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Does OPEC still have the U.S. over a barrel?

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In October 1973, the Arab members of OPEC pointed at the United States — and fired.

The Arab nations in the Organization of the Petroleum Exporting Countries imposed an embargo on direct oil shipments to the United States in retaliation for U.S. support for Israel, which was battling invasions by Egypt and Syria. They also announced production cuts of 5 to 10 percent.

"I'm sitting at my desk at the Pentagon," recalls James Schlesinger, then secretary of defense, "and a cable comes in, and it reads: 'In accordance with the orders of His Majesty, we are obliged to cut off all oil supplies to your 6th Fleet and to your forces in western Europe. Signed [Saudi oil minister] Zaki Yamani.' "

The 1973 oil shock — which led to a quadrupling of international oil prices — exposed U.S. and European weaknesses. The embargo, magnified by ham-handed U.S. price controls and rationing, triggered gasoline lines and forced President Richard Nixon to call for a 50 mph highway speed limit, a six-degree cut in winter thermostat settings, shorter hours for gas stations and fewer Christmas lights. And yes, he became the first of eight consecutive presidents to call for energy independence.

Four decades later, does OPEC still have the United States and Europe over a barrel?

In some ways, there are startling similarities between 1973 and today. Even with the surge in domestic oil production over the past five years, the United States imports more than a third of its oil — down from about 60 percent in the middle of the past decade but about the same proportion as 40 years ago. And because the economy has grown, we import 2.6 times as much oil as we did in 1973.

Moreover, we pay dearly for it, which was one of OPEC's objectives. The inflation-adjusted price of crude oil now is more than twice as high as it was after the five-month embargo, and money continues to flood the coffers of oil-exporting countries. With consumption surging in China, India and the Middle East itself, oil markets are tight, with little spare capacity.

Instability in the Middle East is still the focus of American foreign policy, with the United States courting nations whose domestic policies and values are often at odds with ours. Now, as then, Saudi Arabia is the linchpin in the global oil market, pumping more than one in 10 barrels produced worldwide. That has helped amplify the kingdom's voice on issues such as the civil war in Syria, where it favors supplying arms to rebel forces.

Yet the oil weapon, as OPEC's manipulative power was called at the time, works only when oil-importing countries supply the ammunition. And over the past four decades, the United States and the other major industrialized nations have taken steps to defuse the power of an embargo.

Most important, the United States has stored 696 million barrels of crude oil — the equivalent of more than 100 days of all U.S. imports of crude oil and refined products — in salt caverns along the Gulf Coast. This Strategic Petroleum Reserve gained congressional support only after the embargo, as part of legislation President Gerald Ford signed in December 1975. When the United States and 19 other nations aided Libyan rebels in overthrowing Moammar Gaddafi in 2011, Washington could do so with the comfort that the strategic reserve equaled about 435 days of Libyan oil output; a modest release of oil from the reserve dampened prices for a short time. And the reserve could compensate for a loss of oil supplies in the event of a conflict with Iran.

The United States has also bulked up its military presence in the region. After the Soviets invaded Afghanistan and Iran's new Islamic government seized U.S. hostages, President Jimmy Carter in 1979 created a rapid-deployment force and vowed that the United States would intervene if necessary to keep oil flowing out of the Persian Gulf. In 1983, President Ronald Reagan created U.S. Central Command, giving the American military an even more powerful presence and a greater ability to keep open the narrow Strait of Hormuz, through which about 17 million barrels of oil flow each day. At home, Washington scrapped the oil price controls and 1970s rationing system that exacerbated long lines at the pump.

Oil sellers have power only if there are oil buyers. And while the United States can do little to alter the geography of production, it can attack wasteful consumption. The fuel efficiency of the average U.S. automobile was lower in 1973 than at any time since World War II. Since the adoption of standards in 1975, the average fuel efficiency of vehicles has improved by about 50 percent. U.S. gasoline consumption, long assumed to be on an inexorable upward march, may have peaked in mid-2007. Standards negotiated and implemented early in the Obama presidency should keep American consumption on that path.

The petroleum we have avoided consuming exceeds the output of most individual OPEC members — and conservation is an energy source whose expansion doesn't threaten the environment. Unfortunately, this lesson is still being learned in China, which in September became the world's leading net oil importer.

Climate change provides another impetus for cutting consumption. Even if oil were plentiful and cheap, climatologists warn that the continued burning of fossil fuels will have disastrous consequences for the climate, something never considered in the 1970s.

As long as we are burning fossil fuels, though, U.S. domestic oil production matters. It peaked in 1970 at 9.6 million barrels a day, slumped to 5 million barrels a day in 2008 and has now rebounded to 7.5 million barrels a day. The revolution in shale drilling — a combination of horizontal drilling and hydraulic fracturing known as fracking — has also helped keep the U.S. economy from being at the mercy of events in the Middle East. The oil shocks of the 1970s also led to the boom in ethanol, which today displaces about 580,000 barrels a day of crude oil.

The 2.5 million-barrel-a-day increase in U.S. supplies over the past five years has given the United States greater leeway in its foreign policy and made the country less susceptible to energy manipulation. Without this ramp-up in supplies, "we would not have been able to carry out sanctions on Iran," says Daniel Yergin, vice chairman of IHS and the author of "The Quest: Energy, Security, and the Remaking of the Modern World." Those sanctions have helped change the tone of Iranian officials recently, though they have yet to shift Iran's position on its nuclear development program. Without the shale drilling revolution, Yergin says, "there would be a lot of hand-wringing about how we compare" to the 1973 embargo.

Instead, the American oil industry is awash in optimism these days. At his news conference Tuesday, President Obama hailed the U.S. oil sector. "America's poised to become the number one energy producer in the world this year," he said. "This year, for the first time in a very long time, we're producing more oil than we're importing. So we've got a lot of good things going for us."

He added that Republicans say, " 'Obama's been restricting oil production,' despite the fact that oil production is at its highest levels it has been in years and is continuing to zoom up."

But this sort of euphoria masks the fact that crude oil prices are global, and global markets remain taut. Greater reliance on our own resources — or Canada's via the Keystone XL pipeline — helps reduce our trade deficit, but American motorists are still paying high prices at the pump.

" 'Energy independence' is a popular mantra and guaranteed stump applause line," says Robert McNally, founder of the Rapidan Group, a consulting firm. "But since oil is globally traded and fungible, reducing imports cannot ensure low and stable prices. Canada and Norway are major oil exporters whose motorists ride the global oil price roller coaster like everyone else."

That roller coaster usually rises when spare production capacity is less than 4 percent of global consumption. Recently, that cushion has shriveled to 2 or 3 percent because 3 million barrels a day have been removed from the market. That isn't because of any embargo or concerted cartel behavior by OPEC. It is a result of sanctions on Iran and disruptions caused by domestic strife in Nigeria, Sudan, Libya and Syria. Saudi Arabia has cranked up its output to compensate.

Rising U.S. oil output also threatens to undermine a consensus created by the 1973 embargo: that the Middle East is a vital strategic interest of the United States. Today, Americans, weary from two wars, are less interested in patrolling the world's oil choke points.

"Our growing domestic oil supply is amplifying this mounting non-interventionist trend," adds McNally, who was the energy expert on President George W. Bush's National Security Council and frequently briefs members of Congress. "We are increasingly hearing in political and military circles the question: 'Why should we continue to defend China's oil supply when our own domestic production is booming?' "

But as long as at least 20 percent of global oil production is flowing from the Persian Gulf, the United States will be unable to walk away. A crisis there would be a crisis everywhere, from China's factories to Main Street America.

There are, however, constraints on OPEC, too.

“The net effect of the oil embargo was a boomerang on the oil producers, and they know it,” says Schlesinger, who became Carter’s energy secretary. “They know that using the oil weapon results in a loss of market share and incentives to others to find substitutes for their oil.”

It’s also worth noting that, as of July, oil-exporting nations owned $257.7 billion in U.S. Treasury securities, giving them a huge stake in the American economy, something they didn’t have in the 1970s. Firing the oil weapon could result in a self-inflicted wound.

Forty years ago, on Oct. 14, 1973, U.S. military planes landed in Israel with arms and ammunition. On Oct. 17, Arab members of OPEC slashed output and raised prices. On Oct. 19, Nixon asked Congress for $2.2 billion in emergency aid to Israel, and Libya promptly cut off exports to the United States. On Oct. 20, Saudi Arabia and others followed suit.

A month later, on Nov. 25, Nixon, embroiled in the Watergate scandal, spoke to the nation from the Oval Office and called for a Project Independence , so that by 1980 Americans would “not have to rely on any source of energy beyond our own.” Every president since has echoed the call.

The United States should continue to reduce its dependence on oil, both foreign and domestic. Yet the global nature of oil prices, the need to stand by our oil-importing allies, the danger of international economic instability and the threat of climate change should force us not to dwell on independence, but to accept and manage our interdependence.

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