CHAPTER V

EUROPE

It is not an easy task to present a brief description of the difficulties that Europe had to face during the oil embargo. Not only the crisis unfolded rapidly but national interests differed and the national responses varied accordingly at a time when a cohesive response was the need of the moment. The power of the European Economic Community to direct or coordinate was minimal, while the governments lacked initiative to handle the unprecedented problem. One reason for this weakness was that six of the community's nine members had only recently joined. This expansion of the European Community may have indeed increased Continent's importance and power on the international scene, emphasising the potential for future, at that moment it only raised new obstacles to the formation of a common strategy. This situation was not yet fully understood outside Europe, especially in the United States, where the twenty-year-old treaty of Rome still presented the false image of a Community which, moored in its principles and committed to its historical mission, headed steadily toward a united Europe.

Because the process of achieving European unity is slow and the vitality of the national decision-making centres persisted.
European response to energy crisis has to be examined in terms of the similarities and differences of individual nations.

One basic thesis of this study is that the institutions of the community entered the crisis with weak position. Though they did not reach to the point of no return restoring vitality to them had been and will continue to be delicate and may easily be endangered by outside factors.

Secondly, the energy crisis put Europe to a secondary position politically and economically. A position consistent with its declined politico-military influence in the Middle East during the previous two decades.

NATIONAL ENERGY POLICIES BEFORE THE CRISIS

Oil was a latecomer as a major energy source in Europe compared to the United States. The unit of almost 20 percent which was attained in Europe in the mid 1950's had reached in the United States in mid -1920s. Despite its late start oil's share in total consumption in Europe was greater than its corresponding level in the United States.¹

A basic change took place in Europe's energy position after the Second World War. Its coal industry shrank drastically, and it lost the self-sufficiency in energy that it had enjoyed before the War.

The substitution of oil for coal in many uses cannot be attributed only to price competition, though it had its effect: many other factors were also operative, and some of them were more important than relative prices. One factor being different set of rules of the market by rich coal and oil industries were operating. From the very start of the development of the European Community's organisation, coal and oil were treated as separate commodities. On several occasions, particularly in the mid-fifties, some European governments expressed their concern over the possibility of an international energy shortage and the risk posed by an excessive reliance on foreign energy sources. Nevertheless, steps to reactivate coal production never materialised.²

In order to check the prices of various products a strict check was put on the prices of coal. On the contrary no checks were put on international oil companies operating in European  

². bid., p. 165.
market. These multinationals enjoyed numerous advantages over coal industry, this included great operational flexibility derived from their vertical integration and international structure and the edge of petroleum, as a sources of energy, over coal was one additional advantage.

The multinational oil companies penetrated in European market by putting up refineries in the Continent and by relative pricing of various petroleum products. The multinational oil companies even enjoyed government subsidies and tax concessions, which resulted in the five fold increase in their refining capacity reaching 220 millions tons. Supporting this huge capacity was a price structure that favoured heavy products from the processing of crude oil those products in most direct competition with coal. The products were underpriced, while light products, such as gasoline, that were destined for uses that were not exchangeable with coal were priced much higher. 3

THE DAYS OF THE CRISIS

The energy crisis beginning with Yom Kippur war of October 1973, had two phases: first, a reduction in oil production; second, an increase in prices. The impact of the crisis on Europe

also occurred in two phases, the first phase, between October 1973, and February 1974, was associated mainly with shortage of oil supply and the second, beginning in March 1974, continued rising prices.

Between October and November 1973. Arab countries comprising the Organization of Arab Petroleum Exporting Countries declared a ban on export of oil to the United States and the Netherlands and in the aggregate, reduce the production of petroleum by 25 percent. The main target of oil weapon was the United States. However, it quickly became evident that Europe and Japan were more vulnerable than the United States, as the embargo could not possibly generate on energy deficit on the US market more than 1.5 percent.4

On the other hand, the reduced production plus the embargo on the Netherlands implied a possible reduction of 12 percent of the energy supply of Europe. In addition, any shortage in the United States would primarily affect transportation, while for Europe and Japan, the entire industrial base was threatened.

The impact on Europe was also two fold, first the realisation of their enormous vulnerability and dependence on

Arab oil. Secondly they realised that they are helpless and powerless to help shape the outcome of the Middle East problem. Since the final withdrawal of the British troops from the Persian Gulf in 1972, there remained no European presence in that area. Not that such force had been capable in the past of preventing or resolving any crisis, but their withdrawal was an acceptance of the decline of Europe's politico-military influence in the Arab world.

Another element of European vulnerability may be derived from the distinction the Arabs made between different European countries. The Arabs applied a total embargo on the Netherlands, froze exports to "friendly" countries (France, Spain, Great Britain) at the September 1973, level, and redistributed what remained proportionately among other countries. The embargo against the Netherlands was in retaliation for its continuous support of Israel, Rotterdam being a terminal for petroleum supply to other neighbouring countries, some two million barrels per day, the Netherlands assumed a special significance. This strategy worked well and European was in peril.

The oil embargo did not create immediate crisis as European countries had about 30 days more in shipment. Coal stocks equivalent to about 80 day's consumption were also on hand. Further the embargo was neither well enforced nor well
coordinated. But the actual conduct of European governments was hard blow to the concept of European community or unity.\textsuperscript{5}

The Dutch wanted a support from their 'community' brethren but Great Britain and France wanted to avoid a showdown with Arabs. This created a state of indecision on the part of Europe. On the contrary they were trying to delegate the responsibility to multinational oil companies for allocating scarce oil among various countries. These seven great multinational companies were directly controlling about 65 percent of Europe's supply of petroleum in 1973.\textsuperscript{6}

The ineffectiveness of oil producing and consuming countries during the crisis showed that the actual handling of the crisis wrested with these companies.

The reallocation of available resources was influenced by the commercial interests of these companies. This resulted in inequitable distribution of supply among the European countries. First preference was their subsidiaries in various countries. Second, to favour those countries who have highest domestic prices for petroleum products. Search for a maximum profit was not the only factor that determined the policy of these multinational giants, their market power enabled them to induce

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the importing countries to raise price of petroleum products at home. Germany, with a free market policy, maintained a higher level of domestic prices than other European countries, and in result did not face much problem in supply of oil from these companies.7

A comparison of the margin of average profit from the sale of oil products may be significant. In December 1973, sales in the Netherlands showed a margin of about $ 24 per ton as compared to $ 20 for Italy, $ 14 for France, and a negative margin of $ 1.40 in Great Britain. In Rotterdam, where prices were 66 percent to 100 percent higher than other markets in Europe, the theoretical average margin was of about $ 94 per ton of oil.8

The crises in the wake of Suez War of 1956 and Six-day War of 1967, were not so serious in nature as the October 1973 crisis. From the beginning of oil embargo mistrust and doubt were reigning high regarding the capacity and will of the companies to satisfy and look after national interest. The dilemma was a classic example of the power of multinational oil giants whom no single government of Europe could as the multinationals were working in concert with their country of origin - the United

States. This factor put a dent in their relationship with the European governments. The role of the companies in the crisis itself was not above suspicion for the European governments. ⁹

The fact may be that the European governments were confused and could not perceive as to what was being conspired between the oil giants and the United States. Even while the European ports were experiencing difficulties in handling all the arriving oil tankers and Europe was running out of space for storing surplus oil, the governments of all European countries were announcing the need to adopt austerity measures. Limits were commonly placed on the consumption of some products, while controls were also placed on their export. Belgium, the Netherlands, Italy, Spain, and Great Britain were all major exporters of refined products; all imposed a ban on exports. ¹⁰

Measures limiting consumptions varied from country to country depending upon the relative importance of petroleum in the nation's energy supplies, on the balance of payments, and on political relations with the producing countries. In general, the

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⁹. Interview with Mr. Richard H. Curtis, a former US diplomat who had served extensively in the Middle East and at present Executive Editor of Washington Report on Middle East Affair, in March, 1988 at Washington.

objective of the governments was to reduce the consumption of oil from previously predicted levels by 10 to 15 percent. Since no reliable data existed regarding the prices elasticity of demand for oil, governments were obliged to work largely in dark. The policy, practically in all countries, was to spare the industrial sector by placing restraints largely on private consumption. Accordingly, gasoline consumption was widely curtailed, even though gasoline represented only 12 percent of total consumption and the restrictions adopted, such as a ban on Sunday driving and the imposition of speed limits, could only have negligible results.

Restrictions were also applied on heating and lighting, by means of the rationing of fuel deliveries, the early closing of businesses and public offices, the reduction of street lighting, and cutting short the hours of television transmission. The most critical product in terms of availability, however, was fuel oil, which represented more than one-third of total consumption and constituted the principal product used by industry. Specific measures to reduce deliveries were adopted in various countries, especially in Italy and England.

12.  Ibid.
It is difficult to find out or make sure to what extent governmental policies helped to limit the growth of demand. A certain curtailment in oil consumption had already been apparent in the latter part of 1973.

The winter of 1973-74, was also unusually mild in Western Europe. The decrease in consumption may have stemmed partly from the extraordinary situation like increase in the price of petroleum products, a result of the increased costs of crude oil and the rise in the level of excise taxes.

In the period December, 1973, through March, 1974, the availability of petroleum in the five major European countries—France, Germany, England, Italy and the Netherlands—was only about 5 per cent lower than in the corresponding period previous year. Availability was reduced by 16 per cent in the Netherlands, 12 per cent in Germany, 7 per cent in France, not quite 1 per cent in England and actually increased by about 4 per cent in Italy.14

The declined consumption of oil in Europe may be attributed to contraction of demand caused, partly by change in prices, partly to replacement of oil with other sources of energy and

partly by strict government restrictions rather than to searching of crude oil. 15

In Germany, for example, by dipping heavily into its reserves, coal consumption was increased by 7.8 per cent, and natural gas consumption by 21 per cent. As a result, the total consumption of energy in Germany declined by only 2 per cent. By increasing the consumption of natural gas, the Netherlands and France similarly managed to limit the decline in their energy supply to only 3 or 4 per cent. 16

After reviewing the oil supply and consumption situation in Western Europe, let us now look at the politico-diplomatic aspects of the European response of the oil crisis.

When the Arabs imposed an oil embargo, primarily against the United States, the West Europe saw it as a God-sent opportunity to distance itself from America. France was in the forefront and saw in the oil crisis a chance to assert against American hegemony and emerge as a leader of Europe by bringing about a new reapproachement with the Arab oil producing countries. French President Pompidou called for a common European policy on the Middle East and said, "Europe must be given a larger role in world affairs". 17

Henry Kissinger also observed this change of mood and trend in European policy and stated, "Europe wanted the option to conduct a policy separate from the United States and in the case of Middle East objectively in conflict with us."\(^{18}\) France as noted earlier, was in the forefront of those of American allies "Who" according to Kissinger "were exploiting the embargo to line up bilateral deals with the producers -mostly arms for oil."\(^{19}\)

Having failed to persuade France to evolve a common policy to combat oil embargo the United States turned its guns toward Germany and its otherwise more dependable ally England. Henry Kissinger apprised the German Ambassador to the United States and told him categorically that "Such disassociation will not help Europe in the Arab world....it can have disastrous consequences vis-a-vis the Soviet Union, if allowed to succeed in the Near East, can be expected to mount more aggressive policies elsewhere."\(^{20}\)

In a significant development England and West Germany banned arms shipments to the combatant, including Israel. England even stopped US transport planes from landing on its territory and West Germany protested the shipment of US arms from NATO base in Germany. Thus a rift was appearing among the NATO countries

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19. Ibid., p. 898.
20. Ibid., p. 715.
and the United States was left alone in its support Israel. 21

The war of nerves continued between the United States and Europe. The US was not prepared to let Europe go all alone and deal with the Arab oil producers and on the other hand the European countries, individually and collectively, wanted to deal with the Arabs directly. But Secretary Kissinger did not agree with Europe's separatism and opined, "The problem was whether Europe could protect its interests best by separation from us or by closing ranks." 22

Even before the 1973 Arab-Israel conflict the Arab oil producers had in mind to deal with Europe separately, bypassing the US oil multinationals. This was revealed by the Libyan Prime Minister, Abdul Salam Jalud, when he said that, "Libya is ready to cooperate with Europe for mutual advantage in forging a new and mutual partnership based on Arab oil and European technology and experience." Premier Jalud also expressed that the Europeans would run to the Arab oil producers for investment. 23

The nine EEC countries including the Netherlands, under the leadership of France, issued a pro-Arab statement which

strongly urged that both Arab and Israel return immediately to the position of October 22, 1973, in accordance with UN resolutions 339 and 340 and declared that the peace agreement should be based on the following points:

i> the inadmissibility of the acquisition of territory by force;

ii> the need for Israel to end the territorial occupation which it had maintained since the conflict of 1967;

iii> respect the sovereignty, territorial integrity and independence of all states in the area and for their to live in peace within secure and recognised boundaries;

iv> recognition that, in the establishment of just and lasting peace, account must be taken of the legitimate rights of the Palestinian. 24

At a secret meeting of the EEC foreign ministers held at Copenhagen it was decided to propose a basic programme of cooperation and mutual assistance between the Community members and the Arab League countries. According to the proposal the Europeans were to supply the necessary technology and assist in the economic development of the Arab countries, while the Arabs were to guarantee steady supplies of oil at a stable prices to the European countries.

Almost one month after this resolution, the Prime Minister of France, Pierre Mesmar, called for a new oil policy based on direct contract between the Arab producers and the European consumers that would eliminate the multinational oil companies. As the producers were interested in using Arab oil for their own economic development, they should enter into direct agreements between the producers and the consumers. 25

Responding to this new European approach the Arab oil producers in their meeting held in Kuwait removed the curbs on oil supply to Europe, except the Netherlands, and quota of oil for the coming month was increased by 10 per cent. Justifying the OAPEC decision Saudi Oil Minister Sheikh Zaki Yamani declared it a "A very apparent distinction between those who stand beside the Arabs and those who stand beside the enemy and those who are in between." 26

Another bone of contention between the United States and Europe was latter's lukewarm response to the Washington conference proposal. Regarding this conference also France was more vocal, in EEC foreign ministers conference, at Brussels, France tried to convince fellow members that the American

proposal was dangerous and would adversely effect European interests. France advocated instead a direct relationship with the Arab oil producers and after along efforts France succeeded in obtaining EEC countries approval for opening a dialogue with the Arabs. 27

The EEC decision to open a dialogue with the Arabs disturbed the United States greatly because it was concentrating, at the time, all its efforts on the proposed Washington conference and was deeply involved in the disengagement agreement between the Arabs and Israel. So disturbed was the United States that President Nixon, in a letter to Willy Brandt, criticised the EEC decision and said that he saw it as an anti-American move. 28

With regard to the US sponsored consumer conference France opposed it vehemently, the French governments spokesman declared that France "...would not be able to give its adherence to the establishment of an organisation of oil consuming industrial countries, as well as producing countries." 29 Instead France wanted a UN sponsored conference on energy problems on the


assumption that this might moderate the position of producers, consumers including developing countries. Reacting to this idea, Kissinger said, "What Jobert omitted was that in a UN conference of 105 nations, OPEC would be united, the consumers divided." 30

Following the EEC decision of negotiating with Arabs a meeting between the Arab and European representative was arranged. The topics for discussion were to be science, technology, meteorology, ecology problems and education. On England’s insistence political issues were excluded from the purview of the first ever bilateral meeting between Europe and the Arabs. Europe was represented by the French Foreign Minister and the Chairman of the EEC Commission while the Arabs sent the Kuwaiti Foreign Minister and Secretary General of the Arab League as their representative. The meeting appeared doomed to fail from the outset when the Kuwaiti Foreign Minister declared that it was impossible to separate economics from politics. 31 Despite the meeting’s failure efforts continued for mutual consultation and these efforts were followed by three rounds of bilateral conferences held at different places, but these conferences could not produce much results as there was a deadlock on the issue of recognition of Palestine Liberation Organisation by the EEC.

countries. For Arabs PLO's recognition was of prime importance but it never suited EEC countries politically.32

After reviewing the collective response of Europe we it would be useful to briefly, look at the impact of oil embargo on some of the important members of the EEC:

NETHERLANDS

Soon after the outbreak of Yom Kippur war the Dutch government issued a statement accusing Syria and Egypt of having initiated the war.33 This statement and previous behaviour of Dutch Government constrained the Arab oil producers to single it out for most severe oil embargo. The embargo forced the Netherlands to take a U turn and issue an other statement in which it emphasised that the Dutch Government based its policy on the Security Council Resolution 242 and maintained that the Arab hostility to the Netherlands was a result of misunderstanding.34 In order to plead the Dutch case its ambassador to Teheran visited several Arab countries.


The Netherlands subscribed to the EEC resolution of November 6, 1973, and announced that it would send a special envoy to Saudi Arabia to explain its case.\textsuperscript{35}

On its criticism by the European Community the Dutch Prime Minister reacted sharply and threatened to stop the export of natural gas to other Community members, notably France and Belgium, if these countries did not support the Netherlands in respect of the oil embargo and continued to "violate" the Treaty of Rome by withholding oil reserves from a European "pool".\textsuperscript{36} The Dutch Foreign Minister further clarified his country's position vis-a-vis the Community countries and said that as far as the Dutch Government was concerned "the basic position is that the fundamental principles of the Common Market should be maintained", that "an equitable supply situation in the membership-States should be guaranteed."\textsuperscript{37}

Beside banning exports of petrol, paraffin, diesel and other oil fuels without permission the Dutch Government announced a cut in oil consumption by 10 per cent. Speed limit of 100 K.Ms.per


hour, ban on driving on Sundays which was extended on foreign tourists also. 38

WEST GERMANY

As the world's fourth largest oil consumer, with a consumption in 1973 of 150 million tons of which only seven million tons were produced domestically. West Germany from 1972 renewed exploration of its sector of the North Sea on a reorganised basis - earlier exploration having been suspended in 1967 after proving largely unfruitful. 39

The first rift between Germany and the United states on energy crisis surfaced when Germany asked the United States to halt all arms shipments to Israel from its soil, following the discovery that two Israeli ships had been loading American weapons at Bremerhaven. According to disclosure in newspapers the two vessels had already sailed for Israel. While announcing the ban the German Foreign Ministry spokesman stated that the German Government maintained a policy of strict neutrality in the Middle East conflict, the spokesman emphasised that weapons deliveries via West German territory, or from American


installations or depots in West Germany, to any of the belligerent countries could not be permitted.\textsuperscript{40}

In order to combat the oil embargo the German cabinet approved a bill which empowered it to issue orders relating to the production, storage, transport, distribution and use of all forms of energy sources and to limit the use of energy sources which was passed unanimously by both the Bundestag and the Bundesrat. Later the Government put a ban on private motoring on Sundays and lowered speed limit to 100 K.Ms. per hour.\textsuperscript{41}

\textbf{FRANCE}

While the French Government's attitude towards the Arab countries in their dispute with Israel was regarded as the most friendly of the European countries supplies were nevertheless reduced, and France also took some conservation measures with regard to private use of oil private hoarding in petrol cans, domestic temperature was reduced to 20 degree centigrade and a voluntary speed limit on roads of 100 K.Ms. per hour.\textsuperscript{42}

\textsuperscript{40.} London Times, 26 October, 1973.
ITALY

To cope with the oil crisis situation Italy also banned export of kerosene and heating oil without specific permission. Other far reaching actions were also taken including a ban on Sunday driving; speed limit of 100 K.Ms. per hour; a 20 percent reduction in supplies of oil for home heating; a ban on illuminated advertising and; the early closure of offices, shops including restaurants.43

ENGLAND

England was well placed in oil supply because of North-sea Oil. The Secretary of State for Trade and Industry, Peter Walker, assured the House of Commons that his country had stocks for 79 days plus 30 days' supply on the ocean.44 Walker subsequently informed the House that his country had received assurances from certain of the Arab producers that their supply would be maintained.45

Despite relatively comfortable supply position England also had to take some conservation measures like across-the-board

44. London Times, 25 October, 1973
reduction of 10 per cent in oil company deliveries of all oil products including, industrial fuels. compared with previous year's level. Some essential services were exempted from this reduction.46

AFTER THE CRISIS

On March 18, 1974, the Arab nations at a meeting in Vienna decided, over the objections of Libya and Syria, to ease oil export restrictions. Italy and Germany were added to the list of friendly countries, and the embargo against the United States was lifted. Ironically the embargo on the Netherlands continued as did the special limitation on exports to Denmark. Saudi Arabia's intransigence regarding Denmark was attributed by Le Monde "the American wish to hinder the European-Arab dialogue", which was supposed to take place shortly thereafter. "Riyadh", continued the French newspaper, "has agreed to become Washington's partner in this anti-European maneuver."47

By April 1974, the Arab restrictions whatever remained had no real impact: The availability of oil on international markets

47. Quoted in Guardian Weekly, 8 April, 1974.
easily exceeded the level of demand. European refineries were working at 60 to 70 per cent of their capacity. The oil producing countries were finding it increasingly difficult to sale even at the reduced price the crude oil they were producing and impossible to sell free oil at their target prices. They were obliged, to turn back to the international oil companies both to distribute their output and to keep a tight hold on the structure of market prices. The supply phase of the crisis had passed and the key question became that of the prices.48

By the end of 1973, the summit meeting of the EEC in Copenhagen had charged the Commission with the problem of sorting out the differences in prices and profit margins for petroleum products in the individual European countries. In mid-January, the EEC Commission proposed to get rid of the worst price distortions in the common market, suggesting both the harmonisation of internal price structures and the freezing of the prices themselves.49

By the first quarter of 1974, the 'crisis mood' was over and a tug of war, over the increasing prices, between the


governments and the international oil companies started and OPEC was requested not to hike prices any further. As the leading multinational enterprises began to reveal their exceptional profits for early 1974, particularly on operations outside the United States, resistance to higher prices increased still further. 50

International oil companies were the main target of complaints and criticism in practically all the major consumer nations: in Germany, Belgium, Italy, and France, among the Europeans; and in Japan, where the national petroleum association was accused of having concluded a cartel agreement from the second half of 1972 to the first half of 1973, and finally, even in the United States. 51

During the crisis each European government tried to maintain widest possible room for maneuver in the crisis, this resulted in disagreement among the European countries. That goal persisted even as the dimensions of the energy crisis began to be apparent and began to entail profound modification in the relationships among the producing countries, oil companies, and

51. For details see Jean Marie Chevalier, The New Oil Stakes, (Harmondsworth, UK, 1975).
consuming countries. Perhaps it was the very scale of these modifications, unlike the modest shifts in the crisis of 1956 and 1967, that led to the national emphasis on freedom of maneuver. In the 1973 crisis, unlike the earlier ones, there was full-scale competition between the large consuming areas—Europe, the United States, and Japan. The market offered no escape route from the "blackmail" imposed by the OPEC countries.

The sense of frustration and demoralisation in Europe over its inability to develop an effective role in the crisis was increased by the fact that practically all European countries at the time were caught up in internal political difficulties not directly related to energy. Between November, 1973 and March, 1974, governments fell in England, France, Italy, Germany, and Belgium. These temporary weaknesses prevented bold initiatives in response to the actions of oil-exporting countries. The failure to respond immediately and effectively contributed to the image of Europe's growing vulnerability, and to the political and economic price of the "blackmail" that would have to be paid.

Another important aspect of the problem in which the states displayed their helplessness lay in their relations with the multinational oil companies. The image of compatibility of interests, thought to be present until then, received a profound blow when the crisis came. The control that the major international companies exerted on the foreign trade in oil led
the states to impose various internal regulations in their markets, aimed at restricting the autonomy of the petroleum companies. This was a reaction common to all European countries.

A second common reaction in Europe, closely connected with the first, was to strengthen state-owned corporations in the European oil market. This was supposed to increase the bargaining power of the states in their dealings both with the oil companies and the oil exporting countries. The companies were no longer seen as a buffer force between the importing and exporting countries; instead, the conviction grew that the international oil companies had linked their long term interests with the stronger side of the market, that is, with the OPEC countries. That conviction was reformed by the persistence of high international prices for crude oil inspite of the prevailing situation of surplus. 52

Even if the European countries failed or were not capable of developing common policy on oil, they nonetheless pursued patterns of behaviour that ran parallel and that could lead to a common solution as the risk of failure and of disintegration appeared enormous.