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Office of the Director of Central Intelligence

4 February 1974

MEMORANDUM FOR : Deputy Director for Central Intelligence

SUBJECT : Background Paper on Energy Crisis for
General Walters' Latin American Visit

1. Pursuant to your request for a background paper on energy for use on your visit to Latin America:

(a) Attached is a memorandum on this subject I prepared for the Director a fortnight ago; with comments added below it is still current.

(b) I cannot improve upon the extensive menu of facts and figures in our weekly oil report -- International Oil Developments -- which I assume you see regularly.

2. To the above I would add a few observations that might have relevance and utility in conversations on your trip.

(a) The energy crisis is real; prudent leaders will assume that it will be with us from here on out.

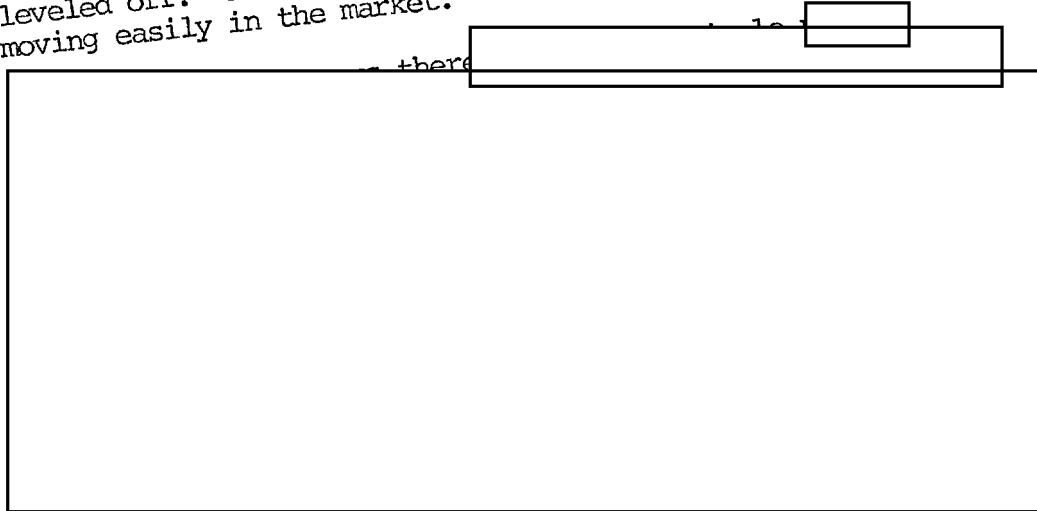
(b) Many of the current manifestations are artificial -- the short-term results of calculation and miscalculation by men with diverse motives. We are all muddling through the current phase.

(c) The price of energy is still the price of the market barrel of oil from the Persian Gulf. The bulk of oil moving this week is still handled by the "majors" and their oil is still the best bargain for the buyer. This week it is pegged at \$7.00 for the producing government, plus 50¢-80¢ profit for the company. Production costs are

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still negligible (10¢ per barrel) and tanker rates have leveled off. The \$18.00 to \$22.00 a barrel oil is not moving easily in the market.



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intolerable for all consumers.

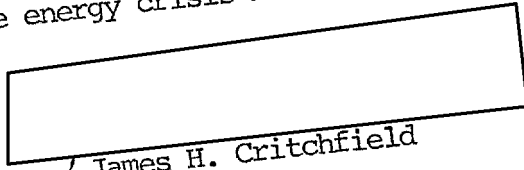
(e) World supply and demand are more or less in balance now. If voluntary and imposed controls continue and the embargo ends, there will be some surplus in 1974. If this phenomenon is misread and the pendulum swings back to profligate use and abandoned controls, 1975 and 1976 could bring more deeply rooted energy and economic problems.

(f) Leaving the use of oil for political purposes aside, the trend in most of the OPEC countries is to hold production down and stretch out the life of oil earnings.

(g) The U.S., Japan and Europe all face far-reaching changes in lifestyle. The increased cost of energy will be serious for Eastern Europe. The future of the USSR as an energy exporter is by no means certain. But the biggest impact of the energy crunch will be on food production and the economies of those LDCs with population growth virtually out of control (India, Bangladesh, for example). The UN focus on food and population in 1974 will give a new and more serious twist to the energy crisis before the year is out.

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Attachment



James H. Critchfield
NIO/Energy

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MEMORANDUM FOR: ~~ESP/PVW~~ ~~ESP~~, File
NIO Energy

Attached are some interesting comments on the energy crisis by Jim Critchfield (for General Walters upcoming Latin America trip.)

Critchfield's original memo, sent to us by mistake, has been returned for proper forwarding.

4 Feb 1974
(DATE)

FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

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