

## THOUGHTS ON OPEC

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In this article I'll try to tell you briefly-and in political and human terms- one of the oddest stories in contemporary history; how the control of oil by the seven giant companies called also Majors (Seven Sisters) was gradually countered by the producing countries, until in October 1973 it appeared suddenly to be wrested from them.

In July, 1960, in the Rockefeller Center in New York, the new chief executive of Exxon, Monroe Rathbone, faced a decision which he knew would have world-wide implications. Rathbone's problem was the glut. It was bringing about price cuts all over the world and the Russians, as he saw it, were using oil to upset the economy of the West with dangerous results: In Italy, Enrico Mattei the head of the Italian State Oil Company (AGIP) had just made a deal with the Russians, to buy crude oil at sixty cents below the Middle East price; In Japan Russian oil was being sold at huge discounts; Worse still the Russian oil was now invading India.

On August 8, 1960, Exxon made its announcement that the posted prices in the Middle East would be cut by an average of ten cents per barrel. This historic decision, which so drastically diminished the income of the chief Middle East countries, was taken inside the boardroom of a private corporation. The seven great oil corporations known as the Seven Sisters (Exxon, Shell, BP, Gulf, Texaco, Mobil and Socal) were all so interdependent that they had to follow Exxon. Thus the Companies were solidly confronting the Middle East-and generally speaking-oil exporting countries.

The reduction led by Exxon transformed the whole atmosphere in the Middle East. In Iraq, it came just when the oil companies

were deadlocked in their negotiations, and the Iraqis suspected it was aimed at bringing pressure upon them. They were determined to fight back, and on September 9, they convened a meeting at Baghdad of five countries who were responsible for 80 % of the world's exports of oil: Saudi Arabia, Iran, Iraq, Kuwait and Venezuela. The key alliance was between Saudi Arabia and Venezuela and the meeting was dominated by Abdullah Tarihi of Saudi Arabia and Perez Alfonso of Venezuela. The new price cut was most serious for Iran which had far the biggest population but it also came at a bad time for Saudi Arabia, which was just embarking on a massive expenditure on social service.

Thus among the oil producers the price cut generated a surge of unity; between the conservative kingdoms of Saudi Arabia and the antimonarchists of Iraq; and between the Arabs and two states, Iran and Venezuela, outside the Arab world. So, the five nations met in Baghdad in a mood of excited confidence; "It was quite clear from the start", wrote owner-editor of the Middle East Economic Survey, Fuad Itayim, "that the price cuts might precipitate the establishment of what some delegates chose to call a cartel to confront the cartel". It had precisely that effect: They decided on the foundation of the Organization of Petroleum Exporting Countries or OPEC. The original five had been gradually augmented and by 1973 the thirteen members were; Algeria, Ecuador, Gabon (Associate), Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

The first resolution made clear that their chief enemy was the oil companies. The preamble expounded the common predicament of all the oil exporters: That they all depended on oil income to finance their development and balance their budgets; that oil was a limited asset. The New Organization was duly set up; in Geneva with an Iranian Secretary-General, Fuad Rouhani. He was a very moderate man; an International lawyer and he was determined to keep OPEC out of both politics and religion. But he soon realized that the oil companies were determined to pretend that OPEC simply did not exist; and insisted on negotiating separately with each country.

Still from the beginning, OPEC achieved one important aim; it prevented further reductions in the posted price. But the first



surge of OPEC unity did not last long: The radical Arabs resented the moderate Rouhani; he was eventually succeeded by an Iraqi, Abdul Rahman Bazzaz, who encouraged talk of both religion and politics. Tariki fell into disfavor and was replaced as oil minister in March, 1962, by a young lawyer, Sheikh Zaki Yamani, then only thirty-two. Yamani was the son of a judge in Mecca who had studied law first at Cairo, then at New York University, then at Harvard. His appointment as Oil minister and as director of Aramco was very welcome to the four companies in Aramco. Arabian-American Oil Company (Aramco) today is officially 60 % owned by the Saudi Government with the remaining 40 % holding shared equally among four American Companies: Exxon, Mobil, Texaco and the Standard Oil Company of California (Socal) which founded Aramco and began production just before the start of the Second World War. King Saud, who had succeeded his father, Ibn Saud, had been ousted in 1953 by his brother, King Faisal. In 1962, King Faisal was implacable on the question of Israel; but he was also deeply conservative and very wary of the Arab radicals. The king looked to Washington, as an Anti-communist ally, to maintain the most special relationship. Moreover King Faisal had no wish to hold back production, to help his Arab rivals.

Thus OPEC was still totally failing to achieve any kind of effective prorationing of oil production between its numbers. Saudi Arabia was becoming the Teas of the Middle East. If they (she) would not restrict production no one else would. The problem was now harder than in 1960, for "new" oil producers were starting up all the time including Nigeria, which then was outside OPEC.

Iran and Iraq were proposing programming production according to population —both having large populations— but others wanted programming according to need.

New sources of oil were opening up along the Gulf, in Qatar, in Dubai, in Oman and most spectacularly in the small sheikhdom of Abu Dhabi and the most irresistible new opportunity was in Libya.

After the Revolution of 1958 and a long period of uncertainty in Iraq, the two main oil producers of OPEC were Iran and Saudi Arabia; and, in spite of their coming together in OPEC, they were

old rivals with quite different motivations. The seven companies had achieved an amazingly stable increase in output between 1950 and 1972 averaging at 9.55% a year.

In spite of sudden drops from individual countries like Iran in 1951 or Iraq in 1957, or sudden new sources like Libya or Nigeria, the majors were able to "orchestrate" the countries into a smooth and uninterrupted upward trend in overall supply.

## II

On June 4, 1967, Israel invaded Egypt. President Nasser immediately claimed that Israel was supported by Britain and the United States and the foreign ministers of the Arab states gathered in Baghdad.

King Faisal of Saudi Arabia, who had only three weeks before talked in London about his fears of Nasser's aggression, was now committed to support his Arab brother in time of need.

Following the lead of Iraq, the Arab states agreed to shut down the oil wells and to boycott the Western Imperialists. The Six-Day War, it seemed, had given the Arabs the crucial incentive to unity.

But it was very short-lived. The oil producers quickly realized that they were damaging themselves more than anyone else; for two key members of OPEC, Iran and Venezuela, had no intention of joining the boycott and were soon benefiting from the resulting shortage. The King was faced with an imminent financial crisis and on the advice of Yamani he quickly limited the boycott to the two countries that were regarded as the aggressors, Britain and the United States (neither of whom any way then took much oil from Saudi Arabia). By the end of the month, Aramco was allowed to resume normal exports; and the other Arab states followed.

The end of the Six-Day War left the Arab members of OPEC much worse off than before. Iran had taken advantage of the boycott to push up her exports to Britain and West Germany; Venezuela, too had moved further into Europe; and even Libya, was able to export more to West Germany. The U.S. which was supposed to suffer most from the boycott, had hardly been touched and the closing of



the Suez Canal, which resulted from the war, had not seriously damaged the West, for the new giant tankers went around the Cape. Sheikh Yamani admitted that the use of the oil weapon had been a fiasco.

Some of the Arabs decided to form their own club parallel with OPEC, called The Organization of Arab Petroleum Exporting Countries or (OAPEC), which first met in Beirut in September 1968. The first members were Saudi Arabia, Kuwait and Libya (still under King Idris). The first Secretary-General was Sheikh Yamani and the Saudis insisted that the organization must keep out of politics. By 1970, after the revolution in Libya, OAPEC had taken on a more radical character, with new members including Algeria; and the Saudis were compelled to agree to let in Iraq. But OAPEC was not taken very seriously by the oil companies and it seemed to be undermining OPEC rather than reinforcing it.

As for OPEC, the whole basis of its unanimity now seemed to be in ruins. The Shah was trying to make gains at the expense of the Arabs, while the Arabs, after the fiasco of the war, were again disunited. Nasser and Egypt were discredited in the eyes of the Saudis. And in Washington too the sensational victory of Israel had encouraged disdain for the Arabs and the conviction that "Oil and Israel" could still be kept in separate compartments.

Thus by the end of the sixties, in spite of the opposition of OPEC, the Seven Sisters were still the dominant powers in world oil; it was not in the established oil countries of the Persian Gulf that the sisters faced their first critical showdown but in Libya.

### III

Senator Church says rightly that the emergence of OPEC as a potential power was not fully appreciated within the U.S. It was John J. Mc Cloy, since the early 1960's, attorney for the Iranian Consortium of major oil companies, who monitored the evolution of OPEC and proposed to permit companies to combine together to negotiate with OPEC - a strategy which needed the Justice Department's approval to avoid any breach of the antitrust laws. But this informal advice was never implemented until 1969. By that time, the

position of the majors had been undermined by the emergence of Libya as an important producer.

Libya had learned from the experiences of the Persian Gulf producers. When the Libyan oil concessions were opened up in the mid- 1950's, Libyan authorities took care to ensure that adjacent blocs were awarded to "Independents". Hence, the "Seven Sisters" could not control the pace at which Libyan oil was brought onto world markets.

By 1969 Libya was supplying a quarter of Western Europe's oil. It was of high quality, with little sulfur, which became more important as the West worried more about pollution and it was very close to Europe on the right side of the Suez Canal. That became more significant after the canal was closed in the 1967 war and still more so after May, 1970, when the "Tapline" from Saudi Arabia was again breached in Syria and then not repaired.

So long as the King was in power in Libya, the oil companies were not seriously threatened. But everything was changed on September 1, 1969, when Idris was deposed by young officers led by Colonel Muammer Quadaffi. They were determined to use oil as an ideological weapon against Israel and to make the West pay for it. The demands for higher prices were rapidly spread beyond Libya. The frog leaped to Iraq, Algeria, Kuwait and Iran which all quickly claimed an increased tax rate of fifty-five percent.

And on December 9, 1970, the members of OPEC met in Caracas in a mood of new militancy. The Libyan success was an embarrassment to other OPEC countries: At the same time, there were now the first signs since the formation of OPEC, of a world shortage of oil. What the moderate leaders of OPEC had failed to achieve in ten years the tactics of the revolutionaries of Libya were apparently achieving in a few months.

At Caracas it was decided that there was now a "change of circumstances" and OPEC proposed a new round of negotiations with the companies in Teheran. A triple victory was scored in 1971 for OPEC members with negotiations of the Teheran, Tripoli and East Mediterranean agreements. The companies had revealed at Teheran and Tripoli their fundamental weakness: that they could not collaborate either with each other or with their governments.



After the Teheran and Tripoli agreements for the next two and a half years, the companies were in trouble on three separate fronts. First the producers were demanding part-ownership of the concessions or "participation". Second; there were increasing signs of an oil shortage. Third the Arab-Israel situation was again heading toward conflict.

The convergence of the three was to produce the greatest crisis in the history of world oil.

#### IV

At the end of August, 1973, President Sadat of Egypt flew to Saudi Arabia for a secret visit to King Faisal. Faisal promised Sadat, that if American policy in the Middle East did not change, he would restrict oil production. Soon afterward, all ten foreign ministers of the Arab Oil Exporting Countries (OAPEC) met to discuss the possible use of the oil weapon to change American policy. Yamani formally warned the U.S. that there could be a cutback of Saudi Arabian oil.

In his article entitled "The Importance of Oil Companies", Senator Frank Church Chairman of the Subcommittee, who was a persistent critic of the multinationals, asks the following question; "Are Exxon, Mobil, Texaco and Socal any longer "American" companies in the sense of being responsive to the assertion of American foreign policy interests? Or is their stake in Saudi Arabia so crucial to their financial viability that they are now effective instruments of the foreign policy of Saudi Arabia".

The solid oil company delegates prepared to confront OPEC in Vienna on October 8, 1973. And then, just as they were leaving for Vienna, Egypt and Syria invaded Israeli-occupied territory. There was war.

OPEC was represented only by the Persian Gulf countries six of the thirteen and was led by the oil ministers of the two biggest producers; Yamani from Saudi Arabia and Dr. Jamshid Amouzegar from Iran.

In the meantime, the war was raging. The Egyptians had crossed the Suez Canal, and the Arab States had been forged into a

new unity. The Arab members of OPEC, through their own organization OAPEC, announced that they would meet in Kuwait to discuss the use of oil as a weapon of war.

On October 16, 1973 four Arab Foreign Ministers arrived in Washington led by Omar Saqqaf, then foreign Minister of Saudi Arabia. Saqqaf gave President Nixon a letter from King Faisal, stating that if the United States did not stop supplying Israel, within two days, there would be an embargo.

But President Nixon explained that "he was committed to supporting Israel" and on the same day the Senate voted, two to one, to send reinforcements to Israel.

In Kuwait, in the meantime, the members of OPEC had assembled for a double-barreled attack on the West. The two together—the price hike and the Embargo—proved a deadly combination for the West. After Saqqaf had returned angrily from America came the bombshell; Saudi Arabia announced a cutback of 10 percent plus an embargo of all oil to the U.S. and the Netherlands.

The OPEC ring had now closed tightly and the country which Americans had regarded as the safest was now the most extreme. The Aramco directors had to carry out the King's orders even if they were against their own country's interests. Saudis instructed Aramco to stop the supplies to the military. The position was serious enough for a managing director of BP in London to receive a phone call from Washington asking whether BP could supply the Sixth Fleet.

As Anthony Sampson put it in the blunt language of the business, the sisters were in bed with the producers. It was this cohabitation, or this "indissoluble marriage" that had always been the aim of Zaki Yamani, in putting forward his grand design of participation. It was an ironic new term to the long careers of the companies. They had first been sent abroad, to do battle on behalf of their consumers for cheap oil. But now they were in danger of becoming virtually the commercial mercenaries of the foreign governments.

The Embargo was now rapidly exacerbating the shortage and thus affecting the price. The oil producers through their participation



now had oil to sell for themselves in the market, which enabled them very soon to get still higher prices. It was a comic reversal of roles; OPEC, having discovered its monopoly power had become the champion of the market place; the producers had not only stolen the companies cartel, they had stolen their humbug tactics.

On December 22, 1973 the six Persian Gulf members of OPEC met in Teheran. The Shah had come to realize that the embargo, though he had played no part in it, was giving him the chance of a lifetime to overcome all his economic problems.

When the Shah gave a press conference he announced the increase to \$ 11.65 a barrel, more than doubling the posted price of oil at once. The price, he explained, was very low compared to the going market price and was reached "on the basis of generosity and kindness".

Thus the price of oil had now quadrupled, in just over two months. With incredible suddenness, the whole oil cartel had apparently fallen into the hands not of companies but of countries.

After the embargo had been lifted by the middle of 1974; the consuming countries were having to face the apparently unalterable fact that the world's oil was now controlled by a cartel of sovereign states and their attention was focused on the headquarters of OPEC in Vienna.

The interest had reached a new peak by the time of the annual meeting in December, 1974, a year after the sensational price rise when the price of oil was once again to be settled. Planes flew in; from Caracas, Kuwait and Djakarta. The four principal hotels in Vienna filled up, with unpronounceable names from little-known countries. Around the tables were a mixture of faces and colors; black, brown and white, with no imaginable common cause; except oil. And the consensus was that oil would now cost the West only about 3 percent more-or two billion dollars more per year.

That figure would have caused an uproar 18 months earlier; now it seemed so modest that there was a huge sense of relief, even gratitude. At a dinner party the Austrian Chancellor, Bruno Kreisky, received all chief delegates at his table; The old world was paying tribute to the new.

## V

How high might prorationing strategy for OPEC be likely to raise oil prices? Since, even the scaled-down versions of OPEC development plans require more than doubling the oil price in real terms by 1980, this will be a bitter pill to swallow for those who have looked to interdependence as a way "out" of the energy crisis. But it will be a pill even more bitter for the third and fourth worlds who have seen OPEC as their champion.

In the words of one of OPEC's founders, Perez Alfonso; "We have formed a very exclusive club between us. We control 90% of crude exports to world markets, and we are now united. We are making History". J. H. Oppenheim in his article "Why oil prices go up; The Past; We Pushed Them" claims that since 1971, the United States has encouraged Middle East oil-producing states to raise the price of oil and keep it up. The weight of the evidence, he says, suggests that the principal consideration behind the indulgent U.S government attitude toward higher oil prices, is the belief that higher prices will produce economic benefits for the United States vis-a-vis its industrial competitors, Western Europe and Japan and the key Middle Eastern states; Saudi Arabia and Iran.

Oppenheim says that "a lobby of investors, businessmen and experts is growing in the U.S in favor of giving the OPEC countries their way. Among academics, the view that the U.S foisted the oil price increase on the world has been expressed by respectable oil economists in Holland, France and Japan. If this was indeed the purpose of U.S oil policy in recent years, says Oppenheim it does not only represent a betrayal of our alliances it represents a cosmic blunder. Even as late as 1973, many supposed oil experts appear to have been unaware that the U.S was already in a massive domestic oil-short position, and that its dependence on imports was growing at a rapid rate.

And, if, as now has been learned, Nixon, without congressional oversight or even full consultation within the administration, did make a unilateral decision to depend on Saudi Arabia and Iran for regional defence. The argument, too, in favor of higher oil prices, was based on illusions and misconceptions. U.S oil policy for years has been made with one eye on the strategic balance in the Persian Gulf.