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'Law Of Supply And Demand' For Oil Was Dictated By Rockefeller

Blair, John
The Control of Oil
400 pages, hard cover, $15.00
Pantheon Books, 1976
201 E. 50th Street
New York, N.Y. 10022

There is no question that John Blair's recent book is the best-informed economic analysis of the petroleum industry available. The book thoroughly and irrefutably documents how from the beginning of this century a handful of major companies have systematically manipulated the oil market, their competitors, legislators and foreign governments, not primarily to maximize their profits, but to exercise control over the world's main source of energy. With the appearance of Blair's book, there can no longer be any question that the "law of supply and demand in a free market" has never existed over the past fifty years as far as the oil industry is concerned, nor that the "energy crisis" itself is in large part due to the politics of these same few companies.

John Blair died last December after more than 30 years of government service centered around anti-trust actions against the petroleum cartel. Blair himself was an advocate of expansion of energy supplies to meet growing needs of industry and consumers. His book provides all the information needed to show that the leading Rockefeller family majors, Exxon and Mobil, have worked throughout the past half century as the Wall Street banking community's "inside men" in the petroleum industry, to restrict production and wreck development projects. He also provides the facts on how past efforts at industry "reform" have been turned by the Rockefeller majors to the detriment of the country and their own and Wall Street's good account.

It is ironic, and unfortunate therefore, that Blair's book is being made the Bible for the latest of the Rockefeller majors' reform swindles: divestiture. The book has received rave reviews from such notorious corporatists as John Kenneth Galbraith and Richard Barnet of the Institute for Policy Studies. The divestiture proposals advanced by Galbraith, Senators Edward Kennedy and Frank Church and others are part of plans to destroy the ability of the non-Wall Street producers to expand production and to bring the entire industry into line behind the Carter-Schlesinger energy policy of enforced "conservation" and a 30 percent reduction in per capita energy consumption in the U.S.

Furtherance of such policies was far from Blair's mind in writing *The Control of Oil.*

The Dirt in the Oil Business

As the book repeatedly demonstrates, the "law of supply and demand — which is tirelessly invoked these days by every oil man in support of price decontrol of domestic oil and natural gas as the key to relieving the U.S. energy shortage — has hardly ever been operable in the industry, largely because of the activities of the top, Rockefeller-controlled companies. History, as he shows, has not borne out the theory that higher prices lead to expanded output from existing wells and increased discovery of new oil.

In fact, as Blair documents, the major oil companies, led by the top Rockefeller grouping, have systematically controlled expansion of supply to meet a pre-ordained "market demand." They have ruthlessly suppressed any significant opposition which threatened either their established market positions or the price structure. In fact, during recent recessions with demand decreased, prices have actually been increased — in some cases, along with supply, as occurred, for example, in 1970.

The systematic control of oil supply to extract a high price was initiated in 1928 as part of the settlement of a market and price war between Shell and Mobil. A series of agreements among the top multinationals made between 1928 and 1934 have evolved throughout the postwar period into a highly
analysis" approach under which aggregate Middle East and African oil output from 1950-1972 conformed almost precisely to a 9.55 percent yearly increase — an amazing statistical feat. The top oil companies have methodically maneuvered to prevent independents or lesser majors from upsetting this system, utilizing everything from selective price-cutting and supply restriction to manipulation of governments, covert intelligence operations, and assassination. The case study of the evisceration of the Libyan independents is a paradigm for this dirty business. In 1973 Occidental Petroleum's Armand Hammer was forced to beg for supplies of crude from Exxon's chairman John Kenneth Jamieson after the Rockefeller interests manipulated cutbacks in Libyan output.

In the United States, these same companies forced the 1928 settlement, the Achnacarry Agreement, upon an unwilling industry — enraging Texas entrepreneurs in particular — through a series of price wars, legislation, and federal government actions. By 1933, opposition to price-fixing and control of production was broken, and the Interstate Oil Compact Commission — signed into law by President Franklin Roosevelt — began functioning as an informal supply control mechanism for the industry.

Parallel to the present situation, Blair points out, the issue of conservation was a key rationale used to support the establishment of crude production quotas. In the

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1920s, enlightened oil men proposed a system of prorationing to prevent the physical waste of oil reservoirs resulting from a too rapid rate of recovery.

At first the Rockefellers vehemently opposed this restriction on their income. But by the end of the 1920s, with an oil glut, they reversed their position, changing the concept from "conservation of resources" to "prevention of economic waste" (i.e. prevention of low prices). Through cutthroat maneuvers which slashed prices by 90 percent, and through the buying up of tens of millions of barrels of oil at bargain basement prices, the top companies brought the Texas entrepreneurs to their knees and got their "conservation" legislation passed.

In more recent domestic developments, the top oil companies eviscerated the "private branders" and international independents who once again were encroaching on their markets. Private brank marketers were gradually taking away a substantial portion of the majors' gasoline markets between the late 1950s and 1972 by significantly underselling "name" service stations through lower operating costs. In this period their market share grew from between 5-10 percent to around 20-25 percent of the U.S. market, causing a marked downturn in the rate of profit of the top companies.

Periodic price wars did not stop the "predatory" spread of the private branders. But within a one year time period — 1972-1973 — Blair shows, a sharp and deliberate restriction of refined oil did. Refinery capacity utilization fell around 5 percent in the early part of 1972, with Exxon cutting its refinery production by nearly 10 percent. By summer, shortages began to appear; by 1973 deliveries to many private marketers fell by 50-75 percent or more; and by fall 1973, independents had to raise prices to such an extent that some "found themselves victims of the ultimate price squeeze: to cover their costs they were forced to charge retail prices actually higher than those of the majors." Of course, most either went bankrupt or were absorbed by their adversaries. And to boot, the U.S. experienced its first taste of the "energy crisis" in the gasoline shortage of 1972.

The independents and lesser majors who tried to go international in the 1950s to take advantage of lower-cost crude met a similar fate. From 1957-59 the rates of return of the top companies in the eastern U.S. had dropped precipitously in the wake of the recession and increased cheap imports by the independents. In 1959 the government enacted import controls and quotas, under the rubric of "national security," purportedly to prevent disproportionate reliance on unstable foreign sources. This not only immediately necessitated a cutback in imports by independents, but the various exemptions accorded certain interests resulted in quotas actually being half that allotted. To add insult to injury, a forerunner of the current entitlements program was enacted which allotted to inland refiners — who never had imported oil — "tickets" which imported oil refiners were required to buy. Thus the price of imported oil was effectively raised to parity with U.S. oil, waning domestic reserves were drained that much faster, and the Rockefeller grouping was able to recover its market positions. In addition, growing industries like petrochemicals were forced to slow their development because of the higher price of oil, again giving the lie to the cartel's claims of a generally fixed, linear growth of demand.

In his chapter on "The Price Explosion," Blair demonstrates not only that the OPEC price increase served the interests of these multinational companies, but that these increases could never have held without the prior gutting of the Libyan independents and other U.S. firms which had tried to move in on the multis' markets. Contrary to the cries from Exxon and company that they did all they could to prevent the OPEC increases, the facts show that the price rise has more than offset any troublesome "participation" or increased taxation side effects. As Blair sarcastically notes, referring to pre-embargo moves by OPEC:

> Founded in 1960, OPEC's previous chief claim to fame had been its success in immunizing the oil-producing host countries from the downward trend in world market prices....Since the principal effect on the majors was simply to increase their foreign tax credits (and thereby decrease their tax payments to the U.S. Treasury), this accomplishment involved something less than an all-out struggle with the imperialist West. (p. 261)

In addition Blair cites output statistics that show conclusively that no oil shortage or "energy crisis" ever existed in 1973-74. In fact, Middle Eastern production over the first nine months of 1973 was higher than ever before, and with the embargo and production cutbacks of the last three months of that year, production "miraculously" attained precisely the historical 9.55 percent annual growth rate. A most interesting "coincidence."

Blair's Critical Errors

Despite his accomplishment Blair commits errors which are to a significant degree responsible for the fact that his book is now being used in support of the divestiture hoax.

He confines himself to such general categorizations of companies as "the seven sisters," "majors," "lesser majors," and "independents," failing to rigorously distinguish those forces within the industry who are fundamentally committed to monetarist-oriented policies of restriction of growth from those who are fundamentally committed to industrial expansion. Although he rightfully reserves special venom for the Rockefeller-controlled companies of Exxon and Mobil, he tends to lump all of the majors in with these two, who must rather be singled out as primarily Wall Street "Trojan horses" within the oil and energy industry.

Moreover, Blair leaves out of consideration these companies' connections to the Wall Street banking community. Consequently, his recommendation of antitrust divestiture action is blindly focused on the industry as a whole, and, as stated, would leave its connections to Wall Street untouched. In addition, Blair's emphasis on energy conservation projects such as lighter automobiles or oil shale development actually reinforces the production cutback schemes being promoted by Exxon and Mobil, while completely overlooking the possibilities of nuclear fission and fusion development.

With the exceptions of Exxon and Mobil, and to a less certain extent Socal and Texaco (by virtue of their cohabitation with Exxon and Mobil in the Aramco con-

sortium), every oil and gas company in the United States not directly controlled by these companies is fundamentally committed to the development of new energy resources to meet the needs of expanding industry. The pronounced movement of the other "sisters" and "majors" into new and frontier energy projects is proof of this assertion. What Dr. Blair ignores is that these majority companies have all too often been bludgeoned into going along with Rockefeller's Exxon and Mobil — or in some cases have themselves stupidly adopted Rockefeller's policies as being in their own self-interest.

For example, his chapter on the implementation of pro-rationing shows clearly that the practice of the oil industry in general and Texas oil men in particular of restricting production to extract higher prices was forced on them by the Rockefeller grouping. From 1932-1935 the policy of John D. Rockefeller was to mercilessly wipe out the intense opposition in Texas that greeted his attempts at restriction. Oil men up and down the state condemned the price war his companies were waging to gain production curtailment, even during a period when there was a real glut of supplies. During the heated debates in the Texas State Legislature in the 1930s, protests against the comingling of conservation and "economic waste" were loud and strong. For example, State Senator Joe Hill:

> It is the rankest hypocrisy for a man to stand on this floor and say that the purpose of proration is anything other than price-fixing. I sit here in utter amazement and see men get up and blandly talk about market demand as an abstract proposition, and contending that it has got no relation to price-fixing. (p.161)

Nevertheless, with the corporatist Roosevelt in the White House, and the price war, Texas was crushed.

The imposition of import controls is another important illustration of how the Rockefeller companies manipulate and divide the industry. Ultimately the import controls benefited only the Rockefeller grouping, yet they had the wide support of the majority of U.S. independents, who feared — unlike their Texas forerunners — that low-priced foreign crude would bankrupt them. Undoubtedly, the international majors publicly opposed import controls, since they were large importers.

But who benefited? Only Mobil and Exxon in the not-too-long run. Their international and U.S. markets were protected from the independents' foreign crude, and their own losses could be easily made up through domestic production and re-allocation. The internationa independents were badly hurt; the economy in general was unduly restricted by the higher cost of oil; and even domestic U.S. independents lost out because 1) this restriction slowed the economy and their own long-term grwoth, and 2) independent marketers became more dependent on Exxon et al. for gasoline.

The following information was inadvertently excluded from an EIR review of *Wall Street and the Rise of Hitler* (EIR Vol. 4, No. 6).

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Seal Beach, California 90740 U.S.A.

Blair's proposal of free market competition achieved by vigorous anti-trust action does not bother the Wall Street banks which control the industry as presently constituted, as the favor his book has found with Galbraith et al. shows; their financial control would be left intact, and mainly independents would be adversely affected. His support for "conservationist" and "free market" prices dovetails nicely with the "higher prices-enforced conservation" recipes being put out by White House energy czar Schlesinger, Mobil Oil, etc.

With these caveats in mind, the book is an otherwise valuable contribution to the understanding of the manipulations that have led the current high cost and short supply of energy.

— *Steve Parsons*