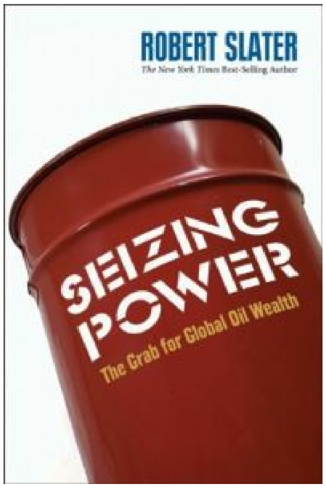

Book Seizing Power

The Grab for Global Oil Wealth (Bloomberg)

Robert Slater
Bloomberg Press, 2010

Recommendation

Journalist Robert Slater's book provides an interesting piece of the oil puzzle by identifying today's new industry bosses, including new state-run oil companies and the "petroaggressors" – or nonaligned nations – that dislike the US and now have the oil, power and money to change the world's political balance. Slater presents the history of the oil industry, explains some technical factors, and describes the rotation of new and old participants. Though the book does not offer a great deal of original information, Slater believes that dealing with rogue oil nations is a necessary – but menacing – evil that stems from the West's overreliance on oil to solve its energy problems. *BooksInShort* recommends this overview of the increasingly nasty politics of oil. Here's hoping forewarned is still forearmed.

Take-Aways

- The world is desperately dependent on oil: When oil prices spike, they can destabilize entire economies.
- Oil first became a political weapon during the 1973-1974 Arab oil embargo of the West.
- Experts predict the world could run out of oil within the next 50 to 150 years.
- The government of Chad diverted its oil revenues to weaponry, flouting World Bank conditions that the money serve Chad's poor.
- China's growing energy needs dictate its influence in Africa, which has emerged as a major oil supplier.
- Saudi Arabia, one of OPEC's founders, gradually assumed total control of its oil production from Western oil companies.
- Sudan's government uses oil revenues to fund civil war, genocide and ethnic cleansing.
- After the 1973 Yom Kippur War, Exxon and Gulf posted huge profit increases
- Some governments with "national oil companies" (NOCs) are ruled by "petrodictators," like Hugo Chavez in Venezuela, who divert oil revenues for political use.
- NOCs hold 80% of "global liquid oil reserves"; the "big five" companies control just 5%.

Summary

Oil's Brief History

Today's world is desperately dependent on oil – quite a change from when the largest oil reserves were first discovered about 150 years ago. For most of the intervening period, the US dominated oil exploration and consumption, and petroleum markets remained relatively stable. Wealthy 19th-century oligarchs such as the Rockefellers and Carnegies ran the industry as a business. When their power waned in the early 20th century, control fell to the "Seven Sisters" oil companies – a group of US and European energy companies – and then, in 1960, to the Organization of Petroleum Exporting Countries (OPEC). Saudi Arabia – the "alpha dog" of OPEC – had traditionally sought to keep oil prices low in order to keep the West from moving to alternative energy sources.

> "The West was slow to see the warning signs of the oil-price run-up."

But the situation changed radically during the 1973-1974 Arab oil embargo, when oil first became a political weapon. OPEC cut supplies in reprisal for the 1973 Israeli-Arab Yom Kippur war and quadrupled the price of oil to consumers. As the 1970s went on, Saudi Arabia had a harder time keeping OPEC members in line: The desert kingdom believed that oil-exporting nations would generate more revenues by keeping production steady rather than by increasing prices. But by the 1980s, when global oil demand soared due to China's and India's growing industrialization, national oil companies (NOCs) began to flex their muscles. The NOCs represent a relatively recent group of oil-producing nations, many of which are not friendly to the US. These new oil producers have ushered in price volatility and a geopolitical power shift.

> "Never even an issue before the early 1970s, the trend of higher oil prices seemed, by the early 2000s, to have taken on a frightening permanence."

As oil supplies continue to fall – experts predict that the world could run out of oil in the next 50 to 150 years – more instability will affect the industry. While governments seek new, alternative energy sources, "tyrants, terrorists and speculators" are increasingly manipulating the world's oil supply through price increases, which can drastically destabilize entire economies.

The Oil Curse?

Greed and the high worldwide demand for oil distort social, political and economic institutions in many oil-producing nations. When oil was discovered in Chad in the 1960s, the African nation was one of the poorest on the continent. In 1999, the World Bank, in an attempt to make Chad an example of how to use oil revenues to reduce poverty, financed an oil pipeline managed by an ExxonMobil-led consortium. In return, the Chadian government agreed to spend its petroleum income on the poor. But in 2006, during Chad's civil war, its parliament authorized the payment of oil fees directly into the state treasury instead of into a World Bank account designated for national development projects. In response, the World Bank froze Chad's $125 million escrow account and withheld $124 million in additional aid. In retaliation, the government closed its pipeline until ExxonMobil paid Chad's president $100 million. Surprisingly, the World Bank capitulated to Chad's demands, and the still-impoverished nation bought more armaments. Chad's oil production was minimal, and its oil quality, poor, but Chad showed that a small dictatorship with a relatively insignificant amount of oil could force its own terms on Western institutions.

China in Africa

African oil production increased enough in the early 1990s that some predicted the continent's petroleum could make up 25% of US oil supplies by 2015. As an expanding nation with a grave need for oil, China also soon began buying huge quantities of African oil and providing Africa with technology and cash. In 2005, China invested $175 million in African oil exploration, infrastructure, roads, agriculture and railways, and it conducted $55 billion in trade with the continent. A Chinese national oil company, CNOOC, bought 45% of a Nigerian oil field and 64% of Sudan's oil exports in 2006. However, that same year, the US imported more oil from Africa than from the Middle East.

> "What had characterized the oil order of the past was its orderliness, its predictability, its accessibility and its relative tranquility."

China now presents the US with a serious long-range competitor for Africa's oil. By 2045, China will have to import 45% of its oil, so China has expanded its political influence throughout Africa. For instance, Angola broke diplomatic relations with Taiwan and re-established them with China to court Chinese investments. China has sent thousands of doctors to Africa, while inviting similar numbers of Africans to study at Chinese universities. As a bonus, China cancelled $10 billion in debt owed to it by African nations.

> "For decades, oil analysts scoffed at the idea that any country or countries would use oil as a political weapon."

China easily maneuvers in the politics of places like Africa because it does not always abide by international standards of human rights, corruption and bribery. For example, when the International Monetary Fund postponed funding Angola because of corruption concerns – Angola ranks as one of the most corrupt countries in the world – China filled the gap with a $2 billion loan to the Angolans. Similarly, China has invested in Zimbabwe, Iran, Myanmar and Sudan, which all rank highly among the "world's thugs." Sudanese combatants used Chinese weapons, bought with Chinese oil payments, to slaughter hundreds of thousands of people in Sudan's Darfur region.

Gulf Power

For years, Saudi Arabia's main revenue source lay in the fees it collected from religious pilgrims to Mecca and Medina. That changed in 1933 with the discovery of its oil reserves. King Saud negotiated a 60-year deal with Standard Oil Company of California (later, the Arabian American Oil Company, or ARAMCO) for the country's first oil concession, but he insisted on being paid in gold. The US had recently abandoned the gold standard, but it made an exception. Over the years, wooden barrels filled with gold coins made their way to Saudi Arabia to pay for the oil. In 1950, to get a larger percentage of oil revenues, King Saud threatened to nationalize the oil companies. They capitulated and gave him half their profits. In 1960, Saudi Arabia, Iran, Iraq, Kuwait and Venezuela formed OPEC, paving the way for a change of control over the flow of two-thirds of the world's oil. That tactic worked. Over the course of the 1970s, most Middle Eastern oil fields moved out of Western hands. In 1970, the US "became a net oil importer," and by 1974, the Saudis had gained a 60% stake in ARAMCO. By 1980, Saudi Arabia controlled the entire company, thus transforming the relationship between Western oil companies and developing-world oil producers.

Impact of the Oil Embargo

In October 1973, Egypt and Syria attacked Israel in the Yom Kippur War. But because the Arab nations had the Soviet Union behind them, while Israel was a close US ally, the battle had broader, international impact. The Soviets sent a naval force of 71 ships and submarines into the Mediterranean, and the US supplied Israel with additional arms. When the tide of battle shifted to Israel's favor and ultimate victory, Saudi Arabia threatened an oil boycott. The chairmen of Exxon, Texaco, Mobil and Chevron (all ARAMCO partners) conveyed the Saudis' message to President Richard Nixon's administration, counseling that any further military assistance to Israel risked aggravating other Arab nations. Nixon remained firm in the US's support of Israel; the OPEC nations quickly implemented an oil embargo on the US and some other Western nations.

> The Saudis "understood what the United States and the rest of the world apparently did not: that one day there would be an end to oil."

The embargo's leaders immediately cut shipments to the Netherlands and the US and dramatically raised the cost of oil. This hampered US drivers, but it boosted the oil companies' business: Exxon and Gulf posted quarterly profit increases of 80% and 91%, respectively; Exxon's year-end 1973 profit hit $2.4 billion, then record earnings for a US corporation.

Oil Spills and Ethical Dilemmas

The search for more oil often involves ethical problems for the US, bound as it is by regulations and public opinion. After the *Exxon Valdez* oil spill off the coast of Alaska in March 1989, government officials cited Exxon with failing to supervise its crew and provide proper navigation. The spill became a public relations and ecological disaster for Exxon as it bungled the cleanup. Public outcry forced Congress to pass the 1990 Oil Pollution Prevention Act.

> "If, as is predicted, oil consumption is expected to double within 20 years, where will the tens of billions of extra barrels of oil come from every year?"

Bribery and poor governance played a large role in an oil scandal in Kazakhstan beginning in the 1990s. A US businessman and US oil companies faced charges – in violation of the US Foreign Corrupt Practices Act – of paying bribes in cash, jewelry, boats and snowmobiles to Kazakh government officials in exchange for rights to the nation's oil fields. This proved not only unlawful but embarrassing when President George W. Bush had to cancel a 2006 state dinner for Kazakhstan's president, who had just been named as an unindicted co-conspirator in the case.

> "Many of the NOCs behaved like international bullies; in fact, as petrodictators, they wielded a mighty global influence."

American oil companies are not permitted to operate in Sudan because of its record of genocide and war crimes, but Chinese, Malaysian and Indian oil companies have filled the void in tapping the country's huge oil reserves. The Sudanese government uses its oil revenues to fund its civil war, genocidal campaigns and ethnic cleansing.

The End of Oil

Some "peak oil" experts and geologists predict that the world's oil supplies will run out between 2060 and 2070. Other say the world will continue to have oil, but that it will not come cheaply. "Of the 98 oil-producing countries in the world, 64 are thought to have passed their geologically imposed production peak; of those, 60 are in terminal production decline." All readily available supplies have been exploited; only more inaccessible and more expensive oil remains.

> "Too many forces have been set in motion, too many oil deals [have been] forged, too many new oil-wealthy countries have grabbed power and are unwilling to give it back."

Every nation and oil company tallies its "proven" and "probable" oil reserves differently, which makes predicting the end of oil tricky. Experts can assess proven reserves with confidence, pointing to crude that oil company crews can recover from known locations under current law. Probable reserves present varying degrees of extraction difficulty. Both estimates are subjective and can change due to various factors from price increases (that make oil exploration more cost-effective) to technological advances (that make hard-to-reach oil easier to get). Energy companies dislike releasing reserve data since it can affect their stock prices.

The Push for High Prices

Representatives from NOCs in Africa, Asia and South America meet annually for the National Oil Companies Congress, where they tend to differ on most issues except one: raising oil prices. In 2008, these state-owned firms controlled 80% of "global liquid oil reserves" while the "big five" oil companies – ExxonMobil, BP, Royal Dutch Shell, ConocoPhillips and Chevron – held just 5%. By 2007, Saudi Arabia and Iran headed the list of the world's 15 largest oil companies, and rounding out the tally were NOCs from Venezuela, China, Algeria, Mexico, Kuwait and Brazil. ExxonMobil and BP were third and fourth.

> "Because of oil, the world appears to be tilting toward more competition, more friction, more violence."

Clearly, NOCs have shifted global oil power their way; many developing nations won't sign deals with major US oil companies for political reasons, so they rely on their own NOCs or, increasingly, the Russians and Chinese. When US firms do operate in politically unstable, oil-rich regions, they face operational, public relations and safety problems posed by hazards varying from armed rebels to bribe-seeking politicians.

> "We will have to work furiously...for the real power shift – to domestic alternative-energy production...to defend ourselves against the petroaggressors that have sprung up, like dragon's teeth, all over the world."

Still, the major Western oil firms have continued to post significant profits, mainly as the result of higher pump prices. These companies also participate in joint ventures with NOCs, which turn to them to expand their reach and flexibility, and to undertake exploration and development of their energy resources. In practice, this means large US firms form partnerships with NOCs, which demand better returns in exchange for access to their oil. If the major Western oil companies were to reject such deals on economic or political grounds, the NOCs could subcontract services to a wide assortment of willing contractors.

> "Big oil is dead. Long live big oil."

The governments of Iran, Chad, Venezuela and Russia, among others, use their NOCs to further their will as "petrodictators." The leaders of these countries have diverted oil revenues for personal political use, not for developing their countries' infrastructures. Reinvesting such profits would improve each country's long-term economic development. Because of their short-term perspective, these new oil production masters will vie for power with other NOCs, creating the potential for violence and supply disruptions. Price volatility will remain a constant, as world oil supplies continue to dwindle.

About the Author

Robert Slater is a journalist who has written best-selling books about George Soros and Jack Welch.