

It sometimes comes as a shock to realize that the major impact of what we have come to call "the oil crisis" began less than a decade ago. For even in that relatively short span of time a number of critical events have occurred which impinge directly on the energy situation the world faces in 1981. Today, I should like to begin by reviewing briefly a number of steps in that historical development.

The first dramatic event occurred late in 1973, and took the form of reduced production and a selective embargo against certain countries by the Arab oil-exporting countries. This action resulted in the rapid quadrupling of world prices. In the period 1976 to 1978 the international oil market was relatively stable and real oil prices actually declined. But, as you know, social and military events in the Middle East in the past two years have interrupted oil exports, first from Iran and more recently from Iraq. In each case, these countries were then the world's second largest oil exporters. Although other producers increased production, the production decline in the Middle East was followed by further increases in the price which, in the past 18 months, has climbed approximately 180%. As a result, oil today accounts for one-eighth of the value of all international trade.

It is important to recognize that the profound effects of the events of the 70's are symptomatic of the growing dependence of the world economy on energy resources -- particularly oil. To understand the degree of dependency, we only have to recall that in 1960 the world economy, not including countries in the Soviet bloc and China, relied on crude oil for 43% of their energy consumption; by 1978 crude oil accounted for 55% of energy consumption. The problem is further complicated if we consider that in this same period energy use in developing countries more than tripled. Even so, the developed industrial countries, whose energy use did not quite double in that period, were the most voracious consumers, and in 1980 consumed 89% of the world's energy.

To understand the present dilemma we have to view it against the background of oil supply. In 1960 it was estimated that there were just in excess of 302 billion barrels of proven recoverable oil reserves. By 1978, estimates had more than doubled to 650 billion barrels. But while estimated reserves had more than doubled, oil consumption in the same period increased by more than two and a half times. Accordingly, by the end of 1978, total proven recoverable reserves amounted to supplies lasting only 29 years at the current rate of consumption. This does not mean, of course, that the world is about to run out of oil