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Arab Oil Strategy — Bucking The IEA

OPEC

The member states of the Organization of Petroleum Exporting Countries have set their sights on a showdown with the International Energy Agency and the Rockefeller-controlled oil companies, primarily Exxon. Defying the IEA's rhetorical predictions of future oil production cutbacks — and thus the necessity for drastic "conservation measures" by the West — the OPEC countries have launched an active drive to expand oil production. Present and future plans on the part of virtually every OPEC member call for massive investment in oil exploration and drilling, new pipelines, port and tanker development, and new marketing arrangements, with provisions for increasing oil output as much as 15 million barrels a day (mbd) above the current OPEC export level of approximately 30 mbd.

The momentum of the producers is being complemented by the consuming nations of Europe and Japan, where investors and, especially, state-owned oil companies are cooperating closely with the producers to revitalize the world oil market.

This cooperation inevitably entails direct political collaboration with Western Europe to achieve a new monetary system capable of financing a greater world trade volume.

The comprehensive industrial development of the Middle East will, with cooperation with European and Japanese industrialists and governments, become fully possible for the first time. Until now, the influence of the international monetary policies of the monetarist Euromarket banking institutions have tended to divide the area into economies they could dominate — like Egypt, Iran, and Saudi Arabia — and those who refused monetarist policies, like Iraq and Algeria. The former have seen their real economic progress stagnate or decay while economic policy revolved mainly around currency devaluations, debt refinancing, rationalization and other paper-oriented policy. U.S. industrialists in particular hewed to basically anti-industrial growth banking policies designed at 1 Chase Manhattan Plaza — and lost markets!

Countries like Iraq and Algeria, on the other hand, have seen impressive real economic development, but at the expense of isolation from badly needed industrial input from especially the U.S. when investors refused to, or could not obtain credits to deal with the centralized economic planning. Nations like Iraq have depended on the Soviet Union and on certain levels of European and Japanese inputs.

With the cooperation for a totally new monetary system between the Middle East, and Europe and Japan, based on expanded energy consumption the Euromarket banks' control over international economic policy can be effectively broken.

The outcome of the December 1976 OPEC meeting in Doha, Qatar is a reflection of the global fight between the zero-growth "conservation" policy represented by the IEA and the position of forces working toward a new world economic order.

The shift by OPEC toward active support for a new monetary system is the result of a long and well-documented series of political decisions taken since 1974. The March 1975 OPEC Summit in Algiers was the crucial turning point. The downturn of world trade since 1973 plunged the oil-exporters into a crisis: ill-conceived plans for internal development in the various OPEC countries, made in the wake of the sudden quadrupling of oil prices in 1973 were rudely upset by the countervailing fall in world demand for oil. This left several countries in OPEC short of cash for politically and economically vital development plans.

The OPEC countries were faced with a choice: (1) they might have increased prices still further to compensate for falling or stagnating revenues, but with the prospect of setting off a never-ending cycle of declining industrial demand and still lower oil revenues; (2) they could adopt a policy of seeking to set right the world economy as a whole, placing emphasis on necessary monetary and related measures for making sure the developed countries stepped up production — and exports to the OPEC countries and the Third World. Increasingly, OPEC has adopted the latter strategy.

Gearing Up Production Capacity

According to a Frost and Sullivan report released last year, the oil producers will spend approximately $74 billion between now and 1980 for "downstream" development. The money will go for refineries, petrochemicals, fertilizer plants, and gas facilities. Iran, says the study, will spend the most, about $17.9 billion; Saudi Arabia $15.9 billion; Iraq $7.8 billion; Algeria and Libya $4.1 billion each. By 1980, the Middle East and North Africa will account for not only crude, but 18 percent of worldwide refined output and will be earning about $3 billion a year from the export of finished and refined products. This is the primary goal in the oil producers' commitment to construct an industrial infrastructure — using crude as a base for the production of exportable commodities.

The accompanying chart shows both current and potential oil production based on already installed oil extracting capacity. But the producers are rapidly expanding exploration and existing capacity to raise their output to meet a rising global demand. Diplomatic activity between Europe, Japan and the Middle East in recent months was almost entirely devoted to securing

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Middle East Crude Oil Output And Capacity

(IN MILLIONS OF BARRELS A DAY)

	1974 OUTPUT	1975 OUTPUT	1975 CAPACITY	1976 OUTPUT	1976 CAPACITY	% CHANGE 75-76	DEC 1976 OUTPUT	JAN 1977 OUTPUT
SAUDI ARABIA	8.43	7.04	(10.0)	8.57	(11.0)	+21.8	9.2	8.5
IRAN	5.99	5.4	(6.6)	5.87	(6.6)	+10.2	6.6	5.1
IRAQ	1.83	2.20	(3.0)	2.08	(3.1)	- 5.2	3.1	1.5
KUWAIT	2.56	2.1	(3.3)	2.16	(3.3)	+ 3.1	3.3	1.5
ABU DHABI	1.37	1.34	(2.4)	1.53	(2.4)	+14.1	1.6	1.6
LIBYA	1.45	1.46	(2.5)	1.84	(2.5)	+27.2	—	—
ALGERIA	.97	.90	(1.1)	.93	(1.1)	+ 3.1	—	—

new contracts and trade negotiations based on the premise that oil exports must expand.

The Saudi government instructed Aramco last month to increase production by reopening the Zuluf and Maja offshore fields which were shut down last year. The two fields alone can produce up to 900,000 barrels a day of mainly heavy crude. By the end of the year, Saudi Arabia could produce up to 14 mbd with relative ease — a point Yamani has repeatedly stressed, against the desires of Aramco officials. The development of new oil drilling capacity is relatively effortless and could be accomplished in a short time. The current cost per barrel of ten cents reflects the relative ease of drilling on the Saudi Peninsula.

The peak of 9.1 mbd reached in December verifies the fact that the Saudis would have no technical problem in reaching their targetted 10 mbd by the end of March, if adequate demand presents itself. On the government level, the Saudis have reduced the responsibility of Petromin, the state-owned oil company. Late last year, Riyadh announced the formation of the Saudi Basic Industries Corporation which will take from Petromin the job of overseeing various mining projects as well as petrochemical and fertilizer production. This leaves Petromin handling just the state oil sales. While Petromin averaged close to half a million barrels in sales last year, mostly on a state-to-state basis, it has already upped its contracts with France, having just renewed and enlarged a contract to supply Elf and CFP with 250,000 barrels a day. Italy's ENI and Montedison will also get expanded shipments from Petromin, many times more than their previous 1 million tons a year. After nationalization of multinational facilities, Petromin of course will play a much more active role in Saudi Arabia's oil business.

With only about 20 years of Known reserves, Iran faces the pressing necessity of maximizing the use of its oil in order to diversify its economy — still 90 percent oil dependent. For this reason Iran is putting a high priority on petrochemical development. To expedite the oil flows, Iran has already contracted for the installation of pressure injection machines to allow for drawn-down wells which lose pressure to continue to be productive. According to the National Iranian Oil Company, work will soon begin on the enlargement of the Abadan Oil refinery, upping its production from 4.5 to 6.0 mbd and making it the world's largest refining installation. Exploration continues in Iran with the new offshore find in the Straits of Hormuz — involving Mobil and Brazil's state-owned company, Petrobras — promising a yield of up to 300,000 barrels a day. Iranian gas reserves, potentially the largest in the world, will play a greater role in its future economic development not only as exports, but as raw feedstock for fertilizer and petrochemical production.

Like Petromin, the National Iranian Oil Company (NIOC) is increasing its share of Iran's total exports. NIOC, which is also the seat of Iran's most vocal development spokesmen, last year reached over 1 mbd in sales, well over the 600,000 allocated by the terms of its agreement with the multinationals consortium. Through newly negotiated joint ventures, NIOC sees 1977 as a year of still greater activity in marketing Iran's crude. Despite the early January slump in output, production bounced back to over 5 mbd with a number of joint ventures coming through at the last minute.

The United Arab Emirate could easily produce over 2 mbd this year. It has already officially increased its allowable offshore activity by 130,000 barrels a day for 1977, and like Iran, has installed an injection system in its offshore Umma Shaif field to halt declining pressure. The UAE has contracted nearly 100,000 barrels a day of ad-

ditional production to a group comprised of Japanese companies. Just this week Abu Dhabi signed an agreement with France's CFP for offshore exploration in an area which could yield an additional 400,000 barrels a day.

With sizable proven reserves, Iraq's government hopes to have the totally nationalized oil industry producing 6 mbd by 1980, almost triple current output. Last year Iraq inaugurated 2 new fields discovered by Elf-Aquitaine in its southeastern section. The new fields will produce about 100,000 barrels a day this year and will be up to about 250,000 by 1980. They will be jointly exploited by Elf and the Japan-Iraq Petroleum Development Company. Another field, the Fauqi Field, found by Elf and JIPDC, will come on-stream soon. Petrobras has announced the discovery of a rich field which has a potential of up to 350,000 barrels a day. Iraq will get new refining capacity as part of a large trade package which has already accounted for $2 billion in loans from the Japanese.

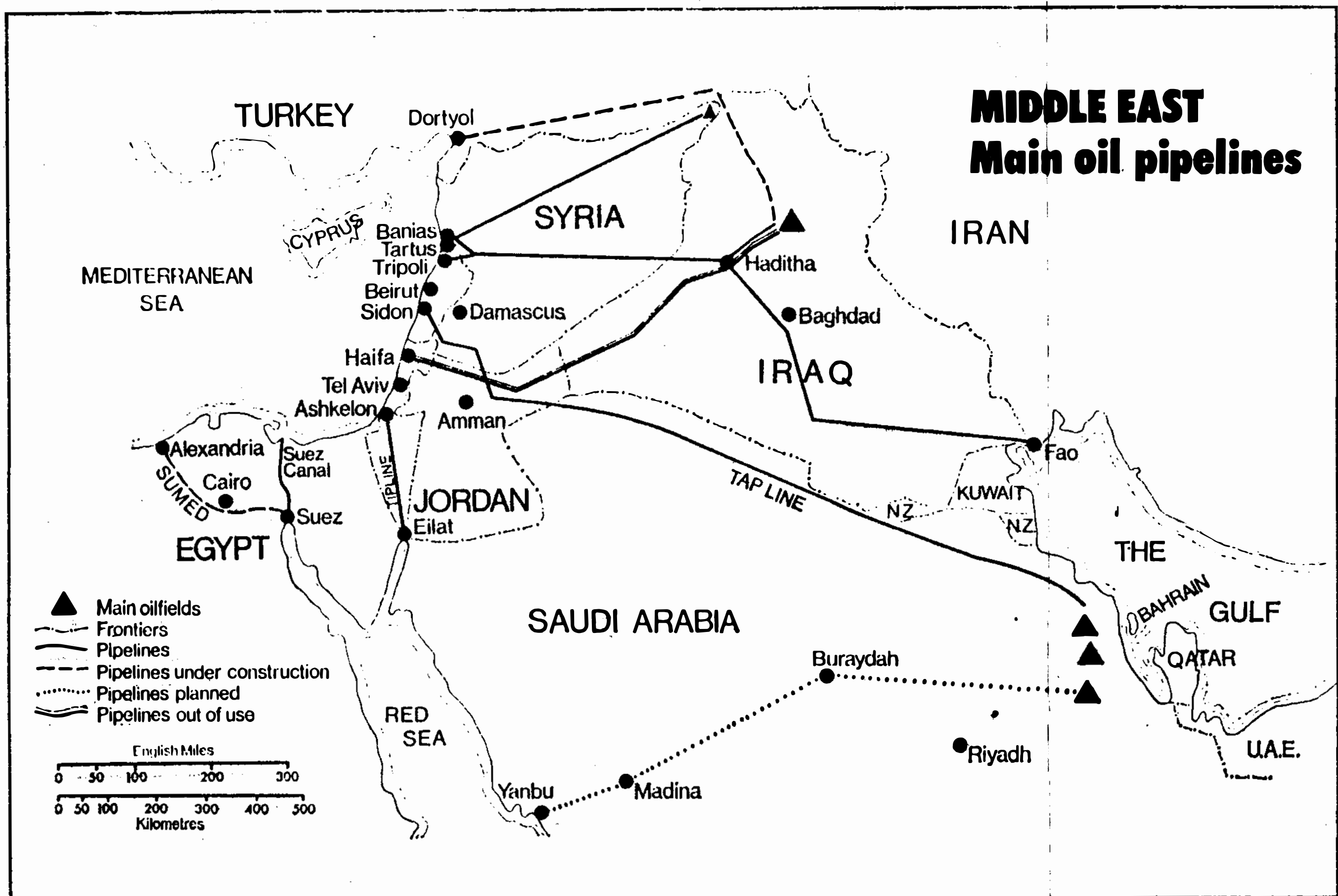
In North Africa, Libya and Algeria both envisage producing more of their highly desirable light crude. Libya has recently modified its current five-year plan to include oil and gas development, and may be considering recalling British Petroleum aid to increase the output in fields Libya nationalized in 1971. Algeria expects to double its relatively small 1 mbd by 1985, but will become more dependent on its vast gas reserves.

A major priority in downstream funding for the Middle Eastern OPEC countries will be in the construction of new pipelines and transportation. As the map shows, the pattern of new and proposed pipelines will feed Europe with more oil at less cost. The two-part Sumed pipeline through Egypt is designed to cut down costs by avoiding the expensive tanker route round the horn of Africa. Once the Saudi Yanbu pipeline is completed (feeding the Sumed line via the Red Sea), the cost of supplying Saudi crude from the eastern oil fields will be even further reduced. The pipeline contracts have just been awarded by Petromin which forecasts completion in 1979.

Implications of the Saudi Takeover of Aramco

Since 1974, the Saudi government has been haggling with the four participating companies — Exxon, Texaco, Socal and Mobil who still own 40 percent — over the takeover of their Arabian American Oil Company Aramco four to four European companies, which Sheikh Ahmed Zaki Yamani announced would be completed by December 1976, continues to be delayed. Though the terms of the agreement are secret, it is known that the nationalization will enable the Saudis to exercise far greater political control over their enormous oil business, which has the largest proven reserves in the world.

The surprising decisions taken by Riyadh just after the Doha meeting — to remove the 8.5 mbd production ceiling, and to then dictate to the four partners for the first time the terms and the customers of the additionally produced crude — shook the Rockefellers' oil empire. Last month Yamani announced the pairing of the Aramco four to four European companies, which



beforehand had not been officially designated receivers of Aramco crude. This was the first prominent gesture from the Saudis to express their intention to supply European oil companies, largely state-owned with the exception of Royal Dutch Shell. The move follows a sudden upsurge of mostly state-to-state deals negotiated between Europe and the oil producers, whereby Europe would receive badly needed crude in return for exporting technology to the developing economies of the producers. In fact, in late 1976, the English language *Saudi Gazette* announced that the longstanding hegemony of the U.S. in contracts for the Saudi $149 billion five-year development plan was being undermined by growing Saudi trade with the EEC nations and Japan.

The finalization of the Saudi takeover will give the royal family the right to dramatically expand production without a production ceiling. But more than that, it will represent a model for other producers engaged in similar negotiations with their respective consortiums.

For example, Iran's drawn out and turbulent negotiations with its British Petroleum-led consortium for a new lifting contract are suspended pending the outcome of the Aramco talks. Similarly, the Kuwaitis, who like the Saudis own 60 percent of their oil industry, are watching the Aramco talks, whose outcome will shape the terms of the Kuwaiti government's takeover.

What Happened at Doha?

The split over the price of oil that occured at the meeting of oil ministers at Doha in December is a direct expression of the fight the OPEC group favoring the continued real economic growth is conducting against the IEA. The decision taken by the Saudis and the United Arab Emirates to adopt only a 5 percent oil price increase — while eleven other countries opted for an eventual 15 percent rise — was taken in collaboration with European leaders. Prior to the OPEC meeting, Yamani made a European tour, vehemently stressing the need for a solution to the problem of Third World debt through the North-South dialogue as essential to revitalize the world economy. About the same time, the Saudi finance minister publicly attacked the faltering dollar. In a speech in Scotland during that tour Yamani harshly attacked the IEA as an institution out to undermine the political and economic power of OPEC by usurping control of the oil markets. Saudi Arabia's moderation was enthusiastically praised by European leaders following the Doha meeting, most notably Europe's most outspoken exponent of industrial expansion, Italian Prime Minister Giulio Andreotti.

The other 11 countries which chose the higher price were primarily thinking of badly needed development revenues and a show of militant nationalism. It was also the result of a shortsighted assessment that another increased injection of liquidity would quickly solve their domestic economic ills. Such an attitude has been reinforced by numerous Rockefeller-linked channels such as New York consultant Walter J. Levy and the Boston-based firm Arthur D. Little. Saudi oil minister Yamani announced again last week that his country will stick to its five percent decision, despite tremendous pressure coming from Rockefeller allies for a compromise that would raise the price of their crude.

The Big Lie

The Saudis have been attacked for their increases in oil production, which are blamed for the sudden decline in oil sales in January. In reality, the softening of the January market had nothing to do with the Saudi production which dropped from 9.1 mbd in December to only 8.7 mbd, but was the result of the oil companies' selling millions of barrels of stockpiled oil. OPEC's December sales reached a high of nearly 33 mbd as a result of buying sprees by the companies who bought up the oil as a hedge against a sizable price rise. Preliminary figures for February therefore not surprisingly show that production for OPEC is beginning to bounce back.

The major factor in determining when and by how much Saudi production will increase will be set by the consuming nations' political will to expedite their break with the dollar.

The curious stipulation the Saudis attached to their 5 percent price rise, requesting auditing of sales of all additional crude produced, is a step to delimit Exxon's notorious manipulation of world markets. Such manipulation is by and large responsible for Europe's underutilization of down stream industrial capacity in refining and petrochemicals. The Saudi auditing request was tied to an EEC decision at about the same time, to study the pricing of crude and crude related products within the European market.

In late January, according to Platt's Oilgram, two OPEC representatives met with Italian government and oil industry officials in Rome to discuss crudes in terms of their product yield. Their inquiry was made by the OPEC economists to develop a fair system of crude price differentials and followed a similar fact finding trip to northern Europe.

Such cooperation between OPEC and Europe will also revitalize Europe's own nationalized oil industries and is the centerpiece of the ongoing Euro-Arab dialogue. The Mideast oil producers have called on Europe to provide them free access to the Common Market's refining capacity. In a joint effort, the oil producers and Europe are fighting to form a European-wide oil cartel comprised of state-owned companies — Elf, Erap, CFP, Veba-Deminex, ENI, British National Oil Company and Petrofina — with BP and Royal Dutch Shell taking a keen interest. A meeting is scheduled to take place in March between representatives of the EEC and the Middle East oil producing sector to discuss joint plans for expanding their independent downstream capacity. The Arab oil producing countries hope to have a total refining capacity of more than 300 million tons a year (6 mbd) by 1980 compared to the anticipated EEC refinery capacity of 880 million tons (16 mbd) in the same year. Of course these projections are based on a dramatic economic upturn, which depends on the associated effort for a new world economic order.

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