

CHAPTER 1

INTRODUCTION

There are but a few events in the present century that have shocked the world economy to the extent of significantly altering its course of development. Most will agree that the 1973 'oil crisis' was one such event. The oil crisis initiated one of the most dramatic economic revolutions of all time. Several features could account for the significance of the crisis.

Firstly, the crisis brought about unprecedented increases in the price of crude oil, the world's most important natural resource. The price increases were significant, not only because of their magnitude, but more so, because of the process of price determination. The crisis ushered in a new era, in which both pricing and output decisions were now fully vested in the hands of the Governments of the member countries of the Organization of Petroleum Exporting Countries (O.P.E.C.), and out of the hands of the multinational corporations that had dominated the industry since its inception.

Secondly, the price increases and embargo action exposed, for the first time, the vulnerability of the industrial nations to concerted action by Third World raw material producers.

The above features were particularly significant, in so far as they were positive manifestations of the rise of economic nationalism, that has been the basis of the on-going struggle

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of Third World countries for economic independence and a new international economic order. For the first time, a group of Third World countries had been catapulted into a position of political and economic significance, previously unknown.

Then, the direct and indirect impact of the crisis varied from one nation to another. For the oil exporters, it brought a flood of revenues, a foreign exchange bonanza that catalyzed ambitious development plans. For the oil importing Western industrialized nations, it meant increases in their energy bill, short term balance of payments difficulties, a threat to national security, and the possibility of financial dislocation. For the oil importing developing countries, the crisis signalled a multiplication of the problems synonymous with underdevelopment.

Finally, the impact of the crisis on the world economy has provoked a series of various responses. These include, the search for alternative 'safe' sources of crude, intensive research into alternative energy sources, and a variety of measures aimed at breaking the exporters' organization, including covert military action. Success in any area of emphasis will have repercussions on the world economy. In particular, the search for development of alternative sources of energy, suggests that the world may well be heading for a major technological revolution, and casts a distinctive air of uncertainty over the future role of oil resources and the oil producing countries in the international economy.

Against the setting described above, this thesis sets out to assess the petroleum policy of the Government of the Republic of Trinidad

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and Tobago in the period 1973 to 1980. Such a study is critical at this time in light of several factors.

Firstly, Trinidad, though a small producer, exhibits the same dependence on the oil industry as other major producers of oil. The petroleum industry has traditionally been the mainstay of the economy. Developments in the post 1973 period must have a direct bearing on this relationship. As was the case with other producers, the increase in prices would have provided new levels of foreign exchange, popularly regarded as a major constraint to development.

Then, oil as a resource, can be used as a source of energy, as a raw material for multitude of products, or simply as a source of foreign exchange when exported in its raw state. Which ever use is dominant in a particular setting, petroleum exhibits tremendous potential for contributing positively to economic development and transformation, the much publicised goals of all developing countries,

Finally, the events of 1973 onwards and specifically the uncertainty of the future, have multiple implications for the future viability of the industry, its capacity to contribute to economic development, the choice of strategy to be used in achieving the latter task, and the time frame within which this should or could be done.

The study necessarily has two points of focus, the international developments in the 1973-1980 period; and the domestic developments over the same period.

The first two chapters deal with the international aspects.

Chapter 2 seeks to set the stage. It gives an outline of the structure of the World petroleum market in the seventies', and discusses the development of the crisis, and the struggle of O.P.E.C. to maintain their market power over the period.

The third chapter focusses on the impact of the crisis on various groups of nations, namely O.P.E.C, Industrial nations, and the oil importing Third World; and their responses to it.

Chapter 4 gives a historical account of the domestic industry and details its structure and performance in the 1973-1980 period. A discussion of the impact of the crisis on the domestic economy is the subject of Chapter 5,

Chapter 6 details the petroleum policy of the Government of Trinidad and Tobago in the post-crisis period. In Chapter 7 an attempt is made to derive certain objectives by which policy may be assessed. These objectives are born out of an appraisal of the international and domestic context to which policy is addressed. The critical assessment of policy is undertaken in Chapter 8,

The final chapter puts the pieces together. It draws on the domestic and international experiences over the last seven years, in order to derive implications, reach conclusions and make suggestions for the future of the petroleum industry and economy of Trinidad and Tobago.