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 market-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 governments 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 cartels they don't have to worry about their customers and their antagonists' dirty tricks. Because customers, since the world began, have always looked around for ways of inducing cartelist to cheat one against the other. But here we are concerned with governments. And the last thing the governments in the consuming areas want to do is be so rude as to try to disrupt 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 governments in the consuming areas want to do is be so rude as to try to disrupt 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 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 policy, but I will allow myself 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.
massive funds on development, which is, of course, what we are probably
going to do, the price set by the cost of producing alternatives would be a
great deal less than $16.** Now had I, say, used $8, it would have been
double counting to say $8 discounted by a high-risk rate. What I did was
to say $16 and say that all kinds of things could happen, some of which
are assuredly going to happen. That is why I said a nominal rate would
be not 10 percent but 15 or, if Jock wants to push me, I'll make it 17. But
for a highly risky venture, 17 percent is hardly excessive, so I think that
10 percent in real terms makes plenty of sense. But now suppose, horrid
thought, that I am altogether wrong about this and that it should not be
10 percent real, but only 5 percent real. Then you get a premium, not of
$1.25, but of $3.50, some of you probably carry pocket calculators
around, can do that, make it then $3.50. Still we are talking about a
world which is several miles and many dollars away from the world we
live in. So if the price then were $4 — this is still a long way from the
$11.50 we have now and the $12 or $15 we are going to have before too
long — scarcity won't explain the price and the market with which some-
how we have to cope.

Mr. Morris:

Well, we have a schedule permitting about 10 minutes of questions
from the floor addressed to either of our speakers. Who would like to
lead off?

Mr. Syron:

I have a question about Mr. Ritchie's forecast of increase in total en-
ergy supplied by gas that is demanded in your scenarios. It seems rather
optimistic.

Mr. Ritchie:

Don't confuse the worldwide situation with the U.S. system. The
world does not yet have a Federal Power Commission and therefore it
does not have a total disincentive to produce combined with a ridiculous
incentive to consume. Substantial amounts of natural gas are being found
in many areas of the world — in fact, embarrassingly large amounts in
the Middle East, from where it is at the moment barely economic to
transport it anywhere else. That is just beginning to become economical.
My scenario includes a substantial increase in international trade in liq-
ualified natural gas. That's the answer to that question.