

The Prize: The Epic Quest For Oil Money and
Power

by

Daniel Yergin

Andrew Berry
PO Box 918
Vineyard Haven, MA
02568

In one of the first classes of the school year, I like to take my US history classes outside to sit on the curb facing the parking lot. Before we go outside I tell them only that they are about to engage in an observation exercise. I have them bring a clipboard, a pencil, and some paper. From their seated position they can see about one hundred cars, most driven by students at the school. As they face the parked cars, I tell them simply that they are looking at a great deal of the history that shapes their lives today. The response is mostly inertia. They look perplexed. I ask them write three observations about what they see in the parking lot. Finally, following a discussion of what they observe and how it might be related to the study of history, I ask them to come up with three historical questions about what they see that they would like answered this year.

To prod them a bit I ask: “How many of you are looking forward to getting your license and driving to school?” All hands go up. “Why is that an expectation for you? Where did that expectation come from?” After a few minutes of discussion, many are ready to ask their questions. Overall, though, it is a difficult exercise, understandably, for a ninth grader. In the end students help students with the observations and questions, and we delve into some stuff about which they have some awareness: industrialization, Henry Ford, gas prices, the Middle East, terrorism. Eventually, they even realize that the pavement, the lighting of the lot, the concrete they are sitting on, and the clothes they are wearing are fossil fuel driven. Even with those understandings, what they generally don’t get and what I would like to add to the US history enduring understandings (Understanding By Design) is the notion that modern humans, perhaps Americans more than others, are essentially hydrocarbon dependent. We are, in the parlance of Daniel Yergin, living in the age of “Hydrocarbon Man.” I would like them to understand how that happened, that we are probably at the tail end of that historic energy era in the same way that other energy eras came and went, and I want them to think about what their roles will be in the emerging energy era. I believe that understanding this

history is essential for the next generation, and The Prize provided a thorough treatment of the creation of the Hydrocarbon Age.

Daniel Yergin's book is a treasure trove of interesting information that can capture the interest of young people. Some of it reads more like fiction (You can't make this stuff up!), especially the stories of the people exploring for oil in the late 1800's: George Bissell and the use of oil as medicine; "Colonel" Edwin Drake in Titusville and the Shoe and Leather Petroleum Company; John Galey who claimed he could smell oil in the ground; Dad Joiner and Doc Lloyd and their unlikely discovery of the East Texas oil field. Then there were the ruthless industrialists: the Rothschilds and Nobels developing Russia's oil resource until the Bolshevik Revolution, Henri Deterding of Royal Dutch Shell and the relentless development of Pacific resources, and our own J.D. Rockefeller of Standard Oil among others. As a biographical exercise, it would be interesting to have students engage in research of the interesting characters in the exploration and early development of various uses of oil. Probably most students are unaware, for instance, that natural gas and gasoline were unused and wasted by-products of early refining for kerosene, the product that replaced paraffin and even whale oil for lighting. Coupling the decline of the local whaling industry with the rise of refining for kerosene would be an interesting connection for Martha's Vineyard kids.

Yergin's thesis is that virtually all of human history in the last 150 years is fundamentally about oil. To say that his research is comprehensive would be an understatement. Beginning with the early discovery of oil in Pennsylvania and J.D. Rockefeller's actions to bring order out of chaos in kerosene production, marketing and distribution ("our plan"), Yergin takes the reader through historical eras and demonstrates how oil is at the heart of practically all human activity. The critical turning point confirming the future importance of oil was WWI, which was the first mechanized war dependent on fuel. The armada of taxis that brought French reinforcements to the front lines at a critical time was a somewhat humorous but significant observation about the strategic importance of fuel to successful armed

conflict. The introduction of tanks, trucks, and aircraft demonstrated that all future wars would be oil dependent. Shortly, the British argued the merits of changing from home mined coal to Middle East oil for their navy, a decision that improved the tactical capability of their fleet but brought future dependence and security issues. Oil had such advantages that the dependence was a security risk worth assuming. WWII provided ample evidence of how oil was driving nations. The Japanese launched the attack on Pearl Harbor to protect oil shipping lanes from Indonesia. Ironically, their conscious failure to destroy the US oil supply depot on that raid turned out to be a serious strategic error. Without the fuel, the US navy would have been much slower to rebound and challenge Japan's grip on Indonesian supplies. Hitler also was obsessed with gaining access to the oil fields at Baku, and his failure to do so spelled disaster at Stalingrad. Rommel was defeated in North Africa as much by a lack of fuel as he was by Montgomery. Patton's lack of fuel, at least from his egoistical point of view, was the reason the Russians got more of Eastern Europe than they might have otherwise.

Yergin sees the end of WWII as the critical turning point in the history of oil for the West. Colonial empires had dissolved which in turn meant Britain and France, for instance, were more and more dependent on forces it could control less and less. Though the US supplied about 63% of total world oil production prior to WWII, allied reliance on US oil greatly depleted reserves, and shortly after the War, with US consumer demand skyrocketing, the US became a net importer. Since the US represented the largest consuming power in the world at that time, the start of dependence on outside resources was a major shift. Yergin sees three deals at the end of WWII determining the course of oil issues thereafter mostly because the US was acting to protect its rapidly expanding appetite for oil. The first was the announcement of the Truman Doctrine on March 12, 1947. Yergin points out that while Truman's ostensible target was the protection of Greece and Turkey from the Soviet orbit, exactly one day before Truman's speech the four major American oil companies – Socony, Texaco, Jersey and Socal – had “solidified” the Saudi Arabian concession ensuring access to oil for US markets. A new oil company – Aramco –

was born and America was now going to be a player in the Middle East. Later, this commitment would become an overt military one with the protection by the US Navy of Kuwaiti tankers during the Iran - Iraq War. The second deal was the merger of interests of Gulf Oil and Shell in Kuwait. Gulf was over producing with not enough markets and Shell was under producing with lots of marketing capability. With this deal, the West was betting more and more on the Middle East for its energy security. This deal also accelerated the combination of integrated oil companies that climaxed in the 1980's. The third deal was as much about the Cold War as it was about US and European oil interests. Stalin was interested in Iranian oil and was also interested in access to warm water ports. To blunt Soviet incursions into the Persian Gulf area, the Anglo-Iranian Oil Company joined forces with Jersey and Socal with a twenty-year contract thus insuring that the US would defend a strategic interest against Soviet expansion. In the post WWII era - from 1945 to 1972 - the West rapidly shed its use of coal for oil. Even as late as 1955, coal provided 75% of European energy needs and oil only 23%. By 1972, oil met 22% of the need and oil met 60% (p. 526). In Yergin's words "In the postwar world, petroleum's 'center of gravity' - not only for the oil companies, but also for the nations of the West - was indeed shifting to the Middle East. The consequences would be momentous for all concerned." (p. 404)

Against the backdrop of these developments was the rising nationalism and anti colonialism of oil producing countries against the governments and oil companies from the West. As Yergin documents, the indignation was not only in the Middle East. Western oil companies had also exploited Mexican and Venezuelan oil resources. Yergin describes in some detail the gradual shift of control and profits from the oil companies to the producing countries and the resulting angst in the West. The key date for the shift in control was 1973 and the Yom Kippur War. This event triggered the first of four "oil shocks" that have shaped energy policy for the importing countries and have shaped the energy life our students will inherit. The Yom Kippur War (1973) and the subsequent oil embargo and the Iranian Revolution (1979) both resulted in huge spikes in energy prices. The third shock came in the

form of drastically dropping prices in the mid 1980's. West Texas Intermediate crude, for instance, dropped a whopping 70% in a matter of weeks drastically reducing prices worldwide and substantially undercutting revenue for oil producing countries that had embarked on major building projects. The fourth shock came with the Gulf crisis spawned by Saddam Hussein's invasion of Kuwait. Though the initial response was rising prices, the adaptation of consuming countries to the earlier price shocks – conservation, efficiencies and development of alternative sources of energy like coal and nuclear – meant the market reaction was more muted.

A paper of this length can hardly do justice to the scope of Yergin's book. However, several important themes/developments are worthy of mention and, I think, are worthy of inclusion in US history courses preparing young people for the future they are likely to inherit. The first is the strategic importance of oil in the global balance of power since WWI. Yergin's treatment of this theme is thorough and well documented. The unlikely alliance to deny Saddam Hussein's conquest of Kuwait was a telling example. A second theme is the shift in control of the oil resource (mentioned above) from the privately owned, integrated oil companies of the 19th and 20th centuries to the governments of the nations that originally granted the oil concessions. Yergin tells this story with all the color and drama it deserves as Mexico, Venezuela, Soviet Russia, and the Middle East countries reclaimed their national resource. I found it interesting that today only 15% of total oil production is in the hands of private "supermajors", as the consolidated oil companies came to be known. Furthermore, governments and their national oil companies control 80% of the known oil reserves. (p. 770) This is a far cry from the wildly competitive days of global exploration and exploitation in the late 19th and early 20th centuries in an era of western dominated, laissez faire capitalism. Another important theme is an economic one. I think that a good US history course should have a heavy emphasis on economics. I always focus on the notion of supply and demand, and the oil industry history provides an excellent example. This history of this commodity is a history of glut, shortage and wild price swings. A year ago we saw oil selling at \$147

per barrel in the spot market – itself an interesting development in the history of oil – and in the 1930's following East Texas discovery a barrel sold for less than \$50. Even with attempts to control price and to control production like the Texas Railroad Commission, the British National Oil Company, and even OPEC, Yergin points out that ultimately individual people and countries will act in their self interest and that the laws of supply and demand will eventually prevail. OPEC's history is hardly one of unity on production and prices. The attempt to keep prices high and punish the West for the sin of supporting Israel resulted in alternate energy sources being developed and a focus on efficiency and conservation. This ultimately lowered demand, dropped prices and cut the revenues of OPEC countries that, in turn, cheated on their own agreements to produce more than their quotas to increase revenue.

If last summer was the summer of \$147 oil, this summer was the summer of the largest oil spill in history at the Deep Water Horizon location in the Gulf of Mexico. We were able to watch on TV as 190 million barrels of oil gushed into the sea a mile below the surface. This environmental disaster is a teachable moment. If we are approaching the end of the Hydrocarbon Age (not exactly Yergin's thesis) students need to be thoughtful about energy use and somewhat knowledgeable about its history. They need to understand that the reason BP was willing to take the risks to drill in such deep water is that we have a voracious appetite for energy. Most students expect to be able to drive to school and park in one of those spaces in the school lot without really thinking about where that expectation came from. They need to know the disaster they watched develop on TV this summer is about supply and demand, and they are a big part of the demand. I want them to consider the environmental impact of carbon-based energy demand and to consider the people of China, India and Russia who comprise more than half the human species clamoring to have the same carbon based life style as the students who believe that driving a car is a natural expectation. There is a defining moment of history occurring at the beginning of our students' lives and they should be aware of the forces behind it.