It is not possible to discuss "The International Oil Outlook" without considering oil for what it is — just one source among several of the world's energy supply (and one that could in fact — and probably one day will — be dispensed with all together, given time, resolve and a great deal of capital).

But oil — notably Middle East oil — where real production costs for very large volumes of oil are between a dime and a quarter per barrel — is still the cheapest energy available to us. Thus, economically it is only sensible that oil plays a large role in our energy supply for decades to come; and, anyway the lead times for alternatives are such that, practically, we have no choice.

Why should we be so concerned with energy? Production depends on energy. And a better life depends on production — not only for those of us who are fortunate enough to enjoy the thin layer of cream at the top, but for the hundreds of millions of people who cannot yet count on having enough to eat. Production efficiency is not an end in itself; it is the means to an end which is clearly espoused by the very great majority of humankind. And, let me anticipate some potential criticism; this is not a materialistic philosophy. Rather, as Walt Rostow said at the end of his book Stages of Economic Growth, "The end of all this is not compound interest for ever and ever, but the adventure of seeing what man can and will do when the burden of scarcity is in large part lifted from his shoulders."

Before I get right into my subject, let me introduce another quotation. There is an Arab saying that "those who foretell the future lie even if they tell the truth." The only way to approach the subject, therefore, is by means of alternative scenarios, each a description of what the future world might be like, consistent within itself, and which can be used as a means of deciding what we want to do in the meanwhile. I do not mean to predict that any particular future will come about. Each one of the four that I shall discuss is possible. Each of us must make up his own mind as to which one he thinks is most likely. I will indicate my guess.

*President of Asiatic Petroleum Corporation, an American affiliate of Royal Dutch/Shell. An Englishman, he previously held a wide variety of positions for Royal Dutch/Shell all over the world. Before beginning his business career, he served in the Royal Navy for 14 years.
However, whichever of the future scenarios turns out to be the best approximation to reality, there is some very rough water between today and the time when we can begin to see which of the future scenarios is developing. Perhaps it helps to think of this "rough water" as a series of cataracts of which the first was the OPEC quintupling of crude oil prices. Each of these cataracts is a major discontinuity, and each will be an irreversible change. It is no good trying to swim against the current because you can't. If, however, you are alert to the rocks and steer your craft successfully, you can get carried along to some hopefully calmer water pretty quickly.

Perhaps "calmer water" is not the right phrase for the first scenario. This is the possibility that the suddenness and magnitude of the increase in the costs of energy may lead to widespread economic chaos, to which governments react by deflating demand. This in turn leads to hyper-inflation, and to the collapse of the system. In this country, at any rate, there are now hopeful signs that this is altogether too pessimistic an outlook. So let us dismiss it as a nightmare!

The other extreme, the idea that somehow or other OPEC could be cajoled, or forced, or maneuvered into having to reduce the price of oil to $5 or $7 per barrel, has had many influential adherents around the world. Would you agree with me now that we are right in dismissing this scenario as a "dream world," just as we have dismissed the preceding as a nightmare? There is a small possibility that either may come about; but let's concentrate on the other two scenarios which I suggest have a higher probability of happening. These we have called the "World of Internal Contradictions" (WIC) and the "New Belle Epoque." Figures 1 and 2 set out the main characteristics of each of these scenarios. My personal view is that the Belle Epoque is the more likely of the two. I am an optimist.

Let us now go straight to the issue of energy demand and supply. The year 1973 was in a sense the last year of an old era. Oil then supplied 50 percent and oil and natural gas together 75 percent of the energy demand of the World Outside the Communist Areas (WOCA). (Figure 3.)

One of the characteristics of the Belle Epoque scenario is that it foresees a 6 percent annual average growth in the world's economy. Compare this (Figure 4) with the record of the last decade and a half and you will realize that I am postulating the possibility of a substantially higher rate of growth than we have had. Now if we had continued the 1973 pattern of use and 1973 patterns of waste (using this word both in its technological sense and in the sense that implies a value judgment) you will see in Figure 5, in terms of million barrels a day of oil equivalent, how energy demand would grow along with increases in gross world product in the period through 1990. The question we must therefore ask ourselves is "What action do we have to take to meet this potential demand? What are the resources which could be developed by the year 1990?"

Since oil is my subject, let me start with what we call "conventional" oil, i.e., natural petroleum produced or producible using the technologies which are now within our grasp, and making certain assumptions about

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<table>
<thead>
<tr>
<th>Source</th>
<th>The alternative scenarios and the energy demand and supply situations implicit in each were developed by the planning staff of a Shell Service Company. They are based on published material from the OECD, the United Nations and the World Bank, as well as Shell's internal sources.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Figure 1</strong></td>
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</tr>
<tr>
<td><strong>SALIENT POINTS OF TWO SCENARIOS FOR THE WORLD OUTSIDE THE COMMUNIST AREAS (WOCA)</strong></td>
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<tr>
<td><strong>Long-term Economic Growth</strong></td>
<td><strong>World of Internal Contradictions</strong></td>
</tr>
<tr>
<td><strong>Belle Epoque</strong></td>
<td>Industrialized countries well below trend</td>
</tr>
<tr>
<td><strong>Real GNP</strong></td>
<td>1985 WOCA level 50/60% higher than 1973</td>
</tr>
<tr>
<td><strong>1985 WOCA aggregate twice that of 1973</strong></td>
<td>1980 WOCA demand 15% below pre-crisis expectations</td>
</tr>
<tr>
<td><strong>1980 WOCA level 6% less than pre-crisis expectations</strong></td>
<td>Greater emphasis on indigenous resources</td>
</tr>
<tr>
<td><strong>Development of international trade in coal and natural gas</strong></td>
<td>1980 WOCA level some 25% below reference line; W. Europe/Japan demand at 1973 level</td>
</tr>
<tr>
<td><strong>1980 WOCA demand 13% below reference line; moderate growth in W. Europe/Japan</strong></td>
<td>Absolute decline in 1980 W. Europe/Japan</td>
</tr>
<tr>
<td><strong>1980 WOCA level some 25% below reference line; W. Europe/Japan demand at 1973 level</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Moderate growth in W. Europe/Japan to 1980</strong></td>
<td></td>
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</tr>
</tbody>
</table>
Figure 2

BASIC SCENARIO DATA

<table>
<thead>
<tr>
<th></th>
<th>Belle Epoque 1973-80</th>
<th>II World of Internal Contradictions 1973-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP Growth (% AAI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Western Europe</td>
<td>4</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Rest of World Outside the Communist Areas and North America (WOCANA)</td>
<td>8</td>
<td>4.5</td>
</tr>
<tr>
<td>WOCA</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Energy Demand Growth (% AAI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>6.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Rest of WOCANA</td>
<td>7.5</td>
<td>4.5</td>
</tr>
<tr>
<td>WOCA</td>
<td>4.5</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Shell Service Company.
Figure 4
REAL ECONOMIC GROWTH RATES IN TOTAL OECD AREA
1960-1974-1985

Average Rate of Growth 1960-74
4½%-

Higher Growth World 5½-6%
A New "Belle Époque"

Lower Growth 3½-4%
A World of Internal Contradictions

Source: Shell Service Company

Figure 5
WOCA PRIMARY ENERGY

Supply Required with 1973 Usage Patterns

Source: Shell Service Company
the costs of alternatives and thus the price that will be paid for oil at the
technological margin. The first characteristic of oil is that it is finite; it is
a wasting asset and will not last forever. However, the presence of Pro-
fessor Adelman as my critic today inhibits me from developing this argu-
ment from estimated figures of how finite it may be. Anyway I do not be-
lieve I need to, because it may be irrelevant. What matters is how much
oil is found and how much the political owners of the oil expect to be
found and at what level, therefore, they are content to see their reserves
produced.

Figure 6 looks at a different area of the world — at "WOCANA", the
World Outside the Communist Areas and North America. (This in-
cludes those parts of the world where oil imports are vital to energy sup-
ply, and also those countries where oil production is the mainstay of the
national budget and where the question of the relative value of oil in the
ground as against money in the bank is a real one.) It shows the recent
history of additions to reserves, and a guess as to the future.

It is misleading to talk of OPEC countries as if they were homo-
genous, and to overlook the fact that (for example) Algeria, Iran, and
Indonesia can use every dollar their oil production can conceivably bring
them, while others — Saudi Arabia, Abu Dhabi, and Kuwait — have
enormous proved and potential reserves, along with small populations.
These countries, therefore, do have problems of absorptive capacity, and
real doubts about their ability to invest sensibly their growing surpluses of
funds. It is realistic to accept that Saudi Arabia at any rate may believe
in the light of political and economic uncertainties — that oil in their
ground may well be better than money in someone else's bank. There are
indications of this from, perhaps, the eagerness with which Saudi Arabia
is pressing the development of new oil provinces in the "Empty Quarter"
of the country, when they already have in place productive capacity well
in excess of their ostensible production plans.

Once we accept this, we must accept that there will be political as well
as technical feasibility constraints on the oil that is made available. It is,
I suggest, not unreasonable to deduce from the chart of probable future ad-
tions to reserves that some governments will constrain their production.

So now I come back to the previous chart to show the effect of sav-
ings on the spontaneous evolution demand line. From this you will see
that by 1985 — by only ten years from now — we must have some non-
conventional sources of oil — shales and tar sands for example, beginning
to make their contribution.

I have talked about oil and I have said that alternatives will have to
play their part. Figure 10 shows, for the period to 1990 and under the
Belle Epoque scenario, where it is reasonable to expect WOCA primary
energy to come from. Note these three features:

- That while oil's contribution grows, internationally traded crude
  and products will remain at the end of this century at sub-
  stantially the same level as in 1973. Indigenous oil and oil from
tar sands and shale will account for most of the growth in the oil
sector;

- Substantial growth has to come from nuclear and coal. A decade
  from now we may expect coal to make substantial contributions
in environmentally more acceptable forms, i.e., by gasification or
liquefaction.

- You all know the amount of enthusiasm that the idea of solar
  and geothermal energy generates. The contribution that I believe
they can make in our life-times is so small as to be barely visible
on the chart. Nevertheless, solar energy is inexhaustible; and at
any rate it is right that we dedicate a lot of effort and investment
in it.

Let me leave you with one final worry: and again time does not per-
mit me to go through the arguments which I believe limit the potential for
coal and nuclear and natural gas. They consist of environmental, en-
gineering, and financial problems. Taking these constraints into account,
this (Figure 11) is a list of the maximum amounts of energy which are
Figure 6
ANNUAL ADDITIONS TO RESERVES—WOCANA

Figure 7
RELATIONSHIP BETWEEN ANNUAL CRUDE/NGL PRODUCTION AND ADDITIONS TO RESERVES
WOCANA
### Figure 8
LONG TERM CONVENTIONAL CRUDE/NGL SUPPLY AND DEMAND

### Figure 9
ENERGY CONVERSION EFFICIENCIES (Percent)

<table>
<thead>
<tr>
<th>Source: Shell Service Company</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Energy Conversion</th>
<th>Actual 1970</th>
<th>Possible 1985</th>
<th>Practical 1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generation (UK)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>28</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Industry Overall</td>
<td>69</td>
<td>75</td>
<td>72</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road — Gasoline</td>
<td>14-18</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Diesel</td>
<td>30-35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Battery Electric</td>
<td>40 (18)</td>
<td>75 (27)</td>
<td>72 (27)</td>
</tr>
<tr>
<td>Rail — Diesel</td>
<td>30-35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Electric</td>
<td>65 (27)</td>
<td>85 (30)</td>
<td>85 (30)</td>
</tr>
<tr>
<td>Sea — Diesel</td>
<td>35-40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Turbine</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Air — Gas Turbines</td>
<td>25</td>
<td>27</td>
<td>25</td>
</tr>
<tr>
<td>Overall</td>
<td>20</td>
<td>30</td>
<td>23-27</td>
</tr>
<tr>
<td>Domestic Overall</td>
<td>61</td>
<td>70-75</td>
<td>66-72</td>
</tr>
</tbody>
</table>

() = Denotes efficiency of complete electricity cycle.

Source: Shell Service Company
Figure 11
MAXIMUM AVAILABILITY OF ENERGY
WOCA: 1990

<table>
<thead>
<tr>
<th>Source: Shell Service Company</th>
</tr>
</thead>
</table>

- Oil — Conventional
  — Tar Sands
  — Shale
- Natural Gas
- Coal — Hard Coal
  — Brown Coal
- Hydro, Geothermal, Solar, etc.
- Nuclear

### Million b/d Oil Equivalent

<table>
<thead>
<tr>
<th>Source</th>
<th>Maximum (1973 Consumption)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>71 million b/d</td>
</tr>
<tr>
<td></td>
<td>2 million b/d</td>
</tr>
<tr>
<td></td>
<td>2 million b/d</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>1150-1450 x 10^6 m³</td>
</tr>
<tr>
<td>Coal</td>
<td>2800-3400 x 10^6 tons</td>
</tr>
<tr>
<td></td>
<td>400-600 x 10^6 tons</td>
</tr>
<tr>
<td>Hydro, Geothermal, Solar, etc.</td>
<td>450-550,000 megawatts</td>
</tr>
<tr>
<td>Nuclear</td>
<td>Maximum Total</td>
</tr>
</tbody>
</table>
likely to be available in 1990. And Figure 12 shows that this maximum will barely support a 5 percent annual average increase between now and 1990.

It does not do, if you are as I am an optimist by nature, to end with a worry. There is enough deuterium in the oceans to support, through the nuclear fusion process, the level of energy consumption at which we shall have arrived by the end of this century for one-and-a-half million years. This planet receives enough energy from that big fusion reactor out there, 90 million miles away, to supply us forever with 10,000 times that energy consumption. If we put our minds and our money to it, we can learn how to capture sunlight and we can learn how to duplicate on a small scale the sun itself here on earth.

Let me end with one final quotation. It is one half of my recommendation to every government in this world as to its energy policy; it is a Spanish saying: "Do what you want," says God, "and pay the price." The other half is "But do something!"
Discussion

M. A. Adelman*

We're much indebted to Jock Ritchie for that look ahead and he ended it on just the right note with a Spanish proverb, "For God's sake do something." My sympathies, however, run north of the border, with a Frenchman who said, "For God's sake, not too much zeal." Or with my eminent colleague Charles P. Kindleberger who said, "Don't just do something, stand there a minute and think." Those are statements of philosophy and preference only. What I am going to do is supplement what Jock Ritchie has said. He has given us a very illuminating look ahead but he didn't say anything about prices. And yet prices are what every other paper submitted to this conference has been concerned with. And that is what I'm going to add.

Now I'm going to deal with really just one aspect of prices and that is the role played by scarcity. Conventional oil and gas are scarce; they are limited. Everybody has always known this. The trick is to know where those limits are. And the latest paper estimating those limits, to which I will refer later, starts out very wisely by citing the old estimates. At one time it was estimated that there were about 10 billion barrels of oil in the earth, which is less than we now use every year. But I'm going to talk about a world that isn't — namely a world which is ruled simply by scarcity — in order to illustrate what I think is the world that is, namely one that is ruled by a monopoly. Conventional oil is really important for just one reason. It is cheaper than coal and what you can get out of shale and the extent that it is cheaper than anything else.

Let us suppose that in 25 years, and I have a reason for choosing that figure, we are no longer relying on the further development of conventional oil and that hereafter the price will be set by what it costs to get equivalent energy out of coal and shale. A current oil company estimate of the cost of these alternatives is $16 a barrel in real terms. And I would just as soon use this, not because I think it is likely but because it's a good starting point. It may, of course, be a good estimate. It may turn out to be a good one if we let Mr. Rockefeller persuade us to spend $100 a barrel. Now anybody who in 1975 has a stock of oil and looks forward to that happy occasion of increased scarcity will not part with the oil unless he can get an amount which represents the difference between price and extraction costs in the year 2000.

So if the extraction costs 25 years from now are ten times what they are today, the value or surplus of that asset in the year 2000 will be $13.50 a barrel. And if you discount at what I think is a modest rate of 10 percent real, you find that $13.50 is worth $1.25 today. Adding to this a current extraction cost of 25¢ you get a price of $1.50, slightly higher than the price a few years ago.

Only recently, with a price of $1.25 for Persian Gulf oil, the oil trade — according to internal documents of which a few have drifted into our tent — was only concerned about increasing glut and declining prices. Such concerns were justified, for the price in 1975 implied by a scarcity-determined price of $16.00 in the year 2000 would be no more than $1.50. Clearly, scarcity has little to do with today's prices, which are almost an order of magnitude above this.

Now let me explain why I chose a 25-year time horizon. For the ten years before 1972, the last year of relative quietude, the worldwide — or what Jock Ritchie calls WOCA — rate of growth in oil consumption was 7 percent. I call this the autonomous shift, meaning that with no price changes growth in population and income led to the 7 percent figure. However, much of this growth was at the expense of other energy sources, chiefly coal; so that over time you would expect the growth in oil to converge to the growth in total energy consumption, or approximately 4 percent. Now that is a slight overestimate because the real price of energy declined during the sixties but we will have to put up with that slight bias.

Thus, for the period 1975 to 2000 one could reasonably assume that consumption of oil would grow at an average rate of 6 percent if there were no price changes. If, however, prices increase at the assumed rate of 10 percent per year, one must consider the response to these higher prices. With an elasticity of -0.5, which means that for every 1 percent increase in price, demand will decrease by 1/2 of 1 percent, the combined effects of the autonomous growth and the price response is a rate of growth of only 1 percent per year.

If consumption increases by 1 percent per year, then cumulative WOCA consumption over this 25-year period is 484 billion barrels. And if you think that the real responsiveness is a bit lower, perhaps only -3, the cumulative consumption will be 625 billion barrels.

The question is, Against what stock is that to be measured? How much are we drawing down the inventory? Now I'm taking the latest, and I think the relatively conservative inventory forecast of John Moody of Mobil in a paper given in Tokyo last spring. Proved reserves in known fields, which are essentially money in the bank and which can be

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*Professor of Economics at the Massachusetts Institute of Technology. He has been associated with that faculty since 1948 and has done continuing research on world energy problems. His publications include The Supplies and Price of Natural Gas (1962), Alaskan Oil (1970) and The World Petroleum Market (1972).
produced with existing technology and mostly with existing installations, wells, and gathering systems, amounted to 609 billion barrels at the end of 1974. So either we have quite a comfortable surplus or a very small deficit. Now in considering how easy or difficult it is to make up that deficit, I shall turn to John Moody's paper. He says that ultimate reserves in the WOCA area amount to 1,250 billion barrels and if you take account of improvements in technology to permit deeper offshore recovery you may double this. So it is pretty clear that if we simply look at the limits of our conventional oil reserves and ask ourselves what effect they have on price, we have to say none. I'm reminded, I must say, of that Mae West movie where somebody admires the rock on Mae West's finger and says, "Goodness, what a diamond." And she says, "Goodness had nothing to do with that." Scarlet and finite resources and all of that sort of thing have nothing to do with the price of oil which is set now and has been set in recent years by a monopoly, or a cartel to be more exact.

The reason for distinguishing between a high price set by scarcity and a high price set by a cartel is that these are two different ball games and if you are trying to survive, it calls for an altogether different kind of reaction depending on what has generated the high price. First and foremost, there is a whopping big surplus of producing capacity today — far and away the biggest that has ever been seen and one which is going to persist. Some say it will last for at least five years, others for ten or more years — I don't know. The question, however, is how successful the cartel will be in containing this rather formidable pressure. How strong will it be and for how long?

There are two things you have to say about the cartel. One, it is very strong and two, it is very fragile. Cartels are like that. Now you can see this clearly enough in the example which I want to pick from what Arch Ritchie said of Saudi Arabia, where, as he would put it, they prefer to keep their oil in the ground rather than put the money in the bank. Now I submit that if we credit them with ordinary common sense this explanation will not wash. Because if you look only at proved reserves, at present rates of production they now have about 50 years supply and the present value of that barrel far off is nothing, so that there is a very shaky bank. At least they have the use of the money for a few years before everything goes to hell.

If you credit them with common sense you have to say whatever it is that is making them keep the oil in the ground, that is not it. No, actually what makes them keep the oil in the ground is not political considerations. It is good, common, monopolistic sense. If they produce more than a certain amount they will break the price structure. And they are not about to do that. It makes perfectly good sense on their part to keep that oil in the ground forever and ever in order to avoid driving down the price today. Yet, I will confront you with what seems like a contradiction, a fact of which we have somehow to take account. They are actively exploring for new oil and apparently with very good success. Now the only way to account for this conduct is as a hedge against the collapse of the cartel. Collapse is a word used too much, but say the eventual collapse, and in the meantime the severe erosion of the cartel. If that happens, then restraint is off and there is no reason for them to hold production down to current levels or even two or three times that much. And they want to have the resources on hand with which to expand. This is really a pretty cheap way in which to hedge against the cartel's demise. The exploration does not cost them all that much and the possible rewards for it are very great. So they are paying insurance against something that, of course, they hope with all their hearts is not going to happen. And that is all we need to say about them. But the profitable moral for us is that people at the very center of the monopoly are perfectly well aware of (1) its strength and (2) its fragility.

Now its fragility doesn't need any emphasis from me. It is basically that current production surplus that overhangs them and the possibility that it will do to this cartel what it has done to almost every cartel since the world began — to break the arrangement by causing one to cheat against the other. The mutual distrust or fear of being done out of a market will lead people, as it always has, to make incremental sales at some what lower prices lest others take the market away from them. And in a very small way, and I think not a significant way, this is what has been going on during the past year with the weaker sellers, who coincidentally are the ones with premium high quality oil, giving away those premia because they are trying to prevent a severe attrition of their sales. So this is the fragility. But the sources of strength are also considerable and I won't try to draw up any balance sheet (because I don't know how at the moment) of which is going to outlive the other or how soon. The strength, however, is great and it lies in the following. First, this is a cartel of sovereign nations. They are not subject to any law of man or God. And this sets them apart from an ordinary cartel of companies, which are still subject to the coercive power of a state. Because as our peerless leader reminds us, power grows out of a barrel of a gun. These monopolists have the guns on the spot and what is more they have the guns to intimidate other. As I think Jock was remarking last night at dinner, the Saudis will pay due respect to the guns and the jet aircraft on the Iranian side, just as the Saudis' little neighbors will pay due account to the Saudis' tanks, half-tracks and helicopters which we are furnishing them in large amounts. So this is one source of strength that the current cartel has and it is very important.

The next source of strength is that they don't face the very difficult divisive and insoluble task of prorating production. They don't have to share the market. They have the companies to do it for them and the companies, I hasten to say, do this without daring to practice anything anybody could call collusion. Each company sells what it can and
produces what it can. So the amount supplied is only equal to the amount
demanded, and there is no pressure on prices. This is a funny sort of mar-
et-sharing mechanism. It is haphazard. It is just as if all of us here were
the cartel and we couldn’t agree on a market-sharing scheme. So we call
in somebody from the outside and say, “All right, you’re the one who is
going to tell us how much we can increase or have to decrease last year’s
sales.” Now he does this without knowing whom to help or to hurt. But
so long as we abide by his decision, we’re in good shape, and the gov-
ernments are doing just this. So despite all the nationalization and waving
of flags, and the decrying of blood-sucking western imperialists, they are
not throwing out the oil companies because they can’t do without them.

And, of course, the last source of strength is that unlike all other car-
tels they don’t have to worry about their customers and their antagonists’
dirty tricks. Because customers, since the world began, have always look-
ed around for ways of inducing cartelists to cheat one against the other.
But here we are concerned with governments. And the last thing the gov-
ernments in the consuming areas want to do is be so rude as to try to dis-
rupt the cartel. The policy of the United States (I disagree with Jock, we
do have a policy) was summed up perfectly about a year ago. President
Ford was making a tough speech in Detroit. “Nations have gone to war
for less than this” and Mr. Kissinger was making a tough speech in New
York, when John Sawhill, then the Federal Energy Administrator, was
asked, “What plans does the government have to get world oil prices
down?” And Mr. Sawhill said, “No plans, there aren’t any.” Mr. Sawhill
apparently has been reading Mark Twain who advises: “Always tell the
truth.” This will please some people and astonish the rest. Mr. Kissinger
was furious; Mr. Sawhill was fired. That essentially is the policy. The
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people and astonish the rest. Mr. Kissinger was furious; Mr. Sawhill
was fired. That essentially is the policy. The empty barrel makes the most
noise. And that’s us.

Well in this kind of a world where prices have been raised, and will
be raised further when industrial activity picks up, to roughly ten times
where they would be if they reflected real scarcities; where it’s controlled
by a group of governments who have had no trouble sticking together and
probably will not have a great deal in the future; where there is a huge
overhanging glut which will be with us, what kind of a policy makes
sense? I would say I didn’t come here to talk politics but I will allow my-
self a word or two about it. And I would say that the best policy is not
too much zeal, but hang loose and watch for things to happen, because as
an individual, as a state (I didn’t say a nation), as a company, or as a
region, there is nothing you can do about it except to see what cracks in
the wall you can discern which will leave you a little better off.