

THE WORLD OIL SITUATION

By A. C. Bedford

OIL is without doubt one of civilization's most important natural resources. And yet we are just beginning to learn how dependent we are upon it. The wheels of machinery cannot turn, ships cannot move across the seas, our industrial age would come to a complete standstill,—without oil. But the world is only now coming to realize the significance of the two vital facts, first, that man can no more manufacture oil than he can manufacture a grain of wheat; and, second, that nature's supplies of oil are not inexhaustible.

These transcendent facts far outweigh the importance of those elements in the oil situation which appear to excite most acutely many writers for the press; they are, indeed, factors to which the statesmanship of the world may well give primary consideration as against thoughts of imperialistic aggrandizement or even of strategic protection.

To suggest the possibility of great nations going to war over oil is to suggest that civilization shall plunge to its downfall in the struggle to control the very natural resources which are intended to aid and promote the progress of mankind. To suggest that great nations and great aggregations of capital should engage in cut-throat commercial competition over one of nature's bounties which ought to be carefully conserved, economically marketed and intelligently used, is to suggest that the gratification of national and corporate avarice is liable to become more dominant over the policies of nations and their citizens than conceptions of intelligent cooperation to foster the progress of civilization.

No one can regard the petroleum situation in the world today in a comprehensive manner without being convinced that a clear vision of all the elements in that problem leads to but one conclusion, and that is the supreme importance of cooperation on the part of the peoples of the world both in exploiting and utilizing the oil resources which nature has so sumptuously provided.

The fundamental elements of the oil problem are comparatively simple, but they have been complicated in recent years by developments which have not yet cleared up, and which are of so abnormal a character as to create a recurring divergence from the

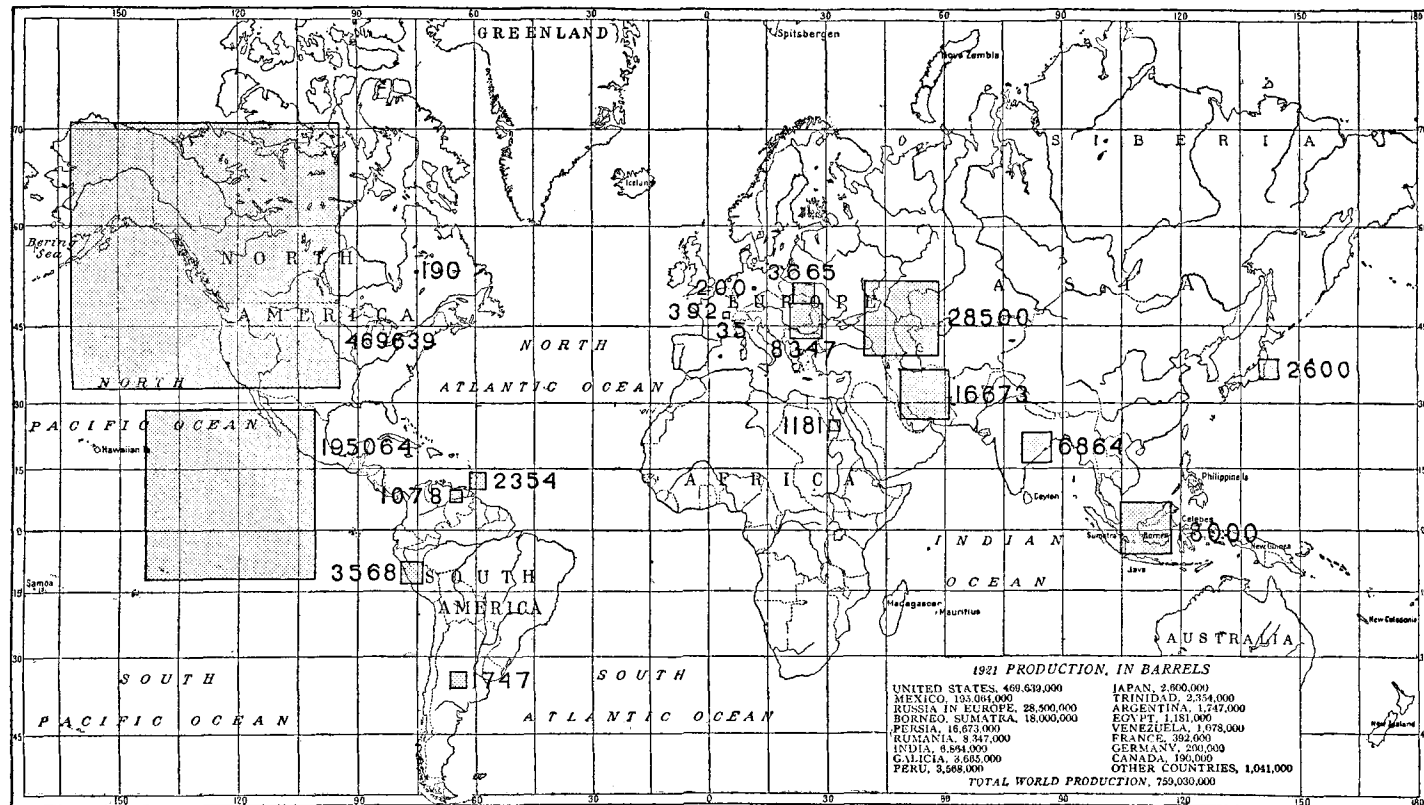
ordinary processes of progress, a divergence which cannot be corrected by any measures of a superficial character. To assure stability and constructive effort the cure must be fundamental.

The abnormal situations to which I refer exist primarily in Russia and Mexico. Next to the United States, those are the two most important oil producing countries in the world. Private capital has for many years invested large sums of money in developing the petroleum resources of those two countries. These investments were made in reliance upon the continued protection given by the laws then existing and upon the assurance of the permanent validity of rights duly acquired and utilized.

In the case of Russia, the Soviet Government, following the revolution, seized practically all private property, including, of course, industries which had been developed by alien capital. The result has been extremely serious. There has been a steady reduction in the output of oil, and, what is more vital, there has been an absolute stoppage in the development of facilities for oil production. Russia's need at the moment is for private capital to assist in exploiting her oil resources. The problem there is largely domestic because Russia under normal conditions needs practically all of her own oil for her own uses. But a country which is in need of such tremendous development as is called for in Russia must have access to enormous new reservoirs of capital if she is once more to resume the road of progress. Therefore the primary question in Russia is who will provide the necessary private capital for future development.

If Russia wishes to nationalize all her private industries every consideration of right and justice compels her adequately to compensate those who had invested their money in the development of industries in Russia prior to the revolution. New private capital cannot go into Russia wisely and safely until proper adjustment is made of the old claims and until assurances are given of the protection of private property for the future.

In Mexico the problem is not fundamentally dissimilar from that in Russia. Under the presidency of Mr. Diaz, Mexico encouraged and enjoyed a great importation of foreign capital for investment in developing her oil resources. The results were extremely profitable to the country. American capital aggregating probably \$500,000,000 has been invested in the exploitation of oil in Mexico. In 1922 the United States imported from Mexico 132,000,000 barrels of oil. Without that supply we



THE WORLD'S OIL PRODUCTION IN 1921

The areas of the squares are proportional to the production of barrels of crude petroleum. The figures adjoining the squares give the production in thousands of barrels. It should be remembered that such a map furnishes no key to the oil reserves. The probable exhaustion of known American reserves in twenty years at the present rate of production, and the limited knowledge that we have of oil reserves in under-developed foreign fields, lend to the present distribution great interest from the standpoint of international relations.

should have been unable to meet the heavy demands upon us and at the same time maintain a normal reserve supply. Since the end of the Diaz government, however, the old laws governing the exploitation of oil in Mexico have been thrown into the discard, and the confiscatory provisions of the present Constitution and of governmental decrees, together with what many consider to be arbitrary and excessive taxation, constitute a menace to American enterprise.

And it should be stated that this reference to the abnormal political conditions in Mexico in no way relates to the very serious change which has recently come about in the physical conditions affecting the production of Mexican oil. A few years ago Mexico gave promise of vast and permanent productivity, and for a few years that promise was justified. In reliance not alone upon the security of the laws, but also upon what appeared to be the reasonable promise of permanency of supply, a large investment of new capital had been attracted to Mexico for purposes of exploration and development, to say nothing of the money expended for tanker fleets, manufacturing plants, storage and other necessary facilities. The recent exhaustion and other untoward developments in the two important Mexican fields, however, have been such that exploitation of fully two-thirds of the estimated producing area has been abandoned. Consequently the operating companies which made so huge an investment in Mexico will receive only a meagre return on their outlay. In fact it is safe to say that the existing oil companies in Mexico face a collective loss of at least half of their original investment. Thus is illustrated one of the extreme hazards of the business.

The situations in Russia and Mexico constitute the chief abnormal elements in the world's petroleum problem. A problem of less difficult character arose from the fact that immediately following the war, and growing largely out of conditions developed during the war, there was in some countries a tendency toward government monopolization of the oil business. This tendency was most evident in France and Italy, and for a time it presented an obvious danger. Clearly, if a government engages in any business which competes with the private industry of other countries factors are introduced into the relationship between nations which are extremely delicate and difficult. Fortunately, both France and Italy realized the unwisdom of such a government monopoly, and both those countries now frankly encourage

the development of their petroleum markets under the auspices of private industry.

It is a matter of encouragement to note that throughout Europe, indeed throughout the world, the swing is away from exaggerated government intervention in business. The world over, there is a reaction against the claims, criticisms and illusions of socialism and against assumption by the state of activities which can best be carried on by the individual.

Let us now consider the broader and more normal aspects of the larger problem. Prior to the Great War the world gave no serious consideration to the thought that its petroleum supplies might become exhausted. The commercial development of oil throughout the world was largely a search for markets. The United States produced much more petroleum than it needed, and great additions to our national prosperity were realized out of the marketing of our surplus supplies among foreign peoples. The competition among oil companies doing an international business was almost exclusively in marketing their products. The war, however, progressively revealed the extent to which modern civilization is dependent upon its oil supplies. It brought the world face to face with the stern reality that petroleum resources are limited and exhaustible, and it drew into clear relief the fact that the oil problem of the future was not that of finding markets but that of obtaining supplies. Of course there will always be ups and downs in industrial activity, and petroleum production may at times afford a temporary over-supply, but in the long run the problem is unquestionably as stated.

To be sure, the war revealed the strategic importance of oil. Many have believed that the active interest of the British Government in the oil situation since the war has grown out of a realization of the fact that as an island country her very existence was dependent upon the efficiency of her navy, and that her navy must have assurance of adequate supplies of petroleum.

No one can believe, however, that either the British Government or the British people are interested in oil supplies primarily from the strategic standpoint. In the first place, no one could contemplate the possibility of war between Great Britain and the United States without feeling that such a catastrophe would probably mean the complete downfall of modern civilization. The great English-speaking peoples of the world are undoubtedly drawing closer together, and to suggest that their governments

or peoples should base national policies merely upon the necessity of acquiring possession of oil supplies in order to be assured of protection in the event of war against one another is to assume that mankind regards its own deliberate suicide as not being outside the range of possibility.

But, assuming that strategic considerations were behind the effort of different governments to obtain increasing power over the development of the world's oil, the fallacy involved in any such effort is obvious. Suppose, for example, that prior to the war British capital had created an oil producing industry in Germany. What good would it have done? Would not the Germans have seized such supplies immediately? As a matter of fact, the United States had participated in a petroleum development in Rumania. Of what value was that to us or to the Allies after Germany had taken possession of Rumania?

Strategic factors in the world search for oil may accordingly be regarded as of minor importance. No matter what sensational writers may say, it may be regarded by serious observers as a fact that the great nations of the world are not engaged in an insatiable search for oil merely to be able to supply their warships, flying machines and motor trucks for purposes of armed conflict. The fundamental problem is far deeper than that, and really concerns itself with measures which look to the progress rather than the destruction of civilization.

In order to state the matter in proper perspective let us for a moment consider the position of the United States. This country contributes about 70 per cent of the world's current petroleum production. Since the establishment of the industry we have produced a total of about 6,500,000,000 barrels. The United States is not only the largest producer, but by far the largest consumer of petroleum and its products, both as to gross and per capita. The enormous development of the American automotive industry is in a large measure responsible for this extraordinary condition. Reports indicate that in 1923 more than 12,000,000 motor cars and trucks will have to be supplied with gasoline and oil. And this takes no account of the enormous number of farm tractors, motor boats, aeroplanes, and gasoline power plants of which there are no official records. Likewise, it gives no indication of the demands for fuel oil on the part of marine engines, power and heating plants, and railroad locomotives which, owing to the growing scarcity of coal, now burn oil.

While the United States has been producing and using these enormous supplies of petroleum—indeed founding its industrial progress more and more upon this basic product—there has always been a substantial surplus, which has called for the use of American initiative and enterprise as well as the expenditure of American capital in the development of foreign markets. America supplies a substantial part of all the petroleum used in Great Britain, France, Italy, and Germany. The American oil can is one of the most familiar articles in the domestic life of the peoples of the Far East, particularly of India and China. The American petroleum industry has contributed what is by far the most important manufactured article entering into the export trade of the United States. The development of this business has, indeed, resulted in profit to those who conducted it; but in addition it has also resulted in great comfort and convenience to millions of people throughout the world. American oil may truthfully be claimed to have been one of the veritable agencies which has brought about the spread of civilization. And, up until very lately, the world had to depend almost entirely upon the United States for this indispensable product.

But the production of oil is not a mere matter of distribution. The oil must be found before it can be distributed. And no one can ever tell just where it may be found next. The spirit of the pioneer, even of the adventurer, must be invoked in this unremitting search for supplies. That is an important reason why fundamentally the oil business does not take on the character of a public utility.

It should be noted that with all its expansion in the United States the oil industry has remained essentially a free industry. Its very nature prevents monopolization or group control. No man or group of men can restrain others from seeking oil, nor, when it has been found, can they restrict or augment its flow. The expansion in the United States has come about not through the realization of excessive profits upon the capital invested, but because of the application of the petroleum products of this and other countries to a myriad of new uses. The industry has flourished because conditions of free competition have obtained, and because the industry has experienced a long period of unexampled and almost uninterrupted growth in seeking supplies and finding the markets for petroleum products. The very nature of the industry precludes any artificial price-fixing effort.

The road the industry has traveled is strewn with the bones of those who have endeavored to run contrary to this natural law.

It has been frequently pointed out that during the war period the petroleum industry in the United States was permitted, under official supervision, to function according to the wisdom and experience of its own administrators. The petroleum industry was almost unique during that period in being permitted, within due and proper limits, to govern itself. It is the belief of those familiar with the petroleum industry that that policy has been shown by experience, not alone in the United States but in countries throughout the world, to be the policy calculated to effect the wisest and most economical production and distribution of even so important a basic product as petroleum.

In recent years the development of oil in Russia, Persia, the Dutch East Indies, Mexico, South America, and elsewhere, has opened up supplies affording opportunities for the investment of capital by other nations and also providing sources of supply relatively near at hand to markets which had already been opened up and developed and which until then had been largely provided for by supplies from the United States. Out of this situation has grown the present international oil problem, which, in so far as it is political, may be described as the problem of the "open door." That question may be simply stated thus: In the development of the natural resources of the world shall the nationals of one country have equal rights with the nationals of another? The United States has an acute interest in that question, around which revolve all the real international controversies which have arisen over oil.

This problem ought not to be viewed in any narrow or selfish sense. Even assuming that there could be superficial reasons of nationalistic self-interest which would apparently justify a country in withholding from other nationals the privilege of exploiting its natural resources, would that policy be fundamentally sound? Should not the interests of the world as a whole receive due consideration?

It must never be forgotten that oil is a mining business. The supplies of oil are hidden away under ground, and the search for them is accompanied by great expense and many disappointments. Petroleum is the most uncertain of natural resources. Broadly speaking it is impossible to say today where oil will be found tomorrow, and, having been found, how long the supply

will last. The risks of the business are tremendous, as is effectively illustrated by the recent experience in Mexico.

There can be no assurance that the exhaustion which has taken place in Mexico will not sooner or later occur in any other field now under development or to be developed. It is obvious, therefore, that the seeking and developing of oil resources must be done by business organizations equipped with adequate capital, and that no matter how large any one organization or interest may be its resources will still be unequal to meeting the fast growing demands of the world situation.

It is equally obvious that no existing interest, regardless of its size and importance, would consider it the part of wisdom to concentrate all of its resources in the development of a single territory, no matter how promising that territory might be. There should be international collaboration with a pro-rating among nations and interests of the risks involved.

This consideration applies very decidedly to the development of oil in a country like Mesopotamia. It is a fact that the oil deposits there are practically an unknown quantity. Development has not proceeded to a point which demonstrates their commercial possibilities. Such a development would require a very large expenditure of money for the building of pipe lines and other facilities of production. Even if the United States herself should be given exclusive privileges in Mesopotamia no single financial interest would be justified in assuming the risk of an investment which might involve such great loss.

In the proper development of Mosul and Mesopotamia, American interests—not merely one American interest, but all important American interests—should cooperate with the interests of other nations, to the end that the risks involved in the investment of capital shall be widely distributed, and thus minimized; and also to the end that the resources of that country shall not, any more than the resources of any other undeveloped section of the earth, be exploited for the exclusive benefit of a single nation or group of interests.

The position of the Government of the United States on this subject has been made very clear in a wide range of diplomatic correspondence. The point should be emphasized that our government has struggled for the maintenance of a principle affecting every American commercial interest, and not merely the oil industry and certainly not any one interest in the oil



The oil belt of Persia and Mesopotamia. The now obsolete Russian and British spheres of 1907 are shown and likewise the limits of the active concession owned by the Anglo-Persian Oil Co., Ltd. The Mosul question is involved in a part of this field.

industry. All our government has been seeking is that all American nationals shall have the same commercial rights and opportunities in other countries that we grant the nationals of those countries in the United States. There are no restrictions as to residence or citizenship as far as concerns the ownership or management of companies formed to carry on commercial or industrial operations in the United States. To be sure, Congress in 1920 enacted a mineral leasing law for public lands, forbidding the acquisition of government property by the nationals of any foreign country that denies reciprocity to Americans. But the general situation has been that while American capital has been long predominant in our petroleum development there are very

substantial foreign interests engaged in the business here which enjoy the protection of the same laws that afford protection to our own citizens.

Similar freedom of opportunity for the citizens of the United States to develop foreign oil resources is not permitted by a number of other nations. No more terse statement of the situation has been made than is contained in the report of the Federal Trade Commission of the United States to the American Congress, published February 11, 1923, in which the situation was summarized as follows:

"The most important instances of discrimination by foreign governments against citizens of this country are the exclusive policies of the Governments of Great Britain and the Netherlands in respect to the oil fields of India and the Dutch East Indies, and the 1922 San Remo agreement of Great Britain and France covering the undeveloped oil fields of Mesopotamia and of the British and French colonies.

"Denial of reciprocity of treatment to citizens of this country appears to exist with respect to the petroleum industry of Australia, British Borneo, certain African colonies, British Honduras, British Guiana, and Trinidad, France and French possessions, Italy and the Netherlands and its dependencies."

The attitude of the British Government in regard to Mesopotamia was summed up by Lord Curzon, the Foreign Minister, in the wise statement that "oil is a commodity in which the world is interested, and as to which it is a great mistake to claim or exercise a monopoly." Continuing his statement, the British Foreign Minister added that "with the full knowledge and support of the British Government, negotiations have been proceeding to associate the interests of other countries and other parties on this concession, so that all those that are equally interested may have a share."

British capital and, in fact, the British Government, are also interested in the development of Persian oil resources under a concession granted by the Persian Government in 1901 and afterward acquired by the Anglo-Persian Oil Company, Ltd., to the capital of which the British Government has contributed about \$25,000,000, but in the management or commercial policy of which it has no voice. Persia ranks fifth as an oil producing country and the British concession includes about 500,000 square miles from which practically all of the current production comes.

The output in 1921 was about 16,673,000 barrels, or 2.2 per cent of the total world production for that year.

The United States Government has made it clear that it has no desire to interfere in the political relations of any power with a colony, a protectorate or a mandated area. But whenever it has been proposed to use such relations for the creation of exclusive economic spheres, wherein the development of a natural and much-needed product would be confined to the parent or dominant power, this country has protested.

The American oil industry is now and has always been anxious to produce and sell oil at the lowest possible price. American oil companies ask for no opportunities which are denied to other nationals in other countries, or which are not accorded to other nationals in the United States. They seek merely the opportunity of engaging alongside the oil interests of other nations in opening up the world's undeveloped petroleum resources. They believe that as the normal development of civilization depends partly upon oil the best interests of every nation and of the oil companies of every nation will be promoted by the general adoption by all nations of the open-door policy, permitting the efficient investment of capital from any source and on equal terms, and further, by the assurance from all nations that whatever risks the citizens of other countries may assume in the search for and development of oil resources they will at least have the full and equal protection of laws adequately safeguarding the rights of private property.

Such a policy is broad-gauged and fair. To proceed upon any less comprehensive theory would be not alone narrow and egotistic but would ultimately result in failure to effect the most thoroughgoing and economical production and distribution of the world's limited petroleum supplies.

In the large, the petroleum problem is one of development of our material civilization. To regard it from the point of view of national boundary lines is to deny its fundamental character. The welfare of mankind is in no small degree dependent upon the world's taking an attitude toward it which will lift it out of narrow conceptions and which will result in its being dealt with by peoples and nations in a spirit of the broadest understanding and cooperation.

CANADA AND FOREIGN POLICY

By J. A. Stevenson

AMONG the overseas nations of the Britannic Commonwealth Canada holds the premier place by reason of her population, wealth, and material resources, and her geographical proximity to the mother-country gives her a special political influence which is not enjoyed by more distant Dominions. As a natural consequence, therefore, the people of Canada have invariably undertaken the task of blazing the trail in the long constitutional journey which has brought them from the status of minor colonial outposts to full and equal partnership in a great worldwide commonwealth. It was Canada who first wrested from England the privileges of responsible government, it was Canada who first asserted the principle of fiscal autonomy and it was Canada who first acquired separate treaty-making powers. Sir Robert Borden has fixed 1848 as the date when the organization of a new constitution for the British Commonwealth began and there will be few to dispute his assertion that its final development has not been attained. The self-governing Dominions long ago secured the fullest autonomy in their domestic affairs and in theory they have been conceded full and equal rights of partnership in the management of the joint interests of the British Commonwealth. But in actual practice they are still what is described in commercial parlance as "sleeping partners" in a most important sphere of policy and until some plan is devised whereby all the units of the British Commonwealth can obtain a real cooperative control over foreign policy, a national function whose sane and enlightened management is a vital factor in the happiness and prosperity of any community, the organization of that commonwealth must be regarded as marred by serious defects. But the movement for the necessary adjustments and changes, whose urgency has been sharply demonstrated by recent events, is now under way, and it is fitting that Canada is once more playing her historic part as a pioneer.

When the war came Canada found herself plunged in a night into the European maelstrom. During the early war years her government was content to leave the conduct of the British Commonwealth's diplomacy to the Foreign Office in London,