'Oil is a double-edged weapon' from the Corriere della Sera (8 October 1973)

Caption: On 8 October 1973, two days after the outbreak of the Yom Kippur War between Egypt and Israel, Italian daily newspaper Corriere della Sera expresses concern about a possible crude oil embargo imposed on Western oil-consuming countries by oil-producing Arab countries.

Source: Corriere della Sera. dir. de publ. Ottone, Piero. 08.10.1973, n° 39; anno 12. Milano: Corriere della Sera. "Il petrolio arma a doppio taglio", auteur:Riva, Massimo , p. 1.

URL:
http://www.cvce.eu/obj/oil_is_a_double_edged_weapon_from_the_corriere_della_sera_8_october_1973-en-6e3c4b57-2c06-4788-b4e1-46a7bf2f9783.html

Last updated: 06/07/2016

THE ECONOMIC CONSEQUENCES OF THE WAR IN THE MIDDLE EAST

Oil is a double-edged weapon

War over the Suez Canal was, until a few years ago, Europe's worst economic nightmare. The Suez blockade meant the end of oil supplies to the countries of the old world. But, with the Six-Day War, the Canal lost all strategic value: vast supertankers can now perfectly well take the (safer and cheaper) route round the Cape of Good Hope.

As a result — quite apart from strictly political considerations — those responsible for Western Europe's energy supplies are less worried about developments in the unexpected conflict in the Middle East. As we know, the rules of the international economic system leave little room for moral considerations. The prospect of another war between Israel and Egypt was recently considered in some detail at a semi-secret convention organised in Oxford by the famous British Institute of Strategic Studies. Some experts maintained that a war that brought the whole Arab world in on Egypt's side might have a good effect on the oil market. This is a surprising, possibly cynical, but highly interesting view.

For some time now, the oil-producing countries have been engaged in a tough trial of strength with the oil-consuming countries. A further meeting in the negotiations on the price of 'black gold' is to be held in Vienna this very day. But price is only one aspect of the dispute between the parties. The other, which may prove to be more important, is the limits the Arab countries want to impose on the extraction of the precious raw material. Aware that world energy reserves are shrinking just as the needs of the industrialised nations are increasing, the Arab governments are seeking to make the most of the wealth concealed beneath their feet.

The conflict that has now erupted in the Sinai, especially if it were to continue, threatens to undermine this prudent strategy. War means spending money on armaments, buying arms means having the necessary cash, and the only way the Arab countries can get the necessary cash is to increase oil supplies to western markets.

If that were to happen, it would — according to some economists — have a beneficial effect on the international monetary situation. The tensions arising from the speculation that has caused such confusion in recent years in exchange rates among the various European currencies and between those currencies and the dollar are largely attributable to the quantity of loose capital manipulated by the Middle Eastern sheiks. The speculative pressure would be greatly reduced if that money were channelled into the arms industry.

These considerations are, of course, valid in the medium and long term. But what about now? Many experts share the fear of sudden price tensions, though more as a psychological response to the situation than as a real consequence. Oil supplies will — they say — certainly slow down in the next few days and pipelines will be boycotted (the Palestinians are already openly threatening to do so), but as things stand the Arabs have no alternative but to continue, and even increase, sales of oil.

Much will depend on the political position taken by the various governments. It is clear, for example, that the American companies will be strongly affected by the pro-Israeli line taken by Washington.

And Italy? Our country, together with France and Germany, is now regarded as one of the Arabs' favourite interlocutors on the matter of oil. However, the fact is that our State company (ENI) owns a number of oil wells in the Sinai peninsula, the theatre of the present conflict between Egypt and Israel. These are concessions that ENI obtained from Cairo years ago when Sinai was under Egyptian control. After the Six-Day War, the State company reached an agreement with the government in Tel Aviv under which the company continues to operate on condition that all the crude oil extracted is sold to Israel. If the wells were forced to stop working, it would have financial implications for ENI's balance sheet, but our oil supplies would not be affected because we do not get a single drop from Sinai. In any event, the threatened boycott of oil pipelines means that our government will have to keep a close eye on the situation with regard to national reserves. It was decided on Saturday to restrict exports of fuel oil for heating, and similar measures may have to be taken, at least temporarily, in the transport sector, that is to say with respect to diesel and petrol.

But oil from Sinai is absolutely essential to the Israeli war machine and to its industry; it is widely held that control of the oil wells in the peninsula is now the main objective of the Egyptian forces.

Massimo Riva