

# ALLIANCE ENERGY SECURITY: 1945-1983

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*In this article Ethan Kapstein traces the history of the Atlantic Alliance's efforts to develop a collective, viable policy for energy security from 1945 to 1983. Although he generally believes that Alliance cohesiveness in this area appears to have suffered with the decline of U.S. hegemony and the oil shocks of the 1970s, there is still strong potential for maintenance of a coordinated policy. In his review of the postwar era Kapstein provides an interesting portrayal of the various methods by which the United States and Western Europe have cooperated to deal with the major supply crises of those years. He characterizes the present rules and norms governing alliance energy policy as an insurance regime, rather than a control regime, and concludes that the past achievements of alliance energy policy encourage hope for the future.*

With the signing of the North Atlantic Treaty in April 1949, the western allies affirmed that their common values would be defended through collective action. While it was apparent that the treaty focused on military requirements, it was not limited to issues of defense policy. The founders of the Atlantic Alliance recognized that economic problems could grow divisive, and Article 2 of the treaty states that "the Parties . . . will seek to eliminate conflict in their international economic policies and will encourage collaboration between any or all of them."<sup>1</sup>

Recent economic tensions within the alliance reveal the difficulties in putting Article 2 into practice. The United States, Europe and Japan have been unable to resolve differences over such issues as economic relations with the Soviet Union, defense burden-sharing, trade policy and U.S. monetary policy.<sup>2</sup> The international economic system appears to be moving away from the relative "openness" that characterized the 1950s and 1960s and toward a "closure" characterized by protectionism, discrimination and

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1. The text of the North Atlantic Treaty may be found in: John F. Reichart and Steven R. Sturm, eds., *American Defense Policy* (Baltimore, MD: The Johns Hopkins University Press, 5th ed., 1982), pp. 320-22.
2. See Arthur Burns, "Economic Health of the Western Alliance," U.S. Department of State Current Policy No. 445, 9 December 1982.

an absence of cooperation. In short, the economic principles on which the western alliance rests are being undermined.

Numerous theories have been offered to explain the rifts between the alliance partners. One prominent view holds that the United States was able to maintain the conditions necessary for stable relations during the period 1950-1970 because of its overwhelming economic and political-military power. According to this view, the United States exercised "hegemonic leadership" and in so doing provided the allies with a "positive incentive for cooperation."<sup>3</sup> In the 1970s, however, the United States declined as a hegemonic power and was no longer able to determine the "rules of the game." The members of the "hegemonic school" predicted from this decline that alliance disputes would be "more likely and rule violations more frequent."<sup>4</sup>

The behavior of the allies during the oil shocks of the 1970s provided powerful evidence of America's gradual loss of hegemonic leadership over the Atlantic Alliance. The United States was unable to stop the Organization of Petroleum Exporting Countries (OPEC) from unilaterally raising oil prices. While the major western oil companies still exercised control over downstream activities, OPEC oil production levels were now out of the hands of the multinationals. In response to these changes, the "allies" rushed to the Middle East in the hope of obtaining favorable bilateral arrangements.<sup>5</sup>

This article traces the changes in the "alliance energy regime" from 1945-1980. While history supports the theory of hegemonic leadership in part, the conclusions drawn are not pessimistic. Possibilities for alliance economic collaboration remain despite America's weakened leadership role, and collective action by western states may yet occur even in the absence of a single, dominant power.

The alliance energy regime can be characterized by certain principles, norms, rules and decision-making procedures.<sup>6</sup> The cardinal principle originally was one of open access by consumers to energy supplies at posted prices. A complementary principle was that during periods of energy shortage, burdens would be borne equitably and supplies would be divided according to a formula, rather than by market allocation. The norm was

3. Robert O. Keohane, "Hegemonic Leadership and U.S. Foreign Economic Policy in the 'Long Decade' of the 1950s," in William P. Avery and David P. Rapkin, eds., *America in a Changing World Political Economy* (New York: Longmans, 1982), p. 50.

4. Charles Lipson, "The Transformation of Trade: the Sources and Effects of Regime Change," in Stephen D. Krasner, ed., *International Regimes* (Ithaca, NY: Cornell University Press, 1983), p. 254.

5. On European reactions see Robert J. Lieber, *Oil and the Middle East War: Europe in the Energy Crisis* (Cambridge, MA: Harvard University Press, 1976).

6. Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," in Krasner, *International Regimes*, p. 2.

that energy supplies would be provided by the private sector, although a degree of state intervention was permissible, especially during periods of crisis.<sup>7</sup> The rules of the game followed from the norms and principles. In "normal" times, for example, energy trade barriers would be reduced, while during shortages, states would refrain from acting unilaterally. The decisionmaking procedures of this regime were established within the Organization for Economic Cooperation and Development (OECD) and its predecessors, as well as in other multilateral agencies.

This article examines the development of the alliance energy regime through a series of case studies describing each significant energy crisis that has occurred since the end of World War II. Considered together, the case studies do not lend unqualified support to the hegemonic theory of regime change. Hegemonic theorists, for example, have pointed to the pivotal role of American domestic actors in bringing about the "fall" of U.S. power. Robert Keohane has written that

the fragility of American hegemonic leadership . . . can be accounted for in good measure by the refusal of domestic interests to adjust, or to sacrifice, for the sake of the long-term power position of the United States.<sup>8</sup>

The evidence shows in fact, that certain domestic energy actors have actually *lost* influence on policymaking during the period under study. At particular moments, it is true, domestic actors have been able to sabotage international commitments, but over the long run the influence of these actors is less clear. Any evaluation of the history of the alliance energy regime must pay careful attention to the changing roles and interests of the participants in the energy regime.

### THE EUROPEAN COAL ORGANIZATION

At the end of World War II, Europe experienced the "worst fuel crisis in its history."<sup>9</sup> European coal production had declined due to wartime overexploitation and shortages of machinery and men. Coal output in France was running at 50 percent of the prewar level, in the Netherlands at 35 percent, and in Germany at below 10 percent.<sup>10</sup> Britain, once a

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7. On state intervention in postwar "embedded liberalism," see John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," in Krasner, *International Regimes*, p. 209.

8. Keohane, "Hegemonic Leadership," p. 53.

9. Karl Brandt, "The Fuel Crisis in Europe," *Foreign Affairs* 24 (January 1946): 337-40.

10. Supreme Headquarters, Allied Expeditionary Forces, Solid Fuels Section, "Semi-Annual Report," 8 January 1945, Records of Allied Operational and Occupation Headquarters, World War II, Record Group 331, file 319.1, box 87, National Archives, Washington, D.C.

major exporter of solid fuels to the continent, itself faced a deficit. Since coal supplied 90 percent of Europe's energy requirements, the shortage paralyzed the economy.

The United States, Europe's coal supplier of last resort at the end of World War I, once again began shipping solid fuel across the Atlantic in 1945. Sending bottoms of solid fuel across the Atlantic at a time of shipping shortages, although essential for the Europeans, was an inefficient and uneconomical remedy. At its peak, American exports of coal amounted to one million tons per month, and Europe paid dearly — about \$20 million per month — for these supplies. Even this amount of coal barely met minimum needs.<sup>11</sup>

Given the severe shortages, American and European leaders were concerned that chaos might erupt at any moment.<sup>12</sup> Already a large black market existed for coal supplies and this contributed to a growing fear among European leaders that a bidding war for available Polish and American shipments might soon begin. The massive unemployment created by the coal shortages left industries and utilities, as well as domestic consumers, without fuel and threatened further domestic unrest.

In early 1945, Great Britain and the United States jointly proposed the establishment of a European Coal Organization (ECO). This organization was to be responsible for the allocation of all available coal supplies to member states. Coming into existence in May 1945, the ECO was composed of Belgium, Denmark, France, Greece, Luxembourg, the Netherlands, Czechoslovakia, Norway, Poland, Turkey, the United Kingdom and the United States. The objective of the organization was to allocate coal on the basis of a formula that combined historical consumption patterns with current needs.<sup>13</sup>

The ECO's terms and guidelines were very general and it had no executive powers. The ECO agreement defined the purpose of the organization as follows:

- (1) to promote the supply and equitable distribution of coal and scarce items of mining supplies and equipment;
- (2) to safeguard, as far as possible, the interests of both producers and consumers;
- (3) to keep itself constantly informed of developments and, when necessary, to discuss events and options and make appropriate recommendations to the Governments concerned and to any other competent authorities.

11. European Coal Organization, *European Coal Organization: 1945-1947* (London: European Coal Organization, 1948).

12. U.S. Department of State, Office of European Affairs, "Immediate Post-Hostilities Aspects of the Coal Supply Problem of Western Europe," 18 October 1944, Decimal File of the Department of State, Record Group 59, 840.6362/10-1844, National Archives, Washington, D.C.

13. *European Coal Organization: 1945-1947*.

Of special interest is the fact that the ECO was endowed with "no mandatory or executive powers." The organization was expected to make recommendations with regard to coal allocations, but it had no machinery for "putting them into effect and could apply no sanctions if they were not carried out. This situation meant that in practice much depended on the cooperation, confidence and good faith of the delegates . . ."<sup>14</sup>

The ECO was an ad hoc organization which would terminate when the member states agreed that the coal shortage had eased. Each month, coal allocations were made to member states based on a consumption formula. However, because the ECO came into being before the influx of Marshall Plan dollars, several states were unable to pay for coal purchases. During its two-and-a-half years of existence, the organization allocated 100 million tons of coal. This process took place in an atmosphere remarkably free of animosity, and contemporary observers noted ECO's practical good sense and generous spirit.<sup>15</sup> Perhaps the best proof of ECO's success was the fact that although participation was voluntary and the allocation recommendations non-binding (ECO possessed no supranational authority), no state left the ECO during the organization's lifetime.

Although the ECO was narrowly focused on coal supply and demand questions, Europe's dollar shortage forced the organization into playing an informal role on financial matters. In November 1946, in an effort to gain publicity for this problem, ECO chairman J.C. Gridley, a British coal expert, wrote to United Nations Secretary General Trygve Lie with regard to the economic problems of member states. "The financing of European coal imports," he said, "should be fully faced and [should be] the subject of separate and urgent action by the United Nations."<sup>16</sup>

Indeed it is remarkable that the organization did not collapse under the weight of Europe's financial problems. On occasion member states, notably France, attempted to bypass the allocation system and negotiate with the United States or other suppliers for special supplements, but the United States rejected such approaches. The ECO system was maintained until member states voted for its dissolution in January 1948.

Other problems resulted from actions taken by domestic actors in member states. The coal strikes called by United Mine Workers president John L. Lewis proved particularly troublesome. Lewis, always quick to take advantage of a delicate situation, called strikes in each of the years from 1945 to 1947. Each time, the results for Europe were disastrous. In France, for example, textile, iron, steel and chemical plants were forced to close. During the spring 1946 strike, Jean Monnet, director of the

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14. Ibid.

15. "Coal in Europe," *The World Today* 4 (March 1948): 111-17.

16. J.C. Gridley to Trygve Lie, 7 November 1946, Decimal File of the Department of State, Record Group 59, 840.6362/11-746, National Archives, Washington, D.C.

French Planning Commission, urged Under Secretary of State Will Clayton to intercede. "The coal problem," Monnet said, "must be regarded as the most important economic problem facing Europe."<sup>17</sup>

The action taken by Lewis and the miners demonstrate the extent to which international commitments may be sabotaged by domestic actors. However, Lewis did not maintain leverage over the European economy for long. The postwar coal shortages prompted Europe to seek energy supply diversification, an effort supported by the United States government.<sup>18</sup> While Europe continued to import coal throughout the 1950s, the importance of this energy source decreased relative to a more diversified mix of sources, including Middle East oil and indigenous gas.

That the ECO was a success seems indisputable. This author has been unable to unearth a negative word about the organization despite research in archival sources, government documents and secondary literature. At the time the ECO folded, journal articles read like obituaries, as if mourning a death in the family.<sup>19</sup>

Several factors contributed to this success. The very severity of the coal shortage was a major factor contributing to cooperation in finding a solution. No state doubted that the war had caused the shortage, and every country suffered. Unilateral responses would surely have failed, since the continent's coal system was interconnected by a complex transportation and marketing network. European statesmen recognized that the coal shortage was a problem requiring collective action.

U.S. leadership was the second factor in ECO success. The United States charged for its coal, but still agreed to solid fuel exports at a time when domestic demand was great. When Secretary of the Interior Harold Ickes announced in 1945 that coal would be sent to Europe, public controversy raged over the impact on American consumers and industries.<sup>20</sup> Nevertheless, the government acted in support of the wartime allies.

A third element in ECO success was its staff. The organization was manned by the region's most competent coal experts. It would have been impossible to criticize ECO bureaucrats on the ground that they did not know their industry. The staff inspired confidence in Europeans who desperately sought an end to the coal shortage.

Finally, ECO had a limited objective. Its task was simply to allocate coal to member states. While this involved tricky negotiations at a time

17. Jean Monnet to Will Clayton, 18 May 1946, Decimal File of the Department of State, Record Group 59, 840.6362/5-1846, National Archives, Washington, D.C.

18. On US efforts to develop Europe's energy economy see U.S. President's Committee on Foreign Aid, *European Recovery and American Aid* (Washington, D.C.: Government Printing Office, 1947).

19. "Coal in Europe," *The World Today*.

20. The National Archives contains a nice sample of the kinds of telegrams Ickes received from irate Americans.

when all countries could claim special needs, the organization was never sidetracked. When the coal crisis began to ease and the need for allocation was no longer urgent, the organization was terminated by unanimous agreement in January 1948.

ECO represented the first formal transatlantic effort to distribute energy supplies at a time of shortage. The organization established the principle that such shortages should be allocated not by the market, but rather by a formula that took into account need. This concept would remain at the heart of the alliance energy regime.

The ECO story also demonstrates how domestic actors can damage international commitments. The United Mine Workers at times prevented the shipment of American coal, prolonging and deepening Europe's economic crisis. Yet UMW actions were not sufficiently powerful to alter the regime in any meaningful way. Indeed the regime served Europe well in its first postwar energy crisis.

### THE OIL SHOCK OF 1951

Europe's postwar coal shortage forced the continent to diversify its energy sources. Among the fuels destined to play a role in economic recovery, imported oil was the most important. In 1938 Europe imported 10 million metric tons of crude oil; by 1951 this figure had quadrupled. These postwar oil purchases were made possible in large measure by Marshall Plan aid, and the United States financed 56 percent, or \$1.2 billion, of the oil purchases that Europe made from U.S. firms. Between 1938 and 1951, Europe's consumption of liquid fuels increased from 10 percent of overall energy requirements to 20 percent.<sup>21</sup>

This increasing dependence on imported oil, however, brought increased security risks. At the war's end, new political movements developed in important oil-producing nations such as Iran and Iraq. The economic platforms of these movements varied, of course, but all called for greater revenues from oil concessions. Oil companies differed in their response to domestic politics, with some firms more flexible than others.<sup>22</sup>

In 1951, the monopoly concessionaire in Iran, Britain's Anglo-Iranian Oil Company (AIOC), learned the price of inflexibility. The Iranian revolution of 1951 had a profound impact on the world oil market.<sup>23</sup> AIOC's problems

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21. E. Groen, "The Significance of the Marshall Plan for the Petroleum Industry in Europe," *Report of the Third World Petroleum Congress* (The Hague: World Petroleum Congress, 1951), pp. 38-66.

22. A good discussion of the oil companies' position in the Middle East is found in Stephen Longrigg, *Oil in the Middle East* (Oxford: Oxford University Press, 1954), pp. 145-74.

23. *Ibid.*

in postwar Iran were partly of its own making. At the end of World War II, as nationalism mounted in the developing world, oil companies began negotiating new agreements with host governments. In 1948, Venezuela signed a "50/50" agreement with the resident oil companies, leading to an even split in the profits arising from oil production. The precedent of such "50/50" agreements was followed in the Middle East, with Saudi Arabia and Kuwait. The AIOC, however, refused to sign a similar agreement with Iran.<sup>24</sup> The company's intransigence was easy for the Iranian nationalists to exploit. By February 1951 Iran's new leader, Dr. Mossadeq, was calling for nationalization. During the summer the Iranian parliament voted for the takeover of AIOC's oilfields and of the huge refinery at Abadan.

In the face of this action, the major oil companies boycotted the purchase of supplies from Iran. This boycott was supported by the U.S. Government. The companies made plans to meet European demands from other sources. Nevertheless, the necessary changes in production plans and tanker shipments would clearly take time, and the threat of an immediate shortage hovered over the continent.

The Europeans responded to the Iranian crisis from the collective perspective of the oil committee of the Organization of European Economic Cooperation (OEEC). The oil committee was one of several technical committees created within the OEEC's predecessor, the Committee for European Economic Cooperation, to help shape European recovery plans following the announcement of the Marshall Plan offer on June 5, 1947. The committee's delegates were generally well-respected individuals — such as Britain's Angus Beckett, the chairman — with many years of oil-related experience. Initially the work of the committee focused on the development of common European plans for refinery construction and on projections of oil demand. The AIOC nationalization presented the oil committee with its first crisis.<sup>25</sup>

In June 1951, the committee was informed that the United Kingdom had established an emergency working group of the three major British oil firms to coordinate oil supply policies during the crisis. A similar group was established in the United States under the Defense Production Act of 1950. These groups worked together to meet the extraordinary needs arising from the boycott.<sup>26</sup>

During the first six months of 1951, the oil companies had prepared for a crisis by building up stocks. The OEEC oil committee now informed

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24. Ibid.

25. Organization for European Economic Cooperation (OEEC), *The Organisation for European Economic Co-operation: History and Structure* (Paris: OEEC, 1953).

26. OEEC Oil Committee, "Abadan and the Oil Supply Position," 4 July 1951, DT/E/PE File, International Energy Agency Archives, Paris, France.



the member states that it was "essential to avoid any run on stocks or panic buying of oil."<sup>27</sup> The committee would be kept informed of company policies, but it was important that new supply plans be developed without government interference. As long as cooperative business-government relations were maintained, the committee believed that "difficulties [could] be overcome without too serious disturbance . . ."<sup>28</sup>

The fears of shortage quickly passed, as the companies succeeded in completing their production and transport plans; oil production was boosted in Saudi Arabia and Kuwait, and tankers were rerouted. Yet the oil shock was not painless. As a result of the boycott of Iranian oil, which had previously been purchased from AIOC for sterling, the Europeans were now forced to use scarce dollars to buy oil from U.S. firms. In Britain alone, the cost of dollar imports in 1951 increased to roughly \$500 million above the 1950 level.<sup>29</sup>

The oil shock of 1951 taught Europe the dangers of dependence on imported oil, and particularly on petroleum products. The Abadan refinery had been an important source of aviation gasoline, and for much of 1951 this product was in short supply. Fortunately for the Europeans, the willingness of western hemisphere refiners to meet their needs in this area averted serious transportation bottlenecks.<sup>30</sup>

In the aftermath of the crisis, the oil committee encouraged the expansion of European refinery capacity. While it appeared that the oil companies could boost crude oil production in many parts of the world, refinery output was less flexible. By building more refineries, Europe could ensure its security, and also save dollars by importing fewer U.S. products.

The oil shock of 1951 demonstrated the capabilities and ultimately the strength of the alliance energy regime. The private sector had managed the crisis, yet a certain degree of public action was required. Cooperative business-government relations seemed to provide a sound basis for energy planning, and as long as high stocks were maintained and European refinery capacity expanded, there appeared to be no reason why the allies should curb their demand for imported fuel.

### SUEZ 1956

During the 1950s, European dependence on imported oil grew with each passing year. Whereas the members of the OEEC had imported 70 million metric tons (mmt) of crude oil and related products in 1950, by

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27. Ibid.

28. Ibid.

29. OEEC Oil Committee, "Oil," 23 September 1952, DT/E/PE File, International Energy Agency Archives, Paris, France.

30. Ibid.

1955 imports amounted to 116 mmt. However, the import mix had changed dramatically in the years following the Iranian crisis: in 1950, Europe imported 34 mmt of petroleum products; by 1955 it imported 20 mmt. The refinery expansion plans of OEEC's oil committee appeared to have been met well ahead of schedule.<sup>31</sup>

The United States, which had contributed to the refinery program through funds from the Marshall Plan and the Mutual Security Agency, was impressed with the development of Europe's petroleum economy. The United States, however, wanted this economy to function according to the rules of the energy security regime described above. Europe in the 1950s was well on the road to recovery, and it seemed timely and appropriate to loosen some of the exceptional controls that were applied in the early postwar years.

In March 1953, the chief of the Mutual Security Agency's (MSA) petroleum branch, Cornelius J. Dwyer, stressed that Washington was seeking a reduction "of barriers to intra-European trade in petroleum products." He expressed alarm at the news that some European countries were considering raising tariffs or applying non-tariff barriers against imports of petroleum products. This was due to the fact that, as a result of the refinery program, certain countries now had more than sufficient supplies of such products. Dwyer warned that any attempts to block trade would be viewed with disapprobation in Washington. "Public opinion," Dwyer said, "will feel that MSA and ECA (Economic Cooperation Administration) have failed . . ." "A successful aid program," he reminded the delegates, "assumes the fairly free flow of trade among the countries."<sup>32</sup> This statement demonstrates the extent to which the energy regime was bound by certain rules and procedures. America was willing to assist Europe, but only under specific conditions. Excessive government intervention in energy markets and barriers to free trade, which would include barriers to the purchase of American oil, would not be tolerated as long as adequate oil supplies were available.

By the mid-1950s, the oil shock of 1951 had been all but forgotten and surpluses became the new concern. Any efforts at emergency planning that had been taken by the OEEC oil committee — a legitimate area of government activity — became of secondary importance. OEEC laxity in emergency planning was a testament of faith in the oil companies. The laxity had no basis in geopolitical security since, by 1956, Europe was

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31. OEEC Oil Committee, "1954 Interim Report on Refinery Expansion and Consumption Trends," 25 September 1954, DT/E/PE File, International Energy Agency Archives, Paris, France.

32. OEEC Oil Committee, "Statement by Mr. Cornelius J. Dwyer," 16 April 1953, DT/E/PE File, International Energy Agency Archives, Paris, France.

critically dependent on one region, the Middle East, for its oil. Ninety percent of its crude oil supplies were derived from this area.<sup>33</sup>

Middle East oil reached Europe via three routes: the Suez Canal and two pipelines with outlets on the Eastern Mediterranean coast. Of this oil, 70 percent passed through the canal, the equivalent of 65 mmt of oil per year. The canal was also an important artery for other types of commodities, and total tonnage in 1955 equalled 200 mmt.

In July 1956 Egypt nationalized the Suez Canal — an action which posed a grave threat to European security. As the *London Star* editorialized on July 26, the canal was “an oil pipeline, an economic lifeline.”<sup>34</sup> Colonel Nasser’s decision set the wheels of the energy regime in motion.

In Washington, President Eisenhower formed a Foreign Petroleum Supply Committee composed of senior representatives of the major American-based multinational oil companies. The President requested that this committee prepare plans in the event of an oil supply emergency. Late in July this group was transformed into the Middle East Emergency Committee (MEEC).<sup>35</sup>

A parallel body was created in London by Royal Dutch/Shell, British Petroleum, and Compagnie Francaise des Petroles, with representatives of American companies as observers. This Oil Emergency (London) Advisory Committee (OELAC) was created “to advise on oil supply problems arising out of the Suez Canal emergency, and to collaborate with the MEEC.”<sup>36</sup>

The OEEC oil committee in Paris shaped its own role in the wake of corporate actions. Since no crisis had as yet actually developed, the committee recognized that its most important function was to support the companies and quell any sense of panic that might be developing within member governments. “Uncoordinated action to secure supplies by governments,” the committee stated, “might well severely damage the economic structure of Western Europe . . .” Should shortages arise, the committee would assume the task of allocating available supplies to member states.<sup>37</sup>

The oil crisis began in earnest following the Israeli-British-French action against Egypt in late October and early November of 1956. In retaliation, Nasser blocked the Suez Canal, making shipments impossible. The Syrians

33. OEEC Oil Committee, “Report by the Oil Committee,” 5 July 1956, DT/E/PE File, International Energy Agency Archives, Paris, France.

34. Quoted in David A. Deese, “Oil, War, and Grand Strategy,” *Orbis* 25 (Fall 1981): pp. 525-55.

35. OEEC, *Europe’s Need For Oil: Implications and Lessons of the Suez Crisis* (Paris: OEEC, 1958), p. 20.

36. *Ibid.*

37. OEEC Oil Committee, “Maintenance of Oil Supplies to Western Europe,” 2 October 1956, DT/E/PE File, International Energy Agency Archives, Paris, France.

shut down the Iraq Petroleum Company (IPC) pipeline to the Mediterranean coast, blocking an additional oil outlet. The only route remaining was the Tapline from Saudi Arabia to the Mediterranean, but the Saudis placed an embargo on shipments to Britain and France. As a result, at the beginning of November, Europe confronted the loss of 1.8 million barrels of Middle East oil per day.<sup>38</sup>

Despite the magnitude of the cutoff, President Eisenhower refused to authorize the launching of any MEEC emergency plan. He had been angered by the Anglo-French attack, which occurred without alliance consultation, and he believed that the action violated international law. When the canal was first blocked he told an associate that "those who began this operation should be left to work out their own oil problems — to boil in their own oil, so to speak."<sup>39</sup> Eisenhower refused to act until he had been assured of a speedy troop withdrawal. By the end of November, the MEEC was activated.

As in 1951, the major oil firms were able to meet European needs by increased production elsewhere, especially in Venezuela, Iran, and other Persian Gulf countries. But oil from the Middle East suddenly had to be shipped around the Cape, an 11,000 mile trip — more than twice the distance of the Suez route. Due to the extra time involved, an 80 percent increase in the tanker capacity serving Europe would be necessary to meet normal demand. With few tankers in mothballs, this increase could not be achieved.<sup>40</sup>

Increased dependence on western hemisphere sources entailed other difficulties. First, time was required to boost production. Second, a rerouting of world tanker capacity would be necessary. This operation was, according to the OEEC, one "of the very greatest complexity."<sup>41</sup>

Because of the lagtime involved in meeting European requirements, shortages of uncertain degree and duration had to be expected. Accordingly, the OEEC oil committee and the companies developed an allocation process. Beginning in December 1956, the oil committee convened monthly meetings with OELAC — now called the OEEC Petroleum Emergency Group (OPEG) — and the European affiliates of U.S. companies. At these meetings detailed surveys were made of each country's supply situation. While the oil companies themselves assumed the responsibility for allocating the bulk of supplies to OEEC members, a reserve of 200,000 tons was set

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38. OEEC, "Europe's Need for Oil," p. 23.

39. Quoted in William J. Barber, "The Eisenhower Energy Policy: Reluctant Intervention," in Craufurd Goodwin, ed., *Energy Policy in Perspective* (Washington, D.C.: Brookings Institution, 1981), p. 235.

40. OEEC, "Europe's Need for Oil," p. 23.

41. Ibid.

aside every 10 days for special allocation by the oil committee. This special allocation, equal to about seven percent of overall consumption, was made on an ad hoc basis, "taking into account such factors as the share of oil in total energy, seasonal influences, and energy consumption per head."<sup>42</sup>

In the early months of the Suez crisis, European needs were met largely from additional Venezuelan production. As the winter dragged on, however, it became apparent that some oil also had to be obtained from Texas.

At this time, however, the amount of allowable oil production in Texas was set by the state rationing board, the Texas Railroad Commission (TRC). The TRC, under General Ernest O. Thompson, determined the level of production for the state's 160,000 wells. Acting in the interests of the small independent oil producers, Thompson refused to boost the level of "allowables" despite MEEC's request fearing that increased production would result in lower prices. In November, production remained at the allowable level of 3.31 million barrels per day, and this amount was not to be increased for some time.<sup>43</sup>

The TRC moved only following a veiled threat on the part of President Eisenhower that he was prepared to take over its functions. Texas production climbed to 3.73 million barrels per day by March 1957, easing the European shortage considerably. The U.S. government also made available some mothballed Navy tankers to ease the tight shipping market.<sup>44</sup>

By the end of May, the oil crisis had ended with the reopening of the canal and pipelines and the MEEC and OPEG disbanded. The OEEC oil committee and OPEG held a final joint meeting on May 2, at which time the group's chairman, J. Berkin of Shell Oil, congratulated all participants on a job well done. Panic was avoided, he said, by "coordinated action between European governments and the international supplying industry . . ."<sup>45</sup>

The success of the emergency sharing schemes developed during the Suez crisis depended on several factors. First was the ability of the oil companies to respond quickly to dramatically changed market conditions. The complex task of shifting production patterns and tanker fleets was accomplished with speed and efficiency. The second factor was U.S. leadership. At the outset of the crisis the President mobilized the oil firms and had them draw up emergency plans; the execution of these plans,

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42. OEEC Oil Committee, "Oil Committee/OEEC Organization during the Suez Emergency," 11 August 1958, DT/E/PE File, International Energy Agency Archives, Paris, France.

43. Douglas Bohi and Milton Russell, *Limiting Oil Imports* (Baltimore, MD: The Johns Hopkins University Press for Resources for the Future, 1978), pp. 37-40.

44. OEEC, "Europe's Need for Oil," p. 30.

45. OEEC Oil Committee, "Opening Statement of Mr. Berkin, 2 May 1957, DT/E/PE File, International Energy Agency Archives, Paris, France.

however, was made contingent on the withdrawal of Anglo-French forces from Egypt. In addition, the U.S. government was willing to supply indigenous resources to meet the needs of its allies. Finally, the member states of OEEC had sufficient confidence in the companies and in the oil committee to stay out of the markets. The countries saw that OPEC-OEEC allocations were being made equitably, with each state suffering similar supply cuts. The special allocations were being made in cases of greatest need. OEEC members had followed the advice of their competent oil committee delegates.

But the Suez crisis also exemplified, in Stephen Krasner's words, the American "paradox of external strength and domestic weakness."<sup>46</sup> In the immediate aftermath of the canal nationalization, the US was able to use its multinational oil firms as a lever against France and Britain. When oil was required from Texas, however, domestic politics entered the fray. A presidential threat brought an end to the battle with the Texas Railroad Commission, but valuable time was lost in resolving the conflict. The allies could do nothing but sit and wait for the federal-state dispute to end.

The Suez crisis taught Europe that vulnerability accompanied dependence on imported oil. The OEEC oil committee reasoned, however, that such vulnerability could be lessened through appropriate policy actions. In the wake of the oil shock, the committee urged member states to enlarge stockpiles. Studies were also launched by the OEEC on fuel substitution and energy conservation. As in 1951, the oil committee concluded that Europe's energy security could best be safeguarded through cooperative business-government relations.<sup>47</sup>

### THE 1967 OIL BLOCKAGE

In 1961, the OEEC became the Organization for Economic Cooperation and Development (OECD), adding the United States, Canada and, in 1964, Japan. New Zealand and Australia would join later. Europe's "dollar gap" had disappeared, currency convertibility had been restored, and trade barriers between Europe and North America had diminished. The lopsided nature of American-European economic relations appeared to have reached an end.

For the new OECD oil committee, the enlarged membership brought both promise and problems. Since the end of World War II, the Europeans

46. Stephen D. Krasner, "United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," in Peter Katzenstein, ed., *Between Power and Plenty* (Madison, WI: The University of Wisconsin Press, 1978), pp. 51-88.

47. OEEC Energy Division, "Lessons to be Drawn from the Suez Crisis," 25 March 1957, DT/E/PE File, Organization for Economic Cooperation and Development Archives, Paris, France.

had worked together to solve energy problems. Their resource endowments were sufficiently similar, and their energy economies sufficiently intertwined, to create some common ground on energy issues. The United States, Canada and Japan, however, brought very different endowments and economies to the table. On the positive side, the United States had worked closely with the oil committee, and the presence of an American delegate could mean even better transatlantic energy relations. Canada, of course, was a rich depository of oil while Japan was an important consumer, especially of oil from the Middle East. Japan's critical dependence on imported oil had caused the island to develop expertise in emergency planning for dealing with critical shortages.

In 1966, OECD member countries consumed 1.1 million tons of oil, the Europeans consuming roughly 35 percent of this amount. Europe depended on imported oil for 95 percent of its petroleum requirements, Japan for nearly 100 percent and the United States for 21 percent. Europe derived 84 percent of its imports from the Middle East and North Africa.<sup>48</sup>

Since 1956, Europe had not only dramatically increased its use of oil in absolute terms, but relative to other fuels as well. Before the Suez crisis, oil met 22 percent of European energy requirements; in 1967 the figure had increased to more than 50 percent.<sup>49</sup> The Europeans were nevertheless confident that their policies would buffer the impact of a future oil shock. Oil stocks had been built, and by 1967 stockpiles of 70 days normal consumption were held by most countries. Europe had also diversified its energy suppliers. In 1956, Europe obtained none of its oil from North Africa; by 1966 Algeria and Libya provided nearly a quarter of the continent's needs.<sup>50</sup>

In addition, the OECD had institutionalized business-government relations in the event of a supply emergency. The oil committee was empowered to establish, during a crisis, an international industry advisory board which would advise the OECD on the availability of oil and "assist in the physical implementation of the oil committee's recommendations for the apportionment of available supplies." Actual allocation plans, however, had changed little since Suez.<sup>51</sup>

At the beginning of June 1967, war erupted between Israel and its Arab neighbors. On June 6, the major Arab producers halted oil exports to Europe and the United States. Exports from Algeria continued, with destination restrictions applying only to Britain and the United States.

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48. OECD Oil Committee, "Draft Preliminary Report on the 1967 Oil Emergency," 22 August 1968, DIE/E/PE File, International Energy Agency Archives, Paris, France.

49. *Ibid.*

50. *Ibid.*

51. *Ibid.*

Use of the IPC pipeline and Tapline, as well as the Suez Canal, was blocked. These oil arteries had shipped 226 million tons of fuel in 1966.

With the announcement of the Arab oil embargo, the United States mobilized an Emergency Petroleum Supply Committee, composed of representatives of eight leading oil companies. This committee was prepared to devise plans for meeting a European shortfall, as had been done in 1956. But implementation of these plans required an OECD oil committee motion stating that an emergency existed; otherwise the U.S. Justice Department would not waive antitrust laws which prevented the companies from sharing information.<sup>52</sup>

Such a motion, requiring oil committee unanimity, was not forthcoming. Stock levels in OECD-Europe and Japan were high, and precise data were not yet available on the impact of the Arab embargo. The committee thus took a more limited action. On June 12, the International Industry Advisory Board (IIAB) was convened with a request that the oil committee be kept abreast of market developments. Shortly thereafter, the IIAB reported that, as in 1956, the main problem for Europe concerned tanker availability, since sufficient supplies of oil existed. The IIAB advised the oil committee to take no formal actions with regard to the emergency at that time.<sup>53</sup>

The U.S. delegation reacted with disbelief to the oil committee's refusal to declare an emergency. "We initiated the very complicated and difficult internal American legal procedures to be in a position to cooperate with you," delegate Hinton said in reference to the Emergency Petroleum Supply Committee. "It is somewhat astonishing to see that some people think that there is no need for even precautionary action." Hinton warned that U.S. firms would not be authorized to share information with European-based companies if an emergency were not declared.<sup>54</sup>

The oil committee, however, had apparently found a loophole in American antitrust law. Because the IIAB included European firms and the European affiliates of American companies, this group could enter into discussions with the OECD in the absence of an emergency declaration. U.S. calls for action were thus rejected.

Ironically, in August 1967 the Emergency Petroleum Supply Committee reported that "increased Western Hemisphere crude oil availability has made a significant contribution to Europe's supply" and no shortages were indicated. Tanker needs had been met not only by rerouting, but also by "return to oil trade of tankers which had been in grain and ore service,

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52. OECD Oil Committee, "Statements by the United States Delegate," 10 July 1967, DIE/E/PE File, International Energy Agency Archives, Paris, France.

53. OECD Oil Committee, "Draft Preliminary Report..."

54. OECD Oil Committee, "Statements by the United States Delegate."



new deliveries, and reactivation of idle tankers."<sup>55</sup> The American committee had thus taken the wind out of its own delegation's sails! Although the available archives do not indicate the reason for this U.S. policy mix-up, one explanation could simply be poor communications. The supply committee was under the aegis of the Interior Department and was based in Washington. The U.S. delegation to the OECD, however, was responsible to the State Department and functioned primarily in Paris. Thus, transatlantic signals may have become confused. Moreover, the supply committee was composed of oil experts, the delegation of government bureaucrats, which may have exacerbated problems with communications between the two bodies.

By late autumn of 1967 the supply situation had begun to return to normal, despite the continued blockage of the Suez Canal. The Tapline re-opened, and North African exports were shipped to all destinations. In January 1968 the IIAB recommended that regular meetings with the OECD oil committee no longer be held; the board would be retained on a standby basis.<sup>56</sup>

At least from the perspective of OECD-Europe, the oil shock of 1967 once again affirmed the cooperative business-government approach to meeting supply difficulties. While the U.S. delegation was stymied by legalistic difficulties, the oil committee went ahead and acted on an informal basis. Governments refrained from competitive bidding because of confidence in the ability of the firms to change production plans and tanker routes.

Texas oil also helped Europe during the brief period of shortage, as President Johnson easily persuaded the TRC to boost allowable production by one million barrels per day. This time, the voice of an important domestic actor had been quelled.<sup>57</sup>

The OECD oil committee thus emerged from the 1967 shock confident in its ability to meet supply emergencies. As long as stock levels remained high and companies were given time to react, the allies seemed well-prepared for even unforeseen problems. Accordingly, dependence on imported oil continued to climb.

### THE ENERGY CRISIS OF 1973

The period from 1967 to 1973 was one of changes in the oil world that undermined the alliance energy regime. Since many studies recount the events that took place, detailed repetition here is unnecessary.<sup>58</sup> It is

55. OECD Oil Committee, "Report of the United States Emergency Petroleum Supply Committee," 5 September 1967, DIE/E/PE File, International Energy Agency Archives, Paris, France.

56. OECD Oil Committee, "Draft Preliminary Report."

57. James L. Cochrane, "Energy Policy in the Johnson Administration: Logical Order versus Economic Pluralism," in Craufurd Goodwin, ed., *Energy Policy in Perspective*, p. 377.

58. See Anthony Sampson, *The Seven Sisters* (New York: Bantam, 1975); Peter Odell, *Oil and World Power* (London: Penguin, 1972).

important to remember, however, that changes took place on both the demand and supply sides of the energy equation.

On the supply side, the 1960s saw the growth of OPEC and of producer country nationalism. The producer countries had grown dissatisfied with level revenue flows, especially since more cash was needed to finance economic development plans. The possibility of gaining higher oil prices was clearly seen by Libya's Colonel Muammar Qaddafi, for example, who overthrew King Idris in September 1969. By playing firms against one another, Qaddafi greatly increased the value of his concessions. In 1971, the Arabs further learned the benefits of collective action. The Teheran-Tripoli agreements signed that year between producer states and oil companies led to a unilateral price rise. The agreements also guaranteed security of supply.<sup>59</sup>

On the demand side, the major event of the period was the United States' entrance into world oil markets. In 1967 the United States imported 925.9 million barrels of oil; in 1973 that figure reached over 2 billion barrels. Dependence on imports had risen from 20 percent of consumption to 36 percent.<sup>60</sup> This increase was made possible by President Nixon's 1971 decision to relax the Mandatory Oil Import Program, which had limited the amount of foreign oil entering America.

Nixon's decision reflected a growing concern in the United States that the nation's spare production capacity had vanished. There were fears that a severe winter could cause heating oil shortages. To complicate matters, America's energy economy had lost flexibility, in part as a result of environmental policies which forced a decrease in coal use. Suddenly, the country's energy position seemed vulnerable.<sup>61</sup>

The OECD oil committee viewed the changes in America and the Middle East with alarm. The industrial world, it appeared, would now confront a tighter oil market, with real rising prices. Economies would be forced to adjust to higher oil costs.<sup>62</sup>

Emergency planning was also complicated by the changes. The United States was apparently no longer able to serve as the oil supplier of last resort, and might even demand a piece of any future allocation scheme. At the same time, the ability of the oil companies to change production levels quickly had declined due to growing producer-country intervention.

In response to these new conditions, the OECD oil committee worked

59. See Mira Wilkins, "The Oil Companies in Perspective," in Raymond Vernon, ed., *The Oil Crisis* (New York: Norton, 1976), pp. 159-78.

60. Goodwin, *Energy Policy in Perspective*, p. 694.

61. See Neil de Marchi, "Energy Policy Under Nixon: Mainly Putting Out Fires," in Goodwin, *Energy Policy in Perspective*, pp. 395-474.

62. OECD Oil Committee, "Memorandum for the Record," 14 October 1970, DIE/E/PE File, International Energy Agency Archives, Paris, France.

vigorously to increase the stocks held by member states. On June 15, 1971 the committee recommended that states "achieve as soon as possible, a stock level of at least 90 days average inland consumption . . ." <sup>63</sup> The definition of stocks, however, was left vague. The United States, with its large indigenous supplies, considered production capacity a stock of sorts. The Japanese, on the other end of the oil dependency spectrum, built physical stockpiles of oil that could be released in an emergency. The European states had stockpiles, but the degree of public control over the stocks differed in each country. The vulnerability of OECD countries to an oil cutoff, therefore, was not simply a function of dependence on imports. Policy actions influenced the capability of states to react. With its diverse membership, the OECD oil committee had a difficult time formulating common emergency plans that all states would be willing to adopt.

The oil committee also attempted to develop its emergency allocation scheme. In previous crises, apportionment took place on an ad hoc basis. This was satisfactory as long as the shortfall was small and the companies were capable of distributing supplies equitably. The OECD suddenly perceived, however, that a future shortage might be of greater magnitude and longer duration, and that oil company activities could be curtailed by state action. It was also apparent that allocation could be complicated by the fact that states were importing much more oil than ever before. In OECD-Europe, consumption grew between 1960 and 1970 from 607 million tons to 963 million respectively. <sup>64</sup>

In 1971, the OECD, recognizing that improvements were needed, developed a simple scheme: during a shortage, 90 percent of the oil available to OECD countries would be distributed equitably, according to consumption patterns. A reserve fund of the remaining 10 percent would be distributed by the oil committee on the basis of need. Special allocations would depend on "serious economic difficulties due to the lack of oil, especially in Member countries in the course of economic development." <sup>65</sup>

Yet neither OECD emergency planning nor oil committee rhetoric stating "that it was essential that Member countries and their oil companies stand solidly together" <sup>66</sup> could hide the fact that the alliance energy regime was coming unglued. Governments were now becoming increasingly involved

63. OECD Oil Committee, "Report on Oil Stockpiling," 15 June 1971, DIE/E/PE File, International Energy Agency Archives, Paris, France.

64. OECD Oil Committee, "Review of Methods of Apportionment of Oil Supplies in an Emergency," 1 September 1971, DIE/E/PE File, International Energy Agency Archives, Paris, France.

65. Ibid.

66. OECD Oil Committee, "Memorandum to the Secretary General," 14 January 1972, DIE/E/PE File, International Energy Agency Archives, Paris, France.

in all aspects of the oil business, and in early 1973 the committee noted the proliferation of "bilateral deals between producer and consumer Governments."<sup>67</sup> This norm change signaled that the regime was no longer viable.

As governments pursued such deals, communications with the oil industry worsened. The "absence of acceptable communications" greatly concerned the OECD, since business-government cooperation had served as a cornerstone of the energy security regime. It was not clear that, during an emergency, states acting alone could effectively replace multinational firms.<sup>68</sup>

Why was the alliance energy regime unable to adapt to the new conditions of the 1970s? One student of U.S. leadership, Robert Keohane, points the finger at the "political power of domestic interests in the United States." These interests, he claims, "prevented the implementation of a farsighted strategic policy of conservation . . ."<sup>69</sup> According to his view, greedy domestic actors were able to 'drain America first', and by 1970 U.S. spare capacity vanished. With this capacity gone, the regime no longer had its resource underpinning.

But this explanation provides only part of the story. Producer countries were using state power to advance certain goals, and even the most powerful oil company was no match for a state bent on nationalization. As long as adequate, if not appropriate, compensation was provided for nationalized properties, western nations were satisfied that international law was being upheld. It would have been impossible for the United States or any other ally to use force against the producers. In any case, during the Suez crisis, the United States had already declared such action to be illegal. Ultimately, as Raymond Aron has said, "military force scarcely influences the capacity of a state to impose its will on others in negotiations whose stake is strictly economic."<sup>70</sup>

Another reason the alliance energy regime failed, therefore, was because it had no mechanism for dealing with producer country power. The regime had been built on the belief that the private sector would supply alliance oil needs. The private sector stabilized the regime by treating all consumer states on an equal basis; special bilateral deals between consumer states and companies did not exist, and of course companies could not trade oil for arms with producer countries. Once producer countries became sellers of oil, however, new transaction possibilities developed. Oil purchasing

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67. OECD Oil Committee, "Draft Report on Oil Demand and Supply Problems and Prospects to 1980," 23 February 1973, DIE/E/PE File, International Energy Agency Archives, Paris, France.

68. Ibid.

69. Keohane, "Hegemonic Leadership," p. 70.

70. Raymond Aron, *Peace and War* (Garden City, NY: Doubleday, 1973), p. 227.

appeared to become a zero-sum game, where one state's gain was another's loss. Under such conditions, cooperation was difficult to maintain.

It must be emphasized that, in the early 1970s, the allies accepted the legitimate rights of the producer countries to become more active in the oil business. Unilateral price hikes caused adjustment problems, but they were not illegal actions. There was little the allies could do about the changes in the oil world. What the allies failed to see, however, was that the regime change need not have brought collective action to an end.

Ironically, it was the oil companies that gave this very message to OECD countries. In May 1973, for example, the Group Planning section of Royal Dutch/Shell prepared a paper that stated an "oil scramble" was being created by the industrial states. The bilateral deals being made, "designed to procure increased national security for energy supplies," were also causing a "rapid escalation of costs" for consuming nations. The paper posited that the inevitable result would be market chaos.<sup>71</sup>

Shell believed that the "best way of reducing the sense of insecurity" lay in the "promotion and establishment of institutions with the authority to allocate oil resources." The OECD oil committee could do this job only if states enlarged its powers and promoted better business-government relations; but at this point, the oil committee was a dead letter.

An alternative scheme, according to Shell, would be the establishment of an "international energy agency" composed not just of OECD nations, but of oil producer and Third World countries as well. This agency could probe more deeply than merely oil allocation questions, and instead consider the whole range of energy issues, including research and development, energy prices, and investment in OPEC nations. Shell recognized that the memorandum, calling as it did for heightened government activity in energy planning, appeared "paradoxical." But "times and circumstances change," said the company, and the alternative — no collective action — was unthinkable. Soon the company would be proved right.

In October 1973 another Arab-Israeli war erupted. Following an American airlift of supplies to Israel, several Arab oil producers launched an embargo against the United States and Holland. The European countries' supplies were cut according to the level of support they offered to Israel. In December, OPEC unilaterally quadrupled the price of oil.<sup>72</sup>

The OECD oil committee was unable to quell panic among its members. The committee recognized "the need for emergency action" but collective action proved impossible. Europe and Japan were fearful of taking steps

71. Shell Group Planning, "Measures to Mitigate an Oil Scramble and Methods of Allocating Oil Supplies," May 1973, DIE/E/PE File, International Energy Agency Archives, Paris, France.

72. The events of 1973 can be followed in Raymond Vernon, *The Oil Crisis*.

that appeared anti-Arab, and unanimity could only be reached on an agreement to provide monthly reports on oil stock levels.<sup>73</sup> Discussions on oil allocations fell apart as the member states failed to reach agreement on a formula. The French believed that allocations should be based on vital needs, the American formula was based on "water-borne imports," and the Japanese on total energy requirements. These formulas were debated throughout the crisis. OECD action was complicated by the fact that member states now saw allocations as only one part of an emergency energy program. Proposals were presented for cooperative energy research and development programs, and for energy conservation studies. The United States, while sympathetic to these programs, felt that discussion should focus on the emergency at hand.

The OECD oil committee therefore played only a tangential role during the oil crisis of 1973. Indeed, the inability of the committee to act was one factor that led the United States to propose a new "international energy agency." The OECD oil committee, which had served the alliance for over 25 years, was thus a scarcely-noticed victim of the Yom Kippur War.

#### THE OIL PRICE SHOCKS OF 1979-1980

During the energy crisis of 1973 the members of the OECD had recognized that the oil committee was too narrowly focused to be of service in the changing energy environment. As early as December 1973 U.S. Secretary of State Kissinger had proposed the creation of "an Energy Action Group of the industrial democracies — in effect, a consumer grouping to promote alternative energy sources and conservation and to negotiate with the producers."<sup>74</sup> Yet, in the early days of the crisis, the European allies were unwilling to follow the United States' lead. Not only did they wish to develop the Euro-Arab dialogue, but some governments — particularly the French — feared that America would use the crisis to reassert its political leadership of the alliance.<sup>75</sup> By January 1974, however, bilateralism had not yet produced positive results. Begrudgingly, the allies accepted the United States' invitation to the Washington Energy Conference.

The story of the conference and the origins of the International Energy Agency (IEA) have been told in detail elsewhere and need not be repeated

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73. OECD Oil Committee, "Draft Report on OECD-wide Apportionment of Available Oil," 8 November 1973, DIE/E/PE file, International Energy Agency Archives, Paris, France. Robert Stobaugh, "The Oil Companies in the Crisis," in Vernon, *The Oil Crisis*, pp. 179-202.

74. Henry Kissinger, *Years of Upheaval* (Boston, MA: Little, Brown & Co., 1982), p. 896.

75. Louis Turner, "The European Community: Factors of Disintegration," *International Affairs* 50 (July 1974): 404-15.

here.<sup>76</sup> It is sufficient to recall that the IEA was established as an affiliate of the OECD in November 1974, and that its membership included all the OECD countries with the exceptions of Finland, France, and Iceland. While the IEA's initial task was the development of an oil-sharing scheme, the agency had other functions as well. Prominent among these were: (1) the creation of an oil information system, including permanent consultation with the oil industry; (2) support for energy research and development; (3) the opening of a consumer-producer dialogue (a dead letter); and (4) research into other international energy sources, including the role of such alternative fuels as natural gas, nuclear power and coal.

The IEA's oil allocation system is triggered whenever the agency makes a "finding" that a seven percent shortfall exists in a member country or among a group of countries; this figure reflects that shortage felt during the oil embargo of 1973-1974. In practice, such a finding has never been made, and the effectiveness of the system can only be tested in dry runs. In the wake of the Iranian revolution Sweden requested a finding, and Turkey made a request in the Iran-Iraq war, but the agency secretariat refused to start the process. The shortage in those countries, it appeared, was due to stringent price control policies rather than an inability to purchase oil.<sup>77</sup>

Even though the IEA did not trigger the allocation system during the Iranian revolution, it did attempt to calm the market in other ways. In March 1979 the agency's Governing Board (composed of energy ministers of member states) agreed to measures that would reduce IEA oil demand by two million barrels per day. These measures, however, were to be taken on a voluntary basis. Later in the year, the agency attempted to get member states to accept oil import ceilings. These recommendations did little to meet the immediate crisis.<sup>78</sup>

One reason for consumer panic at the time of the Iranian revolution was the decreased confidence in the major oil companies. While the actual drop in supplies was not large — about two million barrels per day (four percent of world demand) at the height of the crisis — the producer countries made a greater amount of sales directly to consumer states or to third parties, i.e., to independents, jobbers and other "non-majors." Even to a greater extent than in 1973, oil markets were seen as a zero-

76. See Kissinger, *Years of Upheaval*; Mason Willrich and Melvin Conant, "The International Energy Agency: An Interpretation and Assessment," *American Journal of International Law* 71 (April 1977): 199-223.

77. Robert O. Keohane, "International Agencies and the Art of the Possible: The Case of the IEA," *Journal of Policy Analysis and Management* 1 (Summer 1982): 469-81.

78. U.S. Department of Energy, *Energy Security in the Industrial Nations* (Washington, D.C.: Government Printing Office, 1983), p. 24.

sum game, where absolute supply constraints imposed by producers limited the amount of oil available for purchase.<sup>79</sup>

The IEA was thus unable to control its members. Nations feverishly "paid any price" for oil supplies.<sup>80</sup> The "oil scramble," as Shell had predicted in 1973, created a vicious circle leading to chaos. Yet it is probably not fair to say that the agency failed during the oil shock of 1979. Rather, it was IEA governments that failed. An international organization cannot succeed when member states act unilaterally in disregard of their obligations to the organization and its guidelines. Consumed by domestic fears, IEA members failed to see the benefits of collective action.

Still, the 1979 experience may have had a positive side. In the aftermath of the crisis, the IEA Governing Board agreed that, in the future, it would meet at the outset of any potential crisis, and that steps would be taken to keep states out of the spot market. The counterproductive actions taken by members during the Iranian revolution were recognized. To its surprise, the IEA soon had the opportunity to test this new collective resolve.

#### THE IRAN-IRAQ WAR

No sooner had the Iranian revolution ended than the Iran-Iraq war began. In September 1980 the IEA Governing Board met and called for restraint of spot market purchases. At the same time, the Board recommended that stocks be drawn down. These were reasonable policies for a crisis of short-term duration, but uncertainty about the length and depth of the supply disruption caused concern among Board members that the policies would soon be ignored.<sup>81</sup>

Over the next two months, the agency continued to emphasize stock drawdown as the appropriate response to the Persian Gulf crisis. The IEA projected that if member states followed this policy, net imports would be reduced by 10 percent. Since a large percentage of stocks were in the hands of private oil companies, however, firms had to act in the interests of consumers. Most companies accepted this role, but some followed short-term balance sheet considerations instead.

That 1980 did not see a repeat performance of the previous year's oil panic may have been due in part to IEA's consistent recommendations. The agency was also helped by increased Saudi production, and by decreased demand owing to economic recession and energy conservation programs in the West. It is true that spot market prices rose by 25-30 percent in

79. Thomas L. Neff, "The Changing World Oil Market," in David Deese and Joseph Nye, eds., *Energy and Security* (Cambridge, MA: Ballinger, 1981).

80. Professor Richard N. Cooper, Under Secretary of State for Economic Affairs in the Carter Administration, International Economics Seminar, Harvard University, 20 April 1983.

81. U.S. Department of Energy, *Energy Security in the Industrial Nations*, p. 28.



the autumn, but they fell again soon thereafter. Stocks were released "at double the normal rate in the fourth quarter of 1980."<sup>82</sup>

While no definitive statements can be made about the IEA's impact on oil markets during the Iran-Iraq war — since information is lacking — it can only be hoped that the member states have drawn lessons from the crisis. Some of the features of the previous alliance energy regime reemerged, notably cooperative business-government relations and an emphasis on multilateral approaches, although neither of these elements of the energy regime were as strong as they had once been. Perhaps the seeds of a new approach to energy security had been planted in the IEA after all.

### COOPERATION IN THE POST-HEGEMONIC ALLIANCE

This article has traced the rise, fall and transformation of the alliance energy regime. It has been shown, however, that even without U.S. hegemonic leadership, the possibility for alliance collaboration in the energy area endures. Admittedly, the current regime is weaker than its predecessor. The challenge is to find new ways to strengthen the energy regime in the absence of a hegemon.

In the future, close alliance energy relations must be maintained, especially since current projections of the world oil market to the year 1990 estimate Persian Gulf oil production running as high as 24 million barrels per day, while non-Communist world oil demand is expected to total 53 million barrels per day. Persian Gulf producers thus may control 45 percent of free world requirements.<sup>83</sup> It would be the height of folly for alliance statesmen to permit such a degree of dependence without, at the very least, strengthening IEA plans for coping with an energy emergency.

At the same time, alliance members cannot expect the IEA to replace the old regime. The postwar energy security regime rested on control over essential natural resources, whether these were located within national territories or overseas. Also, refinery plans were drawn up jointly. Members of the regime "maintained some degree of control over each other's behavior."<sup>84</sup> Refinery plans, for instance, were drawn up jointly within the OECD oil committee, and states refrained from seeking bilateral energy deals. These characteristics made for a *control* regime.

Today's IEA-based energy regime, resting on the principle of equitable oil distribution in an emergency and the norm that the IEA acts as crisis

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82. Robert O. Keohane, "International Organizations and the Art of the Possible."

83. Edwin A. Deagle, Jr., *The Future of the International Oil Market: A Report for the Group of Thirty* (New York: March 1983).

84. Robert O. Keohane, "The Demand for International Regimes," in Krasner, *International Regimes*, p. 167.

arbiter, may be termed an *insurance* regime. It is a regime that states maintain in their "portfolios" to diversify the risk involved in energy transactions. This regime does not control the behavior of its members — they may build refineries at their leisure, or make bilateral arrangements — it simply allocates oil.<sup>85</sup>

The establishment of an insurance regime for energy may seem a minimal accomplishment, but in fact it should inspire hope. It affirms that diplomacy is alive and (sometimes) well in the alliance. Statesmen must make sure that collaboration and consultation on energy issues remain high on the policy agenda in the Western alliance.

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85. Ibid., p. 169.