OPEC Comes Of Age

The oil cartel's global role in development and detente

The Organization of Petroleum Exporting Countries' role in international politics has changed dramatically since 1973, when it decided to increase the price of oil fourfold. Powered by a massive inflow of petrodollars, the 13 OPEC nations have taken centerstage in world politics, with each of OPEC's semiannual pricesetting meetings receiving worldwide attention, given the recognized impact of even a small oil price rise on the troubled world economy.

OPEC's international influence cannot be explained with the 1973-vintage profile of the greedy, confrontationist "oil sheiks," however, even though that staple of the hack news analyst continues to dominate the U.S. media. OPEC has emerged as one of the most important allies of Western industry, and a key political defender of the beleaguered U.S. dollar.

Moreover, its member states are looking beyond today's oil revenues to lead the way for collaboration between industrial and Third World nations in providing advanced new energy sources — most especially, nuclear power. This development perspective points to the important role the OPEC nations have to play in the gathering political battle for global East-West detente.

The Essential Alliance

At the core of the transformation of OPEC that has occurred since 1973 is the moderate alliance between Saudi Arabia, the cartel's largest producer, and Iran, whose output of crude is topped only by Saudi Arabia's. This alliance was formalized at the December 1977 ministerial meeting of the cartel, when for the first time Iran broke with its customary endorsement of yearly automatic oil price rises in favor of the Saudi position for a price freeze throughout 1978. Together the two countries make up a formidable moderating force within the cartel; their combined oil production constitutes nearly half of OPEC's roughly averaged 30 million barrels a day.

Underlying the current activities of both the Saudi royal family and the Shah of Iran are a number of political decisions, made in collaboration with leading industrial and political leaders of the advanced nations, to enact policies designed to rescue the world economy from its current crisis. Both the Saudis and the Iranians have countermanded any "radical" decisions on the part of OPEC that would hinder the world economy; such as a price rise or the replacement of the dollar with a basket of currencies as the basic oil pricing mechanism.

In real economic terms, the total price increase per barrel of oil since 1973's fourfold hike has not matched the net losses the OPEC nations have incurred in oil receipts due to the dramatic decline in the value of the dollar. As a result, several oil-producing nations that have adopted ambitious development programs since 1973 now find themselves requiring yet more oil revenues to meet their growing domestic needs. Particularly since the beginning of 1978, a number of producing nations have rallied around a short-term position of attempting to recoup losses from dollar-denominated oil receipts, through either a price increase, or dumping the dollar in favor of a basket of currencies linked to the International Monetary Fund's Special Drawing Rights "funny-money," or both. The problem for these countries has been compounded by the current oversupply of crude oil on the world markets, which has forced down the price of oil particularly of the light crude variety.

Saudi Arabia and Iran's efforts to hold the line is made more difficult by the fact that the antidollar tendency is backed by the faction in the world financial community, led by an oligarchy of merchant banks in the City of London, which is out to destroy the United States' global economic power. Since 1971, when President Nixon took the dollar off of the gold standard, City of London circles

OPEC's Oil Production
(crude, in thousands of barrels per day)

	Nov. 1977	First 11 months of 1977	1976	% Change
Venezuela	2,069	2,259	2,281	-1.0
Algeria(1)	1,100	1,112	1,039	7.0
Libya	2,077	2,057	1,905	8.0
Nigeria	1,917	2,121	2,037	4.1
Iran	6,086	5,596	5,814	-3.7
Iraq(1)	2,400	2,198	2,081	5.6
Kuwait	1,700	1,685	1,815	-7.2
Saudi Arabia(2)	8,750	8,993	8,297	8.4
United Arab Emirates	1,944	2,013	1,934	4.1
Other Middle East(3)	1,481	1,445	1,622	-10.9
Indonesia	1,707	1,684	1,498	12.4
Total OPEC	30,994	30,914	30,040	2.9

(1) Includes estimates
(2) 1977 figures estimated
(3) Includes Neutral Zone

Source: *Platt's Oilgram News*, Jan. 18, 1978.

have been prodding OPEC to adopt the Special Drawing Right plan — a plan in fact authored in London. In recent months both Riyadh and Tehran have demonstrated much more responsibility toward the dollar than have either U.S. Treasury Secretary Blumenthal or Federal Reserve Chairman Miller, both of them players in the City of London's antidollar game.

Why Support the Dollar?

In the short term the OPEC nations, especially those with sizeable oil incomes, such as Iran and Saudi Arabia, cannot afford to break with the dollar.

Saudi Arabia has an estimated $70 billion invested in Western institutions, much of it in the U.S., and the Saudis are increasing such investments at a current rate of $1 billion a month. Similarly, outside of their large investments in banks and government paper both Iran, and Saudi Arabia have major investments in Western industry.

A move by OPEC to adopt an alternative to the dollar would be certain to trigger an international run on the U.S. currency, and thereby devalue the holdings of all the OPEC nations. A similar reaction could be triggered by a drastic price rise in crude. The resulting profound damage to the world economy would have even more disastrous effects on the long-term development possibilities for the OPEC (or any other) nations.

Both the Saudis and the Iranians have therefore undertaken diplomatic efforts to coordinate their strategies on both the dollar and the pricing question to forestall such a catastrophe, while simultaneously working closely with industrial forces in both the East and the West to restore the dollar to international health through expanded economic growth.

The continued improvement in relations between Iran and Saudi Arabia, the two big powers of the Persian Gulf, is a keystone on which the continued moderation of OPEC and the future economic stability of the world decisively depend. Without this alliance doomsday scenarios such as that promoted by the bestseller *The Crash of '79* could very easily become reality. According to well-placed sources, that novel, authored by former Swiss banker Paul Erdman, was in fact written with the advice of a number of U.S.-based think tanks on the probable form of an international monetary collapse would take. Its story of all-out war between Saudi Arabia and Iran reflects the dreams of powerful forces on both sides of the Atlantic that want to destroy the Saudi-Iranian leadership of OPEC and what it represents for the future of international policy.

U.S. Imports From OPEC
(includes estimated indirect imports)

	Jan.-July, 1977		Jan.-July, 1976	
	Imports*	% U.S. imports	Imports*	% U.S. imports
Saudi Arabia	1,609	17.8	1,283	18.7
Nigeria	1,328	14.7	1,038	15.1
Venezuela	932	10.3	846	12.3
Iran	868	9.6	588	8.1
Libya	856	9.5	479	7.0
Indonesia	655	7.3	554	8.1
Algeria	535	5.9	429	6.3
Total OPEC	7,602	84.3	5,613	81.9
Total Imports	9,020	100.0	6,857	100.0

*in thousands of barrels per day.
Source: *Platt's Oilgram News*, March 7, 1978.

OPEC And Global Detente

The summit meeting between Soviet president Leonid Brezhnev and West German Chancellor Helmut Schmidt in May is now clearly defined as part of international motion for a new era of detente and development. Key OPEC nations are beginning to play a major role in that effort.

European sources have revealed that during the Schmidt-Brezhnev summit the question of joint Soviet-West German investment in certain Persian Gulf oil-producing nations was discussed. The same topic was reportedly raised weeks before during a meeting between West German industrialists and Czechoslovakian Communist Party chief Husak. The oil-producing states have much to gain in terms of regional development if detente is accepted as the basis of foreign policy in Washington and throughout Europe and Japan. Their immense wealth, moreover, can be put to use in expediting the process of global economic recovery, through a commitment to the development of the least developed countries (the LDCs).

Western Europe

This is the perspective informing the plans for Saudi Crown Prince Fahd's June 20 visit to Bonn for talks with Chancellor Schmidt, in which Fahd will discuss with Schmidt the prospects for investing in the African nations. Then on June 26, Schmidt will make a tour of a number of African nations, beginning with Nigeria. According to a report in the Paris newspaper *Le Monde* last month, the Saudis proposed funding of a major development program for Africa's Sahel region through the African Development Bank.

In his April 19 address to the fourth session of the Arab Bank For Development in Africa, Crown Prince Fahd stressed that the meeting of the leading western industrialized nations in Bonn next July must arrive at "radical solutions to the principal problems facing the world." Significantly, he strongly argued that development for the LDCs was a priority for the advanced nations, declaring, "We also expect from them (the industrial nations) a real understanding of the fact that the problems of economic growth facing the industrialized countries have structural links with the economic growth problems facing the developing countries, regardless of their conditions. Thus, it is necessary to take these into consideration when the expected reform plans are drawn up."

Iran, with much less surplus revenues than Saudi Arabia, is nonetheless offering the industrialized states a wide open field in terms of future investments in its quickly developing economy. At the beginning of this month, Iranian Finance Minister Yegeneh announced that his country would launch a $600 billion development plan over the next 10 years to create an industrial infrastructure that will replace Iran's limited crude oil reserves upon which between 60 to 70 percent of the Iranian economy is still dependent.

> "We have relations with both East and West. We are a loyal member of the United Nations. We also support detente. But you cannot have detente in one part of the world while another part of the world is subjected to disorder. Detente must be universal, otherwise it would be meaningless."
>
> — The Shah of Iran to West German President Scheel during the latter's recent visit to Tehran.

In turn, the Shah of Iran has offered to invest in certain Western industries to aid them in expanding to meet the challenge of industrializing the LDCs. During Italian Foreign Minister Forlani and West German President Walter Scheel's recent visits to Tehran, the Shah repeated his offer to contribute to both Italian and German industrial expansion. The Shah informed the West German President at a press conference: "We shall take advantage of every opportunity for investment in your country, or for joint investment in third countries in partnership with you."

Japan

It is also significant that since the beginning of the year both Iran and Saudi Arabia have opened their doors to Japan, giving the petroleum-hungry Japanese contracts which have been pending since the 1973 war. Japanese Foreign Minister Sunao Sonoda's tour of Iran and Saudi Arabia in January of this year marked a turning point for the Japanese in the Mideast. The Japanese firm Mitsubishi received a sizeable contract for the construction of desalination plants in Saudi Arabia worth over $1 billion. But underlying the awarding of the contract was a crucial political agreement between the two governments bringing the economically powerful Japanese into the international arena as a vocal advocate of a Mideast peace, including recognition of Palestinian rights and demands for Israeli withdrawal from the occupied Arab territories.

According to the final press conference given by Sonoda and his Saudi counterpart, Japan made a commitment to increase its economic cooperation with non-oil-producing underdeveloped countries, with Egypt specifically named. Japan in turn received its badly needed opening into the massive $142 billion five-year Saudi development plan. Only last month Japanese Prime Minister Fukuda gave an unprecedented interview with the Beirut newspaper *An Nahar*, calling for a just peace in the Mideast.

Since the beginning of the year, Iran has signed the largest deal for desalination facilities in history with Japan. The facilities are designed to be powered by nuclear plants which have already been purchased from the West Germans. Japan, which depends upon both Saudi Arabia and Iran for the bulk of its imported oil, is a crucial player in efforts to revive international detente as a basis for a new economic era which the Brezhnev-Schmidt meeting portends.

The Socialist Nations

Last week's tour of Hungary and Bulgaria by the Shah of Iran is the Iranian monarch's second trip to Eastern Europe within the year. Earlier he visited Poland and Czechoslovakia. Desite the conservative domestic policies of the Tehran regime, Iran has systematically increased its trade relations with all the Comecon nations over the last 10 years, and in return has stepped up its export of crude oil to Eastern Europe. Both Iraq and, more recently, Kuwait have also contributed to OPEC crude oil exports to the Eastern European nations. This is helping to allow the Soviet Union to reduce its own oil exports to its Comecon partners, and expand oil exports to Western nations in exchange for urgently needed Western currencies.

While Saudi Arabia still does not have official diplomatic relations with Moscow, State Department sources say that the Saudis have opened up discreet networks of communication with the Soviets. In addition, in the last year King Khalid and Crown Prince Fahd have for the first time publicly signaled their recognition of the vital role the Soviet Union can play in aiding in achieving a lasting Mideast peace.

Another important indication of discreet Soviet-Saudi links is the amount of crude oil the Saudis sell to Finland. Although the Finns do not participate in the Comecon, they, like the Yugoslavs, have a healthy dependency on Soviet oil exports. According to a recent ***Platt's Oilgram*** report, Saudi Arabia provides 65 percent of the total OPEC oil imported by Finland, far ahead of either Iran or Soviet-allied Iraq.

Kuwait has aggressively engaged in a policy of joint agreements with governments both in the undeveloped sector and the advanced countries for the production of refining and petrochemical plants which receive a guaranteed amount of Kuwaiti crude. The pioneering agreement along these lines was signed with Romania for a $1.5 billion Black Sea refining and petrochemical complex. Kuwait is also involved in talks with Yugoslavia for a 5 million-ton-a-year joint venture refinery.

OPEC And The Energy Debate

Iran has taken the vanguard position in OPEC both in pioneering the installation of nuclear power generating technology domestically and in waging a bold political fight internationally to make both fission and fusion power the new mode of energy throughput replacing depleting oil reserves. But in recent months a number of other producers have begun to take a position on the question of which form of alternative energy source will replace oil.

Only this week, the Saudi Arabians for the first time broke with their traditional endorsement of solar energy as the most viable oil replacement by openly supporting nuclear: Saudi Prince Mohammed ben Faisal appeared on New York City television and put forth an enthusiastic endorsement of nuclear fusion power. The same week Saudi State radio also promoted research in the development of nuclear technology.

These events coincide with a proposal made by the Soviet Union at the disarmament conference at the United Nations linking disarmament to international cooperation for peaceful uses of nuclear energy in the spirit of former President Eisenhower's "Atoms for Peace" program. The new public pronuclear stance of the Saudis also intersects a far-reaching programmatic statement released in late May by West German Dresdener Bank director Hans Friderichs. Friderichs told the newspaper *Sueddeutsche Zeitung* that a major development program for the Mideast must be underwritten with nuclear energy for power generation. West Germany last week sent its Minister of Research and Technology, Volker Hauff, to tour the Mideast. There he reopened negotiations with Kuwait on the sale of a training reactor linked to desalination research that is to be used by all the Arab nations in the Persian Gulf region.

Late last year Saudi Arabian Oil Minister Yamani signed an agreement with France for joint research in nuclear energy as well as joint French-Saudi exploration for uranium on the Saudi Arabian peninsula. During King Khaled's visit to Paris last week the commitment to joint French-Saudi nuclear research was publicly reaffirmed. The Saudi turn on the nuclear energy question coincides with two significant policy recommendation reports from the Rockefeller Foundation this year, both of which urged international cooperation on promoting research and development of nuclear energy for worldwide use.

To date only Iran has engaged in an aggressive program of building the infrastructure for nuclear power generation. Last month the Shah announced that he is expanding his quota of reactors to be purchased by 1990 from 22 to between 24 and 26.

Oil's Future Role

The OPEC nations, particularly Saudi Arabia, have made it clear that in the coming decades, as nuclear power generators come on stream, OPEC oil will be used as a feedstock for burgeoning petrochemical industries. The OPEC countries have expressed their willingness to expand oil production for future needs, if there is a political commitment on the part of the industrialized countries to enact a vigorous research and development program leading towards new modes of energy generation. More than any other producer, Saudi Arabia — with known reserves of 150 billion barrels, 25 percent of the world's total — will be depended on in the 1980s to increase its output. Prince Fahd recently approved an $11 billion project to increase Saudi ceiling capacity to 14 million barrels a day from the present ceiling of a little over 11 million barrels a day. Moreover, Iraq is expected to overtake Iran in the 1980s by producing up to 6 mbd. According to Venezuelan President Carlos Andres Peres, Venezuela is estimating its Orinoco reserves of heavy high-sulfur crude at 3 trillion barrels: the investment required to extract the crude is still considered to be prohibitive, however. Nonetheless, Japan has agreed to a $25 million investment to develop the Orinoco region.

Both within and outside of OPEC there is a substantial amount of oil yet to be tapped, as is exemplified by the case of Mexico, whose reserves have been estimated at over 100 billion barrels, and a reported new massive find in the Sudan. But here as in the case of Saudi Arabia, the question of making sizeable investments to construct new producing capacity is tempered by predictions of future world demand. According to the chairman of the board of the Saudi servicing company, the Arabian

U.S.-Iran Nuclear Deal Reported Near

The proposal the Shah of Iran first made to the U.S. in 1974 to purchase eight nuclear power generating plants is reaching the final stages of negotiations. If the deal is approved by the U.S. Administration, reported the *Christian Science Monitor* June 1, then it will serve as a precedent by which 26 other nations presently waiting to purchase U.S. nuclear reactors can finalize those long-overdue sales.

According to an Iranian diplomat, the Carter Administration and the government of Iran may announce the agreement as early as late July or August, at which time the sale would be submitted to Congress for approval. Congressional OK will be contingent on whether the terms of the sale conform to the "nuclear nonproliferation" guidelines dictated by the recently passed Percy-Glenn bill. The Iranian official noted that Congress will scrutinize the details of the agreement and that a fight within the Congress over U.S. policy on exporting nuclear technology will ensue.

However, the Iran deal will be fought out in the context of mounting pressure from the Soviet Union, Japan, West Germany, and France, as well as the U.S. nuclear industry and other domestic supporters of high-technology exports, to force Washington to adopt an energy policy that promotes America's advanced nuclear technology on a global scale.

American Oil Company (Aramco), despite Saudi Arabia's record production year in 1977, the country's reserves continue to climb, with a 2 percent increase last year in proven reserves. Given the relatively inexpensive and easy access to additional Saudi oil, there can be little doubt that Saudi Arabia will continue to dominate the advanced sector's oil markets.

The Nationalization Question

With this in mind, the Saudi Arabians are making final preparations to take over the remaining 40 percent of Aramco still owned by the four partners, Socal, Mobil, Texaco, and Exxon. Well-placed Washington sources indicate that the only remaining obstacles to be ironed out are some internal political differences among Saudi leaders over who will control a newly created Saudi oil company replacing the existing state-owned company, Petromin. The Saudi ruling family has been unhappy with the performance of the current director of Petromin, and there is reported to be an effort within Saudi ruling circles to delimit the activities of certain members of the Saudi elite close to the Petromin chief, such as Abdullah Abdul Aziz, who are known for their anti-American tilt on key policy questions.

Paralleling Saudi Arabia's efforts to gain greater control over its oil, Iran has reopened talks with the consortium of oil companies led by British Petroleum which still produces and markets most of Iran's production of 5 to 6 mbd. The director of the National Iranian Oil Company, Hushang Ansari, is demanding that the Consortium of Oil Service Companies (OSCO) "stop dragging its feet" in turning the administration of Iran's oil business over to Iranian technicians. Ansari is calling on OSCO to ensure that by the mid-1980s the majority of technicians running Iran's oil operations be Iranian nationals. Tehran continues to put tremendous emphasis on its oil sector, as is evidenced by Iran's new budget for 1978 which increased its allocation for its petroleum industry from $1.63 to $2.5 billion.

Iran's neighbor Iraq continues to make significant improvements in its oil production capacity. Reports from Baghdad last month indicate that Iraq plans to develop its 2.4 million barrel a day capacity to about 3.5 mbd by 1980 and will increase the 1.16 mbd export capacity of its northern oilfields to 1.6 mbd. Last week the Iraqi government announced that a field being developed by the Brazilian state company Petrobras will produce up to 350,000 barrels a day by 1980.

—*Judith Wyer*