million barrels a day, very little more than one million could be imported from Canada, unless the United States and Canada are able to reach an energy agreement, which would encourage Canadian oil

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Estimates vary from 22 million barrels/day (Department of the Interior) to 26 million barrels/day (Chase Manhattan) and depend on a large number of assumptions -- most important of which is the state of the economy during this decade.

production, and perhaps 2 million from other Western Hemisphere sources. This leaves a total of 9 million to be imported from the Eastern Hemisphere, largely from the Middle East and North Africa.

The probable world production and consumption figures in 1980, as compared with 1971, are shown in the following table. They are based on the assumption that there will be an essentially laissez faire policy by most producer and consumer countries, no major disruption in the producing areas, and no major economic recession.

Figures in Millions/Barrels/Day
(Non-Communist Countries Only)

	Consumption 1971	Consumption 1980 2)
U. S.	15.6	24
Western Europe	13.4	27
Japan	4.8	13
Others	10.2	16
Total	44.0 1)	80

	Production 1971	Production 1980
U. S.	12.0	13
Total Arab	15.4	35
(Arab-North Africa)	(4.8)	
(Arab-Middle East)	(10.6)	
Iran	4.3	12
Venezuela	3.8	4
Others	7.5 3)	16
Total	43.0	80

1) The difference between total consumption and production figures is covered by 1 million b/d imports from Communist countries.

2) Assumes Soviet Union production/consumption in balance; i.e., essentially none will be exported and none imported, or imports will balance against exports. British and NATO studies indicate that the Soviet Union will continue to export around 800,000 barrels a day to the non-Communist world in 1980, as it does today. A CIA study has projected net Soviet imports of roughly the same amount. These figures are compatible and well within the range of error in predictions for 1980. In any case, it seems unlikely that either Soviet need for oil or Soviet competition with the OPEC producers of oil will soon be important considerations. The Communist countri of Eastern Europe, however, may, by 1980, import as much oil from the OPEC countries as they do from the Soviet Union. But given the very small base at which they begin, they are not likely by that time to be major factors in the world oil scene.

3) Includes 1.6 million b/d in Canada, 1.9 in other Latin America, 1.9 in Western Africa, and 1.5 in S. E. Asia.

4) Includes 3 million b/d in Canada, 2.5 in other Latin America, 4.5 in West Africa, and 3 in S. E. Asia.

Petroleum seems to be remarkably price-inelastic. This, however, been true only of fairly small changes in petroleum prices. When oline prices in the United States have gone up by 2 cents a gallon, re has been no noticeable decrease in gasoline consumption. Essentially same is true in Europe. If, however, we were to see very substantial nges in prices for example, if there were to be an increase in gaso- ne tax in the United States of 20 or 30 cents a gallon, there would rely be some drop in consumption, and there would certainly be some itch to smaller or more efficient engines. If ex-tax prices in Europe l Japan increase to something close to the American domestic price, at is, if the delivered price of crude oil in Europe and Japan were to crease from the current $2.50 to (say) $3.50 a barrel, then consumption oil would probably be decreased there, too. The question is how much uld it be decreased? * An OECD study of the elasticity of demand for l, with substantial increases in prices, might be a worthy project.

C. Conventional Oil from Non-Arab Sources

The picture could be quite different as far as the United States is ncerned if action were taken now to ensure for ourselves new sources of nergy and more efficient use of available oil. For example, the United

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n in Europe there is very little empirical data on this subject. itish gasoline taxes were raised by an equivalent of 10 U.S. cents/ S. gallon shortly after the Middle East War of 1967. Consumption opped somewhat but rose quite rapidly and within six months was almost actly at the point which had been projected before the taxes had been aised.

States could import much more from Latin America if the political and economic climate in those countries, notably in Venezuela, were such th the investments could be made to find and develop new reserves. Simila an energy agreement with Canada could result in substantially greater production and exports to the United States.

The discoveries of hydrocarbonsin the North Sea have been extrem y important and production from that source may have been underestimate It might reach 2 million barrels a day in 1980, (one source estimates it could be as high as 3 million) but as total Western European consumptio will be around 26 million barrels a day at that time, North Sea producti would still be small compared with imports. There has been a great dea of exploration for oil in Indonesia, but the first high hopes there hav not materialized. This does not augur well for the prospects of the rest of the East Asian offshore areas.

All companies agreed that there is almost certainly a large quanti of oil on the Outer Continental Shelf of the United States. It will, by definition, be impossible to develop it until leases are given beyon the <u>200-meter isobath</u>.The present U.S. Government policy of giving no le beyond that depth may inhibit the development of the technology which w be required to recover this oil. However, in order for the granting o leases beyond the 200-meter depth to be consistent with the President's Oceans Policy Statement of May 23, 1970, such leases must be granted sub to the international regime to be established by the United Nations Law the Sea Conference which is presently scheduled for 1973 Nonetheless sev companies are now working on means to finish oil drilling on the ocean f Whenever this research is successfully completed, the depth restriction now set by the limits on the length of the legs of drilling platforms, ll be removed and it may be possible to go to 2,000 meters or even eper, in other words, onto the Continental Rise. In any case, a policy leasing in the deep sea would encourage development of this technology.

All this is relatively comforting for the United States -- but it ll do relatively little for Europe or Japan, and their dependence on Arabs and Iran has every likelihood of remaining almost as complete it is today. Two-thirds of their present consumption and one-third f the non-communist world production now comes from these countries; y 1980, three-quarters of Europe's and Japan's supplies and almost percent of the non-communist world's supplies will come from them. e absolute increases are even more striking as consumption will almost uble during that period.

It should be pointed out that, up to this point, we have referred nly to production from what shall be called here, "primary reserves." hat is, oil that flows out of the ground under its own pressure, and hose cost of production is extremely low. A good deal more oil, perhaps wo or three times as much, could be recovered by more expensive secondary and tertiary recovery means in the Middle East.

D. Non-Conventional Oil

There are other major sources of hydrocarbons outside the Middle East. For the purposes of this report, they shall be called "secondary reserves" (this should not be confused with "secondary recovery").

These are the heavy oils of Venezuela and the tar sands of Canada and the United States; and the reserves are enormous. Venezuela certainly has a trillion barrels in its heavy oil belt, and possibly as much as 3 trillion. There may be a trillion barrels or more of oil in the tar sands of Canada. Although only a small proportion of this can be produ with present technology, 10 percent recovery (a completely reasonable figure) of a trillion barrels is a hundred billion barrels, or two and a half times present U.S. reserves. The cost of recovery of this oil is considerably higher than from "primary oil reserves." The Venezuela heavy oils, for example, could not be recovered economically with today' taxes in Venezuela and sold on the world market. Neither could the oil from the Athabasca tar sands in Canada. The Venezuelan oil, however, could be produced economically if it had free entry into the United Sta at the United States protected prices. This would be feasible if an agreement with Venezuela could be concluded which would protect our investments, and which would enable our companies to develop the heavy oils. Should this be done, imports from Venezuela in 1980 could be at least twice the figure quoted above. It will probably take a slight rise in U.S. prices, along with free entry into the U.S., to make the Athabasca oil profitable.

Finally, there are the "tertiary reserves" represented by shale an by coal. It is here where the United States is most blessed. The rese of shale in the United States are probably the greatest in the world;

timates of quantities vary, but most agree there are the equivalent well over a trillion barrels of oil in place. Our coal reserves are most as big as those of the rest of the world combined. Oil produced m shale or from coal is even more expensive than that of the "secondary serves", but there is a wide variance of opinion on what the costs ld be. Some believe oil from shale or coal could be produced profit-ly at prices only slightly above today's crude oil prices, say $4.00/rel. Others believe the figure would be much closer to $5.50/barrel. aspect of shale oil which does not always figure into cost estimates the fact that production of small quantities of oil from shale, with tle or no overburden and with adequate water available, may actually less costly than would be production of large quantities of oil from le. A large-scale operation would require deep mining or the removal enormous quantities of overburden, and enormous quantities of water.

There is also a considerable difference of opinion on whether oil ll be produced in large quantities first from shale or from coal. nion seems to be divided almost evenly on lines of interest; those have large shale holdings believe shale will come first; those with nificant positions in coal reserves insist that the problems of coal version are much simpler and the ultimate costs will be lower than oil from shale.

In any case, there can be very little doubt that the hydrocarbon ls of the United States will ultimately be at least partially covered by oil produced from these two sources, or that these are the major reserves of the world. They are also the most costly of the reserves we are presently considering.

E. World Price of Oil Set by Cost of Production of Synthetic Oil

When oil is produced in large quantities from synthetic sources a prices there can be little domestic argument for keeping conventional oil prices low. Even if this were done, and it could be if oil prices were controlled as are gas prices by the FPC today, there is no reason to believe that the prices OPEC countries would command could be as easily controlled. We could put high import duties on imported oil, but it is impossible to believe that the major producers of oil, assum oil is in short supply, would be easily reconciled to letting the U.S. Government cream off the difference between the "real" value of the oi as expressed by the cost of shale or coal conversion, and the cost of imported oil. OPEC has noted repeatedly the income European governmen get from excise taxes on petroleum products. They say that the consum governments take far more revenue from the "OPEC barrel" of oil than d the producing governments, even after the recent negotiated price incr The consuming governments' argument that they are free to set taxes at any levels they wish, and that domestic taxes are irrelevant to prices charged by producers, is not entirely convincing to the producing gov ments. The producers' position is that the true value of the oil and products is expressed by the retail value of the product in the rkets, including taxes and duties. The consumer, by definition, is lling to pay these prices and therefore he has already set the value r the oil. The only other pertinent factor is the cost of alternative urces of energy.

While the cost of shale and coal conversion may be a major factor influencing producing governments to raise oil prices, it very likely ll also place an upper limit on the price of conventional oil. With st quantities of shale and coal available, it can be presumed that, the long run, consumers would switch to oil from these sources if nventional oil prices were to rise above the cost of synthetic oil oduction. This is not to imply that the entire world could or should supplied by the coal and shale and tar sands of the North American ntinent -- at least not in the next few decades -- but a reasonable se can be made for producing the marginal barrel of oil from these urces by 1980 or 1990 if world prices rise above the cost of producing ynthetic oil.

The source or type of oil is today largely a question of economics. chnology has already advanced to the point where oil can be produced rom the Athabasca tar sands (indeed it is already being produced in ll quantities), from the heavy oils of Venezuela or from the coal or ale in the United States; it is primarily the cost of this oil which hibits its production. If the decision were to be taken to produce oil from these non-conventional sources, then dependence of North Americ on Eastern Hemisphere oil could be reduced. Theoretically, oil could be exported today. The Japanese reportedly have been looking into the prospects of producing oil from the Athabasca tar sands, but this is of questionable economics and we are not certain if the Japanese are serious.

The Conventional Concessions

The present concessionary system has worked very well. It is a ιed and predictable system. It has permitted the efficient develop- ιt of oil fields in large blocks. It has given a great deal of opera- nal flexibility, and has assured the consumers of long-run stability their supplies. It has enabled the producing governments to open up ge areas to development and has been responsible for their economic elopment, which in many cases has been dramatic. The system has vided a floor for the revenues of producing governments and has made unnecessary for them to become involved in the marketing of petroleum.

The companies provide the necessary capital and the technology to duce the oil. The producing governments have nothing to supply ept the land and the resources. This is looked on by some in the panies as a gift they have bestowed on the producing areas. The itude, common 60 or even 20 years ago, was that the oil companies e the resource; without their efforts, science and capital, the oil ıld stay in the ground. The natives, therefore, should be grateful whatever the companies gave them -- and this should not be very much. re are some who still cherish this view, but most have adopted much e enlightened stances. In fact, the concessions have in no way been ıld documents but have been amended frequently over the course of the t 30 years, almost invariably to the benefit of the producing government.