

What the World Should Learn from the Oil Crisis 50 Years Ago? (1): Overview

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The year 2023 marks the 50th anniversary of the first oil crisis. Coincidentally, the world faces the first energy crisis in a half century as the Ukraine crisis since early last year has led to energy price spikes and market destabilization. It may be extremely significant to review and learn lessons from the first international oil market crisis in history, which rattled throughout the world 50 years ago.

On October 6, 1973, the fourth Middle East war broke out as Egypt and Syria launched a surprise attack on Israel. As the breakout day fell on Israel's national holiday of Yom-Kippur, it was called the Yom-Kippur war. While Israel launched counterstrikes, Arab oil-producing countries adopted a strategy to use oil as a weapon. They imposed the so-called Arab oil embargo. Under the oil embargo, Arab oil-exporting countries divided oil-consuming countries into three groups – friendly countries for continuous oil supply, unfriendly countries for supply suspension and neutral countries for a 5% cut in oil supply every month. As the world depended heavily on Arab oil, the Arab oil-exporting countries adopted the Divide and Rule strategy to divide cooperation between oil-consuming countries. Crude oil prices were then rising on the tightening supply-demand balance from the early 1970s and the OPEC offensive, where oil market control was shifting from the “Seven Sisters” oil majors to the Organization of the Petroleum Exporting Countries. As the fourth Middle East war breakout and the Arab oil embargo rattled the international oil market, crude oil prices shot up. The average price for the benchmark Middle Eastern crude oil known as Arabian Light quadrupled from \$3.29 per barrel in 1973 to \$11.58/bbl in 1974.

Adding fuel to the price spikes and market chaos was a desperate oil import competition between oil companies from Western industrial countries that were major oil consumers then. Globally famed energy economist Daniel Yergin indicated the competition as panic buying. The Arab oil embargo collapsed cooperation among oil-consuming countries and destroyed international oil market order and stability. For instance, Arab oil-producing countries exerted pressure on Japan and European countries classified as neutral to reform their pro-Israel Middle East policies. For Japan, which depended heavily on cheap Middle Eastern oil to support high economic growth in the 1960s, the oil supply reduction was a direct threat to the economy. On November 22, 1973, then Chief Cabinet Secretary Susumu Nikaido issued a statement offering to revise Japan's Middle East policy. Although then U.S. Secretary of State Henry Kissinger diplomatically urged Japan and European countries to counter Arab oil-producing countries' pressure to secure cooperation among oil-consuming countries, Japan offered to revise its Middle East policy to secure oil supply. As a result, Japan was reclassified as friendly but lost its diplomatic freedom to the disadvantage of cooperation among oil-consuming countries.

Crude oil price spikes accelerated inflation, plunging Japan into a wild price spiral. Amid chaos including the so-called toilet-paper panic in Japan, how to secure energy supply became a top-

priority challenge for governments, enterprises and citizens around the world. As inflation deteriorated throughout the 1970s, major countries raised interest rates to calm down inflation. However, the high interest rate policy led to a global recession and a Latin American debt crisis in the first half of the 1980s.

As energy security became a top energy policy priority, major industrial countries strongly promoted energy security policies. To phase out dependence on the Middle East and OPEC, they stepped up oil development in the North Sea, Alaska and other regions. They also toughened auto fuel efficiency standards and promoted energy consumption savings symbolized by industry sector initiatives to suppress oil consumption. Nuclear energy, natural gas, liquefied natural gas and other alternatives to oil were introduced on a full-fledged basis. As a result, oil's share of global primary oil supply gradually fell from the peak of 49% in 1973 to 30% in 2021. The shock of the first oil crisis brought about the beginning of the end to the century of oil. Reflecting on the oil crisis, oil-consuming countries promoted initiatives to reconstruct their cooperation and maintain international energy order. In a symbolic development, the International Energy Agency was launched at the initiative of U.S. Secretary of State Kissinger. Net oil importers among IEA members were required to stockpile oil to maintain their cooperation, stabilize the international oil market and prepare for any crisis. The IEA representing oil-consuming countries and the OPEC group of oil-producing countries began to pursue international oil market stability as their common interest and understand the significance of their dialogue while experiencing their conflicts of interest.

The above is an extensive review of the international chaos triggered by the first oil crisis 50 years ago. The world turned around through the first oil crisis. The above review indicates various common points and similarities between the first oil crisis and the current energy crisis. They include pre-crisis energy price spikes, dependence on some specific energy sources, concern over potential energy procurement difficulties or physical shortage, the fundamental enhancement of energy security measures, growing inflationary pressure and a switch to high interest rate policies, the destabilization of international energy order and cooperation among energy-consuming countries, and the division of the world.

Meanwhile, the current crisis is far different from the crisis 50 years ago in some points. First, climate change was not any kind of major issue at the time of the first oil crisis. While public hazards, air pollution and other environmental issues existed, there was not any issue requiring decarbonization as a full-fledged energy transition. Second, the energy market at the time of the first oil crisis was basically regulated, with great constraints placed on market forces. Under the current crisis, energy security must be balanced with decarbonization, and the basically deregulated market must address externality issues including decarbonization. Current issues are more complicated and difficult. Nevertheless, we can learn lessons from the crisis 50 years ago in considering how to address the current energy crisis. This is because history sometimes repeats itself.

As the Ukraine crisis grows serious, calls for phasing out dependence on Russia are working to increase the significance of other fossil fuel suppliers. Particularly, the United States has attracted attention regarding LNG supply. However, the significance of the Middle East has been emphasized regarding oil and energy sources in general. Global attention has been paid to Saudi Arabia with the world's greatest surplus oil production capacity and Qatar as the world's most competitive LNG supplier. Under initiatives to phase out dependence on Russia, Japan's dependence on Middle Eastern crude oil reached 98% in July 2022 and has hovered around 95% since then. Japan's dependence on the Middle East is far higher than it was before the first oil crisis. Though being overshadowed by the

Ukraine crisis, flagging U.S.-Saudi Arabia relations, rebel demonstrations in Iran and other destabilization developments are seen in the Middle East. The stabilization of the Middle East still remains a significant, difficult challenge even after 50 years from the first oil crisis. In this respect, what lessons we should learn from experiences 50 years ago in the face of the new situation is questioned.

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