

The Oil Weapon

By Robert Mabro

The political importance of oil is due, among other things, to the dependence of exporting countries on revenues and the dependence of importing countries on a fuel that is justly considered to be the blood of the modern economy.

An accident of geography has put vast oil (and sometimes natural gas) reserves in third world countries very poor in other resources. This is particularly true of the ‘desert economies’ – namely Libya, Saudi Arabia, Kuwait, Qatar, Abu Dhabi and Oman. For these countries oil exports provide a very large proportion, sometimes as high as 90 or 95 per cent, of foreign exchange earnings arising from merchandise foreign trade, and finance the bulk of government’s expenditures.

Third World oil-exporting countries endowed with other resources, particularly human capital and agricultural land, such as Iran, Iraq, Algeria or Venezuela are also heavily dependent on oil revenues for reasons which have much to do with the initial state of underdevelopment of their economies. This dependence makes them vulnerable to the use of the oil weapon, in the form of economic sanctions, by the Great Powers acting on their own or under a UN umbrella.

In the past two decades sanctions have been imposed on Libya, Iraq and Iran, and on occasions their use was threatened against Nigeria, for example. These sanctions have been imposed over very long periods and have caused serious hardships, especially in Iraq.

The fact is that oil is a fuel of choice because (a) it can be substituted for any other fuel in any type of energy use with relative speed and ease while other fuels can be substituted for oil in some of its applications only; (b) it enjoys a dominant and impregnable position in the transport sector (cars, trucks, ships and planes) if not in the very long run but certainly for at least a decade or two ahead.

The transport sector is the linchpin of the modern economy. When paralysed, neither labour nor goods can move, and this paralyses very rapidly the rest of the economy. This phenomenon was observed in the UK in the year 2000 when a strike by the drivers of petrol trucks (used to deliver gasoline from the refineries to the service stations) threatened to bring the country to a stop in a matter of three or four days.

In short, the modern economy is vulnerable to any serious disruption of physical oil supplies. The world economy is also vulnerable to the adverse effects on balances of payments of big and sudden rises in the price of oil. One could say that world economic growth is dependent, among other things, on some stability in oil prices (which does not imply that prices should be low but that their levels should not be subject to big sudden changes).

It is because of this double dependence, first on physical supplies and secondly on price stability, that oil is *potentially* a powerful weapon in the hands of exporting countries. And this is precisely why it was used by Arab countries in 1973.

We thus have a situation in which both sides – the powerful industrialised countries and the major oil exporters – may be tempted to wield an ‘oil weapon’ against one another.

This situation, however, is not symmetrical. The Great Powers impose sanctions on individual oil-exporting countries. The target is specific and can be focused without necessarily causing damage to other countries. Damage will only be caused if sanctions reduce oil output at a time when the world petroleum market is tight. And in that case the countries that impose sanctions and all other importers will suffer from the impact of higher oil prices. But if these targets are few in number, if the sanctions result in small reductions in output, and if the world market is oversupplied there will be no fall-out on the countries that impose sanctions or on anybody other than the countries that are targeted. And this is indeed what has been happening in recent years with the sanction regime imposed on three exporting countries.

It is infinitely more difficult for oil exporters to target the oil weapon on a specific country. This is because oil is widely and easily traded. It can be shipped from one location to another around the world. An embargo imposed, say, by Arab producers on oil exports to the USA would result in a reshuffling in the trade pattern of sources and destinations. This will cause some temporary inconvenience but the trade systems will ultimately adjust.

To be effective, the embargo would be supplemented by a cutback in total production. In this way reshuffling will not restore the *status quo ante*. It will redistribute the shortfall in supplies among a number of countries. The result, however, will be a significant increase in oil prices which will affect all importing countries – friends and foes alike. In other words, an embargo *plus* cutbacks cause what the military like to call ‘collateral damage’. Theoretically, one could devise a compensation scheme in favour of the friendly countries; but it is difficult to imagine that such a scheme will ever be designed and implemented in practice.

The argument often advanced against the use of the oil weapon by exporting countries is that they are dependent on revenues and cannot afford a production cutback. This is a wrong argument. A significant production cut will raise prices by a higher percentage than the output reduction. Revenues will increase. A loss in revenues will only occur if exports are stopped altogether which is not a credible option.

The correct argument is that although revenues will increase, and probably by a multiple in the short run, oil demand, and therefore revenues, will significantly decline in the long run because the oil-importing countries will seek all means, from energy efficiency measures to fuel substitution, to reduce their dependence on oil. The high costs of these policies will not deter them, so deep will the concern about supply security have become.

We have thus noted two main problems associated with the use of the oil weapon: (a) the difficulties to target correctly the countries that are inimical to the Arab cause and the damages that will inevitably be inflicted on friendly countries in Europe, Africa, Latin America and Asia; and (b) the adverse effects on revenues in the long run.

There is a further consideration. In 1973, two superpowers, the USA and the Soviet Union, stood on the world scene. This limited the US ability to intervene militarily in the Middle East. Today, there is only one superpower. And this superpower has given itself the absolute right to intervene whenever and wherever it feels that its interests are being threatened. There is no Soviet Union to inhibit them from occupying oilfields if they feel hurt by an embargo on a production cutback.

Of course in resisting a military intervention, oilfields can be set alight. That simply means that the use of the oil weapon could almost inevitably lead to a catastrophe. Clearly, this is not what the use of oil power is meant to achieve. The aim is to exert pressure in order to change US Middle East policy from absolute commitment to Israel to a more balanced and neutral stance.

For this reason the correct strategy is to remind the USA and its allies that a potentially devastating weapon is available. No responsible government will want to use it; but a further deterioration of the situation in Palestine may bring to power in some countries irresponsible governments. They may be tempted to wield the weapon with devastating effects on the world and on themselves.

The point is that the weapon is available. The mutual interest of both sides is to foster the conditions that will remove the temptation of using it. In plain words, this means a determined effort by the USA to promote a just peace in Palestine.

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