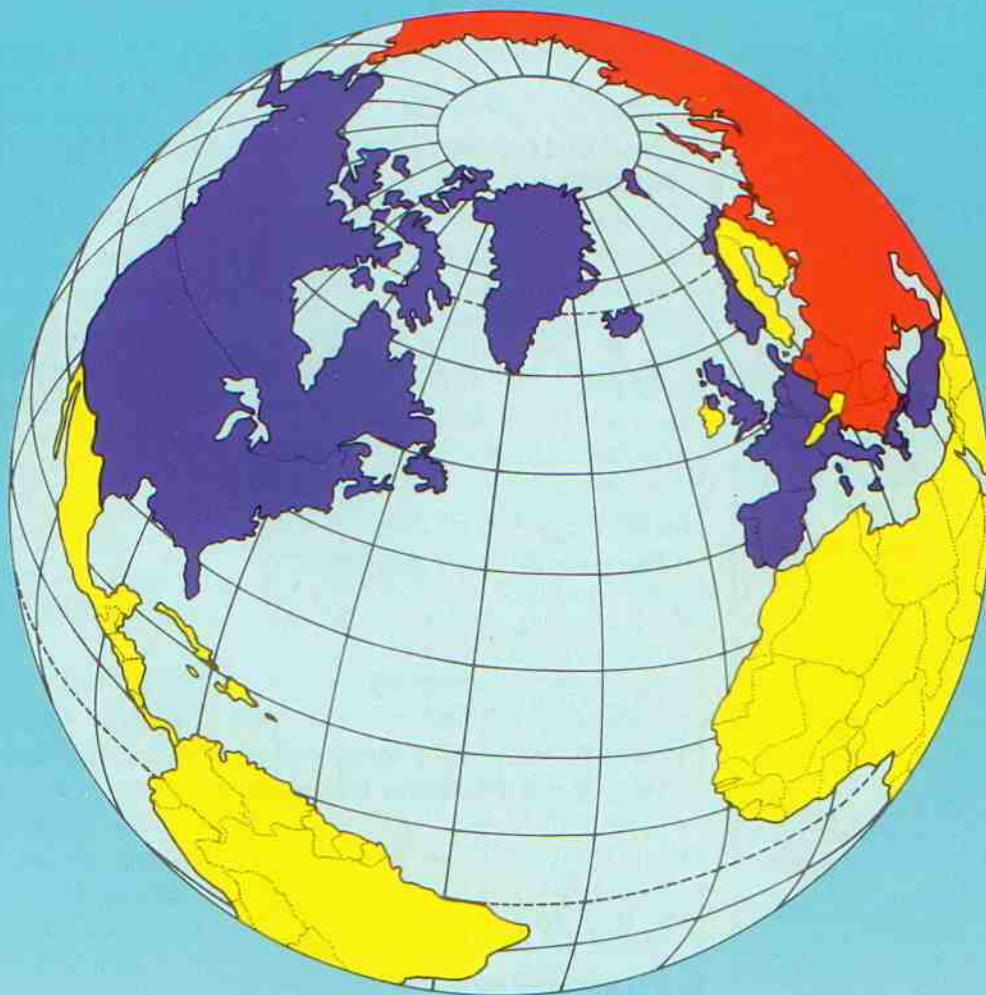


# NATO

# REVIEW

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## East-West Relations



Are there Common NATO Positions?

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Tom Cutler, Office of International Affairs, US Department of Energy, Washington DC, and Chairman of NATO's Petroleum Planning Committee

# NATO AND OIL SUPPLY VULNERABILITY

## THE ROLE OF THE PETROLEUM PLANNING COMMITTEE



In May 1984 newspapers around the world flashed headlines reporting intensified attacks upon oil tankers in the Gulf by combatants in the Iran-Iraq war, and the threat this posed to the oil lifeline of the Free World. NATO's North Atlantic Council by coincidence met shortly thereafter in Washington for one of its regularly scheduled biannual meetings at Ministerial level, and among the topics discussed were the implications for the Alliance of hostilities in the Gulf. Following the meeting, the then Secretary General Joseph Luns summed up the Council's deliberations by saying that although intervention by NATO as an institution was out of the ques-

tion, "the threat to the Alliance of a conflict developing in the Persian Gulf is a worry to the Alliance as a whole".

Indeed, these attempts to disrupt normal peace-time commercial oil trade in the Gulf again focus attention on a long-standing NATO planning issue: although NATO's traditional sphere of activity is delineated by the North Atlantic Treaty as confined to a region encompassing North America and the European member countries, there will be events outside the NATO area that affect the security of the Alliance. In fact, the Council's May 1984 Communiqué took this into account: "The Allies recognize that events outside the Treaty area may affect their common interests as members of the Alliance. They will engage in timely consultations on such events, if it is established that their common interests are involved..."

The Iran-Iraq war in particular brings attention to existing NATO efforts to ensure that its defence energy requirements could be met during a crisis or war. This would include the development of plans and procedures in the event of a severe energy supply shortfall which could threaten NATO's defence posture.

The established forum for NATO consultation and analysis on such matters is the Petroleum Planning

Committee (PPC), which is one of eight planning boards and committees reporting to the Senior Civil Emergency Planning Committee and supported by staff of NATO's Civil Emergency Planning Directorate. Although the work of these committees is inherently interdependent, the PPC has a unique role to play because "out-of area", "peace-time" energy events can have most significant implications for NATO's defence posture. This has necessitated ongoing assessments by the PPC of NATO's oil supply vulnerability. In light of recent events, it is timely to describe the PPC's activities, explain its emergency arrangements, including the NATO Wartime Oil Organization, and assess the extent of NATO's oil supply vulnerability.

### The Role of the PPC

NATO concerns about the adequacy of its oil supplies date back to the beginning of the Alliance itself some 35 years ago. On the basis of their experiences during World War II, member countries established the Petroleum Planning Committee in January 1952 to establish total wartime military and civilian petroleum requirements and recommend peace-time measures and war-time plans to ensure that requirements would be met to the maximum possible extent.

The PPC became more prominent in the late 1970s when world oil crises prompted NATO's International Staff to add a full-time petroleum staff officer, followed soon after by a data officer, both within the Civil Emergency Planning Directorate. They provide analysis and support to the PPC, which meets twice a year, and its Working Group which meets five times a year. Related data, training, and operational groups also meet periodically. In addition to representatives from member countries and the International Staff, officials from the Supreme Headquarters Allied Powers Europe (SHAPE), the Headquarters of the Supreme Allied Commander for the Atlantic (SACLANT), the International Military Staff (IMS) and the oil industry participate in these meetings. A continuing trend is the increased interaction between the PPC and other NATO bodies such as the Planning Board for Ocean Shipping, the Industrial Planning Committee, the Planning Board for European Inland Surface Transport, the NATO Pipeline Committee, the Economic Committee, and other

groups. Symbolic of this integration of NATO petroleum planning elements has been the establishment of the Inter-Staff Group on Petroleum which, besides improving co-ordination within the NATO staff structure, has contributed to better civil-military co-ordination in NATO petroleum affairs.

As the oil markets and energy advisor to the North Atlantic Council and the Senior Civil Emergency Planning Committee, the PPC has the responsibility of assessing NATO's vulnerability to disruption in its essential oil supplies. Such activities necessarily entail analysis by the International Staff of oil market conditions and changes in specialized military energy requirements. These detailed studies are subsequently evaluated by the PPC, brought together into broader assessments of NATO's overall oil supply situation and sent via the Senior Civil Emergency Planning Committee to the Defence Planning Committee and the Council.

Although the tasks of the PPC have remained fundamentally the same since its inception, its discussions of a wide range of studies and

planning papers have brought about a common view on oil's importance to the Alliance, a broader perspective on the defence implications of oil supply vulnerability, and a continuous dialogue regarding the circumstances under which collective action should be considered.

Shortly after its inception, the PPC established the NATO Wartime Oil Organization around which its planning to meet NATO oil requirements in the event of war would be based. As a standby organization it would be activated, if there was the threat of war or war itself, to co-ordinate national efforts to fulfil NATO's civil requirements for oil and to distribute oil supplies among member countries. Although the military has its own oil supply plans, this organization is also tasked with providing supply assistance to the military if requested to do so.

The NATO Wartime Oil Organization consists of three organizational bodies. The Joint Operational Staff (JOS) would be manned by industry experts from throughout the Alliance and would recommend actions for NATO to take based upon technical analysis of the oil supply

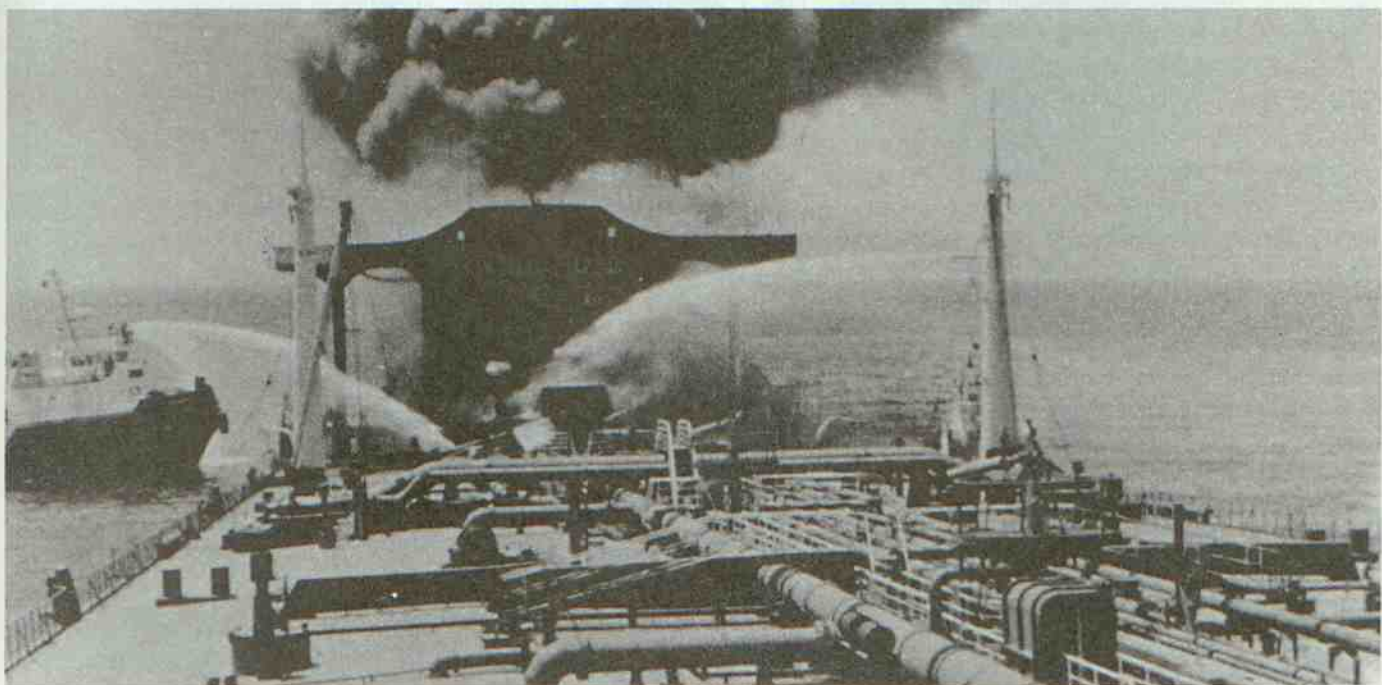


Photo news/Gamma

A tanker on fire in the Gulf last May after being attacked.

order of world oil politics has certainly influenced its role and the premises upon which its plans are based.

The concept of flexible arrangements is well suited to the uncertain nature of NATO's oil supplies and was soon embodied in PPC planning. The need for flexibility entails a phased approach to the NATO War-time Oil Organization's operations whereby it could be activated in stages during crisis situations which did not justify full-scale operations based in protected wartime sites. A two-stage approach for crisis situations was adopted with the first step being the gathering of consultants at NATO Headquarters and the second step entailing the organization of a

cadre of Joint Operational Staff experts, but without formally mobilizing the National Oil Boards or the NATO Oil Executive Board. This meant that the Council could now activate aspects of the NATO War-time Oil Organization in phases, depending on the threat to NATO.

### The Alliance and Oil

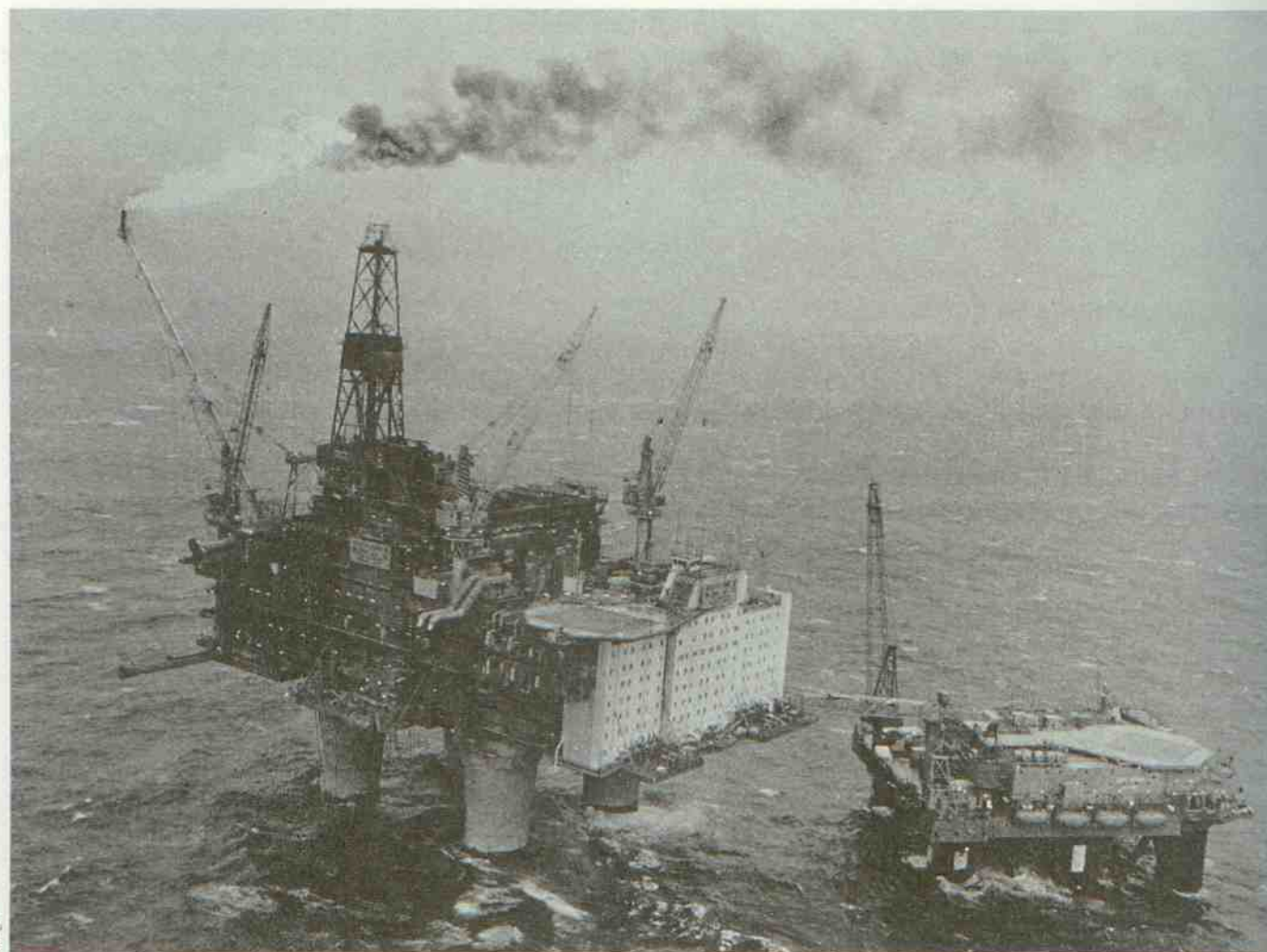
The importance of energy in general and oil in particular to NATO's military readiness and defensive capability cannot be over-emphasized. It is generally estimated that military oil consumption constitutes only a small fraction of total consumption in peace-time, but it could increase threefold in war-time. This would

still not represent a significant amount within the context of normal market activity but such an increase is likely to occur during war-time circumstances under which the function of the market mechanism would be altered in terms of supply availability, price, and logistics. Moreover, the pattern of military petroleum product requirements, their technical specifications, and the immediacy of certain operational needs contribute to the underlying reality that there is no viable alternative energy substitute for the oil required by the military.

On the civil side, there have been two major factors altering the significance of oil to NATO's economic interests since the PPC's establish-



The Destroyer USS Edson being refuelled at sea.



Belgia

The Statfjord B. North Sea oil production platform.

ment in 1952. The first factor was increased NATO European dependence on oil as petroleum displaced coal as the major fuel. Second, US demand for imported oil increased as domestic production flattened and oil consumption continued to rise. Thus, by the late 1960s NATO countries' reliance on oil imports began to grow rapidly, setting the stage for the post-1973 situation wherein oil supply disruptions and price hikes had severe economic and political repercussions.

In response to these developments, many NATO countries subsequently entered into an agreement under the umbrella of the Organization for Economic Co-operation and Development (OECD) to establish the International Energy Agency (IEA)

to share oil during a crisis and to institutionalize their energy co-operation. The IEA's establishment in 1974 filled the vacuum for emergency oil co-operation in situations short of war and has since fostered greater coordination of long-term national efforts to reduce oil imports. The European Community later developed its own emergency energy sharing arrangements of which the oil aspects generally parallel IEA's approach.

It is important to understand the different purposes of IEA and NATO and the criteria they would use to determine when and how oil would be shared during an emergency. NATO was founded as a cooperative defensive Alliance to maintain the freedom of its people while

the IEA has no military component and instead serves as a forum for international energy policy co-operation. The IEA's sharing scheme can be triggered if the IEA Secretariat, in consultation with governments, finds that a member country, or the group as a whole, is experiencing or can be expected to experience a seven per cent or greater shortfall in oil supplies compared to historical base period consumption levels. By contrast, NATO's oil sharing system is not triggered by a predetermined oil supply shortfall percentage and would not distribute oil equally to members strictly on the basis of a formula or upon historical consumption; oil is to be allocated in accordance with NATO's defence priorities, including essential civilian

needs. Although an oil supply disruption would not by itself warrant the implementation of PPC plans beyond routine monitoring, the Council could choose to activate parts of the NATO Wartime Oil Organization during a crisis short of war if the defence petroleum needs of member countries were not being met.

Fourteen nations are members of both NATO and the IEA, France and Iceland (not in IEA) and Japan (not in NATO) being key exceptions. This enhances the prospects for co-ordination in capitals during a crisis affecting the interests of both organizations.

In sum, NATO planners generally assume that in peace-time oil supply crises, the IEA would play its agreed role and that the PPC or, if necessary, the NATO Wartime Oil Organization crisis element, would monitor the situation closely from the perspective of NATO's defence needs.

### **NATO less vulnerable**

In 1983, oil accounted for 43% of total energy consumption in the Alliance, making it by far the most important energy fuel. More than 60% of NATO's oil consumption was imported, of which two thirds came from non-NATO sources. By comparison, the Warsaw Pact is self-sufficient for over 90% of its oil supplies.

Reliance on non-NATO nations for oil imports does not in itself make NATO's supply of oil insecure since geographically proximate non-NATO sources might prove more reliable in war-time than intra-NATO trade across the Atlantic. For example, North America is dependent on non-NATO sources for most of its petroleum product imports. However, most of these sources are located in the Western Hemisphere where threats of disruption exist but where supplies are generally less vulnerable militarily because the routes are much shorter than intra-

NATO trade across the Atlantic. This raises the distinction between *dependency* and *vulnerability*. Dependency can be defined as the extent to which requirements are satisfied by a specific source whereas vulnerability can be defined as the probability that supplies might be disrupted on a scale sufficient to make it impossible to fulfil minimum national requirements. On this basis, dimensions of oil supply vulnerability for NATO include political considerations, economic and technical capabilities and geographic factors.

NATO's oil supply vulnerability overall has lessened in recent years for a variety of reasons. Nations have been moderately successful in reducing oil imports through energy conservation and fuel substitution (i.e., coal, natural gas and nuclear). Many countries have also accumulated larger emergency oil reserves, and diversified the sources of their imports as a hedge against disruption. However, there have also been changes in the structure of the world oil market which add to the complexity of PPC planning. These changes include – the decline in the control over world oil supplies by the major international integrated oil companies; – the rise of non-NATO, oil exporting governments whose impact on the market has inherent political aspects; – the recent widespread divesting of oil company tanker fleets to other interests, and, – the advent of new supply sources to provide an alternative to an over dependence on Gulf oil.

NATO nations' dependence on oil supplies from the Gulf has also lessened. This means that under current market conditions situations similar to the 1979 Iran crisis, when unexpectedly rapid and severe price increases drained military petroleum procurement budgets and stock levels, are less likely to jeopardize the fulfilment of NATO's defence petroleum requirements. For example North American dependence on Gulf

oil has dropped from 13% of its oil consumption in 1979 to 3% in 1983 while NATO Europe's dependence had dropped from 58% to 29%; NATO's overall dependence on the Gulf is down from 31% in 1979 to 13% in 1983. Moreover, NATO is better able to cope with peacetime disruptions of oil flowing through the Strait of Hormuz due to substantial excess production capacity outside the Gulf, increased pipeline capacity to bypass the Strait, and continued surpluses and improved flexibility in NATO refining capacity. Nevertheless, increasingly frequent attacks on the oil trade as a result of the Iran-Iraq war and the mysterious appearance of mines in the Red Sea raise the possibility of a disruption and underscore the need for continued consultation within the PPC.

The attacks on oil tanker traffic in the Gulf illustrate how events outside the NATO area can threaten NATO country oil imports. This potential disruption also prompts consideration of the availability of alternative non-NATO sources of oil and the safeguarding of these oil flows. The fact that NATO does not plan for military activity outside the Treaty area means that it must rely primarily on civil measures developed by NATO petroleum planners to maintain an appropriate level of preparedness. For the PPC, this entails identifying national actions that if taken on a NATO-wide basis could reduce NATO's oil supply vulnerability.

In past oil crises, the presence of high oil stock levels has been effective in lessening the impact of disruptions. Although emergency oil reserves do not actually reduce a nation's dependence on imported oil, they can mitigate its vulnerability to debilitating oil supply shortages. Thus, nations need to maintain adequate levels of oil stocks – both civilian and military – and to conduct an active peacetime dialogue in order to achieve the high degree of co-ordination necessary in the event of any future crisis. ♦